



Strategic Finance & Governance Improvement Plan

Our roadmap for financial sustainability

Strategic choices for a sustainable future



Acknowledgement of Country

The original inhabitants of the Kiama area are the Wodi Wodi people, and the name Kiama is thought to be from an Aboriginal word meaning 'where the sea makes a noise' in reference to the world-famous Kiama Blowhole. We recognise that the land on which we live has been inhabited and protected by the Wodi Wodi people for thousands of years and we acknowledge and protect the legacy and the future of this area for our community, both Indigenous and non-Indigenous peoples. Celebration of First Nations heritage and culture is a strong part of public life, and working towards shared goals with First Nations people is a major priority.

Kiama Municipal Council pays respect to Elders past, present and emerging.



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Executive Summary

Kiama Municipal Council was issued with a Performance Improvement Order (PIO)ⁱ under section 438A of the *Local Government Act 1993* on 8 November 2022, by the then Minister for Local Government, the Hon. Wendy Tuckerman MP. The period of compliance with that order finished on 30 June 2023. Council met all compliance milestones and provided the final report to the Minister on the same date.

Not long after receiving the report the State Government moved into caretaker and on to elections. Following the new Ministry being sworn in, the new Minister for Local Government, the Hon. Ron Hoenig MP, undertook a review of all of Council's submitted material. Subsequently the Minister requested an independent external review be completed by Mr John Rayner. Mr Rayner submitted his reportⁱⁱ to the Minister on 17 January 2024.

Having considered the findings of the Rayner report, the Minister determined to issue Council with a Notice of Intention to vary a Performance Improvement Order on 30 January 2024. On 24 May 2024, Council received the signed varied PIO from the Hon. Ron Hoenig MPⁱⁱⁱ. In issuing the varied PIO, the Minister outlined that while Council is aware of and recognises its past failures it is moving too slowly to achieve surplus budgets and to become financially sustainable.

The varied PIO can essentially be summarised into three key areas:

- Financial Management
 - Regularly and continuously review Council's financial situation with a view to becoming financially sustainable by 2026-2027.

- Blue Haven
 - Address issues associated with Blue Haven Terralong – plan of management, asset condition, asset upgrade reserve and pricing.
- Financial Accounting & Management Systems
 - implementation of TechOne, improved financial reporting and governance recommendations from Hopwood Governance Review and Auditor Management Letter.

While the preparation of this Strategic Finance & Governance Improvement Plan is a requirement of the varied PIO it is important that this Plan reiterates Council's primary obligation is to be financially sustainable and make effective use of the public funds entrusted to us and ensure the responsible management and planning of community assets, so that future ratepayers are not burdened unnecessarily.

Long-term financial sustainability is essential to ensuring that Council can continue providing the services and programs our community relies on. Towards this, it is crucial that decisions made today are forward-thinking and consider the evolving needs of our current and future community.

Now more than ever with rising cost pressures, a tightening fiscal environment and a growing population, Council has recognised that it must establish robust and forward-thinking financial strategies which break the practice of adopting deficit operating budgets.

Strategic framework

This Strategic Finance & Governance Improvement Plan has been prepared to respond to, align with and complement the varied PIO, issued by Minister Hoenig MP and Council's Integrated Planning & Reporting Framework.

Varied Performance Improvement Order

The Rayner Report^{iv} makes it plain that collective action to protect Council and its financial sustainability is required and continuation of the PIO will bind this Council, future candidates and ultimately the next incoming Council. Until the structural deficit is corrected and Council lives within its means, it is what is needed, and is a reasonable and well-thought intervention by the State Government.

The varied PIO requires Council to become financially sustainable by the 2026-2027 financial year and includes the 16 actions, shown in Table 1 on page 8, Council must fulfil to become financially sustainable.

The preparation and adoption of this Plan satisfies the requirements of Actions A.2 and A.3 of the varied PIO. Actions A.1 and A.4 of the varied PIO require regular reporting on the progress on the actions of this Plan. All other actions of the varied PIO have been incorporated into this Plan.

Council is required to provide bi-monthly reports to the NSW Office of Local Government on the progress of the above actions. This reporting cycle will commence on 23 July 2024.

Strategic Improvement Plans

After an acute period of analysis on the financial circumstances of the organisation, in December 2021 the Kiama Municipal Council's Chief Executive Officer (CEO) self-reported the Council's financial and governance issues to the NSW Office of Local Government, including:

- An inability to produce 2020-2021 annual financial statements.
- A negative trend of increasing liabilities and trading losses.
- Council's Aged Care facility/service (Blue Haven) running at a substantial loss.
- Poor understanding of the loss, efficiency and compliance of the Blue Haven Aged Care facility.
- Concerns whether Council's Auditor would certify Council as a going concern.
- Restricted funds had been illegally applied to general use.

In April 2022 Council adopted its first Strategic Improvement Plan (SIP) to deliver financial sustainability for the organisation and address governance, administrative and organisational matters raised in the State of the Organisation Report February 2022.

Alerted by concerns raised by the Audit Office (AO), the NSW Office of Local Government (OLG) monitored Council's progress, choosing to encapsulate key actions from the SIP into a Performance Improvement Order (PIO) issued in November 2022^v.

The November 2022 PIO required Council to update and review the SIP to incorporate any key findings or recommendations of the 2021 and 2022 Financial Year Audits and the Aged Care Quality and Safety Commission's response to the Section 9-3B Notice for Information.

In April 2023 Council adopted its SIP version 2 (SIP2)^{vi} which contained over 70 actions to provide a blueprint for guiding the organisational transformation that is required over the next few years to improve financial sustainability, organisational performance, and maturity.

Since this time more than 30 of the SIP2 actions have been completed. The remaining actions are captured by the varied PIO and are therefore incorporated into this Plan.

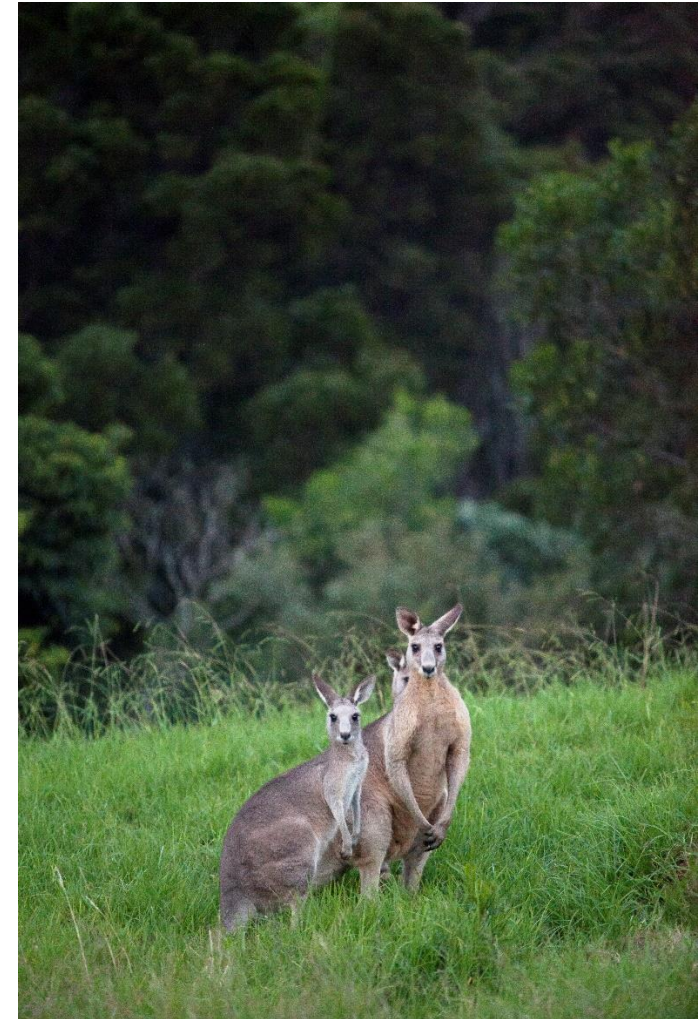


Table 1: Varied Performance Improvement Order

Part A Council's Financial Management	
A.1	Regularly and continuously review Council's financial situation with a view to becoming financially sustainable by 2026/27
A.2	Review and update the Strategic Improvement Plan 2 with an emphasis on the urgency to address the financial and governance issues facing Council
A.3	To focus on the challenges faced by Council, brand the updated plan "Finance and Governance Improvement Plan".
A.4	Implement the actions identified in Council's Strategic Finance and Governance Plan and report monthly to Council on the financial position and bi-monthly on the governance and other actions in the Plan
A.5	Continue to improve compliance with accounting principles including the Local Government Act 1993, the Local Government (General) Regulation 2021 and the Code of Accounting Practice
A.6	Update the Finance and Governance Improvement Plan to set out the actions Council will take over the next two budgets (FY 24/25 and FY 25/26) to break the practice of adopting deficit budgets without relying on property sales.
A.7	Immediately review the timing for service reviews and revenue opportunities to ensure Council can move to surplus operating budgets and ensure its long-term financial security.
A.8	Invite the Finance Advisory Committee to present bi-monthly to Council Briefings.
A.9	Update the Finance and Governance Improvement Plan to include a three-year financial strategy which will culminate in Council increasing its unrestricted cash balance to a sustainable level by FY 2026/27.
A.10	Continue to investigate and pursue opportunities to benefit from property holdings and investments, including strategic and highly valued sites.
Part B Blue Haven Aged Care Facility and Residential Village	
B.1	Address issues associated with Blue Haven Terralong including, but not limited to: <ul style="list-style-type: none"> • The true costs which should be applied and whether the general rate revenue is subsidising its operation • The adequacy of current and proposed future maintenance fees • Completing and making public a dilapidation/building report for Terralong and Havilah • Examining options to retain and refurbish Terralong to conform with contemporary independent living units • Establishing a restricted reserve to meet the cost of replacement/renewal of assets • Examine the potential to subdivide and divest Havilah Place in accordance with the criteria contained in the Property Plan • Review the level of maintenance fees
B.2	Complete Plan of Management for Blue Haven Terralong.
B.3	Monitor and report on compliance with the <i>Aged Care Act 1997 (Cwlth)</i> , the <i>Retirement Villages Act 1999</i> , <i>Retirement Villages Regulation 2017</i> and other relevant legislation relating to Blue Haven Terralong.
Part C Council's Financial Accounting and Management Systems	
C.1	Fully implement Technology One by the end of the 2026/2027 financial year.
C.2	Restructure the presentation of the draft and published budgets to detail programs and activities compared to current and previous years and funding sources for each capital project.
C.3	Implement the governance recommendations from the Hopwood Report and the Auditor's Letter from the 2021/22 audit.

NSW Integrated Planning & Reporting Framework

All councils in NSW are required to operate within the Integrated Planning and Reporting (IP&R) framework^{vii}, which reflects the legislative requirements of the *Local Government Act 1993*. The IP&R framework guides how each council develops, documents and reports on their strategic plans.

The IP&R framework requires each council to develop and implement the following suite of planning documents in response to the Community Strategic Plan.

