EXTRAORDINARY MEETING OF COUNCIL

To be held at 2:30pm on

Tuesday 28 February 2023

Council Chambers

11 Manning Street, KIAMA NSW 2533

Order of Business

Opening of meeting
Webcasting statement
1 Acknowledgement of Traditional Owners
Statement of enthical obligations
2 Apologies
declarations of interest
3 Report of the Chief Executive Officer
4 Reports for Information
5 Closure

Members

Mayor
Councillor N Reilly
Deputy Mayor
Councillor I Draisma
Councillor M Brown
Councillor M Croxford
Councillor J Keast
Councillor S Larkins
Councillor K Renkema-Lang
Councillor K Rice
Councillor W Steel

23 February 2023

To the Chairman and Councillors:

NOTICE OF EXTRAORDINARY MEETING

You are respectfully requested to attend an **Extraordinary Meeting** of the Council of Kiama, to be held in the **Council Chambers, 11 Manning Street, KIAMA NSW 2533** on **Tuesday 28 February 2023** commencing at **2:30pm** for the consideration of the undermentioned business.

Yours faithfully

Jane Stroud
Chief Executive Officer

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AGENDA FOR THE
EXTRAORDINARY MEETING OF KIAMA MUNICIPAL COUNCIL
TUESDAY 28 FEBRUARY 2023

OPENING OF MEETING

WEBCASTING STATEMENT

1 ACKNOWLEDGEMENT OF TRADITIONAL OWNERS

"I would like to acknowledge the traditional owners of the land on which we meet, the Wadi Wadi people of the Dharawal nation, and pay my respect to Elders past and present."

STATEMENT OF ENTHICAL OBLIGATIONS

2 APOLOGIES

DECLARATIONS OF INTEREST

3 REPORT OF THE CHIEF EXECUTIVE OFFICER

3.1 Future direction and current state for Kiama Municipal Council

CSP Objective: Outcome 12: Public funds and assets are managed strategically, transparently and efficiently

CSP Strategy: 12.1 Manage Public Funds in accordance with Financial Management Standards and the Local Government Act

Delivery Program: 12.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny and oversight processes.

Report

Councillors have called an extraordinary meeting to discuss a range of pivotal reports that affect the current and future state of the organisation. This meeting will focus on key matters including:

- Cash flow plan
- Liquidity management plan
- TCorp repayment of debt
- Property divestment plan
- Distribution of proceeds of the Akuna Street sale
- Service review scope for commercial services
- Blue Haven business case

During the past 12 months Council's journey has been well publicised and documented. The community understand from numerous reports, such as the State of the Organisation report, Strategic Improvement Plan, the Performance Improvement Order, and the correspondence from the NSW Auditor General, that many of the challenges we face are complex, deep rooted, and will be transformational for the business.

The organisation's current state is one that can be described best as being at a crossroads. The dual focused business profile that Kiama Municipal Council has traditionally been based on, being aged care services and municipal local government services, is no longer financially sustainable.

A new business design and operational focus which corrects immediate financial issues and creates strong foundations for future local government service, must be considered by the Elected Representatives and implemented by the organisation's staff. This extraordinary meeting will facilitate many important decisions in this regard.

There is only one certainty facing the organisation - change is essential. The business is not in a circumstance where doing nothing, or continuing to do what we have always done, is financially sustainable, or responsible from a governance perspective.

While the criticality of our financial state makes action imperative, the challenges of the organisation are not just financial in nature. There are three fundamental matters affecting the current and future state, which can be summarised as:

1. ***Financial sustainability*** – cash flow, liquidity, structural deficit, prior investment decisions, strategic divestment, and ongoing financial management practices.
2. ***Organisational capability and capacity, culture and performance*** – investment in human resources and organisational culture, fit for purpose systems and technology required to deliver effective public service within a local government setting.
3. ***Risk and governance*** – risk exposure and management, strategic direction, governance practices, policy settings and fiduciary responsibilities.

The structure, systems, processes and focus of the organisation needs “right-sizing”. This concept of right sizing is not simply in terms of workforce, but in terms of the municipal local government’s strategic role, remit, and responsibility to the broader community – the core reason for the entity’s existence as a local government authority.

Therefore the agenda for the extraordinary presents a range of financial information for Councillors and the community. The reports explore current liquidity and financial performance. Likewise, the cash flow plan demonstrates how Council will manage the next one to three years to restore financial balances. Divestment of assets is a key short-term strategy and is outlined in the property plan, which when combined with service reviews may begin to generate performance and financial improvements for Council in the longer term. The agenda then culminates in the business case report on Blue Haven.

Streamlining ownership and operational responsibilities out of non-core activities such as aged care and retirement village living will be considered at the meeting. Whilst this issue is emotive for many in our community, it is important to fully understand the facts of Council’s current state and the need for fundamental change to create a sustainable future for the local government.

Council has already formally resolved to divest itself of Blue Haven Bonaira and associated assets. An independent business case now recommends that Council also considers the divestment of the Blue Haven Terralong site and its assets. The business case, which was developed after a thorough review of Blue Haven, makes it clear that this is what it will take to restore not only our financial sustainability but to allow Council to refocus on the core business of local government.

The business case highlights how important aged care services are to the Kiama community. Divesting of Blue Haven would not diminish this; a new provider would continue to operate Blue Haven’s services in the Kiama local government area.

The business case has identified that selling Blue Haven property should generate enough funds to extinguish all debts, remove excessive current liabilities and stabilise the Council’s liquidity position; while the transfer of aged care, home care and community transport operations should relieve annual losses, extinguish unfunded asset renewal risk, and minimise any cross subsidy between municipal and business operations.

Releasing the Kiama community from its financial responsibility for Blue Haven would free up resources that could be redirected into improving fundamental Council services and facilities. However, there will be several in the community who would consider Council should remain in the aged care/community care domain – even at a loss.

Equally, several in the community would object to aged care and residential fees being raised by Council to reach benchmark parity with the sector.

The acute and immediate reality for Kiama Municipal Council in this regard, is that the current financial situation has no capacity to sustain enduring losses. Nor do we have capacity to provide for the significant required ongoing investments and asset management. This will create an untenable situation for the liquidity of the overall business.

It is likewise evident that the municipal side of operations has not had the dedicated attention, resourcing nor strategic focus that it demands, as a complex business in its own right. Issues such as staffing, stormwater, overland flow, flooding, roads, rates, waste, asset maintenance and upgrade of essential public buildings such as the Leisure Centre, surf clubs, public amenities and community halls are vital to the community and require significant investment and funding.

For example, the presentation and performance of infrastructure and building assets are visual signals to the community of the pride, success and sustainability of a council. Those assets in turn are the cornerstone for delivery of services (eg leisure, library, community, public amenities, parks).

Council's existing cashflow and liquidity position will simply not allow for a continued dual focused business involved in aged care and municipal services and difficult decisions are required for the organisation to have a sustainable future. The extraordinary meeting will touch on many of these challenging issues.

In the next twelve months Council should engage with the community to understand

- what level of service the community requires from their local government?
- what assets require upgrading or renewals?
- which infrastructure, programs or events needs investing in or changing?

These questions are typically answered by reviewing service levels. Each service or business the municipal council runs, is proposed to be reviewed and provided performance measures (refer separate report to this meeting). A robust community engagement plan will need to be undertaken to make sure that post any divestment, the municipal side of the business is sustainable and fit for purpose – ie fit for the future as required by legislation.

At its heart, it's the question of "What should Kiama Municipal Council become post any decisions to divest of aged care, and what does the community want to see and experience from its municipal local government?"

Every business has moments in time where transformation and fundamental change will occur. Kiama Municipal Council is amidst that moment of change, right now. The extraordinary meeting will provide the community with facts, information and decisions, that guide the way forward. It will not be an easy road, change never is. But it is a necessary road, that will pave the way for the future of the local government service.

It is hoped that the agenda for the Extraordinary meeting and these pivotal decisions are viewed by the community in the context of the endorsed cover line of our Community Strategic Plan 2022-2032 where we commit to strategic choices for a sustainable future.

Attachments

Nil

Enclosures

Nil

RECOMMENDATION

That Council notes the Chief Executive Officer's report on the future direction and current state for Kiama Municipal Council.

Item 3.2

3.2 Statement of Investments - December 2022

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.1 Manage Public Funds in accordance with Financial Management Standards and the Local Government Act
Delivery Program:	12.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny and oversight processes.

Summary

This report provides an overview of Councils cash and investment portfolio and investment performance as at 31 December 2022 and endorsement of the movements in restricted funds.

Financial implication

Investments are undertaken based upon the best rate on the day and after consideration of spreading Council's Investment risk across various institutions as per the Investment Policy and section 625 of the Local Government Act 1993.

Risk implication

The risk related to this information is non-compliance with Council’s Investment Policy and the Ministerial Investment Order and Division of Local Government guidelines and not adequately recording fund movements.

Policy

Clause 625 of the *Local Government Act 1993*

Clause 212 of the Local Government (General) Regulation 2021

Kiama Municipal Council – Investment Policy

Kiama Municipal Council – Restricted Funds Policy

Consultation (internal)

Chief Executive Officer

Chief Financial Officer

Financial Accountant

Communication/Community engagement

N/A

Attachments

1 December 2022 Investment Report⇩

Enclosures

Nil

RECOMMENDATION

That Council:

1. Receives the information relating to the Statement of Investments for December 2022.
2. Endorses the movement in the restricted funds position as outlined in the report.

Background

Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Division of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. In compliance with the Order and Division of Local Government guidelines, Council adopted an Investment Policy in August 2021. The Investment Policy provides a framework for the credit quality, institutional diversification, and maturity constraints that Council's portfolio can be exposed to. Council's investment portfolio was controlled by Council's Finance Division during the period to ensure compliance with the Investment Policy.

Council's direct investments are often rolled over on maturity with the same financial institution, if competitive, and based on whether funds are required for operations.

Movement in Investments

Council's average weighted return for December 2022 was 2.91% (November 2022 1.96%) compared to the 90 Day Bank Bill Swap Rate benchmark return of 3.17% as at 31 December 2022. This difference is because market interest rates are increasing, and council have longer term fixed investments at lower rates. As a result, Council's return on funds will lag behind the 90 Day BBSW until such time as interest rates settle and all of Council's investments have matured and rolled over at the higher market rates.

If funds are not required, maturing investments will be renewed for shorter terms to take advantage of the rising rate market and allow for cashflows in times where cash outflows are required to meet demand. Council have also negotiated with its banker, Westpac, an interest rate on its General Account which is linked to the 30 Day BBSW. As at 31 December 2022 this rate was 2.84%.

Over the past 12 months, Council's investments portfolio has increased by 41.27% or $24.72 million from the total investments held in December 2021.

There were three investments that matured during December 2022, with the following action taken under delegation:

- ME Bank $3 million – redeemed and reinvested with BOQ @ 4.14% for 6 months
- ME Bank $1 million – redeemed and reinvested with BOQ @ 4.14% for 6 months
- NAB $1 million – redeemed and reinvested with NAB @ 4.30% for 6 months

The market value for the 5 year Floating Rate Note held with Newcastle Permanent slightly decreased to $1,000,114.

The investment portfolio is regularly reviewed to maximise investment performance and minimise risk. Comparisons are made between existing investments with available products that are not part of Council's portfolio. Independent advice is sought on new investment opportunities.

Restricted asset movements

During the month of December some movements in restricted assets were amended where required.

This is summarised in the table below.

	Balance last month	Balance December	Difference
External Restrictions			
Developer Contributions	$10,646,338	$10,749,702	$103,364
Loan Restrictions - TCorp	$28,418,678	$29,248,678	$830,000
Crown Holiday Parks	$1,171,709	$983,707	$188,002
Internal Restrictions			
Waste Business Unit	$922,607	$846,764	-$75,843

The 'Loan Restriction – TCorp' increase results from income generated from a recent ILU sale at Bonaira. The other movements are results of normal monthly adjustments based on net monthly income/expenditure results.

The Draft Restricted Funds Policy which forms the basis of a broad review of all Restricted Funds (Internal and External), was adopted on 20 December 2022.

The recent Liquidity Management Standards for Aged Care purposes along with Council decision to include a similar cover for Retirement Village purposes will also be incorporated as part of the review. This will be reflected in future monthly reports to Council in 2023.

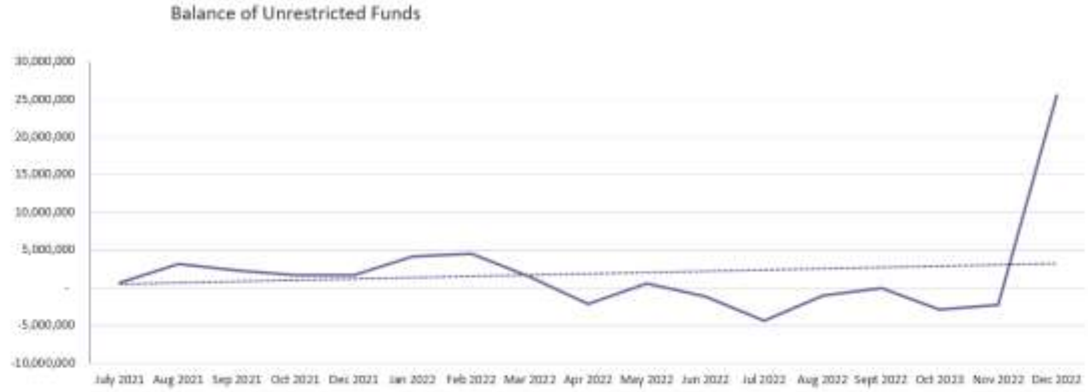
Unrestricted Funds to meet Future Budgeted Expenditure

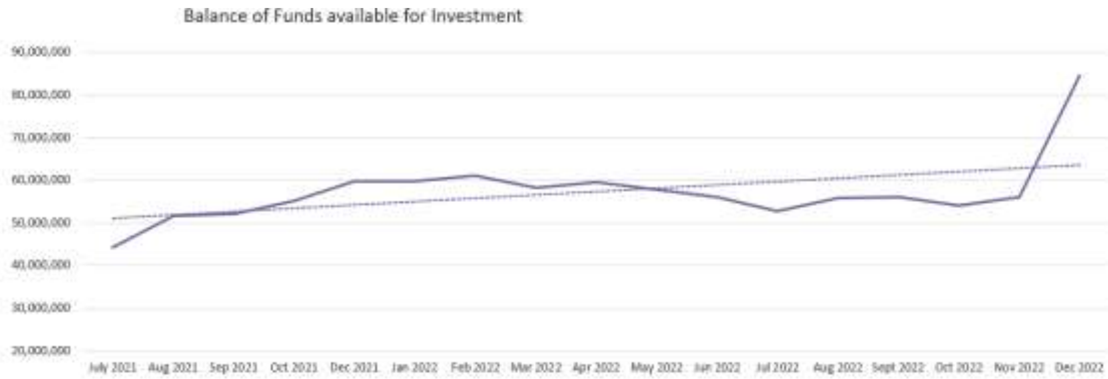
The Unrestricted Funds balance as at 31 December 2022 is positive ($25,547,968) This has improved from November 2022 negative balance of negative (-$2,267,434). This improvement relates to sale of Akuna Street Landholdings due as at 31 December 2022.