The **Community Strategic Plan** (CSP) captures and reflects the community's vision and aspirations for Kiama Municipality. This is the 10-year plan that forms a basis for Council to respond to with its planning and delivery.

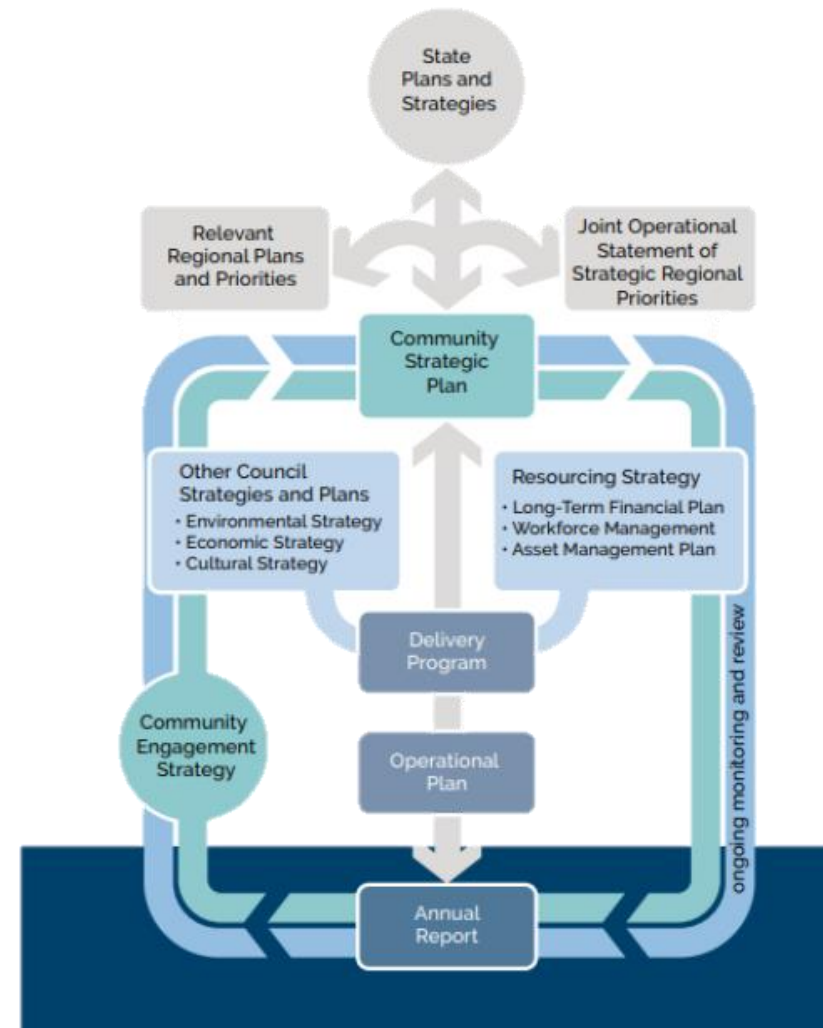
The **Community Engagement Strategy** outlines Council's approach to genuine and inclusive engagement to support development of plans, strategies, programs, key activities and service level reviews.

The **Delivery Program** is the 4-year plan that outlines the specific activities that a council will undertake during its elected term to address the strategies and outcomes outlined in the CSP. It creates a link between the vision of the community and the operational plan of Council.

The **Operational Plan** then sets out the specific actions that will be undertaken on a yearly basis to achieve the Delivery Program, along with the detailed annual budget.

The **Resourcing Strategy** shows how Council will leverage its available resources to implement the Delivery Program and Operational Plan. The Resourcing Strategy covers:

- Long Term Financial Plan
- Workforce Management Strategy
- Strategic Asset Management Strategy



Our journey

Kiama Municipal Council is a small regional council located in the Illawarra on the South Coast of New South Wales. Kiama Council is small in terms of area, population, and financial capacity and flexibility. In fact, of the councils outside the Metropolitan area and to the east of the Great Dividing Range, Kiama Council is one of the smallest. Therefore, Council's ability to find innovative solutions to its unique financial circumstances are extremely limited. To add to this, Kiama Council is the only council east of the Great Dividing Range operating an aged care facility, and in the NSW context is the largest single operator of aged care and retirement village living services of any local government authority.

Historically, the operation of the Blue Haven businesses had not been separately reported as a commercial operation and did not have a separate set of accounts maintained, with all profits, loss and expenditure being recorded in the General Ledger. In 2022 Council separated the ledger and created a set of accounts for Blue Haven to establish a true costing of the profit and loss. Council also established a restricted reserve in line with Federal prudential standards and a reserve for deposits associated with the deferred management scheme for the retirement villages.

Kiama Municipal Council was issued with a Performance Improvement Order (PIO)^{viii} under section 438A of the *Local Government Act 1993* on 8 November 2022, by the then Minister for Local Government, the Hon. Wendy Tuckerman MP. The period of compliance with that order finished on 30 June 2023. Council met

all compliance milestones and provided the final report to the Minister on the same date.

Not long after receiving the report the State Government moved into caretaker and on to elections. Following the new Ministry being sworn in, the new Minister for Local Government, the Hon. Ron Hoenig MP, undertook a review of all of Council's submitted material.

In December 2023 the new Local Government Minister commissioned a review of Council's asset sale decisions (of which there were two) and appointed an independent reviewer to advise on Council's financial circumstance. The findings of Mr John Rayner^{ix} were made public 1 February 2024 and confirmed the dire circumstances, legitimate need for aged care divestment and asset sale and recommended a range of tougher budget savings and efficiencies required in a two-year window, not the planned 5 to 7 years as stated in the long-term financial plan.

Having considered the findings of the Rayner report, the Minister determined to issue Council with a Notice of Intention to vary a Performance Improvement Order on 30 January 2024. On 24 May 2024, Council received the signed varied PIO^x from the Hon. Ron Hoenig MP. In issuing the varied PIO, the Minister outlined that while Council is aware of and recognises its past failures, it is moving too slowly to achieve surplus budgets and to become financially sustainable.

Past and current financial position

Some 40 years ago Council stepped into the then local void of residential aged care and highly subsidised retirement village living industry. Over this time Council created an asset and service portfolio of more than 200 independent retirement village units, and a purpose built residential aged care service with 134 care beds. Over time however, private sector and not-for-profit entities entered the local sector and now directly provide this service. This has left Council to compete against market forces, in a highly changed post-Royal Commission aged care marketplace, facing a clear Federal agenda driving consolidation and regulation.

Council's current financial situation primarily arose due to Council's decision to invest \$58 million into a new, large, aged care and retirement village site. The capital costs blew out to the value of \$107 million, with internal operational funds being used to fund shortfalls and inadequate public reporting to the community, to the Elected body or to relevant State agencies. Likewise, the requirement to repay a \$60 million loan for the build had no specific repayment plan developed and a payment term of 5 years.

To add to this no restricted reserve of dedicated funds had been established, since the buildings were built 40 years ago, to support the replacement, renewal and upgrade of the five (5) stages of independent living units and this task remains a priority, even today. The assets are aged and require a condition (dilapidation) report to be made public so that all ratepayers can understand the condition and asset requirements for all five stages of the Blue Haven Terralong Site.

Many other matters affecting the organisation's performance and governance were publicly made available in the State of the Organisation^{xi} document released in 2021 and the subsequent

Strategic Improvement Plans created in 2022^{xii} and 2023^{xiii} to correct many issues and provide transparent information to the Council and community on steps to be taken.

Like most councils in NSW, the fundamental issue for Kiama Municipal Council is to prepare and produce a balanced or surplus operating result (i.e. excluding capital grants and contributions in the Income Statement). This result influences the Operating Performance Ratio (OPR) that is benchmarked by the NSW Office of Local Government (OLG) at 0 percent. A negative result is a deficit. A trend of cyclic surplus and deficits are acceptable (e.g. accounting and timing practice induced), provided an 'average' balanced (0%) result endures across the 10-year financial period. A regular and deeper annual deficit becomes structural and requires intervention - usually by a special rate variation (SRV).

Over the past five years, Council's revenue has increasingly depended on the receipt of grants.

Chart 1 – Kiama Municipal Council's Revenue Trends

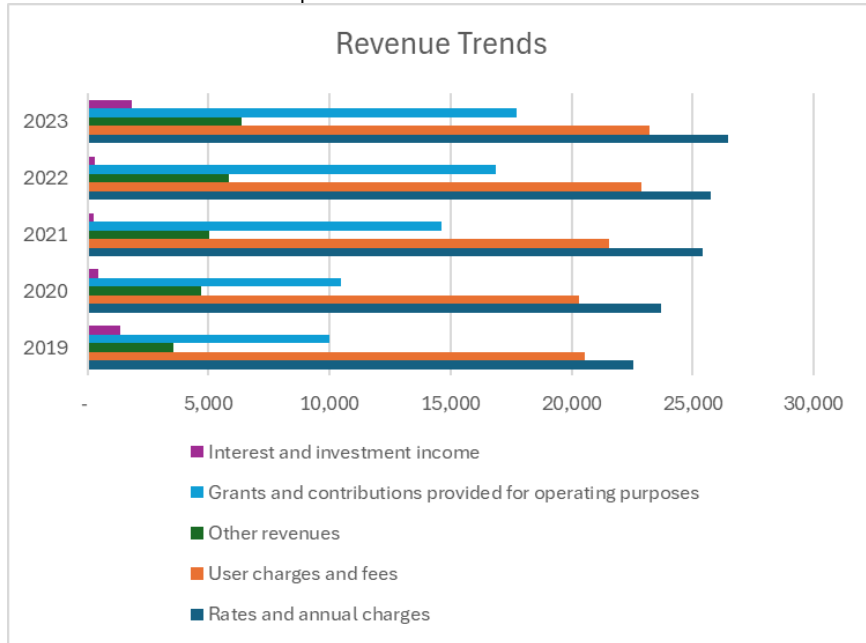
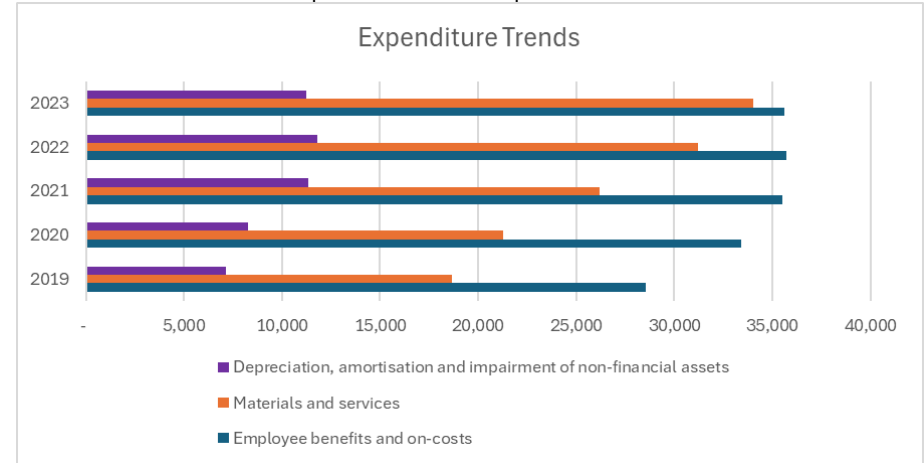
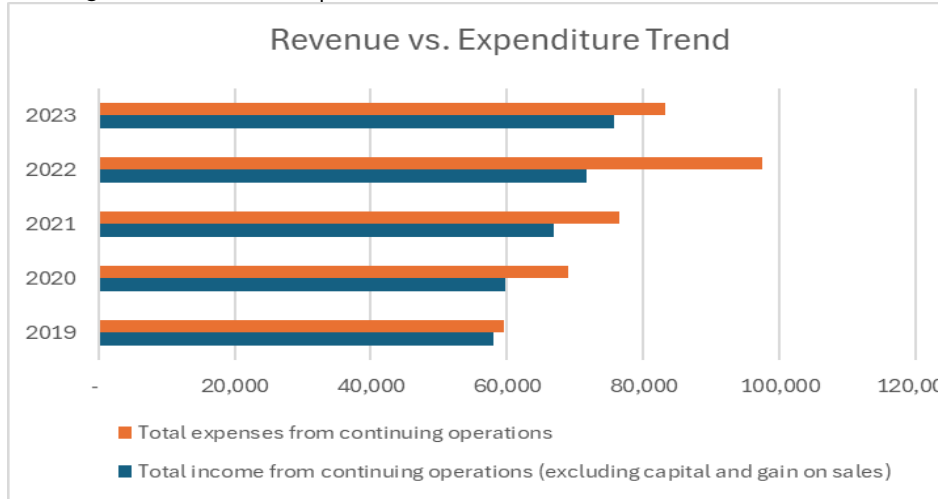


Chart 2 – Kiama Municipal Council's Expenditure Trends



The above chart highlights a pattern of materials and services cost increases along with growth in depreciation with no corresponding growth in key revenue categories such as user charges and fees or rates and annual charges. While employment growth is relatively flat, there has been an extraordinary escalation in contracts and materials costs (evident also in the development and construction sectors) as the primary driver of growth in expenses.

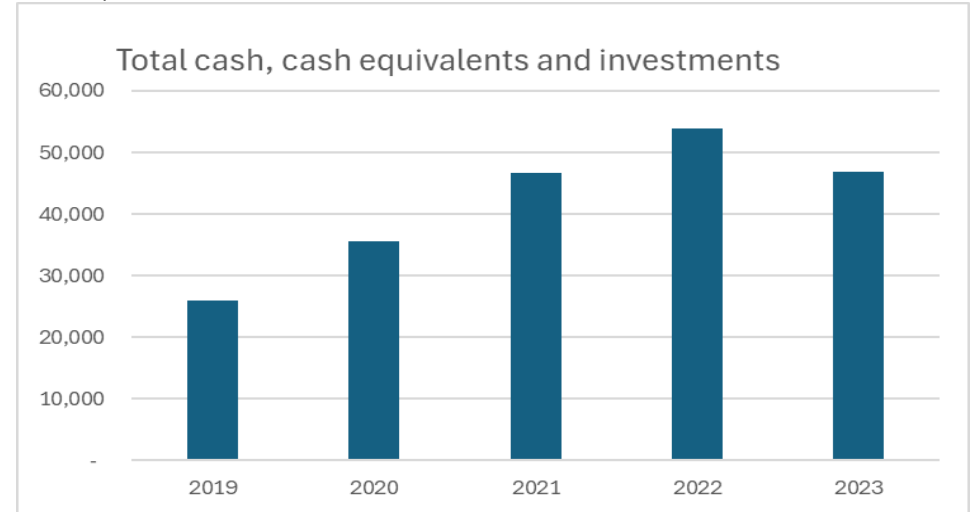
Chart 3 – Revenue vs Expenditure Trends



The charts above clearly demonstrate that Council's expenses continuously exceed operating revenue (excluding gain on sales, fair value movements and capital grants). It is also noticeable that the unfavourable gap between expenses and revenue increased over the years with the operating performance ratio being significantly below the benchmark over the past 5 years.

The revenue and expense gaps for Kiama Council widen each year, becoming increasingly dependent on the receipt of grants.

Chart 4 – Total Cash and Investments



While Council's total cash position did not deteriorate over the past five years, mainly due to proceeds from sale of assets, the charts above clearly demonstrate that unrestricted cash balance of Council over past five years remains very low. In fact, Council had negative unrestricted cash balance in 2020-21 and 2021-22 financial years.

Kiama Municipal Council's investment in aged care

Council's over investment in aged care services has resulted in a commensurate consequential underinvestment in civic assets such as swimming pools, sports fields, surf clubs, stormwater, roads, mowing services etc. Given this, the local sporting community increasingly require upgraded and more modern assets that are fit for purpose and encourage female participation. Likewise, many other community assets that Council owns or operates are rapidly

aging and require significant renewal, upgrades or complete rebuilds.

Historically the operation of the Blue Haven businesses had not been separately reported as a commercial operation and did not have a separate set of accounts maintained, with all profits, loss and expenditure being recorded in the General Ledger. In 2022 Council separated the ledger and created a set of accounts for Blue Haven to establish a true costing of the profit and loss. Council also established a restricted reserve in line with Federal prudential standards and a reserve for deposits associated with the deferred management scheme for the retirement villages.

Council has resolved to divest of its aged care services on the Bonaira site and is currently in negotiations with a preferred tenderer. This process has been challenged by political and union campaigns. These activities have had a real and material impact on the value of asset and service and have caused significant reputational damage to the Council. That situation is a sad reflection of a Council that is trying to make deliberate financial choices, informed by data and that is trying to correct the situation without further State interventions or in fact loss of democratically elected representatives.

Our Changing Community Profile

The Municipality's population, household and age structure forecasts help us understand what is driving population change in the community and helps inform Council about future community infrastructure and service priorities. Understanding the community's current and future needs allows Council to forecast and plan for its future expenditure.

This section provides a summary of key demographic drivers and change within the community between 2021-2041.



23,002 people call the Kiama municipality home. Our population is projected to grow by 6106 between 2024 and 2041



82 percent of our community live in separate, low-density dwellings



35 percent of our population are aged 60 and over



43 percent of all households in the municipality are occupied by two or less people

External influences

The pressures on Australian local governments are immense. For example the 2022 year was a challenging for Australian councils and communities, with more than 500 disaster support declarations across 316 local government areas. Councils work hard to support our communities through natural disasters such as flooding, bushfires and cyclones but face serious financial challenges which threaten its ongoing sustainability. In this context, it is important to note that local governments collect less than four per cent of national taxation. Each flood event that Council faces, stormwater underinvestment is made ever more apparent and adds significant risk to the community and Council.

The path to Councils being able to self-determine their own financial sustainability ought to be easier. Local Government must be able to operate independently and be empowered to be financially sustainable, both by the community and the State Government.

Council's journey to financial sustainability is significantly influenced by the following external factors. Council will continue to advocate to both Federal and State Governments for assistance in alleviating and minimising the impacts of these external influences.

Cost-shifting

An ongoing issue of concern for local government is the transfer of responsibility for service provision – or being called upon to provide a service when the State or Federal government withdraws. This is more commonly referred to as cost-shifting.

The issue was considered serious enough in 2002 to lead to the House of Representatives Standing Committee on Economics, Finance and Public Administration undertaking work to discuss the financial position of local government, as well as the drivers affecting that position. The final report, Rates and Taxes: A Fair Share for Responsible Local Government, was tabled in October 2003^{xiv}.

In April 2006, the Inter-Governmental Agreement Establishing Principles Guiding Inter-Governmental Relations on Local Government Matters (IGA)^{xv} was signed by all levels of government (with the Australian Local Government Association (ALGA) signing on behalf of local government). The principles in the IGA highlighted the need for better communication to ensure that government is more effective, efficient, and transparent. The IGA expired in 2011 and has not been renewed.

The National State of the Assets that ALGA produced in 2018^{xvi} revealed that \$30 billion is required to renew and replace ageing infrastructure. The amount of infrastructure requiring renewal will continue to increase over the next 20 years as structures built during the post-war "Baby boom" and the rapid growth period of the 1960s and 70s age and their condition, capacity and function declines. This infrastructure cliff is fast approaching and requires strategic management and coordination, rather than distribution among political grants / donations. This is certainly the case for the Council's Administration Centre and Leisure Centre which were both built in the early 1980s.

Cost shifting through legislation and policy settings of state and federal government forces councils to assume responsibility for infrastructure, services and regulatory functions without providing appropriations or permitting fees to enable cost recovery. LGNSW's

latest cost shifting report was released in November 2023^{xvii}, highlighting a total cost shift to councils of \$1.36 billion in 2021-2022, which is the equivalent of more than \$460 per ratepayer annually. In Kiama's case this would equate to approximately \$5 million per annum based on its rate base.

Cost-shifting remains a core issue affecting councils. Kiama's own experience in investing in aged care services, the remit of Federal Government, is a prime example of this. Other key examples are compliance for Short Term Rental Accommodation, where private sector operators have pushed noise and complaints responsibilities down to local authorities without any commensurate ability to apply fee for service or licensing charges. State Government has traditionally used regulatory charges to shift operational responsibilities onto councils without corresponding funding, training or consideration of operational capability and capacity for delivery. Areas such as the waste levy, emergency services levy, pensioner rebates, and the increased costs associated with burials and cremations are noted. This ongoing dynamic does place a continued financial burden on councils.

Public perception and electoral understanding of which level of government does and should fund and deliver services does not always align. While not a huge burden on Council's budget, the Rural Fire Service's Red Fleet is a good example of this. The Rural Fire Service's Red Fleet is looked at, most in the community would expect Fire Brigades, SES services etc to be delivered and funded by State Government. However, the assets of the operations sit on Local Governments' balance sheet, and yet the Local Government has no control over their use, replacement, renewal or operations. This creates public campaigns and only adds to misunderstandings over who is responsible for what service. This situation can potentially create negative perceptions among the public and the

electoral repercussions for councillors, who are often blamed for financial decisions influenced heavily by state policies.

The Grattan Institute report^{xviii} called on the Federal Government to shift away from funding megaprojects, and instead invest in maintenance. Changing funding programs to reinvest in existing assets would assist Local Governments like Kiama Municipal Council who have a very aged asset base and rising renewal costs.

The increasing cost of infrastructure

Local government infrastructure assets include local roads, stormwater drainage and community assets such as sporting, arts and cultural facilities, parks and gardens, and public libraries. These public assets contribute to national productivity and are critical for ensuring our cities and regions are great places to live, work and play.

In many local government areas, community and recreation facilities have aged and not kept pace with demographic and population changes and rising community expectations. Replacements to modern standards and provision of additional or alternate facilities are unfunded, often relying on grant funding to be upgraded, replaced, or built. The Leisure Centre service review acknowledges that this is certainly the case for this community asset. Councils are faced with the real prospect of having to retire community infrastructure that they cannot afford to renew – infrastructure that in many cases is vital to community wellbeing and cohesion.

The estimated replacement cost of these infrastructure assets is in the order of \$533bn representing an investment of approximately \$21,000 for each of the 25.8 million people in Australia.