The cash flow forecast shows the expected sale of Akuna Street landholdings property sale which were received in December creating a positive unrestricted funds position.

The graph below shows the trend of Council's unrestricted funds, noting the comments above that a review of the current restricted funds is required and will occur in early 2023.

The graph below shows the positive unrestricted funds position this month which is in line with the sale proceeds of property divestment in December and the recently produced 2 year cash flow forecasts.





Prior Investment with Grange Securities and Lehmann Brothers

Council was recently contacted by legal representatives pertaining to a class action involving many Councils across Australia and the nearing finalisation of that process. No major update since last month other than some very recent correspondence in December regarding joining the class action and respective terms and conditions including potential costs. Management is seeking further details and Council will be appraised accordingly.

Certification – Responsible Accounting Officer

I hereby certify that the investments listed in this report have been made in accordance with Section 625 of the *Local Government Act 1993*, clause 212 of the Local Government (General) Regulation 2021 and Council's Investment Policy.

Joe Gaudiosi
Chief Operating Officer

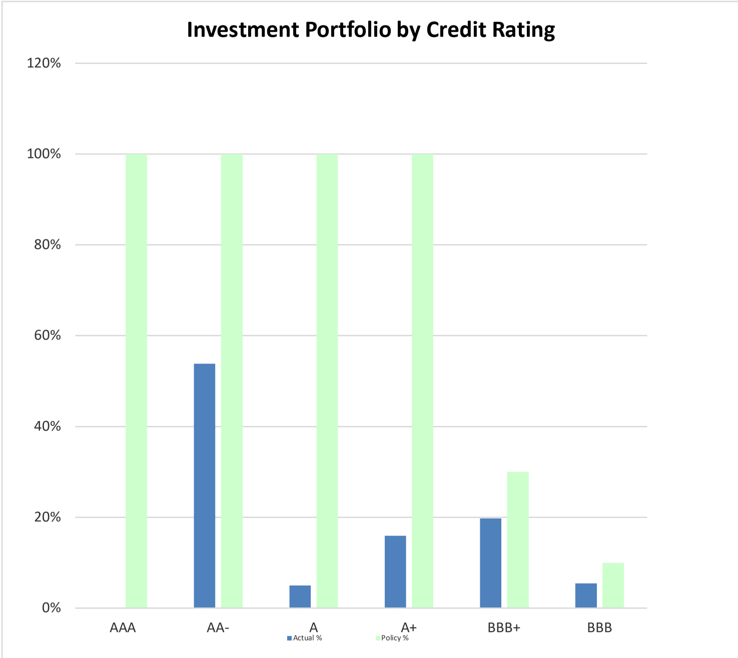
(b) Council Investments as at 31 December, 2022

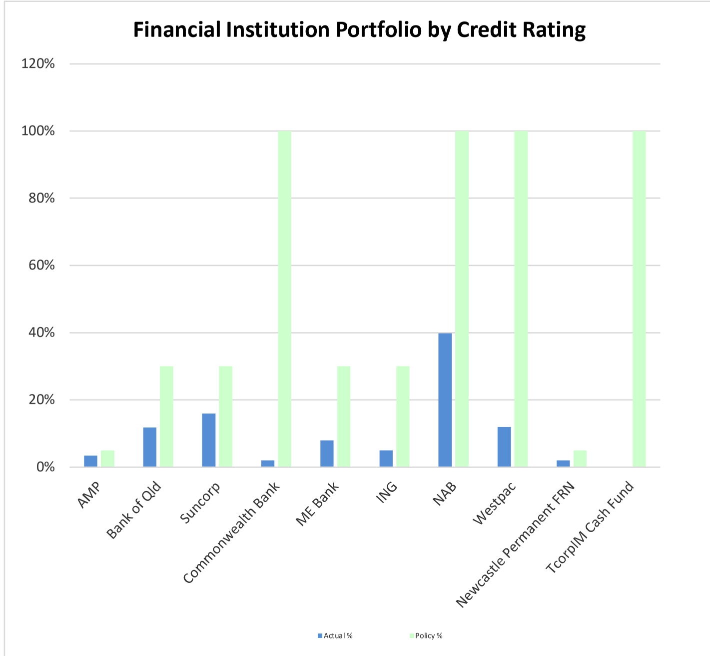
DIRECT INVESTMENTS: INSTITUTION	S & P RATING	MARKET VALUE $	INVESTMENT TYPE	DATE LODGED	MATURITY DATE	TERM (DAYS)	RATE %
Bank of Qld	BBB+	1,900,000	Term Deposit	02-Sep-22	03-Jan-23	123	3.00
Bank of Qld	BBB+	4,000,000	Term Deposit	09-Sep-22	09-Jan-23	122	3.65
NAB	AA-	1,000,000	Term Deposit	14-Apr-22	16-Jan-23	277	1.60
Newcastle Permanent FRN	BBB	1,000,114	Floating Rate Note	28-Sep-18	06-Feb-23	1592	4.46
NAB	AA-	1,000,000	Term Deposit	04-Oct-22	06-Feb-23	125	3.79
ING	A	1,500,000	Term Deposit	17-Feb-22	17-Feb-23	365	1.02
NAB	AA-	3,000,000	Term Deposit	19-Oct-22	20-Feb-23	124	3.61
NAB	AA-	4,000,000	Term Deposit	09-Sep-21	08-Mar-23	545	0.50
NAB	AA-	2,000,000	Term Deposit	24-Nov-22	24-Feb-23	92	3.73
AMP	BBB	1,000,000	Term Deposit	08-Mar-22	08-Mar-23	365	1.00
Suncorp	A+	1,000,000	Term Deposit	16-Mar-22	16-Mar-23	365	1.25
Suncorp	A+	1,000,000	Term Deposit	23-Mar-22	23-Mar-23	365	1.32
Suncorp	A+	2,000,000	Term Deposit	24-Nov-22	24-Mar-23	120	3.90
Suncorp	A+	1,000,000	Term Deposit	25-Nov-22	04-Apr-23	130	3.92
NAB	AA-	1,000,000	Term Deposit	07-Apr-22	11-Apr-23	369	1.81
Commonwealth Bank	AA-	1,000,000	Term Deposit	20-Oct-22	18-Apr-23	180	3.94
Suncorp	A+	2,000,000	Term Deposit	24-Nov-22	24-Apr-23	151	4.08
NAB	AA-	1,000,000	Term Deposit	04-Nov-22	04-Apr-23	151	3.97
Bank of Qld	BBB+	3,000,000	Term Deposit	02-Dec-22	02-Jun-23	182	4.14
Bank of Qld	BBB+	1,000,000	Term Deposit	02-Dec-22	02-Jun-23	182	4.14
ING	A	1,000,000	Term Deposit	09-Jun-21	09-Jun-23	730	0.50
NAB	AA-	7,000,000	Term Deposit	09-Jun-21	09-Jun-23	730	0.55
Westpac	AA-	5,000,000	Term Deposit	23-Aug-21	02-Aug-23	709	0.44
NAB	AA-	1,000,000	Term Deposit	11-Aug-21	11-Aug-23	730	0.60
AMP	BBB	750,000	Term Deposit	27-Sep-22	26-Sep-24	730	4.95
NAB	AA-	1,000,000	Term Deposit	16-Dec-22	16-Jun-23	182	4.30
Commonwealth Bank	AA-	25,000,000	Term Deposit	16-Dec-22	31-Jul-23	227	4.42
Commonwealth Bank	AA-	3,000,000	Term Deposit	16-Dec-22	18-Dec-23	367	4.67
Total Term Deposits & FRNs		**78,150,114**					**2.83**
TcorpIM Cash Fund	AAA	-	Cash Fund				
Westpac (All Bank Accounts)	AA-	6,467,451	Bank Account				2.84
Total 'At Call' Funds		**6,467,451**					
TOTAL CASH & INVESTMENTS		**84,617,564**		Average Rate- Dec 2022			2.91
Signifies the Investment is environmentally friendly				Average Rate- Dec 2021			0.35
TOTAL INVESTMENTS Nov 2022		**54,075,979**	**56.48%**	Change in total investment over prev 1 month			
TOTAL INVESTMENTS Dec 2021		**59,897,451**	**41.27%**	Change in total investment over prev 12 months			

Note: As at 31 December 2022 unpresented cheques totalled $1,077,800.45

Attachment 1

Item 3.2





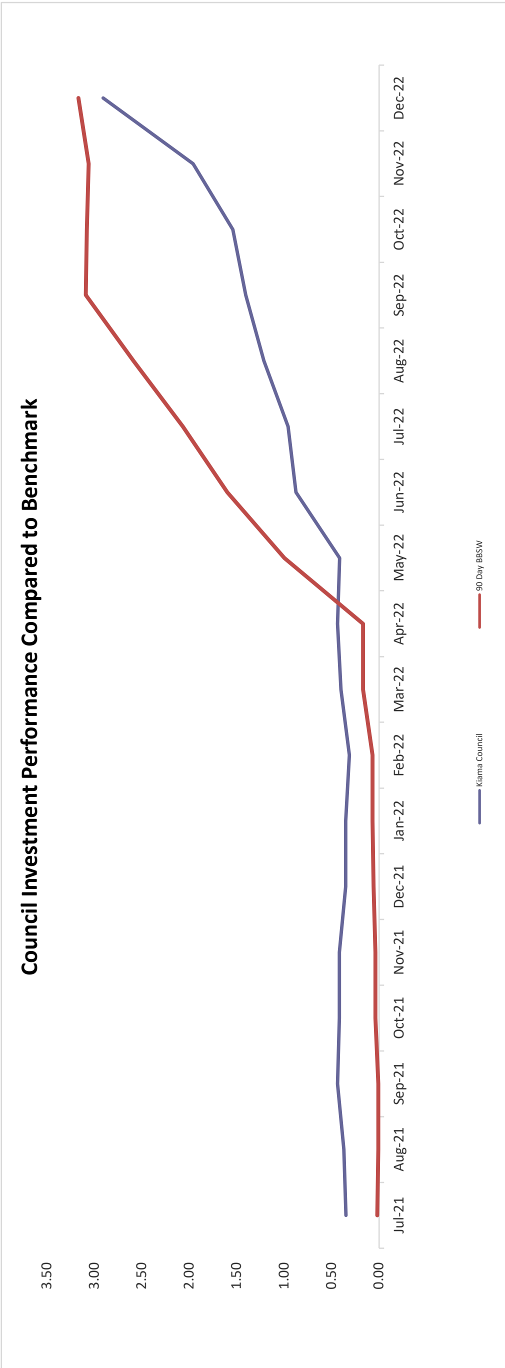
Long Term Credit Ratings (S&P or Moodys or Fitch)	**Policy Maximum**	**Current Holding %**	**Current Investment $**
A, A+, AA-, AA, AA+, AAA	100%	84%	$65,500,000
A-	40%	0%	$0
BBB to BBB+	30%	16%	$12,650,114
BBB- and below	5%	0%	$0
***This includes all Term Deposits*			**$78,150,114**

Attachment 1 **Item 3.2**

(c) Application of Invested Funds

Restricted Funds:	Category	Sub-Category	Description	Value ($)
Externally Restricted				
	Developer Contributions	Major Works	Developer Contributions	10,749,702
	Operational	Timing Adjustments	Unexpended Grants	1,455,511
	Operational	Statutory/ External Restriction	Domestic Waste	4,104,551
	Operational	Statutory/ External Restriction	Loan Restrictions - Tcorp	29,248,678
	Operational	Statutory/ External Restriction	Blue Haven Terralong ILU Mainten	1,640,021
	Operational	Statutory/ External Restriction	Blue Haven Bonaira ILU Maintenar	178,016
	Operational	Statutory/ External Restriction	Blue Haven Aged Care Home	4,400,000
	Operational	Statutory/ External Restriction	Community Bus	315,000
	Operational	Accumulated Liabilities	Blue Haven Home Care Packages	408,706
	Asset Management	Specific	Crown Holiday parks	983,707
	Strategic	Community	Unspent Loan Funding	500,000
Internally Restricted				
	Asset Management	Specific	Carry Over Works	20,500
	Strategic	Community	Council Elections	49,776
	Operational	Accumulated Liabilities	Employee Leave Liabilities	1,500,000
	Strategic	Community	Energy Efficiency	121,772
	Asset Management	Specific	Land development	1,602,000
	Asset Management	Light Fleet and Plant Acquisition	Plant replacement	280,475
	Strategic	Community	Risk Improvement Incentive	106,237
	Strategic	Community	Waste Business Unit	846,764
	Strategic	Community	Waste and Sustainability	558,180
Unrestricted Funds:		**Funds to meet current budgeted expenditure**		**$25,547,968**
TOTAL INVESTMENTS				**84,617,564**

Note:
The above Application of Invested Funds will change subject to the preparation of the financial statements.


Council Investment Performance Compared to Benchmark
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
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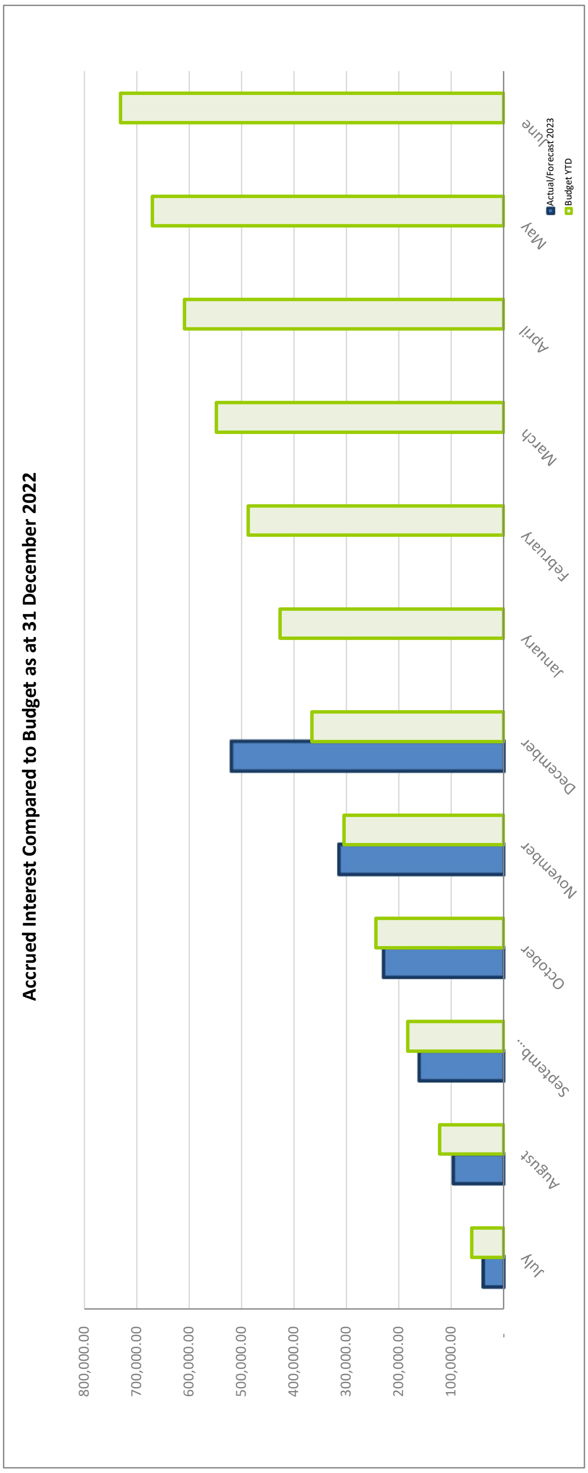
Kiama Council
90 Day BBSW



Item 3.2

Attachment 1

3.3 Statement of Investments - January 2023

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.1 Manage Public Funds in accordance with Financial Management Standards and the Local Government Act
Delivery Program:	12.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny and oversight processes.

Summary

This report provides an overview of Councils cash and investment portfolio and investment performance as at 31 January 2023 and endorsement of the movements in restricted funds.

Financial implication

Investments are undertaken based upon the best rate on the day and after consideration of spreading Council's Investment risk across various institutions as per the Investment Policy and section 625 of the Local Government Act 1993.

Risk implication

The risk related to this information is non-compliance with Council's Investment Policy and the Ministerial Investment Order and Division of Local Government guidelines and not adequately recording fund movements.

Policy

Clause 625 of the *Local Government Act 1993*

Clause 212 of the Local Government (General) Regulation 2021

Kiama Municipal Council – Investment Policy

Kiama Municipal Council – Restricted Funds Policy

Consultation (internal)

Chief Executive Officer

Chief Financial Officer

Financial Accountant

Communication/Community engagement

N/A

Attachments

1 January 2023 Investment Report⇩

Enclosures

Nil

RECOMMENDATION

That Council:

1. Receives the information relating to the Statement of Investments for January 2023.
2. Endorses the movement in the restricted funds position as outlined in the report.

Background

Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Division of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. In compliance with the Order and Division of Local Government guidelines, Council adopted an Investment Policy in August 2021. The Investment Policy provides a framework for the credit quality, institutional diversification and maturity constraints that Council's portfolio can be exposed to. Council's investment portfolio was controlled by Council's Finance Division during the period to ensure compliance with the Investment Policy.

Council's direct investments are often rolled over on maturity with the same financial institution, if competitive, and based on whether funds are required for operations.

Movement in Investments

Council's average weighted return for January 2023 was 3.02% (December 2022 2.91%) compared to the 90 Day Bank Bill Swap Rate benchmark return of 3.32% as at 31 January 2023. This difference is because market interest rates are increasing, and council have longer term fixed investments at lower rates. As a result, Council's return on funds will lag behind the 90 Day BBSW until such time as interest rates settle and all of Council's investments have matured and rolled over at the higher market rates.

If funds are not required, maturing investments will be renewed for shorter terms to take advantage of the rising rate market and allow for cashflows in times where cash outflows are required to meet demand. Council have also negotiated with its banker, Westpac, an interest rate on its General Account which is linked to the 30 Day BBSW. As at 31 January 2023 this rate was 2.84%.

Over the past 12 months, Council's investments portfolio has increased by 36.33% or $18.23 million from the total investments held in January 2022.

There were three investments that matured during January 2023, with the following action taken under delegation:

- BOQ $1.9 million redeemed and reinvested with CBA @4.14% for 4 months
- BOQ $4 million redeemed and reinvested with BOQ @4.45% for 6 months
- NAB $ 1 million redeemed and reinvested with NAB @4.10% for 4 months

The market value for the 5 year Floating Rate Note held with Newcastle Permanent slightly decreased to $999,990.

The investment portfolio is regularly reviewed to maximise investment performance and minimise risk. Comparisons are made between existing investments with available products that are not part of Council's portfolio. Independent advice is sought on new investment opportunities.

Restricted Funds movements

During the month of January some movements in restricted funds were amended where required.

This is summarised in the table below.

	Balance last month	Balance January	Difference
External Restrictions			
Developer Contributions	$10,749,702	$10,928,675	$103,364
Loan Restrictions - TCorp	$29,248,678	$29,248,678	$0
Crown Holiday Parks	$983,707	$2,086,167	$1,102,460
Internal Restrictions			
Waste Business Unit	$846,764	$805,386	-$41,378

Movements are the result of normal monthly adjustments based on net monthly income/expenditure results.

The Draft Restricted Funds Policy which was adopted by Council on 20 December 2022 forms the basis of a broad review of all Restricted Funds (Internal and External).

Unrestricted funds for future strategic or operational expenditure

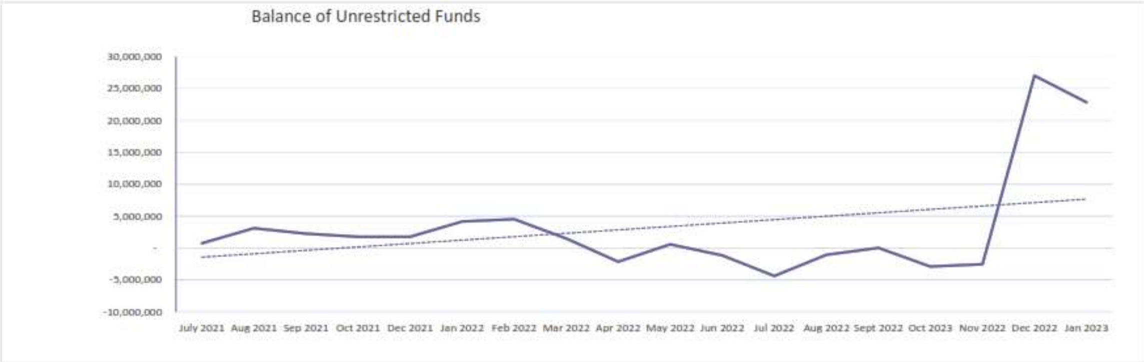
The Unrestricted Funds balance as at 31 January 2023 is positive $21,381,288.

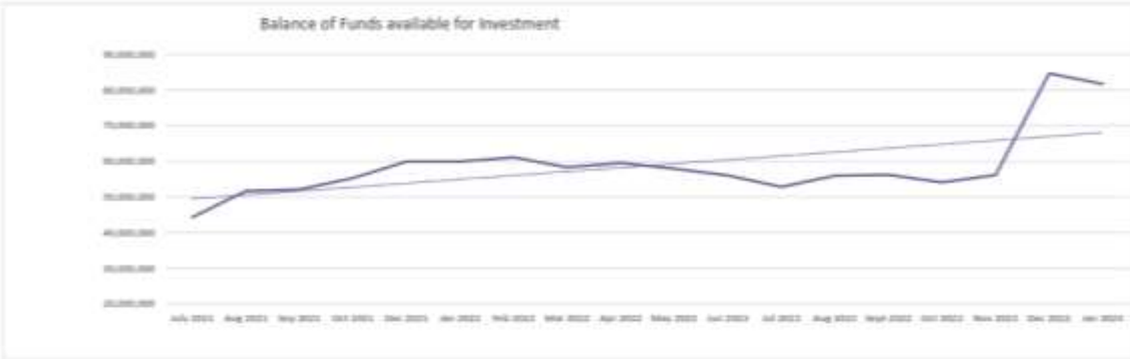
The cash flow forecast shows the proceeds from the sale of Akuna Street landholdings property which were received in December creating a positive unrestricted funds position. This is a significant improvement. The TCorp payment in August 2023 will impact here depending on the issue of full or part payment of the total $45M debt. Previous reports and cash flow forecasts by Management have suggested that full repayment in August 2023 is not possible without the sale proceeds of Blue Haven Bonaira.

The new *Restricted Funds Policy* has been reviewed and there are 2 adjustments that have been flagged for further consideration and these will be updated in next month's report. These are:

- Blue Haven ILU Prudential Cover $4.2M will need to be added to internal restrictions. This is not a mandatory external regulatory requirement but initiated by Council as good corporate governance.
- Energy Efficiency $121K are incentives and/or discounts received from previous energy saving efficiencies which can be removed from internal restrictions

The graph below shows the positive unrestricted funds position this month which is in line with the sale proceeds of property divestment in January and the recently produced 2 year cash flow forecasts.





Prior Investment with Grange Securities and Lehmann Brothers

The final distribution of funds amounting to $158,662 was received in January 2023 which concludes the class action for this matter and will be included in the quarterly budget review for the March 2023 quarter. Final clarification has been requested through the class action lawyers but recent documentation suggests a claim amount by Council of $1.9M of which the $158K above combines with an earlier receipt circa 5 years ago of $40K. It is unclear if $1.9M relates just to this specific class action or if there may have been a bigger investment by Council during 2005-2008.

Certification – Responsible Accounting Officer

I hereby certify that the investments listed in this report have been made in accordance with Section 625 of the *Local Government Act 1993*, clause 212 of the Local Government (General) Regulation 2021 and Council’s Investment Policy.

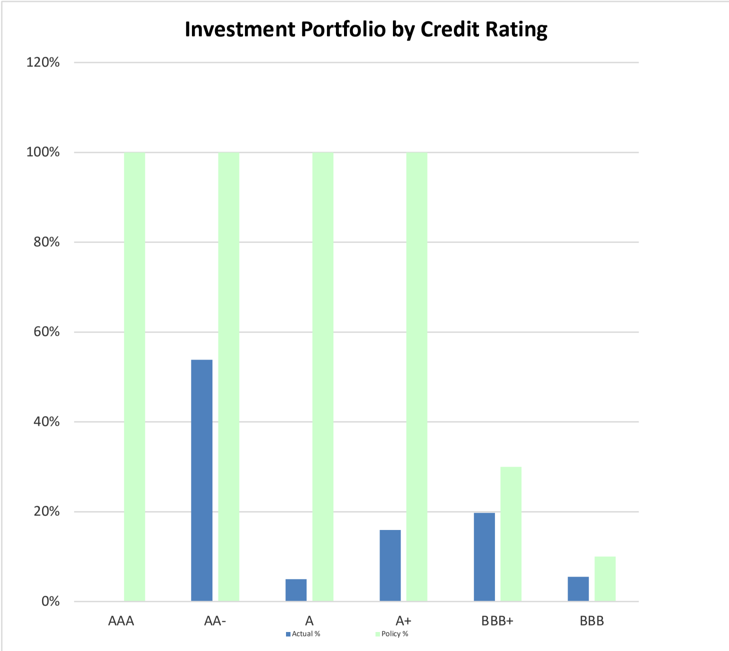
Joe Gaudiosi
Chief Operating Officer

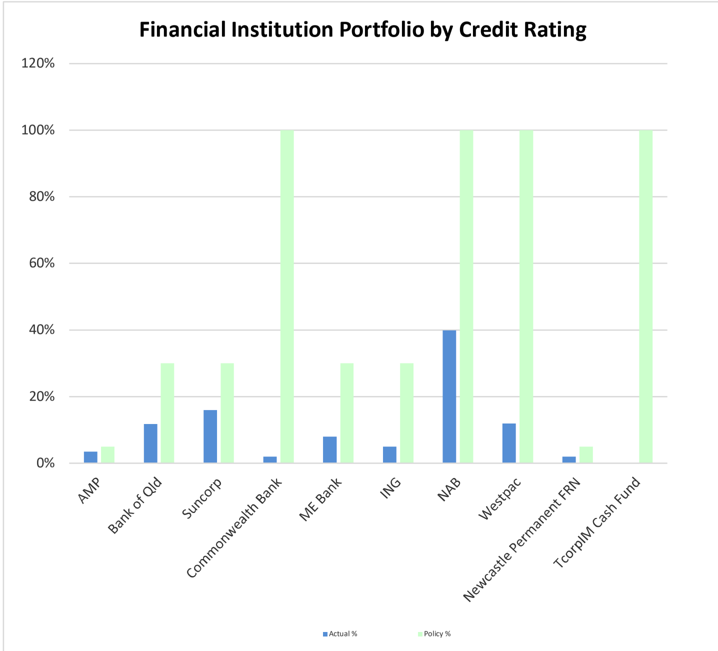
(b) Council Investments as at 31 January, 2023