Maintenance of infrastructure remains a fundamental challenge for the local government sector. Of the three levels of government, local government has the largest relative infrastructure task in terms of asset management and the smallest relative revenue base collecting just over 3% of Australia's total taxation revenue.

The impacts of consecutive natural disasters and the COVID pandemic during the past five years have created significant market pressures on scarce skills (planning, engineering, finance, environment), contractors and resources (energy, fuel, steel, concrete, bitumen). Local government is fundamentally in the business of development and construction - those costs have grown around three times the rate of the Consumer Price Index (CPI), which in turn has generally been higher than the permitted rate-peg.

Estimates (and timing delays) for infrastructure projects (the subject of competitive grant applications) have often been 'under-cooked' due to the time lag from the grant application being prepared and approved, requiring Kiama Municipal Council and other councils to source funding to meet the cost gap, or de-scope the project - or in some cases, even return the grant. In recent years, some councils unfortunately deferred borrowing, and now face higher interest charges to fund those projects. A Kiama example of this is the redevelopment of Hindmarsh Park. After three failed tender processes to obtain the skills of a suitably qualified developer the initial scope was significantly reviewed and revised. Despite this the redevelopment timeframe has blown out from the original grant funding agreement.

In addition, many councils reduced or removed development charges, deferred debt recovery, or received lower revenues as business activity quietened during the COVID pandemic.

The future costs of operations, maintenance, repair (OMR) and depreciation of new, upgraded or renewed assets funded by grants, was more than often not adequately accounted in future budgets

Depreciation of Assets

A council's income must be adequate to maintain services and also fund asset consumption (in the form of depreciation). Most councils' cash position indicates that services are not their main issue, it is their ability to maintain infrastructure assets where they often fail. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation can be described/explained as follows:

"Depreciation is a planned, gradual reduction in the recorded value of an asset over its useful life by charging it to expense. Depreciation is applied to fixed assets, which generally experience a loss in their utility over multiple years. The use of depreciation is intended to spread expense recognition over the period of time when a business expects to earn revenue from the use of the asset."

It is also accepted, that in the commercial environment, depreciation expenses are integral in determining the profit distribution through dividends, this however is not afforded to councils as there is no taxation offset or benefit.

In view of the above and from a practical perspective there are stark and fundamental differences between the relevance of depreciation expenses in a commercial environment as compared with local government.

In a council environment:

- There is no distribution of profits.

- Most Council assets are not intended to generate and/or maximise revenue or create a return on investment.
- Numerous assets are externally funded (partially or fully) through grants and contributions. Note: Assets are added to councils' portfolios, due to growth driven by communities, and election commitments, but no grants provided by State and Federal government for maintaining the asset/depreciation.
- Some councils have brought to account and depreciated assets which they neither own nor control, nor have any financial obligations for asset maintenance or replacement (e.g., Rural Fire Service 'Red Fleet' assets).
- Arguments persist that certain asset categories e.g. roads, do not lose value should maintenance be adequate.
- Assets of councils are subject to rapidly changing demographics, global trends, changes in Community Strategic Plans, legislation, and technology.
- In some cases, council determines that assets will not be replaced at the end of their useful life e.g. community halls due to changing demographics, community expectations etc.

Consequently, it is apparent that depreciation expenses as defined by Australian Accounting Standards and adhered to by commercial entities are not necessarily compatible nor applicable for local government assets.

Most councils' assets have been externally funded (partially or fully) through grants and contributions (roads/sewerage/water) and council will never be in a position, nor expected, to fully fund these assets when they are fully depreciated.

Additionally, some assets will never be replaced, and the Auditor General's Office is claiming that 'assets' such as Rural Fire Service

('Red Fleet') are required to be depreciated even though councils have neither control nor obligation to fund nor replace. These factors are unique to NSW Local Governments and need to be accounted for as such.

No figure in local government financial statements is subject to greater uncertainty and variability than roads depreciation which is constantly subject to climate events (excessive rainfall/flooding etc.), road transport regulations, grant funding, condition assessments etc. thereby making it potentially a most unreliable and misleading figure.

It is an expensive exercise to complete an asset valuation on thousands of kilometres of roads, which only remains accurate until the next significant weather event, which makes the entire process somewhat academic.

Added to this depreciation scenario is the fact that many other assets of council are subject to vastly different factors than those of a commercial entity.

This then begs the question. Why are all council assets depreciated 100 percent based on cost or revalued amount when council has not financed (nor expected to have financed) the full cost of the asset.

While this depreciation scenario is not something Council can control it does play a role in Council's financial situation.

Lack of indexing of grant funding

Local Government nationally have long lobbied the Federal Government through the National Body of Australian Local Government Association (ALGA) to restore Federal Assistance

Grants to at least one per cent of Commonwealth taxation revenue which would enable councils to build and support more resilient communities^{xix}. ALGA has written countless papers on this issue and informed productivity reviews and advocacy campaigns spanning decades on the subject. ALGA has strong support from local government's nationally to pursue this issue, nonetheless the matter has largely fallen on deaf ears, regardless of the party at the helm Federally.

Furthermore, local governments tend to step in when services are essential and not being delivered efficiently due to lack of coordinated policy by state/territory or Commonwealth governments.

This lack of indexing continues to expand the gap between Council's funding and the actual cost of providing critical infrastructure.

Attracting and retaining skilled workforce

Most councils are equipped with an in-house workforce to deliver roads and infrastructure projects, including in regional locations. Workforce capability and capacity may vary in remote locations. The biggest challenge that councils face in the current climate is the rising cost of materials and market capacity, which is felt uniformly by all councils regardless of geographical location.

Kimama Municipal Council has experienced being unable to compete with higher salary offers from state, federal government, or private enterprise for similar roles and skilled employees. There is difficulty in attracting potential qualified and skilled candidates who perceive Kimama Council as a training ground.

The time to recruit (from start to finish) across all NSW councils including Kiama is undercut by private enterprise who can offer in the same day as they interview. This is a particular challenge in our aged care staff.

The rigidity of the NSW Local Government Award poses challenges for Kiama to offer competitive packages, and any offerings to potential recruits to compete with other organisations is at a cost to Council's budget and in turn financial sustainability.

Over the last year, the average headcount of councils in NSW has increased by 10 percent, with casuals and labour hire continuing to account for 12-13 percent of the overall total headcount. In rural councils, the median number of approved positions and headcount increased by 12-13 percent. Over the 2022-2023 period, Kiama had a median headcount increase of 15 percent, the casual and labour hire continue to account for 32 percent of the overall total headcount (due to the high number of casuals in aged care services, lifeguards and Leisure Centre).

The average turnover rate for councils in NSW has now stabilised at 18 percent. Vacancy rates have also remained stable at 11 percent. At the end of 2022-2023 Kiama Council had a total turnover of approximately 24 percent which was above the State average and vacancy rate of approximately 11 percent. Council's turnover and vacancies rates have since stabilised and now sitting at a 18 percent turnover and 5 percent vacancy rate which is in line with the overall NSW average. Noting that over 50 percent of Kiama Council's workforce are in aged care services and this contributes directly to higher turnover.

Structural impediments to shared regional services

While services and regional delivery of operations is an emerging immediate priority for Kiama, current awards and individual Enterprise Bargaining Agreements of councils in the Illawarra-Shoalhaven Region mean that sharing services, or creating regional models of services is challenging and, for those Council's whose finances are stronger, such work may not be a priority

The financial sustainability of our LGA will depend on our ability to right-size the organisation and live within our means. This situation drives Kiama towards a need to consider each service offered and contemplate shared service models with neighbouring councils or those councils involved in the Illawarra Shoalhaven Joint Organisation (ISJO). Areas such as payroll, rates and governance or where there are single officers employed to deliver these services are at risk and create challenges in terms of managing leave, illness or employee vacancy. Such services may be better considered as a regional or shared service and fees spread across Councils. This type of shared service model may benefit ratepayers.

NSW Integrated Planning & Reporting Framework

The NSW Integrated Planning and Reporting (IP&R) framework is well intentioned but is resource intensive to do it well especially in terms of assisting with budget and then ongoing financial management.

The IP&R framework is also set on a 10-year timeframe which for a Council in Kiama's current state is not adequately adaptive to urgent financial issues. This creates a disconnect between the aspirations of the community and the Council's actual financial management needs.

While each State has some form of integrated planning framework, the details and requirements of the framework differ from to State.

Rate Pegging and Special Rate Variation Process

Likewise, not all States use a Special Rate Variation and application process to the State Government. Queensland councils have greater flexibility to set rates and charges. Many State governments have set caps on infrastructure charging, or development application fees in attempt to keep construction costs low and consistent between LGAs. In affect all this does in localise the shortfall of infrastructure funding to the local authorities.

NSW has the added challenge of rate pegging. Set at Consumer Price Index (CPI), the rate peg for Kiama does not cover Award increases for staff (4%) or for aged care staff (23%) and is wildly restrictive. Rate pegs also prevent localised levies such as short-term rental accommodation, tourist operations, environmental matters, etc. The restrictive definition prevents local governments from tailoring taxation to suit local needs.

Kiama's rate income is approximately \$26 mill per annum, so even a 10% increase in rates would only yield \$2.6 million dollars. With the cost-of-living pressures so high for many in the community, even this small increase would cause further challenges and reputational risks for Council.

While the recent rate peg review is appreciated it still requires further review. The 2024-2025 rate peg suggests a range of Base 4.5 percent up to 8.2 percent, reflecting the increases under the new process. Interestingly, of 128 Councils, 38 percent will receive the base of 4.5 percent, 38 percent will receive between 4.5 to 5 percent, and 15 percent of councils will receive 5.0 to 5.5 percent. This reflects only 13 percent of councils receiving more than 1

percent above the base. Inflation and wage increases are not being offset.

While rate pegging achieved some of what it was initially designed to do, historically, except for few occasions, the cap was set below inflation. Moreover, the discrepancy is even larger than it might first appear if one considers a true measure of local government inflation rather than the CPI, which is currently erroneously employed (by IPART and as a key component of the Local Government Cost Index (LGCI)). There is a limit to how often, and by what quantum, government-imposed *efficiency dividends* can fund the difference between the rate peg and increases in councils' expenditure (caused by inflation and cost-shifting). The limit was reached years ago.

The Special Rate Variation (SRV) process is appreciated but rate pegging should be sufficient to render the SRV process as only required in desperate situations. Currently, SRV is required for standard sustainability requirements. The work required for requesting rate pegs is too extensive and the process needs to be simplified. Kiama Municipal Council is not in a position currently to undertake this work, but may be once the varied PIO and the actions of this Plan are completed.

Tourism and revenue

Other local and population factors need to be considered. Kiama is a heavy tourist destination that experiences large surges in population for at least 20 percent of the year. In providing adequate service to community facilities and amenities, municipal services are required outside normal working hours. This is not addressed by the NSW rate peg, nor recognised in the per capita allocation of Federal Assistance Grant. Local demographics and economic characteristics are not considered. Kiama also has an ageing demographic so road,

pathway and facilities maintenance is highly required. These should be additional factors impacting variable rate peg adjustments.