DIRECT INVESTMENTS: INSTITUTION	S & P RATING	MARKET VALUE $	INVESTMENT TYPE	DATE LODGED	MATURITY DATE	TERM (DAYS)	RATE %
Commonwealth Bank	AA-	1,900,000	Term Deposit	03-Jan-23	03-May-23	120	4.14
Bank of Qld	BBB+	4,000,000	Term Deposit	09-Jan-23	31-Jul-23	203	4.45
NAB	AA-	1,000,000	Term Deposit	16-Jan-23	25-May-23	129	4.10
Newcastle Permanent FRN	BBB	999,900	Floating Rate Note	28-Sep-18	06-Feb-23	1592	4.46
NAB	AA-	1,000,000	Term Deposit	04-Oct-22	06-Feb-23	125	3.79
ING	A	1,500,000	Term Deposit	17-Feb-22	17-Feb-23	365	1.02
NAB	AA-	3,000,000	Term Deposit	19-Oct-22	20-Feb-23	124	3.61
NAB	AA-	4,000,000	Term Deposit	09-Sep-21	08-Mar-23	545	0.50
NAB	AA-	2,000,000	Term Deposit	24-Nov-22	24-Feb-23	92	3.73
AMP	BBB	1,000,000	Term Deposit	08-Mar-22	08-Mar-23	365	1.00
Suncorp	A+	1,000,000	Term Deposit	16-Mar-22	16-Mar-23	365	1.25
Suncorp	A+	1,000,000	Term Deposit	23-Mar-22	23-Mar-23	365	1.32
Suncorp	A+	2,000,000	Term Deposit	24-Nov-22	24-Mar-23	120	3.90
Suncorp	A+	1,000,000	Term Deposit	25-Nov-22	04-Apr-23	130	3.92
NAB	AA-	1,000,000	Term Deposit	07-Apr-22	11-Apr-23	369	1.81
Commonwealth Bank	AA-	1,000,000	Term Deposit	20-Oct-22	18-Apr-23	180	3.94
Suncorp	A+	2,000,000	Term Deposit	24-Nov-22	24-Apr-23	151	4.08
NAB	AA-	1,000,000	Term Deposit	04-Nov-22	04-Apr-23	151	3.97
Bank of Qld	BBB+	3,000,000	Term Deposit	02-Dec-22	02-Jun-23	182	4.14
Bank of Qld	BBB+	1,000,000	Term Deposit	02-Dec-22	02-Jun-23	182	4.14
ING	A	1,000,000	Term Deposit	09-Jun-21	09-Jun-23	730	0.50
NAB	AA-	7,000,000	Term Deposit	09-Jun-21	09-Jun-23	730	0.55
Westpac	AA-	5,000,000	Term Deposit	23-Aug-21	02-Aug-23	709	0.44
NAB	AA-	1,000,000	Term Deposit	11-Aug-21	11-Aug-23	730	0.60
AMP	BBB	750,000	Term Deposit	27-Sep-22	26-Sep-24	730	4.95
NAB	AA-	1,000,000	Term Deposit	16-Dec-22	16-Jun-23	182	4.30
Commonwealth Bank	AA-	25,000,000	Term Deposit	16-Dec-22	31-Jul-23	227	4.42
Commonwealth Bank	AA-	3,000,000	Term Deposit	16-Dec-22	18-Dec-23	367	4.67
Total Term Deposits & FRNs		**78,149,900**					**2.99**
TcorpIM Cash Fund	AAA	-	Cash Fund				
Westpac (All Bank Accounts)	AA-	3,541,040	Bank Account				2.84
Total 'At Call' Funds		**3,541,040**					
TOTAL CASH & INVESTMENTS		**81,690,940**		Average Rate- Jan 2023			3.02
Signifies the Investment is environmentally friendly				Average Rate- Jan 2022			0.35
TOTAL INVESTMENTS Dec 2022		**84,617,564**	**-3.46%**	Change in total investment over prev 1 month			
TOTAL INVESTMENTS Jan 2022		**59,922,195**	**36.33%**	Change in total investment over prev 12 months			

Note: As at 31 January 2023 unpresented cheques totalled $2,787,697.80

Attachment 1 **Item 3.3**





Long Term Credit Ratings (S&P or Moodys or Fitch)	Policy Maximum	Current Holding %	Current Investment $
A, A+, AA-, AA, AA+, AAA	100%	86%	$67,400,000
A-	40%	0%	$0
BBB to BBB+	30%	14%	$10,749,900
BBB- and below	5%	0%	$0
***This includes all Term Deposits*			**$78,149,900**

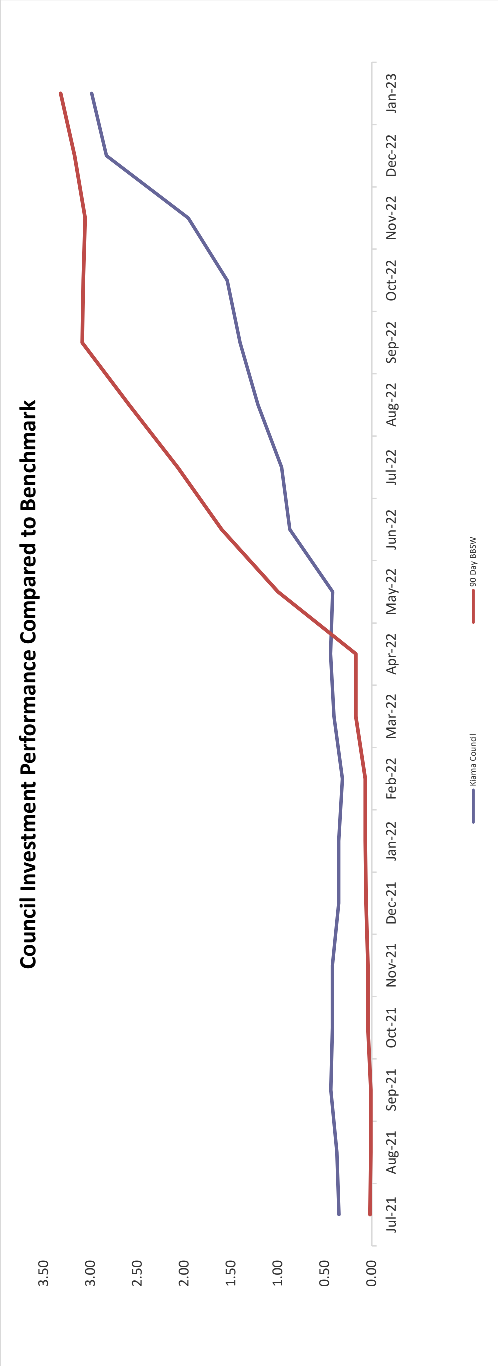
Attachment 1 **Item 3.3**

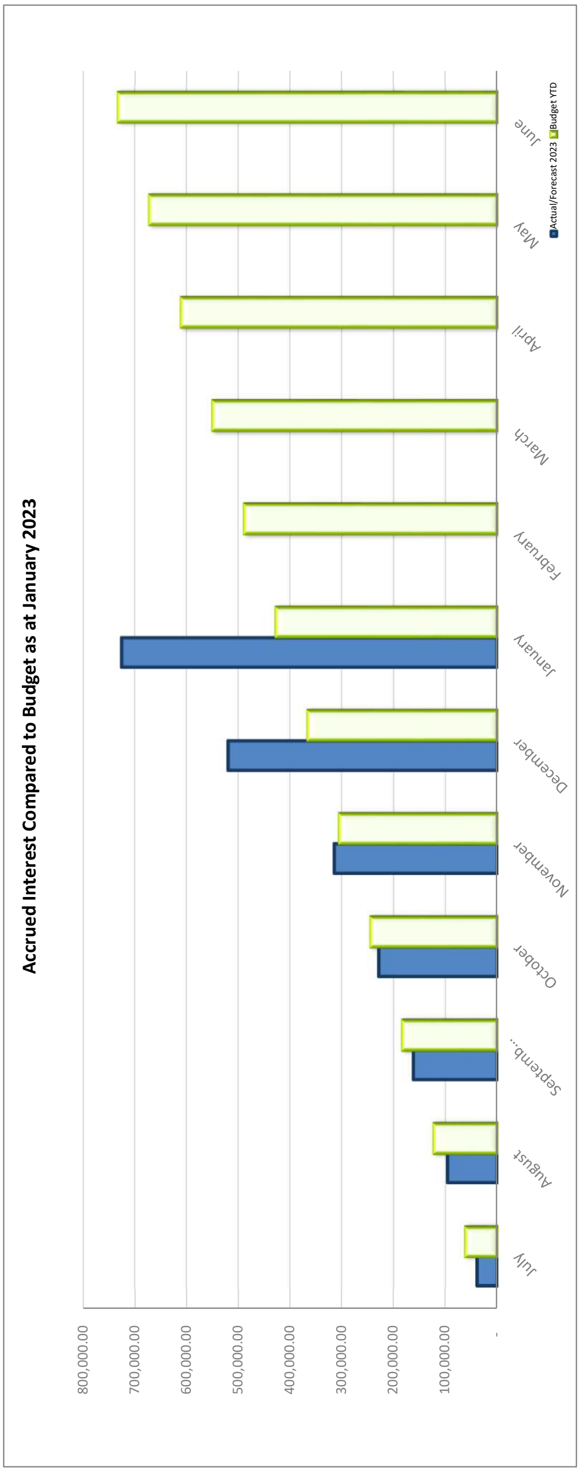
(c) Application of Invested Funds

Restricted Funds:	Category	Sub-Category	Description	Value ($)
Externally Restricted				
	Developer Contributions	Major Works	Developer Contributions	10,928,675
	Operational	Timing Adjustments	Unexpended Grants	1,455,511
	Operational	Statutory/ External Restriction	Domestic Waste	4,104,551
	Operational	Statutory/ External Restriction	Loan Restrictions - Tcorp	29,248,678
	Operational	Statutory/ External Restriction	Blue Haven Terralong ILU Maintena	1,640,021
	Operational	Statutory/ External Restriction	Blue Haven Bonaira ILU Maintenanc	178,016
	Operational	Statutory/ External Restriction	Blue Haven Aged Care Home	4,400,000
	Operational	Statutory/ External Restriction	Community Bus	315,000
	Operational	Accumulated Liabilities	Blue Haven Home Care Packages	408,706
	Asset Management	Specific	Crown Holiday parks	2,086,167
	Strategic	Community	Unspent Loan Funding	500,000
Internally Restricted				
	Asset Management	Specific	Carry Over Works	20,500
	Strategic	Community	Council Elections	49,776
	Operational	Accumulated Liabilities	Employee Leave Liabilities	1,500,000
	Strategic	Community	Energy Efficiency	121,772
	Asset Management	Specific	Land development	1,602,000
	Asset Management	Light Fleet and Plant Acquisition	Plant replacement	280,475
	Strategic	Community	Risk Improvement Incentive	106,237
	Strategic	Community	Waste Business Unit	805,386
	Strategic	Community	Waste and Sustainability	558,180
Unrestricted Funds:		**Funds to meet current budgeted expenditure**		**$21,381,288**
TOTAL INVESTMENTS				**81,690,940**

Note:
The above Application of Invested Funds will change subject to the preparation of the financial statements.

Attachment 1 **Item 3.3**


Council Investment Performance Compared to Benchmark
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Kiama Council
90 Day BBSW


Accrued Interest Compared to Budget as at January 2023
800,000.00
700,000.00
600,000.00
500,000.00
400,000.00
300,000.00
200,000.00
100,000.00
-
July
August
Septemb...
October
November
December
January
February
March
April
May
June
Actual/Forecast 2023
Budget YTD

3.4 Project Management Support Panel

CSP Objective:	Outcome 11: We are well connected within our local community, and to our region
CSP Strategy:	11.2 Deliver our Capital works program effectively and efficiently
Delivery Program:	11.2.1 Deliver major capital works and projects utilising external funding opportunities

Summary

This report provides details and results of evaluation of the tender KIAMA- 1049063 – Project Management Support 2023-2024 and makes a recommendation to place three Project Management Consultants on a panel. It is further recommended to appoint a project manager from this panel to manage the Hindmarsh Park Redevelopment project and another to manage the Holiday Parks Compliance Program.

It is proposed to engage each of the Project Managers on the panel with a cost ceiling of $250,000 (incl GST) each, meaning the maximum expenditure under the panel will not exceed $750,000.

Financial implication

The Project Management consultants appointed to the panel will only be allocated to projects that are fully funded from Council's adopted Capital Works Program and/or associated grant funding. Budgets allocated to projects will include allocation for Project management to enable these consultants' time to be fully funded without separate allocation.

Risk implication

Council does not currently have available project managers to deliver all programmed major projects, particularly following award of major grants including for the Hindmarsh Park redevelopment and other major projects.

Although recruitment for a permanent Senior Project Engineer is nearing an appointment stage, our existing program of works is beyond existing internal resources capacity. If Council does not establish a panel of suitably qualified and experienced project managers, we risk the potential failure to deliver our agreed works program, including major grant funded projects and regulatory compliance improvement programs.

Policy

The Local Government Act and the Local Government (General) Regulation 2005 were followed for the tender process.

Consultation (internal)

The Director Engineering and Works, Acting Manager Design and Development, Infrastructure Engineer, Civil Engineer and Contracts Coordinator were all consulted through development of the tender process and through the assessment of the tender. The Chief Executive Officer has also reviewed the tender assessment and endorsed the panel recommendation.

Item 3.4

Communication/Community engagement

Nil

Attachments

Nil

Enclosures

Nil

RECOMMENDATION

That Council:

1. In accordance with clause 178(1)(a) of the Local Government (General) Regulation 2005, establish a panel of preferred suppliers for the provision of Project Management Services to Council for a period of 18 months (with a potential one-year extension based on performance) by accepting the tenders of Beaus Building Consultancy, Jerez Enterprises and Wagbuild Management for Tender KIAMA - 1049063 Project Management Support 2023-2024.
2. Note that the maximum value of works allocated to each consultant over the term of the panel will be $250,000.00 (including GST).
3. Note the intent to appoint:
   a. Wagbuild Management to project manage the Hindmarsh Park Redevelopment
   b. Jerez Enterprizes to project manage the Holiday Park Compliance Works.
   c. Beaus Building Consultancy to project manage grant funded building refurbishment projects
4. Delegate to the Chief Executive Officer the authority to appoint a project management consultant from the panel on an as-needs basis.
5. Delegate to the Chief Executive Officer the authority to finalise and execute the contract and any other documentation required to give effect to this resolution.
6. Grant authority for the use of the Common Seal of Council on the contract and any other documentation, should it be required, to give effect to this resolution

Background

Council's Engineering staff (Infrastructure Engineer, Civil Engineer, Surveyor and Cadet Engineer) have all been delivering assisting in delivering Council's Capital Works program, this has reduced their capacity to effectively deliver these projects and other requirements of their jobs. Even though recruitment of a permanent Senior Project Engineer is nearing completion, some projects will be too large or complex for Council Staff to effectively manage, especially over the next 18 months.

Council has been successful in obtaining $4,048,099 through two grants for the redevelopment of Hindmarsh Park, given the scale of the construction works a dedicated Project Manager would be best placed to manage the works.

Council has allocated $3.67 million for the Improvement works across the Holiday Parks, to enable the Holiday Parks to complete the compliance works to continue to have a licence to operate issued. The works required to finalise the compliance works are complex and require a dedicated Project Manager with in-depth knowledge of relevant regulations and Holiday Park conditions to oversee the works and ensure compliance with the requirements of the licence.

Council has also commenced works on a number of grant-funded building refurbishment projects including various toilet blocks and sporting facilities. One of these projects at Gerry Emery Reserve will be delivered in close working partnership with the local community and sporting clubs who have been successful in gaining grant funding for the project. These projects will need a dedicated and experienced building construction project manager.

Current position

Public tenders were advertised in December 2022, with 18 tender submissions received. The method of tendering followed procedures set out in the Local Government (General) Regulation 2005. The tender submissions are as tabled in Attachment 1.

The tenders were independently assessed by Council's Civil Engineer and Council's Infrastructure Engineer and Acting Manager Design and Development with further review and assistance from Council's Director Engineering and Works.