Revenue collected from Council assets located on NSW Crown Land, under the *Crown Land Management Act 2016*, are restricted solely for improving the associated assets on the Crown Land rather than broader community projects, limiting the flexibility of Council to manage budgets efficiently and in line with community priorities.

Natural disasters & pandemics

The impacts of consecutive natural disasters and the COVID pandemic during the last five years have significantly depleted revenue and increased operational costs. Many of the repairs and restoration of damaged infrastructure have been undertaken by contractors and underwritten by Council, resulting in Council awaiting reimbursement for approved works through the respective NSW agencies - and often across financial years (which in turn distorts financial results).

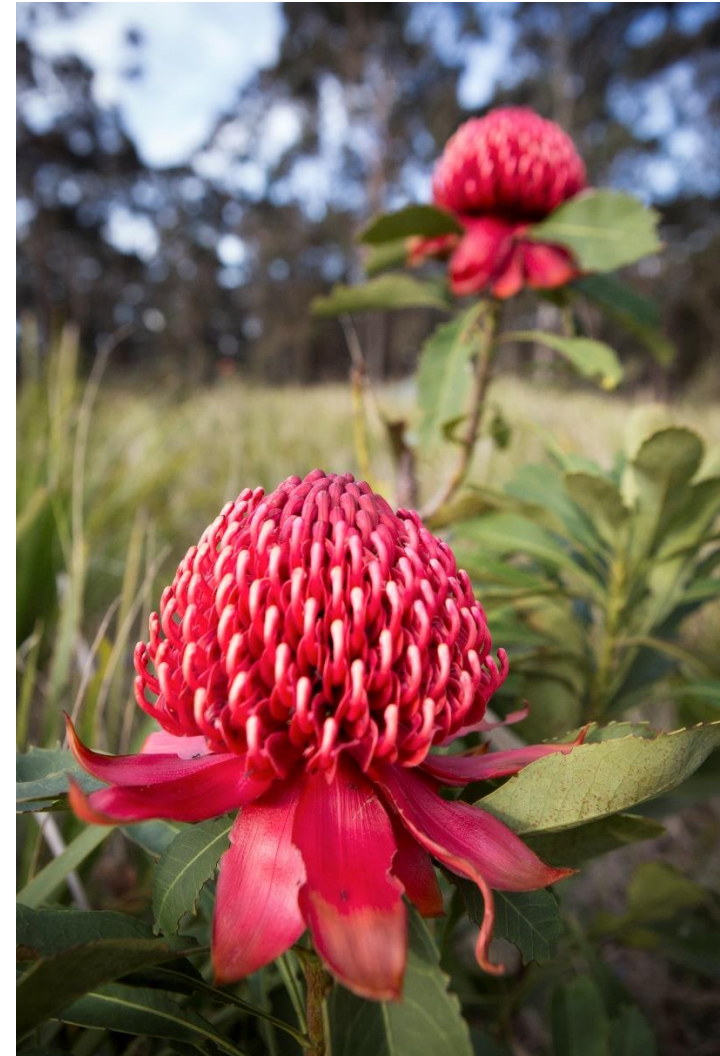
Jamberoo Mountain Road is a critical local east – west connector, between coastal and highland communities. In the Illawarra, when the two other State controlled roads; Macquarie Pass and Moss Vale Road, close in heavy rain or fog or as a result of traffic accidents, the region's State controlled east-west connections cease. Traffic movements then rely on a small local road that is not built to support heavy vehicles. This often results in road failure, landslips and traffic accidents caused by funnelling all traffic down an unsuitable road. During disasters when the road has failed, Council is only able to use grant funds to build the road back to the same standard instead of bettering or addressing issues. This means the cycle of damage and repair continues. Council has advocated to the State government to take control over the road. To date, the State has routinely denied these requests.

This leaves a costly section of local road that plays a regional east – west connector role continually at risk. Betterment funding is core to resolving this.

In several cases, the infrastructure damaged by natural disasters was restored with funding through Commonwealth and NSW disaster grants, rather than renewed through Council funding at a later date. A reader of Council's financial statements would note several years of above benchmark expenditure on renewals, and an elevation in the condition ratings of several road and bridge assets - largely due to those grants.

However, the grants stimulus prompted by the disasters and pandemic generated several 'after shocks' for Council and many other local councils - the future costs of operations, maintenance, repair (OMR) and depreciation of new, upgraded or renewed assets funded by grants, was more than often not adequately accounted in future budgets.

Federal and State Government disaster recovery and grant funding needs to be timelier to alleviate cash flow issues for Councils.



Defining financial sustainability

Objective

Council is committed to ensuring its long-term financial sustainability while renewing and maintaining its assets appropriately and providing balanced community services without imposing a significant burden on our residents and community, today and tomorrow.

Defining financial sustainability

The varied PIO requires Council become financially sustainable by the 2026-2027 Financial Year.

Financial sustainability is Council's ability to manage its financial resources in a responsible and efficient manner over the long term. It involves achieving a significantly improved financial position, ensuring that revenue sources are sufficient to cover operating expenses, fund essential services and liabilities, and to have adequate surplus to effectively manage and invest in assets. Financial sustainability also includes planning and budgeting for future needs, such as new, upgrade and maintenance of infrastructure to respond to community need and growth, while considering the potential impacts of economic fluctuations and changing demographics. It encompasses prudent financial management practices, responsible borrowing management, revenue diversification, effective cost control measures, and transparency in financial reporting. By achieving financial sustainability, Council can meet the needs of current and future generations.

The basic indicator of sustainability for a council is to regularly produce a balanced or surplus operating result, indicating resources are available to expend on capital (renewal / upgraded assets).



Strategic levers

Council has identified eight (8) strategic levers to help get to where we need to be and guide Council's direction over the following two to three years to achieve financial sustainability.

The following levers and associated actions consider:

- ability to address risks and challenges
- likely scale of the net financial contribution to address the financial gap
- ability to be delivered within 2-3 years
- low to moderate operational challenge
- rectifying legacy policy, systems and processes
- least impact on community.

Strategic Lever 1: Sustainable cash reserves & responsible borrowing

We'll build cash reserves for strategic purposes, enabling the delivery of community infrastructure for a growing population and to respond to unforeseen events.

Council can hold funds in:

- trust, restricted reserves (tied to a specific purpose) and intended allocations, such as developer contributions, statutory reserves, capital works projects or grant allocations which are set aside for specific purposes or obligations
- discretionary cash reserves segregated from general revenue, based on Council direction, to finance future expenditures or to provide for a specific purpose or projects.

The use of borrowings must ensure intergenerational equity by aligning asset consumption with the future generations benefiting from those assets. Considering the significant investment required in infrastructure and assets beyond the current strategy's lifespan, it becomes critical for the Council to maintain sufficient borrowing capacity. Council will comply with the Local Government Prudential Guidelines, adopt a cautious and judicial approach to borrowing and only pursue new borrowings for capital works if they demonstrate clear long-term benefits for future generations, hold no other borrowings and demonstrate a clear ability to repay borrowing levels without compromising infrastructure or services.



Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
1.1	Develop a Cash Reserves Policy to establish a minimum cash position.	Year 1	Finance	Council decision	Nil	A.6
1.2	Establish following reserves: <ul style="list-style-type: none"> Restricted reserve to meet the cost of replacement/renewal of Blue Haven Terralong assets 	Year 1	Finance	Council decision	Nil	B.1 A.6
1.3	Ongoing annual investment in identified cash reserves	Per Annum	Executive	Council decision	All	A.6
1.4	Develop a Borrowing Policy based on sound, long-term financial management principles.	Year 1	Finance	Council decision	Nil	A.6
1.5	Continue to pursue grant funding with low exposure to residual/recurrent expenditure or growth in depreciation/renewal	Per Annum	All	Operational	All	A.6
1.6	Nominate estimated costs and distribution of proceeds of sales of property resolved to divest (liquidity plan schedule).	Per Annum	Finance	Council decision	All	A.6

Strategic Lever 2: Optimised revenue opportunities

Generating new revenue or increasing current fees and charges to properly reflect the cost of service beyond statutory limits and the affordability of our community is extremely challenging.

Rates and charges, and user fees and statutory fees and fines are Council's largest revenue source, accounting for 84 percent of total percent revenue in 2022-2023.

The user pays principle, in the context of local government, is a guiding concept that advocates for individuals or entities benefiting directly from specific services or facilities to bear the associated costs. Under this principle, users are charged fees corresponding to the level of services they use or the extent of benefits they receive. The user pays principle promotes fairness by ensuring that those who directly benefit from particular amenities, such as recreational facilities or waste collection services, contribute proportionately to the cost of maintaining and providing these services, relieving the financial burden on the broader community. Those who directly benefit from, or cause expenditure, should make an appropriate contribution to the service, balanced by the capacity of people to pay while ensuring compliance with National Competition Policy^{xx}.

Realistic options to uplift revenue include leveraging strategic partnerships to attract more funding, reviewing our pricing policy, ensuring developers fairly share the burden to contribute to new infrastructure and open space, and reviewing Council's strategic property portfolio and leasing arrangements.

Council levies development contributions under a Section 7.12 contributions plan. This Plan levies contributions based on the cost of development, and the funds are held in a restricted asset account and allocated towards capital projects as part of the annual

budget preparation. There are a number of urban release areas within the Kiama LGA, at different stages of planning, that will accommodate new dwellings and new residents. As part of the planning for these areas, the provision of public infrastructure will be considered. For these new areas it is expected that mechanisms such as a Planning Agreement or site-specific section 7.11 plans, where suitable will be implemented, in line with the requirement of the Urban Release Area clause of the *Kiama Local Environmental Plan 2011*.

Where there are riparian or other environmental lands proposed to be dedicated to council, the preferred method of dedication will be through a Planning Agreement that includes in perpetuity funding to mitigate the financial impact of council accepting these lands. In subdivision developments, any land or assets proposed to be dedicated to Council will be thoroughly reviewed to ensure they meet Council standards and will not create a future financial liability.

The long-term financial plan considers both the positive and negative financial impacts that arise from urban release area developments. The additional residential lots, when created, will increase the rating revenue for Council. In contrast the additional assets will create a financial liability in terms of maintenance, depreciation, and renewal costs. These impacts have been considered as part of Council's long-term financial plan and will continue to be monitored and refined as the development progresses.

Parking restrictions have a primary goal of sharing a resource rather than generating revenue, however a pricing model is effective in supporting more efficient, fairer use. We are moving towards a more demand-driven parking model that considers demand for parking spaces in price setting. This increase in parking revenue will help Council's financial position without major community impost.

A strategic review of properties, leases and licenses will likely identify opportunities to optimise potential revenue, and/or identify surplus property and assets for Council-owned assets (taking into consideration private, commercial and community benefit).



Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
2.1	Develop Pricing Policy for fees and charges, including applying user pays principles where it is appropriate to do so	Year 1	Finance	Council decision	4.1	A.6
2.2	Utilising Planning Agreements or site-specific Section 7.11 Contribution Plans, continue to pursue developer funding, including in perpetuity funding, to mitigate the financial burden on Council.	Per Annum	Planning & Economic Development	Operational	Nil	A.6
2.3	Prepare a Parking Strategy to introduce paid parking for certain areas of the Municipality	Year 1	Implementation	Council decision	Nil	A.6

Strategic Lever 3: Well planned assets

Council manages \$700 million in assets from land and buildings to roads, drains, footpaths, parks and open space and our asset base is largely the product of investment by prior generations of residents. As custodians, Council has the responsibility to ensure these assets are available to future generations.

As part of preparing its Resourcing Strategy, Council is required to prepare an Asset Management Policy to plan for all the existing assets under its control, and any new asset solutions proposed in its Community Strategic Plan and Delivery Program. Council is also required to prepare an Asset Management Strategy and Asset Management Plans for each class of assets.

Council's Asset Management Policy was adopted by Council in 2010 and is in serious need of a review. As the NSW IP&R Guidelines requires Asset Management Strategies to incorporate Council's adopted Asset Management Policy the 2022 Asset Management Strategy will also need to be updated.

Council's respective Asset Management Plans were adopted by Council in 2016. These plans will also need to be reviewed as they must contain long-term projections of asset maintenance, rehabilitation and replacement, including forecast costs (for reflection in the Long-Term Financial Plan).

Approximately 20 percent of Council's asset costs are associated with the specialised buildings Council maintains. Considering this, the varied PIO requires Council to complete and make public a dilapidation/building report for the Blue Haven Aged Care facilities at Terralong. Work has commenced on this dilapidation/building report. Following the completion of the dilapidation/building report, the varied PIO requires Council to prepare a Plan of Management

for Blue Haven Terralong. This Plan of Management is to examine options to retain and refurbish the Blue Haven Terralong facilities to conform with contemporary independent living units.

The varied PIO also requires Council to examine the potential to subdivide and divest of the closed facilities on Havilah Place. Work has commenced on this subdivision.

In line with the actions of Council's SIP2, Council has commenced service reviews on several of its services. To date, a consistent recommendation of these service reviews has been to review the relevant Asset Management Plans to include forward maintenance and renewal requirements for these facilities.

As part of preparing its SIP2, Council identified development opportunities associated with several catalyst sites it owns. Council will prepare masterplans and business cases for these sites to ensure they are used to their fullest potential and assist in generating one-off and continued revenue streams for Council.

We'll maintain our community's assets at a level that caters to current and future needs. Our focus will be on renewals and new infrastructure, ensuring the right blend to meet community needs.

Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
3.1	Review existing Asset Management Policy and prepare and adopt an improvement plan to ensure Policy is contemporary and aligned with IP&R Guidelines.	Year 1	Engineering & Technical Services	Council decision	Nil	A.2
3.2	As part of preparing next Community Strategic Plan, review and update Asset Management Strategy to incorporate contemporary Asset Management Policy.	Year 2	Engineering & Technical Services	Council decision	3.1	A.2
3.3	Commence review of individual Asset Management Plans to include forward maintenance and renewal requirements for individual asset types.	Year 3	Engineering & Technical Services	Council decision	3.2	A.2
3.4	Complete and make public a dilapidation/building report for Terralong and Havilah	Year 1	Infrastructure & Liveability	Operational	Nil	B.1
3.5	Examine the potential to subdivide and divest Havilah Place in accordance with the criteria contained in the Property Plan	Year 1	Implementation	Operational	Nil	B.1
3.6	Complete Plan of Management for Blue Haven Terralong, including, examining options to retain and refurbish Terralong to conform with contemporary independent living units	Year 1	Chief Operating Officer	Council decision	3.4 3.5	B.2
3.7	Prepare business cases and masterplans to identify revenue opportunities associated with the following catalyst sites: <ul style="list-style-type: none"> • Kiama Sports Precinct, including Kiama Leisure Centre • Havilah Place • 11 Manning Street • Council's Works Depot • Council's Waste Depot • Spring Creek 	Year 1	Implementation	Operational	4.1 5.3	A.10
3.8	Update and finalise Property Plan including reviewing existing revenue generated by each property, current financial performance and potential for growth for each property, and underperforming properties.	Year 1	Property	Council decision	Nil	A.10

Strategic Lever 4: Reviewed and efficient service landscape

The NSW IP&R Guidelines require Council to identify which areas of its services will be reviewed during the four-year Council term. This requirement seeks to instil a culture of continuous improvement.

The varied PIO seeks to accelerate these reviews to hopefully identify opportunities for revenue and to ensure Council can move to surplus operating budgets.

To date Council has commenced service reviews on the following services:

- Kiama Leisure Centre
- Kiama Libraries
- The Pavilion
- Kiama Coast Holiday Parks
- Kiama Waste Services
- Tourism & Events
- Recreation & Open Space Maintenance

These service reviews have all run to different timeframes with different recommendation criteria. To address this and to ensure that the recommendations of one service review are not prioritised over another Council is preparing a Continuous Improvement Framework. This Framework will establish Council's services architecture and establish a program of reviews for all of Council's services.

Following the completion of this review period, a Service Catalogue of Service Plans will be compiled. These plans will establish Key Performance Indicators for each of Council's Services.

For the seven service reviews that are currently being finalised, or have been finalised, Council will hold a Service Review Think Tank with a panel of industry experts, the elected Councillors, members of the Finance Advisory Committee, and Council's executive and management teams to consistently determine the key priorities for each service within Council's budgetary constraints.

Both the Leisure Centre and Libraries Service Reviews have been reported to and been accepted by Council. To ensure operational recommendations of these Reviews continue to progress, Council will develop an actions matrix to prioritise actions based on risks, costs and timeframes and to identify quick wins.



Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
4.1	Prepare and adopt a Continuous Improvement Framework, including the identification of services to be reviewed in Years 1, 2 and 3	Year 1	Implementation	Council decision	Nil	A.7
4.2	Hold a Service Review Think Tank to consistently determine the key priorities for each service within the Council's budgetary constraints.	Year 1	Implementation	Operational	Nil	A.7
4.3	Develop an actions matrix to identify which actions of the completed service reviews should be prioritised, based on risks, costs and timeframes and to identify quick wins.	Year 1	Implementation	Operational	Nil	A.7

Strategic Lever 5: Investment in transformation

Council is well progressed on its journey of implementing the Technology One platform. The varied PIO requires Council to fully implement Technology One by the end of 2026-2027 financial year. Work has commenced on the preparation of a roadmap outlining the required actions to fully implement.

Throughout this implementation phase, Council has and continues to utilise other software solutions to undertake its various business requirements. Since embarking on its Technology One journey the offerings of these other solutions has changed and the legislative environments within which Council operates has also changed. It is important that Council also investigate best-of-breed approaches and determines the most effective and efficient software solution/s for its businesses.

As Council divests of its Blue Haven Bonaira operations it needs to review and determine its organisation size, structure, responsibilities and salary structure. Council's Salary Structure is antiquated and contributes to the difficulties Council faces in attracting and retaining a skilled workforce. Work has commenced on this suite of organisational transformations as part of SIP2. It is time to finalise and implement these changes.



Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
5.1	Develop a Technology One Roadmap, that examines the full cost of fully implementing Technology One.	Year 1	Finance Information & Technology	Operational	Nil	C.1
5.2	Undertake an analysis of available software solutions already utilised by Council to determine the most efficient and effective software solution/s for Council.	Year 1	Finance Information & Technology	Operational	5.1	C.1
5.3	Develop a Strategy for deploying a new: <ul style="list-style-type: none"> • Salary System • Position Description Framework • Payroll cycle • Performance Review processes 	Year 1	People & Performance	Operational	Nil	A.2

Strategic Lever 6: Robust financial management

Council's current financial situation primarily arose due to Council's decision to invest \$58 million into a new large, aged care and retirement village site. The capital costs blew out to the value of \$107 million, with internal operational funds being used to fund shortfalls and inadequate public reporting to the community, to the Elected body or to relevant State agencies.

Many other matters affecting the organisation's performance and governance were publicly made available in the State of the Organisation document released in 2021 and the subsequent Strategic Improvement Plans created in 2022 and 2023 to correct many issues and provide transparent information to the Council and community on steps to be taken.

While the past three years have been difficult for the organisation, it has reinforced the importance of robust financial management and project management.

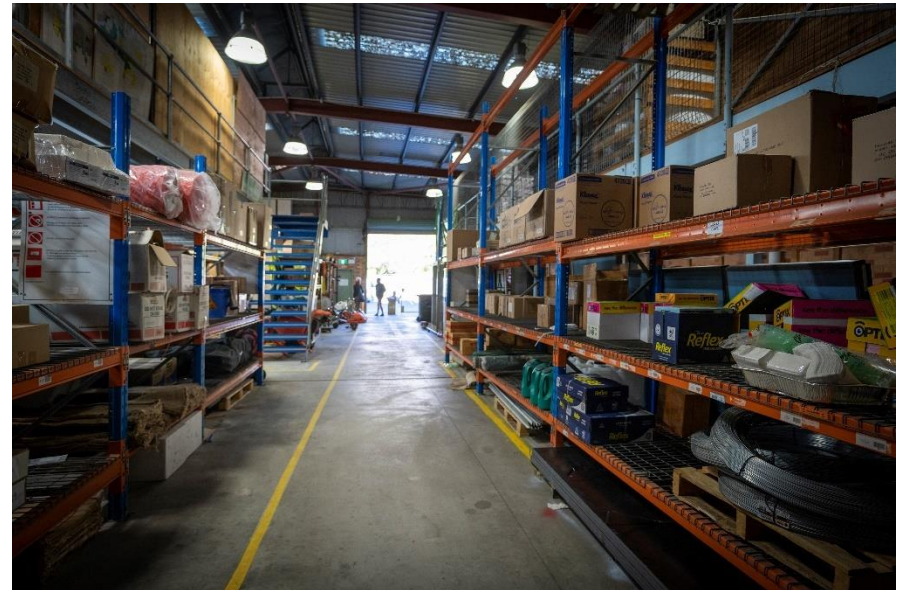
Effective project management is instrumental in ensuring financial sustainability. By overseeing projects throughout their lifecycle, Council can keep track of costs, risks and operational efficiencies.

Ensuring Council has a proactive project management framework, which includes monitoring and adherence to terms and conditions, helps prevent costly variations and ensure that projects are delivered on time and within budget. There have been several attempts to develop a Project Management Framework and recruit Project Management officers in recent years. Now is the time to finalise a Project Management Framework.

The varied PIO requires Council, via this Plan, to implement the recommendations of the Auditor's Final Management Letter from

the 2021-2022 audit. Since receiving the varied PIO, Council has received the Auditor's Final Management Letter from the 2022-2023 audit. This Final Management Letter outlines both financial management and governance issues identified during the 2022-2023 audit and the unresolved issues identified during the 2021-2022 audit.

This Plan therefore includes and seeks to address the issues identified during the 2022-2023 audit. Financial management issues identified by the Auditor are covered by Strategic Lever 6 while the governance issues are covered by Lever 8.



Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
6.1	Adopt a year-on-year operational savings program across the business to grow cash balances	Year 1	Finance	Operational	Nil	A.9
6.2	Continue rigorous internal monthly and quarterly financial monitoring processes	Ongoing	Finance Executive	Operational	1.1 1.3 4.1	A.4
6.3	Develop and implement a Project Management Framework to ensure all Council projects are consistently managed on time and on budget.	Year 1	Implementation	Operational	Nil	A.2
6.4	Address issues associated with Blue Haven Terralong including, but not limited to: <ul style="list-style-type: none"> The true cost which should be applied and whether the general rate revenue is subsidising its operations The adequacy of current and proposed future maintenance fees Review the level of maintenance fees 	Year 1	Chief Operating Officer	Operational	3.6	B.1
6.5	Ongoing review of operating costs with the goal of identifying permanent savings	Ongoing	Executive	Operational	4.1	A.9
6.6	Restructure the presentation of draft and published budgets to detail programs and activities compared to current and previous years and funding sources for each capital project.	Ongoing	Finance	Council decision	Nil	C.2
6.7	Revalue stormwater drainage assets and land under roads to bring Council closer to verifying all IPPE balances	Year 1	Infrastructure & Liveability	Operational	Nil	A.5
6.8	Revalue land improvements (non-depreciable and depreciable), other structures, swimming pools, open space and recreational assets, library books and other assets within 'Infrastructure, property, plant and equipment' to bring Council closer to verifying all IPPE balances.	Year 2	Infrastructure & Liveability	Operational	Nil	A.5

Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
6.9	Continue identified processes and procedures to ensure that Council resolutions are obtained when internally restricted cash is going to be released for alternate purposes where possible.	Year 1	Finance	Operational	Nil	C.3
6.10	Revalue stormwater drainage assets and land under roads to bring Council closer to verifying all IPPE balances	Year 1	Infrastructure & Liveability	Operational	Nil	A.5
6.11	Review audit logs for privileged and super user accounts from One Council and Authority to ensure privileged and super user access is appropriate	Year 1	Executive	Operational	Nil	C.3
6.12	Review user access for Authority and One Council to ensure staff have appropriate access	Year 1	Executive	Operational	Nil	C.3
6.13	Continue to reconcile grant income and expenses on a monthly basis going forward in order to calculate reserve balances. This will also provide an overview of the grant receipt, cost and any required funding (acquittal) request.	Ongoing	Finance	Operational	Nil	C.3
6.14	Continue weekly independent review of exception payroll report to ensure anomalies in remuneration etc. which could indicate potential fraud are captured.	Ongoing	Finance	Operational	Nil	C.3
6.15	Continue review of termination payments	Ongoing	Finance	Operational	Nil	C.3
6.16	Review and capitalise Work In Progress YR1	Ongoing	Finance	Operational	Nil	C.3
6.17	Implement a robust quality review process for asset classes which are not subject to comprehensive revaluation, to assess for any potential impairment. This impairment exercise should be conducted on an annual basis	Ongoing	Infrastructure & Liveability	Operational	Nil	A.5
6.18	Continue implementing the following best practice procedures: <ul style="list-style-type: none"> Enforce segregation of duties when processing manual payments Periodic review of all supplier Masterfile changes 	Ongoing	Finance	Operational	Nil	C.3

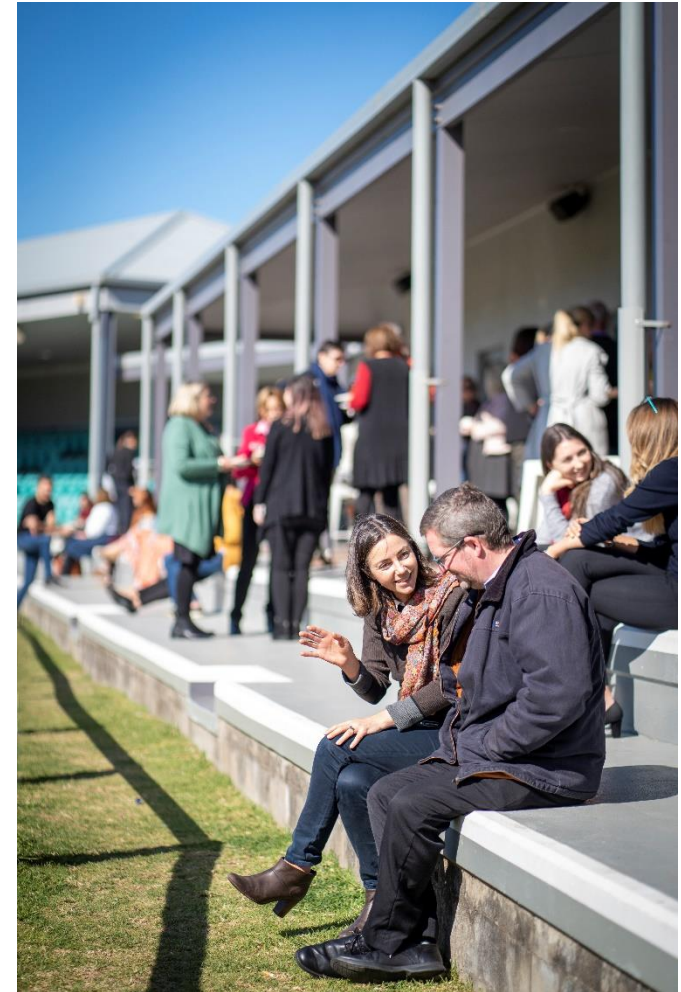
Strategic Lever 7: Prioritising advocacy and partnerships

We'll strengthen partnerships and advocacy efforts to secure resources and navigate financial challenges by working with our neighbouring councils and the Illawarra-Shoalhaven Joint Organisation. By working in partnership we will seek to deliver infrastructure and services in a wholistic fashion which will provide several advantages. By collaborating with our neighbours we can increase our chances of success when applying for grant applications and potentially share resources across the region.

Ensuring Council has clear and consistent understanding of its needs is vital important when advocating to both State and Federal Governments for grant applications and infrastructure assistance. Council prepared its first advocacy list in February 2022. It is important this advocacy list is updated and maintained to ensure our advocacy efforts reflect the needs of the community and organisation.

Continuing to utilise the combined strength of the Illawarra-Shoalhaven Joint Organisation (ISJO) to advocate for the needs of our community and to provide regional services is key. Following the completion of next year's Community Strategic Plans, the four Illawarra-Shoalhaven councils and will prepare a new Statement of Regional Priorities. This is a significant opportunity to investigate opportunities for resource sharing and combined advocacy approaches.

As part of reviewing our service landscape, Council has approached the Illawarra-Shoalhaven councils to share benchmarking data and to establish a cross-council peer review program for each other's service reviews.



Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
7.1	Adopt and implement an Advocacy Strategy which seeks to address cost-shifting, facilitate key actions of this Plan, leverage partnership funding with neighbouring councils and strategic partners.	Year 1 Ongoing	Implementation	Council decision	Nil	A.2
7.2	Work with ISJO to prepare a new Statement of Regional Priorities, including opportunities to investigate opportunities for resource sharing and combined advocacy approaches.	Year 2	Executive	Council decision	4.1 6.1	A.6
7.3	Continue to collaborate and share benchmarking information with neighbouring councils	Ongoing	Implementation	Operational	6.1	A.7

Strategic Lever 8: Ensure good governance

As part of improving its governance arrangements, Council engaged Todd Hopwood, Manager Customer and Business Integrity, Wollongong City Council, to undertake review, report on and make recommendations on Council's governance and risk management policies, procedures and systems.

Mr Hopwood provided his findings in May 2024, which focused on:

1. building upon and determine the implementation status of the previous "Review of Governance Arrangements at Kiama Municipal Council" undertaken by Todd Hopwood in March 2021
2. considering governance issues (if any) identified in the report of the appointed Financial Controller
3. considering governance issues (if any) identified in the Performance Improvement Order (or any subsequent variation) issued by the Minister for Local Government
4. undertaking a "gap-analysis" review of relevant local government governance, risk management, internal audit and legislative compliance requirements and industry benchmarks
5. other matters that may be identified and agreed upon during the review

The varied PIO requires Council to implement the recommendations for the 2021 Hopwood Report. This Plan incorporates the recommendations of the 2024 Hopwood report as it incorporates the 2021 Report.



Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
8.1	Undertake an immediate review of the Policy Register and ensure that: <ul style="list-style-type: none"> any policy that has not been reviewed in the last 5 years is identified for review as soon as possible 	Year 1	Implementation	Operational	Nil	C.3
8.2	Undertake a desktop review of the entire policy register occur to generate a policy status list categorising each document as follows, or similar: <ul style="list-style-type: none"> Maintain as Council Policy Maintain as Internal/Operational Policy Maintain as Policy with significant review required Change from Council Internal/Operational Policy Amend / Merge with another policy Redundant – to be deleted Change from Council / Internal Policy to Procedure 	Year 1	Implementation	Operational	Nil	C.3
8.3	Report to the Council Executive recommending the revocation of redundant policy and other documents, confirmation of correct categorisation of each document and details of policies requiring significant review.	Year 1	Implementation	Operational	8.2	C.3
8.4	The Policy Framework and Policy Development and Review Procedure be reviewed to consider the following: <ol style="list-style-type: none"> Requiring policies to be reviewed every three years. Require each policy to be either formally reconfirmed or re-adopted once every four years by either the Executive Leadership Team or Council (once every Council term) as appropriate. i.e., other review can simply be a desktop review if no changes required 	Year 1	Implementation	Operational	Nil	C.3

Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
	<ul style="list-style-type: none"> c) state that policies will only be submitted to the Consultative Committee if they relate to matters impacting on workplace safety, staff behaviour or conduct or would involve a significant impact on levels of staff resourcing. d) determine whether “internal policy” or “operational Policy” will be the term consistently applied to policies set by the Executive Leadership Team. e) implementation of appropriate KPIs to ensure timely review of all policies 					
8.5	<p>Undertake a review of policy and procedure templates to consider the following:</p> <ul style="list-style-type: none"> a) Remove the consultation section from all policy and procedure templates. b) Review the “Operational Policy”. This is inconsistent with the terms used in the Policy Framework. Council will need to determine whether “internal policy” or “operational Policy” will be the term consistently applied to policies set by the Executive Leadership Team. c) Update the procedure template to provide advice to staff that replication of content between policies and procedures should be avoided. 	Year 1	Implementation	Operational	Nil	C.3
8.6	A review of staff knowledge and understanding of the PULSE Policy Module be undertaken and an appropriate training plan be developed in response.	Year 1	Implementation	Operational	Nil	C.3
8.7	An urgent review of the Business Continuity Plan and Crisis Management Framework, and all	Year 1	Executive	Operational	Nil	C.3

Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
	associated documentation be undertaken, with updated copies of separate Business Continuity Plan, Crisis Management Plan and Crisis Management Communications Plan to be adopted and accompanied by an appropriate training and awareness campaign for relevant staff.					
8.8	Six months after the adoption of the updated Business Continuity Plan and Crisis Management Plans an appropriate scenario testing event be scheduled to confirm staff understanding of the application of the plans.	Year 1	People & Performance	Operational	Nil	C.3
8.9	That the draft four-year internal audit plan consider the inclusion of appropriate internal audits relating to the following strategic risks. Noting that the financial security of the Council, the Performance Improvement Order and Blue Haven site are priority risks for the Council, the internal audits should be considered for scheduling from 2025/26 onwards: <ul style="list-style-type: none"> • Risk Management • Governance Arrangements • Organisation Capability 	Year 1	Internal Auditor	Operational	Nil	C.3
8.10	That the following registers be reviewed to ensure that they contain all required information, and are up to date in accordance with publishing timeframes: <ul style="list-style-type: none"> • Contracts Register required under s27 of the Government Information (Public Access) Act 2009 • Development Contributions Register required under cl217 of the <i>Environmental Planning and Assessment Regulation 2021</i> 	Year 1	Finance Planning & Economic Development	Operational	Nil	C.3
8.11	Confirmation of the status of the Draft Development Application Policy be urgently undertaken. The policy should be published to the Council website if adoption has occurred, and if not the policy should	Year 1	Planning & Economic Development	Council Decision	Nil	C.3

Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
	be immediately placed before Council for adoption in accordance with the <i>Environmental Planning and Assessment Regulation 2021</i> .					
8.12	The current work on developing an updated compliance policy be expedited and an updated policy covering the areas identified in the report be presented to Council at the earliest opportunity.	Year 1	Environment & Compliance	Council Decision	Nil	C.3
8.13	A defined process be immediately established to call for conflicts of interest at the commencement of Councillor briefing sessions, including the application of the requirements of the Code of Conduct in the management of those conflicts and maintain a register of conflicts declared at briefing sessions in accordance with clause 3.39 of the Code of Meeting Practice.	Year 1	Implementation	Operational	Nil	C.3
8.14	Establish a procedure to follow when a Councillor declares a pecuniary or significant non-pecuniary interest in a matter at a briefing, with particular reference as to whether the Councillor is still provided copies of briefing materials or reports after making the declaration.	Year 1	Implementation	Operational	Nil	C.3
8.15	The codes of conduct be urgently reviewed to include specific definition and prohibition of sexual harassment, to contribute towards compliance with Council's positive duty requirements under the <i>Sex Discrimination Act 184 (Cth)</i> .	Year 1	Implementation	Council decision	Nil	C.3
8.16	An immediate review of the Internal Reporting (PID) Policy be undertaken to ensure compliance with PID legislation with particular emphasis on: <ul style="list-style-type: none"> Renaming the policy "Public Interest Disclosures Policy" The process for how a complaint in relation to the Council Chief Executive Officer can be made, how it would be handled and what responsibilities the Mayor would have in such circumstances. 	Year 1	Implementation	Council decision	Nil	C.3

Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
8.17	Urgent training for all Public Interest Disclosure Officers be undertaken in relation to the changes to PID legislation and Council's Policy and updated responsibilities of Disclosures Officer.	Year 1	Implementation	Operational	Nil	C.3
8.18	Urgently complete a self-assessment against the foundational requirements within the Cyber Security Guidelines – Local Government and report the results to management and the Audit Risk and Improvement Committee.	Year 1	Information & Technology	Operational	Nil	C.3
8.19	The results of Council's self-assessment against the foundational requirements within the Cyber Security Guidelines – Local Government should contribute to the urgent review/development of the following: <ul style="list-style-type: none"> • Cyber Security Policy • Cyber Security Strategy to achieve a level of cyber security capability accepted by management 	Year 1	Information & Technology	Council decision	Nil	C.3
8.20	A review of arrangements for establishing new suppliers to Council be undertaken to ensure the separation of the functions of creating new suppliers from accounts payable. It is recommended that council give consideration to: <ul style="list-style-type: none"> • Implementing a policy requiring that the employee who sets up new vendors or changes vendor information does not have the ability/access in the financial system to create vendor payments, • Ensure that an independent officer reviews and approves the vendor account creation process, this officer is to have no ability to create vendors in the system, • Appropriate configurations and restrictions be implemented in the Tech1 Financial System to ensure the above two points occur, 	Year 1	Finance	Operational	Nil	C.3

Ref	Action	Timeframe	Enabler	Authorising Environment	Inter-dependency	PIO Action
	<ul style="list-style-type: none"> periodically verifying any changes to vendor master files', and A requirement for mandatory vacations, or job rotations, of all key personnel involved in the vendor payment process. 					
8.21	The development of appropriate exception reporting in relation to procurement and accounts payable, as identified in the previous internal audit on procurement, be expedited to enhance and expand the current range of reporting available to potentially identify irregularities in procurement and accounts payable functions.	Year 1	Finance	Operational	Nil	C.3
8.22	Develop a strategic roadmap for when and how the remaining recommendations for the 2024 Hopwood Report are to be implemented	Year 1	Implementation	Operational	Nil	C.3

Implementation

Council's Implementation Team is responsible for overseeing the strategic direction, driving a change culture, and prioritisation of actions and resources associated with this Plan.

The Head of Implementation will report to the Executive Leadership Team and be accountable for oversight, strategy, project management, reporting, and communications related to the implementation of the actions of this Plan.

Monitoring & review

The success of this Plan will ultimately be measured by the removal of the varied PIO by the Minister of Local Government.

In line with the varied PIO, monthly reports on the Council's financial position will be reported to the elected body. The progress on all other actions of this Plan will be reported to the elected body bi-monthly. The monthly financial reporting will commence at Council's ordinary July 2024 meeting and the bi-monthly reporting will commence at the ordinary August 2024 meeting. No reporting will occur during September 2024 due to the NSW Local Government Election caretaker period.

Council is required to provide bi-monthly reports of the NSW Office of Local Government on the progress on the actions of this Plan and in turn the actions of the varied PIO. This reporting cycle must commence no later than 23 July 2024.

To ensure ongoing transparency with the community, Council will publish the bi-monthly reports on Council's website. Council will endeavor to ensure the broader community are aware of these reports by promoting through social media posts and attending and participating in Council's monthly community pop-up sessions.

Councillors are accountable through various council decisions. Each year as part of the annual budget development process consideration will be given to the impact of the 8 strategic levers, and assumptions made in the formation of this strategy including population growth, community preferences, economic conditions, and other legislative requirements.

Council's Annual Report will report on Council's financial and service performance, including actions undertaken as part of this Plan and progress towards financial sustainability. It is reasonable for this strategy to be reviewed in response to any material change.

Road Map

Year 1	<ul style="list-style-type: none"> • Cash Reserves Policy • Borrowing Policy • Pricing Policy • Property Plan • Paid Parking Strategy • Asset Management Policy • Blue Haven Terralong building condition report • Havilah Place subdivision • Blue Haven Terralong Plan of Management • Catalyst site master planning and business cases • Continuous Improvement Framework • Service Review Think Tank • Service Review Actions Matrix • Technology One Roadmap • Organisational Transformation Strategy • Year-on-year savings program • Project Management Framework • Advocacy Strategy • Policy Framework & Register • 2024 Hopwood Report strategic roadmap
Year 2	<ul style="list-style-type: none"> • Asset Management Strategy • ISJO Statement of Regional Priorities
Year 3	<ul style="list-style-type: none"> • Asset Management Plans
Ongoing	<ul style="list-style-type: none"> • Financial management • Grant funding • Planning Agreements • Savings identification • Advocacy

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- ⁱ The Hon. Wendy Tuckerman MP, Minister for Local Government, *Performance Improvement Order*, 2022 <https://www.kiama.nsw.gov.au/Council/Council-Plans>
- ⁱⁱ John Rayner PSM, *Review of Kiama Municipal Council: Report to the Minister for Local Government*, 2024 <https://www.kiama.nsw.gov.au/Council/News/Response-to-Minister-for-Local-Government>
- ⁱⁱⁱ The Hon. Ron Hoenig MP, Minister for Local Government, *Performance Improvement Order*, 2024 <https://www.kiama.nsw.gov.au/Council/Council-Plans>
- ^{iv} John Rayner PSM, *Review of Kiama Municipal Council: Report to the Minister for Local Government*, 2024 <https://www.kiama.nsw.gov.au/Council/News/Response-to-Minister-for-Local-Government>
- ^v The Hon. Wendy Tuckerman MP, Minister for Local Government, *Performance Improvement Order*, 2022 <https://www.kiama.nsw.gov.au/Council/Council-Plans>
- ^{vi} Kiama Municipal Council, *Strategic Improvement Plan*, 2023 <https://www.kiama.nsw.gov.au/Council/Council-Plans/Strategic-Improvement-Plans>
- ^{vii} NSW Office of Local Government, *Integrated Planning & Reporting Guidelines*, 2021 <https://www.olg.nsw.gov.au/wp-content/uploads/2021/09/Integrated-Planning-and-Reporting-Guidelines.pdf>
- ^{viii} The Hon. Wendy Tuckerman MP, Minister for Local Government, *Performance Improvement Order*, 2022 <https://www.kiama.nsw.gov.au/Council/Council-Plans>
- ^{ix} John Rayner PSM, *Review of Kiama Municipal Council: Report to the Minister for Local Government*, 2024 <https://www.kiama.nsw.gov.au/Council/News/Response-to-Minister-for-Local-Government>
- ^x The Hon. Ron Hoenig MP, Minister for Local Government, *Performance Improvement Order*, 2024 <https://www.kiama.nsw.gov.au/Council/Council-Plans>
- ^{xi} Kiama Municipal Council, *State of the Organisation Report*, 2022 <https://www.kiama.nsw.gov.au/Council/News/CSP-workshops-alongside-%E2%80%9CState-of-the-Organisation%E2%80%9D-report>
- ^{xii} Kiama Municipal Council, *Strategic Improvement Plan*, 2022 <https://www.kiama.nsw.gov.au/Council/Council-Plans/Strategic-Improvement-Plans>
- ^{xiii} Kiama Municipal Council, *Strategic Improvement Plan*, 2023 <https://www.kiama.nsw.gov.au/Council/Council-Plans/Strategic-Improvement-Plans>
- ^{xiv} House of Representatives - Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, 2003 https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=efpa/localgovt/report.htm
- ^{xv} The Australian Local Government Association, *Inter-governmental Agreement Establishing Principles to Guide Inter-Governmental Relations on Local Government Matters*, 2006 <https://alga.com.au/app/uploads/2018/05/IGA.pdf>
- ^{xvi} The Australian Local Government Association, *2021 National State of the Assets Report: Our Assets, Our Opportunity*, 2021 https://alga.com.au/app/uploads/ALGA_NSotA_SummaryReport2021.pdf



^{xvii} Local Government NSW, *LGNSW Cost Shifting Report - How State Costs Eat Council Rates*, 2023 <https://lgsw.org.au/Public/Public/Advocacy/Cost-shifting.aspx>

^{xviii} The Grattan Institute, *Towards better infrastructure investment*, 2024 <https://grattan.edu.au/wp-content/uploads/2024/05/Towards-better-infrastructure-investment-Grattan-submission.pdf>

^{xix} The Australian Local Government Association, *Current Financial Arrangements*, 2024 <https://alga.com.au/policy-centre/financial-sustainability/current-financial-arrangements/>

^{xx} The Council of Australian Governments, *National Competition Policy*, 1995, <http://www.ncc.gov.au/>