An initial review to reduce the number of tenderers to be reviewed in detail was undertaken based on hourly rates provided. Any tenderer with an hourly rate of over $200/hr did not progress to the detailed assessment stage.

In the detailed tender assessment stage, eight (8) tenderers were reviewed against the following criteria and weighting:

Tender assessment criteria and weighting

Price	65%
Relevant Experience	15%
Key Personnel and Resourcing	15%
Work, Health and Safety	5%

The results of the detailed assessment were collated and are shown in the table below.

The top three ranked Project Management Consultancies scored well across all criteria and offered experience in different specialties that, when combined on a panel, would make then suitable to support a range of different projects that Council delivers.

Tender assessment results

Rank	Tenderer Name	Price ($/hr)	Technical Score	Rank
1	Beaus Building Consultancy	$ 97	25.88	**1**
2	Jerez Enterprises	$ 127	27.75	**2**
3	Wagbuild Management	$ 93	25.50	**3**
4	Saba Civil Management and Consultancy	$ 165	25.13	4
5	Tcubed Consulting	$ 154	25.13	5
6	Engineering Risk Management	$ 165	21.75	6
7	Dionysus Group	$ 189	25.13	7
8	Indus Engineering	$ 186	23.63	8

As part of the Director's review, a sensitivity analysis was carried out to assess any change in ratings/rankings with different criteria weightings. This sensitivity analysis found that the rankings of the top three tenderers did not change when the price weighting was reduced to 30% and technical criteria increased to a combined 70% - meaning the recommended tenderers are the most cost effective.

It is proposed to place Beaus Building Consultancy, Jerez Enterprises and Wagbuild Management on a panel for a period of 18 months, with a potential extension of a further one year depending on performance and needs, to enable as-required engagement of appropriately experienced project managers. Initially:

- Wagbuild Management will be engaged to manage the Hindmarsh Park redevelopment given their previous experience delivering other Council's park and facility upgrades.
- Jerez Enterprises will be appointed to manage the Holiday Parks' compliance works, given their existing experience with holiday park compliance.
- Beaus Building Consultancy would be placed on the panel to manage any building works, that may arise.

Conclusion

It is recommended that Council accept the tenders from Beaus Building Consultancy, Jerez Enterprises and Wagbuild Management for the Project Management Support 2023 and place them on a panel for 18 months with a potential one year extension based on performance and needs. The maximum expenditure for each consultant on the panel will be $250,000 (inc GST). Initial engagements will be for Wagbuild Management to manage the Hindmarsh Park Redevelopment project, Jerez Enterprises to manage the Holiday Park Compliance Program and Beaus Building Consultancy to manage a range of grant-funded building refurbishment projects.

3.5 Cash Flow and Sustainability Strategy

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.1 Manage Public Funds in accordance with Financial Management Standards and the Local Government Act
Delivery Program:	12.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny and oversight processes.

Summary

This document presents the two-year cash flow forecast and the underpinning financial sustainability and cash flow strategy 5 years to June 2027.

Financial implication

The Financial Sustainability Strategy and Cash Flow Statement are key documents outlining Council’s plans to remedy its current financial position going concern issues.

Risk implication

The risks associated include external regulator intervention in addition to the preceding operating instability and concerns.

Policy

A stable financial platform is needed to ensure Council is able to deliver services to the community now and into the future.

Consultation (internal)

Consultation has involved various meetings with Council’s sub-committees – the Audit, Risk and Improvement Committee (ARIC) and the Finance Advisory Committee (FAC), along with Council directly and Executive Management.

Communication/Community engagement

The financial concerns of Council have been communicated with the community with media coverage also extending the spread throughout the broader Illawarra and NSW.

Attachments

1 Cash flow strategy summary⇩

2 Cash flow sell all Blue Haven⇩

3 Cash flow sell Bonaira only⇩

Enclosures

Nil

Item 3.5

RECOMMENDATION

That Council receives and notes the Financial Sustainability Strategy and Cash Flow Statement that shows Council can rectify its current financial adversity, through a range of strategic decisions.

2 Year Cash Flow Forecast

The 2 Year Cash Flow Forecast was originally requested by the NSW Audit Office to assist with their Going Concern considerations specific to the completion of the 2021 Financial Statements and associated audit opinion and/or qualification. While ARIC are considering the latter in more detail, it can be noted that the audit opinion and completion of the 2021 Financial Statements is nearing an end (within the next two weeks).

After various meetings with FAC, ARIC and Council, the Cash Flow Forecast was presented to Council in September 2022 and took the framing of not only looking at the 2 years to June 2024 but also ongoing. Specifically;

- the first two years needed significant asset divestment to provide sufficient cash reserves to enable the NSW TCorp payment in August 2023 to be made but also to arrive at June 2024 with a respectable cash position and corresponding restricted or unrestricted funds position. Akuna Street landholdings in year one along with another "significant" divestment in year two were included.
- the following three years (with or without Blue Haven) needed operational efficiencies of 5% to 10% to provide a sustainable cash flow ongoing. Note a sale of Blue Haven and aged care operations would achieve both capital lump sum sale and contribute to operational efficiencies. The identification of all the efficiencies were not determined but possibilities noted for exploration during year two for implementation in year three.

The 2 Year Cash Flow has been updated since first formed to allow for sale delays and to incorporate estimated proceeds from Bonaira post the decision by Council late October 2022. The Forecast has been shared and discussed with NSW TCorp and formed a key part of ongoing discussions, including initial discussions regarding the practical reality of not being able to fully repay the debt in August 2023 due to the untenable unrestricted funds position it would create, and therefore the very real need to consider part payment until the Bonaira sale proceeds were received.

The cash flows are attached and will also be provided separately to Councillors due to the size of the spreadsheets.

Financial Sustainability and Cash Flow Strategy

The attached Strategy was developed subsequently in December to link or provide a greater explanation of Council's plan to improve its current financial position, short term and longer term, for the benefit of internal stakeholders but also external stakeholders such as NSW TCorp and NSW Audit Office.

The documents have been discussed with the OLG Temporary Advisor and will be combined with a working draft Liquidity Plan (see separate Council report), to ultimately form a more strategic approach to managing the financial position of Council.

FINANCIAL SUSTAINABILITY AND CASH FLOW STRATEGY

5 Years to June 2027

CONTEXT

KMC financial sustainability and cash position has been identified as a serious issue requiring urgent and significant action. This has been highlighted in Budget and LTFP documents prepared mid year 2022 and formally recognised by Auditors, NSW Audit Office and Office for Local Government.

Audited Financial Statements for 2021 could not be signed off without confidence pertaining to KMC's ability to demonstrate going concern viability. The OLG further concluding that a Performance Improvement Order was imposed with some other matters noted in addition to the going concern issue.

Federal Health and Aged Care through ACQSC also had concerns issuing a formal notice requesting explanation and clarification of financial matters and concerns specifically relating to the aged care operations of Blue Haven.

NSW Audit Office and NSW Treasury Corp specifically requested 2 year cash flow (by month) from July 2022 to June 2024 to assess going concern viability.

RESPONSE

KMC cash flow forecast was updated initially by KPMG and presented to KMC at the end of August 2022 as a minimum 'as-is' or worst case basis without any significant strategic intervention.

This has since been reviewed and updated by KMC Management. Following some initial internal meetings with ARIC, FAC and a separate Councillor workshop, the general consensus was formed that KMC and its cash flow required 2 key areas of focus:

1. Short term 2 years to June 2024
2. Medium to Longer term 3-5 years July 2024 to June 2027 (and beyond)

The cash flow forecast was reviewed, adjusted and presented to Council in late September 2022.

1. SHORT TERM STRATEGIES - 2 Years to June 2024

The cash "crunch" has arisen primarily due to a capital investment decision circa 2017 to 2019 with related financing and operational costs also contributing. Payment of the TCORP debt along with the general functioning of KMC, thereby satisfying going concern issues, can only occur if asset divestment can produce requisite cash inflows. Re-negotiating some of the TCORP debt (eg $17M) is a possible option but not preferred and recommended as a last resort.

- **Asset Divestment**

The Akuna Street property is a key initial but critically significant divestment initiative. Contracts of Sale have exchanged with settlement of $28M expected in December 2022.

The cash flow update presented in September 2022 also indicated that "other asset divestment" in the vicinity of $30M to $40M would be required to allow full repayment of the TCORP debt of $45M in August 2023. The conclusion as to which assets would form the "other" was to be determined but clearly Blue Haven was a possibility for a few reasons notwithstanding its ability to reach the substantive value required.

Additional land holding at Akuna Street are being put to the market. Burnetts on Barney's has been approved for direct negotiation with possible settlement in early to mid 2023.

Note: The recent decision by Council in October 2022 has resolved that the Bonaira site and services component of Blue Haven would be sold, which based on valuations undertaken, could result in a net cash injection of $20M to $25M possibly by late 2023. Additionally, and one of the 'reasons' why Blue Haven was earlier noted as a 'clear divestment possibility' is that the resident loans will be removed from Council Balance Sheet liabilities – for Bonaira this is approx. $72M.

Section 2 discusses medium term operational strategies and the sale of Blue Haven or Bonaira at this stage would assist in this strategy. The Governance and Strategic Keep / Lease / Sell Business Review is proceeding despite this initial decision by Council and options concerning Terralong are also included.

- **Capital Works Program**

The property capital works expenditure was reviewed and adjusted to focus on works that were directly linked to supported funding or grant arrangements but also to better align with realistic internal resource capacity to deliver projects. This resulted in savings of circa $5M in each of 2023 and 2024.

- **Cash Position at June 2024**

The asset divestment strategy would result in KMC having a sufficient cash reserves position, with a respectable "unrestricted funds" position at June 2024. This will provide KMC a platform for its future strategic objectives.

2. MEDIUM TERM STRATEGIES - 3-5 Years to June 2027

It was clear from the cash flow forecast and supporting docs that also underpinned the earlier LTFP that operating improvements or efficiencies would be required in addition and immediately following the initial asset divestment strategy. The operational improvements or efficiencies would be required irrespective of any divestment decision regarding Blue Haven, although Blue Haven and the RAC impacted significantly in operational expenditure.

Operational "efficiency" usually involves considering revenue growth directly through price increases or indirectly through additional services with same staffing and overhead base, or simply expenditure reduction directly through cuts to staffing or services or indirectly through reviewing supply contracts and terms.

- **Operational efficiency summary**

Overall, a 5% improvement is required across combined operating revenue and expenditure. Whilst the specific areas have not been identified and targeted at this stage, it is envisaged that the review work will occur during Year 2 ie July 2023 to June 2024 for implementation or effect from July 2024.

The possible impact of Blue Haven is a significant matter due to the financial impact or near 30% share that Blue Haven has on consolidated KMC operations. Clarity regarding Blue Haven in the preceding Asset Divestment phase will assist Management's deliberations and areas of focus regarding its review of operational efficiencies during 2023/2024.

Some identified areas for review include;

- ✓ Service reviews on the Leisure Centre, Holiday Parks and Waste
- ✓ Leasing of the Holiday Parks will occur in 2023 as part of the above review, including substantial progress of compliance works
- ✓ Updated infrastructure charges – preliminary work already commenced
- ✓ Initial investment in organisation structure to better manage and oversee business in future and reduce dependency on consultant and contractor costs

- **Revenue Considerations**

An SRV of 20% would result in circa $4M for KMC. This was included in the cash flow in September 2022 to show the effect on operating cash flow. Whilst this a possible option, it is obviously an initiative that is incredibly sensitive to the community especially in an economic environment where cost of living pressures already exist. Prudent business recovery and financial management practice would also suggest that other measures need to be firstly reviewed if not exhausted before considering the SRV as a last resort. This has more recently been removed and replaced by the 5.1% rate peg.

Some identified areas for review include;

- ✓ SRV options will be considered by April 2023 for consideration of an application in November 2023
- ✓ Fees and charges across all areas of Council operations
- ✓ Paid or metered car parking options across LGA

- **Expenditure Considerations**

Materials, services and contractors including some of the property works program review noted earlier has been flagged as a target area for expenditure reduction. Recent 1-2 years has seen significant dependence on consultants and contractors, both Blue Haven through its high use of agency staffing but also KMC generally.

Employee costs also present as a key area where a small proportional improvement can produce a significant financial saving. Some recent recruitment of key management positions along with further organisational structural changes will result in improvements in this medium-term period.

Full payment of the TCORP debt will remove $1.3M of costs from Council budget overall. While refinancing remains a possibility, it is not preferred, even part refinancing of $17M will incur a financing cost of some $750K pa based on the higher interest rates in 2022.

CONCLUSION

KMC can demonstrate going concern based on the cash flow forecast, recent asset divestment transaction and further decision to sell part of Blue Haven.

Further asset divestment to clear the full TCORP debt and also leave KMC a respectable unrestricted funds position at June 2024 is required. Consideration is also being given to renegotiating and extending part of the TCORP debt but with increased interest rates, this is not a preferred position as interest cost will likely be $750K pa. With Blue Haven Bonaira as part of the asset divestment strategy, operational efficiencies are also impacted which assist longer term sustainability strategies.

KMC recognises that asset divestment is simply the first piece of the overall financial sustainability strategy and the second component requires operational efficiency improvements from July 2024 and ongoing. Strategic Improvement Plans, Management focus and leadership with aligned sound governance decisions by Councillors (with advice and recommendations from its supporting ARIC and FAC sub-committees) can and will rectify KMC financial sustainability.

Kiama Municipal Council
24 month Cash Projection from 1 August 2022
Kiama Municipal Council (consolidated)
SELL ALL BLUE HAVEN
Considering sale of Bonaira & TERRALONG in Dec 2023 with full TCORP repayment in Aug 2023 - Producing untenable restricted asset position Aug to Nov 2023

UPDATED FEB 2023

Cash Flow Statement	**Actual** Jul-22 $	Aug-22 $	Sep-22 $	Oct-22 $	Nov-22 $	Dec-22 $	Jan-23 $	Feb-23 $	Mar-23 $	Apr-23 $	May-23 $	Jun-23 $	FY23
Cash Flows from Operating Activities													
Receipts:													
Rates & Annual Charges	667,319	5,880,623	2,913,024	1,273,101	2,520,713	1,906,717	988,246	2,779,744	2,096,769	671,818	3,193,246	1,724,606	**26,615,925**
User Charges & Fees	1,680,796	1,805,813	2,772,421	2,385,464	2,064,042	2,296,875	2,216,865	1,865,032	2,292,217	1,805,439	1,630,439	1,948,997	**24,764,399**
Investment & Interest Revenue Received	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	**703,070**
Operating grants	1,261,438	1,030,277	1,071,214	1,619,825	1,412,505	1,346,886	1,138,341	1,594,491	1,057,122	2,553,284	1,196,944	1,093,122	**16,375,445**
Bonds & Deposits Received	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	**23,869,847**
Other	582,728	573,728	564,728	586,228	705,228	598,728	572,728	565,978	565,978	571,228	564,228	564,227	**7,015,732**
Payments:													
Employee Benefits & On-Costs	(2,847,684)	(3,663,808)	(2,889,724)	(2,826,172)	(3,705,585)	(2,988,351)	(2,980,614)	(3,160,287)	(3,571,552)	(2,987,884)	(3,807,728)	(2,987,637)	**(38,417,025)**
BH Operational savings based on removal of loss position													
Materials & Contracts	(3,775,585)	(4,463,938)	(3,324,888)	(3,347,038)	(3,380,438)	(3,304,788)	(3,296,365)	(3,316,165)	(3,369,115)	(3,355,765)	(3,301,365)	(3,561,014)	**(41,796,465)**
Bonds & Deposits Refunded	(1,659,819)	(1,629,819)	(1,659,819)	(1,659,819)	(1,659,819)	(1,629,819)	(1,629,819)	(1,659,819)	(1,659,819)	(1,659,819)	(1,659,819)	(1,659,819)	**(19,827,826)**
Add Depreciation not charged as basis for asset upgrade cost													
Bonaira ILU													
Terralong ILU													
Other	(83,261)	(46,927)	(124,863)	(46,927)	(155,927)	(233,863)	(119,594)	(46,927)	(124,863)	(46,927)	(46,927)	(124,863)	**(1,201,869)**
Net Cash provided (or used in) Operating Activities	(2,126,324)	1,533,691	1,369,836	32,405	(151,539)	40,128	(1,062,470)	669,789	(665,522)	(400,883)	(183,240)	(954,637)	**(1,898,768)**
Cash Flows from Investing Activities													
Receipts:													
Capital grants	35,167	35,167	543,173	144,382	344,667	1,838,352	349,167	435,167	35,167	35,167	335,167	260,167	**4,390,906**
Sale of Infrastructure, Property, Plant & Equipment (incl Bonaira)	40,000	-	-	32,000	5,000	29,235,000	815,000	110,000	590,000	50,000	55,000	490,000	**31,422,000**
Sale of non-current assets classified as "held for sale" incl Terralong	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments:													
Purchase of Infrastructure, Property, Plant & Equipment	(165,386)	90,563	(1,054,580)	(803,674)	(1,524,055)	(772,596)	(816,858)	(1,099,836)	(2,086,531)	(2,686,239)	(1,948,772)	(1,969,395)	**(14,837,358)**
Net Cash provided (or used in) Investing Activities	(90,220)	125,730	(511,407)	(627,292)	(1,174,389)	30,300,756	347,309	(554,670)	(1,461,364)	(2,601,072)	(1,558,605)	(1,219,228)	**20,975,548**
Cash Flows from Financing Activities													
Receipts:													
Other Financing Activity Receipts	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments:													
Repayment of Borrowings & Advances TCORP part 1	(66,480)	(915,951)	(62,403)	(66,480)	(147,112)	(62,403)	(66,480)	(831,041)	(62,403)	(66,479)	(144,468)	-	**(2,491,700)**
Repayment of lease liabilities (principal) TCORP part 2	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net Cash Flow provided (used in) Financing Activities	(66,480)	(915,951)	(62,403)	(66,480)	(147,112)	(62,403)	(66,480)	(831,041)	(62,403)	(66,479)	(144,468)	-	**(2,491,700)**
Net Increase/(Decrease) in Cash & Cash Equivalents	(2,283,024)	743,470	796,026	(661,367)	(1,473,040)	30,278,481	(781,640)	(715,922)	(2,189,289)	(3,068,435)	(1,886,313)	(2,173,865)	**16,585,081**
plus: Cash & Cash Equivalents - beginning of month	53,830,824	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	
Cash & Cash Equivalents - end of the month	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	**70,415,905**	
Check	*0*												
Cash & Cash Equivalents - end of the month	1,394,986	2,138,456	2,934,482	2,273,115	800,075	31,078,556	30,296,916	29,580,994	27,391,704	24,323,269	22,436,956	20,263,091	
Investments - end of the month	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	
Cash, Cash Equivalents & Investments - end of the year	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	**70,415,905**	
Representing:													
- External Restrictions	51,803,640	51,799,021	52,150,922	51,853,196	51,616,688	56,943,490	57,076,519	57,061,804	56,202,480	54,233,689	52,952,248	51,400,622	
- Internal Restrictions	5,220,398	5,220,398	5,137,494	5,051,671	4,889,115	18,456,558	18,436,168	18,395,831	18,353,008	18,320,131	18,292,254	18,709,323	
- Unrestricted	(5,476,238)	(4,728,149)	(4,201,121)	(4,478,938)	(5,552,913)	5,831,322	4,937,043	4,276,172	2,989,030	1,922,263	1,345,268	305,959	
Total	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	**70,415,905**	

Kiama Municipal Council
24 month Cash Projection from 1 August 2022
Kiama Municipal Council (consolidated)

SELL ALL BLUE HAVEN

Considering sale of Bonaira & TERRALONG in Dec 2023 with full TCORP repayment in Aug 2023 - Producing untenable restricted asset position Aug to Nov 2023

Cash Flow Statement	Projected Jul-23 $	Aug-23 $	Sep-23 $	Oct-23 $	Nov-23 $	Dec-23 $	Jan-24 $	Feb-24 $	Mar-24 $	Apr-24 $	May-24 $	Jun-24 $	FY24
Cash Flows from Operating Activities													
Receipts:													
Rates & Annual Charges	1,405,999	5,689,246	3,091,919	1,351,285	2,675,515	2,023,813	1,048,936	2,950,454	2,225,535	713,076	3,389,349	1,830,517	**28,395,644**
User Charges & Fees	1,683,897	1,808,914	2,780,742	2,398,939	2,078,632	2,309,236	2,229,226	1,959,622	2,390,912	1,898,914	1,723,914	1,962,473	**25,225,423**
Investment & Interest Revenue Received	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	**816,035**
Operating grants	1,465,910	1,332,207	1,085,652	1,465,910	1,547,768	1,382,660	1,168,901	1,736,999	1,085,652	2,155,124	1,332,207	1,121,652	**16,880,642**
Bonds & Deposits Received	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154								**9,945,770**
Other	581,766	572,496	563,226	585,371	707,941	598,246	571,466	564,513	564,513	569,921	562,711	562,710	**7,004,878**
Payments:													
Employee Benefits & On-Costs	(2,931,883)	(3,916,695)	(2,807,611)	(2,741,624)	(3,645,042)	(2,807,611)	(3,411,042)	(3,041,611)	(2,741,624)	(2,741,624)	(3,645,042)	(2,807,611)	**(37,239,022)**
BH Operational savings based on removal of loss position						300,000	300,000	300,000	300,000	300,000	300,000	300,000	**2,100,000**
Materials & Contracts	(3,833,383)	(4,542,386)	(3,261,015)	(3,226,449)	(3,318,831)	(3,271,962)	(3,242,882)	(3,252,976)	(3,307,514)	(3,293,764)	(3,237,732)	(3,505,171)	**(41,294,066)**
Bonds & Deposits Refunded	(1,659,819)	(1,629,819)	(1,659,819)	(1,659,819)	(1,659,819)								**(8,269,094)**
Add Depreciation not charged as basis for asset upgrade cost													
Bonaira ILU													
Terralong ILU						-	-	-	-	-	-	-	**-**
Other	(84,691)	(47,268)	(127,541)	(47,268)	(159,538)	(239,811)	(122,114)	(47,268)	(127,541)	(47,268)	(47,268)	(127,541)	**(1,225,117)**
Net Cash provided (or used in) Operating Activities	(1,315,047)	1,323,852	1,722,709	183,502	283,783	362,573	(1,389,506)	1,237,735	457,935	(377,617)	446,143	(594,968)	**2,341,094**
Cash Flows from Investing Activities													
Receipts:													
Capital grants	1,382,848	260,167	590,167	260,167	260,167	260,167	590,167	260,167	260,167	35,167	35,167	35,167	**4,229,682**
Sale of Infrastructure, Property, Plant & Equipment (incl Bonaira)	3,600,000	-	3,333	33,333	123,333	25,843,333	33,333	33,333	30,000	-	-	-	**29,700,000**
Sale of non-current assets classified as "held for sale" incl Terralong	-	-	-	-	-	25,000,000	-	-	-	-	-	-	**25,000,000**
Payments:													
Purchase of Infrastructure, Property, Plant & Equipment	(293,074)	(76,235)	(1,046,394)	(833,827)	(1,444,131)	(807,498)	(844,997)	(1,084,735)	(1,920,658)	(2,428,727)	(1,803,949)	(1,821,420)	**(14,405,644)**
Net Cash provided (or used in) Investing Activities	4,689,775	183,932	(452,894)	(540,327)	(1,060,631)	50,296,002	(221,497)	(791,235)	(1,630,491)	(2,393,560)	(1,768,782)	(1,786,254)	**44,524,038**
Cash Flows from Financing Activities													
Receipts:													
Other Financing Activity Receipts	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments:													
Repayment of Borrowings & Advances TCORP part 1	(128,883)	(28,617,730)	(62,403)	-	-	(62,403)	-	(1,834)	(62,403)	-	-	(62,403)	**(28,998,060)**
Repayment of lease liabilities (principal) TCORP part 2	-	(17,000,000)	-	-	-	-	-	-	-	-	-	-	**(17,000,000)**
Net Cash Flow provided (used in) Financing Activities	(128,883)	(45,617,730)	(62,403)	-	-	(62,403)	-	(1,834)	(62,403)	-	-	(62,403)	**(45,998,060)**
Net Increase/(Decrease) in Cash & Cash Equivalents	3,245,845	(44,109,946)	1,207,412	(356,826)	(776,848)	50,596,171	(1,611,003)	444,667	(1,234,959)	(2,771,177)	(1,322,638)	(2,443,625)	**867,072**
plus: Cash & Cash Equivalents - beginning of month	70,415,905	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	80,221,712	78,610,709	79,055,376	77,820,417	75,049,240	73,726,601	
Cash & Cash Equivalents - end of the month	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	80,221,712	78,610,709	79,055,376	77,820,417	75,049,240	73,726,601	**71,282,976**	
Check													
Cash & Cash Equivalents - end of the month	23,508,935	(20,601,010)	(19,393,599)	(19,750,425)	(20,527,273)	30,068,898	28,457,895	28,902,562	27,667,603	24,896,426	23,573,787	21,130,162	
Investments - end of the month	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	
Cash, Cash Equivalents & Investments - end of the year	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	80,221,712	78,610,709	79,055,376	77,820,417	75,049,240	73,726,601	**71,282,976**	
Representing:													
- External Restrictions	52,583,756	21,021,539	21,477,469	21,390,892	21,186,498	15,739,369	16,174,233	16,411,070	16,194,036	14,531,461	13,197,045	11,697,271	
- Internal Restrictions	22,283,705	22,258,705	22,221,871	22,212,396	22,260,788	20,534,181	20,550,239	20,557,871	20,560,063	20,540,682	20,521,301	20,510,346	
- Unrestricted	(1,205,712)	(13,728,440)	(12,940,124)	(13,200,899)	(13,821,745)	43,948,163	41,886,237	42,086,434	41,066,317	39,977,097	40,008,255	39,075,359	
Total	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	80,221,712	78,610,709	79,055,376	77,820,417	75,049,240	73,726,601	**71,282,976**	

Kiama Municipal Council
24 month Cash Projection from 1 August 2022
Kiama Municipal Council (consolidated)

SELL ONLY BONAIRA

Considering sale of Bonaira in Dec 2023 with full TCORP repayment in Aug 2023 - Producing untenable restricted asset position Aug to Nov 2023

UPDATED FEB 2023

Cash Flow Statement	Actual Jul-22 $	Aug-22 $	Sep-22 $	Oct-22 $	Nov-22 $	Dec-22 $	Jan-23 $	Feb-23 $	Mar-23 $	Apr-23 $	May-23 $	Jun-23 $	FY23
Cash Flows from Operating Activities													
Receipts:													
Rates & Annual Charges	667,319	5,880,623	2,913,024	1,273,101	2,520,713	1,906,717	988,246	2,779,744	2,096,769	671,818	3,193,246	1,724,606	**26,615,925**
User Charges & Fees	1,680,796	1,805,813	2,772,421	2,385,464	2,064,042	2,296,875	2,216,865	1,865,032	2,292,217	1,805,439	1,630,439	1,948,997	**24,764,399**
Investment & Interest Revenue Received	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	58,589	**703,070**
Operating grants	1,261,438	1,030,277	1,071,214	1,619,825	1,412,505	1,346,886	1,138,341	1,594,491	1,057,122	2,553,284	1,196,944	1,093,122	**16,375,445**
Bonds & Deposits Received	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	**23,869,847**
Other	582,728	573,728	564,728	586,228	705,228	598,728	572,728	565,978	565,978	571,228	564,228	564,227	**7,015,732**
Payments:													
Employee Benefits & On-Costs	(2,847,684)	(3,663,808)	(2,889,724)	(2,826,172)	(3,705,585)	(2,988,351)	(2,980,614)	(3,160,287)	(3,571,552)	(2,987,884)	(3,807,728)	(2,987,637)	**(38,417,025)**
BH Operational savings based on removal of loss position													
Materials & Contracts	(3,775,585)	(4,463,938)	(3,324,888)	(3,347,038)	(3,380,438)	(3,304,788)	(3,296,365)	(3,316,165)	(3,369,115)	(3,355,765)	(3,301,365)	(3,561,014)	**(41,796,465)**
Bonds & Deposits Refunded	(1,659,819)	(1,629,819)	(1,659,819)	(1,659,819)	(1,659,819)	(1,629,819)	(1,629,819)	(1,659,819)	(1,659,819)	(1,659,819)	(1,659,819)	(1,659,819)	**(19,827,826)**
Add Depreciation not charged as basis for asset upgrade cost													
Bonaira ILU													
Terralong ILU													
Other	(83,261)	(46,927)	(124,863)	(46,927)	(155,927)	(233,863)	(119,594)	(46,927)	(124,863)	(46,927)	(46,927)	(124,863)	**(1,201,869)**
Net Cash provided (or used in) Operating Activities	(2,126,324)	1,533,691	1,369,836	32,405	(151,539)	40,128	(1,062,470)	669,789	(665,522)	(400,883)	(183,240)	(954,637)	**(1,898,768)**
Cash Flows from Investing Activities													
Receipts:													
Capital grants	35,167	35,167	543,173	144,382	344,667	1,838,352	349,167	435,167	35,167	35,167	335,167	260,167	**4,390,906**
Sale of Infrastructure, Property, Plant & Equipment (incl Bonaira)	40,000	-	-	32,000	5,000	29,235,000	815,000	110,000	590,000	50,000	55,000	490,000	**31,422,000**
Sale of non-current assets classified as "held for sale" incl Terralong	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments:													
Net Cash provided (or used in) Investing Activities	(90,220)	125,730	(511,407)	(627,292)	(1,174,389)	30,300,756	347,309	(554,670)	(1,461,364)	(2,601,072)	(1,558,605)	(1,219,228)	**20,975,548**
Cash Flows from Financing Activities													
Receipts:													
Other Financing Activity Receipts	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments:													
Repayment of Borrowings & Advances TCORP part 1	(66,480)	(915,951)	(62,403)	(66,480)	(147,112)	(62,403)	(66,480)	(831,041)	(62,403)	(66,479)	(144,468)	-	**(2,491,700)**
Repayment of lease liabilities (principal) TCORP part 2	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net Cash Flow provided (used in) Financing Activities	(66,480)	(915,951)	(62,403)	(66,480)	(147,112)	(62,403)	(66,480)	(831,041)	(62,403)	(66,479)	(144,468)	-	**(2,491,700)**
Net Increase/(Decrease) in Cash & Cash Equivalents	(2,283,024)	743,470	796,026	(661,367)	(1,473,040)	30,278,481	(781,640)	(715,922)	(2,189,289)	(3,068,435)	(1,886,313)	(2,173,865)	**16,585,081**
plus: Cash & Cash Equivalents - beginning of month	53,830,824	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	
Cash & Cash Equivalents - end of the month	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	**70,415,905**	
Check	*0*												
Cash & Cash Equivalents - end of the month	1,394,986	2,138,456	2,934,482	2,273,115	800,075	31,078,556	30,296,916	29,580,994	27,391,704	24,323,269	22,436,956	20,263,091	
Investments - end of the month	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	
Cash, Cash Equivalents & Investments - end of the year	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	**70,415,905**	
Representing:													
- External Restrictions	51,803,640	51,799,021	52,150,922	51,853,196	51,616,688	56,943,490	57,076,519	57,061,804	56,202,480	54,233,689	52,952,248	51,400,622	
- Internal Restrictions	5,220,398	5,220,398	5,137,494	5,051,671	4,889,115	18,456,558	18,436,168	18,395,831	18,353,008	18,320,131	18,292,254	18,709,323	
- Unrestricted	(5,476,238)	(4,728,149)	(4,201,121)	(4,478,938)	(5,552,913)	5,831,322	4,937,043	4,276,172	2,989,030	1,922,263	1,345,268	305,959	
Total	51,547,800	52,291,270	53,087,296	52,425,929	50,952,889	81,231,370	80,449,730	79,733,808	77,544,518	74,476,083	72,589,770	**70,415,905**	

Attachment 3 **Item 3.5**

Kiama Municipal Council
24 month Cash Projection from 1 August 2022
Kiama Municipal Council (consolidated)
SELL ONLY BONAIRA
Considering sale of Bonaira in Dec 2023 with full TCORP repayment in Aug 2023 - Producing untenable restricted asset position Aug to Nov 2023

Cash Flow Statement	Projected Jul-23 $	Aug-23 $	Sep-23 $	Oct-23 $	Nov-23 $	Dec-23 $	Jan-24 $	Feb-24 $	Mar-24 $	Apr-24 $	May-24 $	Jun-24 $	FY24
Cash Flows from Operating Activities													
Receipts:													
Rates & Annual Charges	1,405,999	5,689,246	3,091,919	1,351,285	2,675,515	2,023,813	1,048,936	2,950,454	2,225,535	713,076	3,389,349	1,830,517	**28,395,644**
User Charges & Fees	1,683,897	1,808,914	2,780,742	2,398,939	2,078,632	2,309,236	2,229,226	1,959,622	2,390,912	1,898,914	1,723,914	1,962,473	**25,225,423**
Investment & Interest Revenue Received	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	68,003	**816,035**
Operating grants	1,465,910	1,332,207	1,085,652	1,465,910	1,547,768	1,382,660	1,168,901	1,736,999	1,085,652	2,155,124	1,332,207	1,121,652	**16,880,642**
Bonds & Deposits Received	1,989,154	1,989,154	1,989,154	1,989,154	1,989,154	750,000	750,000	750,000	750,000	750,000	750,000	750,000	**15,195,770**
Other	581,766	572,496	563,226	585,371	707,941	598,246	571,466	564,513	564,513	569,921	562,711	562,710	**7,004,878**
Payments:													
Employee Benefits & On-Costs	(2,931,883)	(3,916,695)	(2,807,611)	(2,741,624)	(3,645,042)	(2,807,611)	(3,411,042)	(3,041,611)	(2,741,624)	(2,741,624)	(3,645,042)	(2,807,611)	**(37,239,022)**
BH Operational savings based on removal of loss position						250,000	250,000	250,000	250,000	250,000	250,000	250,000	**1,750,000**
Materials & Contracts	(3,833,383)	(4,542,386)	(3,261,015)	(3,226,449)	(3,318,831)	(3,271,962)	(3,242,882)	(3,252,976)	(3,307,514)	(3,293,764)	(3,237,732)	(3,505,171)	**(41,294,066)**
Bonds & Deposits Refunded	(1,659,819)	(1,629,819)	(1,659,819)	(1,659,819)	(1,659,819)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	**(11,769,094)**
Add Depreciation not charged as basis for asset upgrade cost													
Bonaira ILU													
Terralong ILU						(166,667)	(166,667)	(166,667)	(166,667)	(166,667)	(166,667)	(166,667)	**(1,166,667)**
Other	(84,691)	(47,268)	(127,541)	(47,268)	(159,538)	(239,811)	(122,114)	(47,268)	(127,541)	(47,268)	(47,268)	(127,541)	**(1,225,117)**
Net Cash provided (or used in) Operating Activities	(1,315,047)	1,323,852	1,722,709	183,502	283,783	395,906	(1,356,173)	1,271,069	491,269	(344,283)	479,477	(561,635)	**2,574,427**
Cash Flows from Investing Activities													
Receipts:													
Capital grants	1,382,848	260,167	590,167	260,167	260,167	260,167	590,167	260,167	260,167	35,167	35,167	35,167	**4,229,682**
Sale of Infrastructure, Property, Plant & Equipment (incl Bonaira)	3,600,000	-	3,333	33,333	123,333	25,843,333	33,333	33,333	30,000	-	-	-	**29,700,000**
Sale of non-current assets classified as "held for sale" incl Terralong	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments:													
Net Cash provided (or used in) Investing Activities	4,689,775	183,932	(452,894)	(540,327)	(1,060,631)	25,296,002	(221,497)	(791,235)	(1,630,491)	(2,393,560)	(1,768,782)	(1,786,254)	**19,524,038**
Cash Flows from Financing Activities													
Receipts:													
Other Financing Activity Receipts	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments:													
Repayment of Borrowings & Advances TCORP part 1	(128,883)	(28,617,730)	(62,403)	-	-	(62,403)	-	(1,834)	(62,403)	-	-	(62,403)	**(28,998,060)**
Repayment of lease liabilities (principal) TCORP part 2	-	(17,000,000)	-	-	-	-	-	-	-	-	-	-	**(17,000,000)**
Net Cash Flow provided (used in) Financing Activities	(128,883)	(45,617,730)	(62,403)	-	-	(62,403)	-	(1,834)	(62,403)	-	-	(62,403)	**(45,998,060)**
Net Increase/(Decrease) in Cash & Cash Equivalents	3,245,845	(44,109,946)	1,207,412	(356,826)	(776,848)	25,629,504	(1,577,670)	478,000	(1,201,626)	(2,737,843)	(1,289,305)	(2,410,292)	**(23,899,595)**
plus: Cash & Cash Equivalents - beginning of month	70,415,905	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	55,255,045	53,677,376	54,155,376	52,953,750	50,215,907	48,926,601	
Cash & Cash Equivalents - end of the month	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	55,255,045	53,677,376	54,155,376	52,953,750	50,215,907	48,926,601	**46,516,310**	
Check													
Cash & Cash Equivalents - end of the month	23,508,935	(20,601,010)	(19,393,599)	(19,750,425)	(20,527,273)	5,102,231	3,524,562	4,002,562	2,800,936	63,093	(1,226,213)	(3,636,504)	
Investments - end of the month	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	50,152,814	
Cash, Cash Equivalents & Investments - end of the year	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	55,255,045	53,677,376	54,155,376	52,953,750	50,215,907	48,926,601	**46,516,310**	
Representing:													
- External Restrictions	52,583,756	21,021,539	21,477,469	21,390,892	21,186,498	15,739,369	16,174,233	16,411,070	16,194,036	14,531,461	13,197,045	11,697,271	
- Internal Restrictions	22,283,705	22,258,705	22,221,871	22,212,396	22,260,788	20,534,181	20,550,239	20,557,871	20,560,063	20,540,682	20,521,301	20,510,346	
- Unrestricted	(1,205,712)	(13,728,440)	(12,940,124)	(13,200,899)	(13,821,745)	18,981,496	16,952,904	17,186,434	16,199,650	15,143,764	15,208,255	14,308,692	
Total	73,661,749	29,551,804	30,759,215	30,402,389	29,625,541	55,255,045	53,677,376	54,155,376	52,953,750	50,215,907	48,926,601	**46,516,310**	

3.6 Draft Liquidity Plan

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.1 Manage Public Funds in accordance with Financial Management Standards and the Local Government Act
Delivery Program:	12.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny and oversight processes.

Summary

Further to recent Councillor workshops, a working draft of the Liquidity Plan (attached) has been prepared - in part in response to the Performance Improvement Order issued late last year by the NSW Minister for Local Government.

Financial implication

The Liquidity Plan illustrates, subject to property sales being realised at the values and within the timeframes anticipated, that the concerns with Council's ability to clear its debts, replenish reserves and build working capital to meet its regular outgoings, may be eased. Council has already identified several reserves (restricted funds) to be replenished, such as Employment Leave Entitlements and property (refer to a separate report to this meeting on distribution of proceeds of Akuna Street sale).

As workshops and reports are considered, and decisions made by Councillors, the risk profile and mitigations may be modified, and the actual returns, distribution of nett proceeds of sale and changes to the forecast financial ratios can be updated in the Plan. Council should be mindful that a healthier balance sheet may not necessarily correspond with enduring cashflows to support ongoing balanced budgets.

While Council's liquidity (identified on the Statement of Financial Position/Balance Sheet) may progressively improve, Council's initial cashflow improvements will rely primarily on the transfer of the Blue Haven operations and associated liabilities, the success and timing of which also influences liquidity (refer separate report on TCorp debt) and cashflow (annual debt servicing and any annual aged care operational losses), then further generational decisions on rating, services, asset investments and organisation resourcing

Risk implication

The NSW Office of Local Government (OLG) and Audit Office (AO) has raised concerns with regard to the financial sustainability of Kiama Municipal Council (KMC). While those concerns led to a Performance Improvement Order (PIO) by the Minister for Local Government in November 2022, the Council had earlier commenced a raft of actions following a State of the Organisation report in 2021. That report ushered a number of independent operational, aged care and financial assessments (including KPMG, Forsyth, Hopwood, Critical Success Solutions) that informed the Strategic Improvement Plan (SIP) endorsed by Council in 2022. Further organisation structural, reporting and capability assessments are scheduled for 2023. The SIP#2 is scheduled for report to Council in March 2023.

A working draft of the Property Plan is also reported to this meeting. It should be acknowledged the sale of property is designed to improve liquidity (through the balance sheet), while the potential transfer of the operations of Bluehaven assists Council’s cashflow (through profit and loss).

This draft Liquidity Plan is in response to the PIO (pay debts, use of restricted funds, monitor liquidity) and the concerns of the Audit Office (going concern). It will assist in giving confidence to agencies that Council is managing its financial position.

Separate cashflow reports will continue to be presented regularly to Council, limited by uncertainties with regard to opening balances (FY21 and FY22 audits are scheduled for completion by July 2023) and separation of municipal from aged care financial statements (noting annual operational budgets are prepared separately). Until those elements are tidied up, the AO may continue to express concerns about producing sufficient cash to meet regular outgoings (wages, creditors) and achieving acceptable financial ratios.

The worksheet (provided separately for councillors) summarises the key drivers for the liquidity concerns; the objectives of the Plan; actions proposed to improve liquidity and financial sustainability (that reflect the ambitions of the SIP); and potential distribution of proceeds of sales (subject to future Council consideration), noting some negative opening balances. The worksheet also identifies risks, proposes possible mitigations, but does not suggest changes to financial ratios at this time. The schedule will need to be progressively worked on and finalized following workshops and discussions.

Policy

The SIP #2 scheduled for the March meeting, together with an updated financial plan (required by TCorp with an application for renegotiated loan per separate report to this meeting), should consolidate the pathway to improve liquidity and cashflow.

The working draft Liquidity Plan recognises the potential sale of properties endorsed at the December 2022 meeting (Akuna, Irvine, Marsden, Riverside, Barney Steet etc), and earlier resolutions to sell the Bonaira site over the next several years, is designed to:

- Raise cash to clear TCorp debt
- Restore negative restricted funds (reserves)
- Replenish unrestricted funds (working capital), and perhaps
- Strengthen infrastructure reserves and levels of renewals, aligned to depreciation

While those sales may provide reserves to support future asset capital works, the proceeds do not necessarily generate ongoing cashflow.

The transfer of the operations and finances of Bluehaven from municipal obligations (assuming a sale successfully proceeds) - together with revised policy settings for assets, services, business unit and organisation resourcing - is expected to restore Council’s budget settings to surplus through the next council term.

Consultation (internal)

Executive Leadership Team

Item 3.6

Communication/Community engagement

It is suggested the exhibition of the working draft Liquidity Plan be adopted and further discussions with Councillors held at workshops. Following this the document will then be finalized.

Attachments

1 Draft Kiama Municipal Council Liquidity Plan⇩

Enclosures

Nil

RECOMMENDATION

That Council:

1. Adopt as a working draft for future discussion and workshop (particularly on the schedules within the document) the distributions and risks outlined in the draft Liquidity Plan.
2. Following Councillor workshops and completion of the schedules, ensure a further report to Council is provided to finalize the liquidity plan and publish.
3. Embed in the Strategic Improvement Plan 2 and update into the Long Term Financial Plan, the financial actions outlined in section 8 of the Liquidity Plan.

Background

Councillors have been alerted to the difference and purpose of liquidity and cashflow. It is acknowledged KMC is unique (while it holds the value of aged care assets and operations on its books) as the treatment of aged care assets, liabilities and ratios differ to local government accounting arrangements. For example, local government values its assets at replacement cost in the balance sheet (rather than market value for 'invested' aged care facilities); and records depreciation as a charge against expected future renewal of assets, rather than defers maintenance to a building plan for an aged care facility.

Similarly, the retention of cash reserves as a portion of Independent Living Units (ILUs) or Refundable Accommodation Deposit (RAD) liabilities is actuarily apportioned with reference to aged care legislation, rather than to maintain working capital at ratios required by the Office of Local Government (OLG). In turn, it is likely those ratios and financial results are distorted on KMC statements.

Notwithstanding, with the recent assistance of KPMG, Council now has access to differentiated income statements (profit and loss) for its municipal operations from its business operations (Blue Haven, holiday parks, waste, leisure centre). Formation of balance sheets for at least the municipal from Blue Haven assets and liabilities remains a work in progress.

Council will progressively gain visibility of potential financial ratios for its municipal activity as a more useful measure of its liquidity and cashflow. However, both remain intrinsically linked, with the financial results of one influencing the other (to the extent of OLG financial reporting).

Principally, the initial assessment of liquidity involves an assessment of key ratios:

- Unrestricted current ratio (liquid assets less liquid liabilities, represents a council's ability to meet its short-term obligations as they fall due)
    - OLG benchmark > 1.5 times
- Rates and annual charges outstanding (assesses the impact of uncollected rates and annual charges on a council's liquidity)
    - OLG benchmark < 5%

The FY20 audited statements illustrated a current asset v current liability deficit of approx $18.5m, while the draft FY21 statements records that deficit at $95m. Consequently, the unrestricted current ratio hovered around 0.15 (rather than 1.5)

Therefore, to restore Council's liquidity, it should hold a balance of unrestricted reserves, investments and current debtors at least 50% more than the value of current creditors and other current liabilities. That value should be equivalent to at least 3 months of regular outgoings (ideally 12 months), and Council's debt recovery practices enable more than 95% of rates and charges to be collected as cash each year, to support the budgeted delivery of services and asset works.

Property expected for sale in 12 months (or indeed the proceeds of sale) may be recorded as a current asset and moderates that financial year deficit.

Fundamentally though, the migration of a property asset (held at written down or replacement value) to a market value (subsequent to sale and profit), assists the transition of the unrestricted current ratio towards the 1.5 times benchmark. Therefore. Council's future liquidity will initially be largely reliant on a well measured plan to dispose, repurpose or redevelop property (refer to draft Property Plan report to this meeting).

However, Council's other concern remains its cashflow, measured through OLG financial benchmarks as:

- Operating performance OPR (measures how well local councils contained expenses within revenue)
    - benchmark > 0 (ie average surplus)
- Cash expense cover ratio CER (indicates the number of months a council can continue paying its expenses without additional cash inflow)
    - benchmark > 3 months

Again, the FY20 and FY21 consolidated statements (including Blue Haven and home and community care operations, as well as the other business mentioned above) recorded deficits around -13% (rather than balanced or 0).

KIAMA MUNICIPAL COUNCIL
your council, your community

Kiama Municipal Council Liquidity Plan (Draft)

January 2023

1 Overview

The NSW Office of Local Government (OLG) and Audit Office (AO) has raised concerns with regard to the financial sustainability of Kiama Municipal Council (KMC). While those concerns led to a Performance Improvement Order (PIO) by the Minister for Local Government in November 2022, the Council had earlier commenced a raft of actions following a State of the Organisation report in 2021. That report ushered a number of independent operational, aged care and financial assessments (incl KPMG, Forsyth, Hopwood, Critical Success Solutions) that informed the Strategic Improvement Plan (SIP) endorsed by Council in 2022. Further organisation structural, reporting and capability assessments are scheduled for 2023.

The actions contained in the SIP have been progressed by the Council and formed the basis of milestones in the PIO.

Several decisions of Council have been central to its plan to improve its liquidity and cashflow. They include the recent sale of its Akuna Street landholdings, and the business case to transfer the ownership and operations of Blue Haven to a specialist aged care provider. Council has signalled its preference to sell the Bonaira residential aged care facility (RACF) and independent living units (ILU) and will revisit the retain/sell/lease/partner options through an independent business case prepared by Sadler and StewartBrown consultants. Council recently updated its property divestment register in December 2022.

It should be acknowledged the sale of property is designed to improve *liquidity* (through the balance sheet), while the transfer of the operations of Blue Haven assists Council's *cashflow* (through profit and loss).

This Liquidity Plan is in response to the PIO (pay debts, use of restricted funds, monitor liquidity) and the concerns of the AO (going concern).

Separate cashflow reports will be presented regularly to Council, limited by uncertainties with regard to opening balances (FY21 and FY22 audits are incomplete) and separation of municipal from aged care actual financial statements (noting annual operational budgets are prepared separately). Until those elements are tidied up, the AO may continue to express concerns about producing sufficient cash to meet regular outgoings (wages, creditors) and achieving acceptable financial ratios.

2 Financial Plan

The Liquidity Plan naturally bears a close relationship to the Long Term Financial Plan (LTFP). The LTFP was refreshed last year in response to concerns raised by the AO and the actions identified in the SIP. While the LTFP promotes broad objectives around being financially sustainable, funding asset renewals, promoting intergenerational equity and increasing rates and fees in a manageable manner, it is suggested Council may wish to explore and publish more detailed actions, policy settings and targets, including:

- Divest superfluous property
- Commission business cases (Blue Haven, holiday parks, leisure centre, waste, home care etc)
- Restore negative restricted funds (reserves)
- Replenish unrestricted funds (working capital)
- Strengthen infrastructure reserves and levels of renewals, aligned to depreciation
- Reassign aged care ILU/RAD (Refundable Accommodation Deposit) liabilities (to Blue Haven purchaser)
- Renegotiate terms TCorp debt (if not cleared by sales, or delayed)
- Reposition Delivery Program/Operational Plan to meet (averaged) key financial ratios (operating performance, own source revenue, cash expense, debt service)
- Reappraise community service obligation (CSO); and pricing (fee) settings for regulatory and private benefit services
- Reassess viability/profitability of business units
- Reset sustainable/recurring revenue streams
- Discern municipal services, assets and appropriate resourcing (incl FTE)
- Reframe services, asset standards and levels of service
- Refresh risk appetite, thresholds and strategic risk
- Revise rating structures, incl potential Special Rate Variation to retain own source revenues (OSR) per capita
- Reinstate debt recovery practice
- Re-survey community views on services and assets (aged care if required)

- Pursue grant funding with low exposure to residual/recurrent expenditure or growth in depreciation/renewal
- Raise debt when supported by new/growth revenues
- Support advocacy for rate peg to accommodate population and depreciation growth, and removal of ESL
- Compare KMC to similar local government area benchmarks

3 Cashflow

Council has considered cashflow reports for several months, notwithstanding several uncertainties around opening balances, staff establishment for its municipal and aged care functions (and ongoing employment costs), contract payment milestones, and property sale timings.

The KMC Operational Plan differentiates municipal from Blue Haven budgets, however the calendar timing of rates and fees incomes and outgoings to meet statutory or accreditation obligations differs, and makes a seamless cashflow statement difficult to interpret. Moreover, the current approach to assume similar and regular monthly instalments is perhaps too simplified to gain an understanding of which months Council may draw on reserves or overdraft. For example, the November report indicated operating shortfalls in several months, with forecasts propped up by the Akuna sale.

The cashflow statement is premised on the statutory report format (operating activities, investing activities and financing activities), and is the best means to view how rates and charges revenues support (or not) the regular outgoings such as employment costs and supplies; as well as what is expended on assets and loan payments, and the extent to which grants, contributions and reserves adequately support (or not) those outgoings. However, as councillors are aware, the financial and contract reporting systems remain relatively immature, and adds to the uncertainty.

Fundamentally, the extent to which Council's regular and reliable monthly revenues exceed its regular and expected outgoings - enabling appropriate funds to be put aside for future liabilities (staff turnover, debt payments, asset renewals) - signals whether KMC is a 'going concern'.

4 Divestment

The Liquidity Plan recognises the potential sale of properties endorsed at the December 2022 meeting (Akuna, Irvine, Marsden, Riverside, Barney), and earlier views to sell the Bonaira site over the next several years, is designed to:

- Raise cash to clear TCorp debt
- Restore negative restricted funds (reserves)
- Replenish unrestricted funds (working capital), and perhaps
- Strengthen infrastructure reserves and levels of renewals, aligned to depreciation

While those sales may provide reserves to support future asset capital works, the proceeds do not necessarily generate ongoing cashflow.

The transfer of the operations and finances of Blue Haven from municipal obligations - together with revised policy settings for assets, services, business unit and organisation resourcing - is expected to restore Council's budget settings to surplus through the next council term.

5 Ratios

The financial statements record key financial and asset ratios used by the Office of Local Government to discern the financial sustainability of councils in NSW. They include:

<u>Cashflow</u>

- Operating performance OPR (measures how well local councils contained expenses within revenue)
  - benchmark > 0 (ie average surplus)
- Own source operating revenue OSR (measures a council's tax raising/rates and the degree to which it relies on other external funding sources)
  - benchmark > 60%
- Cash expense cover ratio CER (indicates the number of months a council can continue paying its expenses without additional cash inflow)
  - benchmark > 3 mths

<u>Liquidity</u>

- Unrestricted current ratio UCR (liquid assets less liquid liabilities, represents a council's ability to meet its short-term obligations as they fall due)
  - benchmark > 1.5 times
- Rates and annual charges outstanding (assesses the impact of uncollected rates and annual charges on a council's liquidity)
  - benchmark < 5%

<u>Resourcing</u>

- Staff FTE/Resident ratio (number of municipal staff derived as full time equivalent, servicing 1000 residents in the LGA)
  - benchmark < 7.5 (this may vary pending a council choice of higher discretionary services, such as community, environment etc)

Therefore, to restore Council's liquidity, it should hold a balance of unrestricted reserves, investments and current debtors at least 50% more than the value of current creditors. That value should be equivalent to at least 3 months of regular outgoings (ideally 12 months), and Council's debt recovery practices enable more than 95% of rates and charges to be collected as cash each year to support the budgeted delivery of services and asset works.

6 Liquidity Schedule

The following worksheet summarises the key drivers for the liquidity concerns; the objectives of the Plan; actions proposed to improve liquidity and financial sustainability (that reflect the ambitions of the SIP); and potential distribution of proceeds of sales (subject to future Council consideration), noting some negative opening balances. The worksheet also identifies risks, proposes possible mitigations, but does not suggest changes to financial ratios at this time.

#	Driver	#	Objectives	#	Recommendations/Actions	Costs (of Sale)	Nett proceeds	To Restrictions	FY	To Debt/ILU	FY	To Work Captl	FY	To Opex	FY	To Capex	FY	Ratio *TBA*
1	Structural deficit	1	Realise returns from sale or lease			insert	insert	insert	insert	insert	insert	insert	insert	insert	insert	insert	insert	
2	Cost of ownership/maintenance	2	Restore negative restricted funds (reserves)	1	Divest superfluous property (per December report)													
3	Underutilised/obsolete property	3	Replenish unrestricted funds (working capital)		*Akuna St holdings*		27500	5000 ILU 2000 ELE 6650 Land	23	4000 Tcorp	23			8000	23	2000	23	
4	Clear Tcorp debt by due date (2023)	4	Strengthen infrastructure reserves		*Irvine/Marsden St*		1850											
5	AO views wrt KMC as 'going concern'	5	Clear Tcorp debt		*Riverside Dr*		3000											
6	Aged care impacting KMC cashflow, financial and asset ratios	6	Remove related Bluehaven liabilities		*Akuna carpark*		5000											
7	ILU resident loans and related liabilities	7	Step away from aged care/home care business	2	Divest Aged care property (subject to business case)													
8	Cash flow forecasts and ratios in absence of audited opening balances	8	Restore working capital/UCR, cash cover ratios		*Bonaira*		23000											
9	Requirement of OLG Performance Order	9	Yield from capital return (NPV) > annualised revenues		*Terralong*		22000											
10	Bonaira RACF construction project cost	10	Mitigate 'going concern' stigma		*Havilah*		7000											
11	Bluehaven operational audit			3	Consider cashflow options													
12	s9-3B aged care accreditation/costs				*Identify operating improvements (revenue growth and expenditure reductions) ~ 5%*													
13	Covid/staffing shortages/supply chain disruption				*Identify organisational and service efficiencies (service reviews, business reviews, staffing structure)*													
14	Aged care wage increase				*Differentiate cash flow risks and contingencies in short term (<FY24)*													
					Consider SRV, service charging and pay parking													
					Divest aged care/community care operations									1000 (?)				
					SUMMARY													
					Balance FY2022		xx	xx		xx		xx		xx		xx		
					FY2023		xx	xx		xx		xx		xx		xx		
					FY2024		xx	xx		xx		xx		xx		xx		
					FY2025		xx	xx		xx		xx		xx		xx		
					FY2026		xx	xx		xx		xx		xx		xx		
					FY2027		xx	xx		xx		xx		xx		xx		
						0	89350	13650		4000		0		8000		2000		

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Attachment 1 **Item 3.6**

7 Risk Profile

Status/Risk (select)	Risk rating	Mitigation/Contingency
Only one site sells		To date there has been strong interest from the market. Recommended that Council proceed to tender and accepts both conforming and non-conforming tenders. Significant investment strategy for remaining site as no reserve exists and no asset management plans exists.
Delay exposes higher aged care opex		Staff are reviewing master roster to reduce roster expenses. One year operational plan being developed to guide business. Implementation of key findings from business case to address operational issues.
Deferred/delayed settlement		Recommended that the tender specifies no exceptions or extensions to the settlement date will be agreed to. Recommended that proof of finances during due diligence is thoroughly checked.
Road closure/reclassification frustrated		Planning Proposal progressed. Consultants appointed for public hearing process. Planning authority given to Council for finalisation of reclassification process.
Valuations not realised		To date there has been strong interest from the market. Recommended that council proceed to tender and accepts both conforming and non-conforming tenders. Operational improvements being implemented to maximise sale yields.
Community opposes sale		Regular communication with residents, families, next of kin and resident committees. Regular communication with unions. Financial predicament such that lack of sale will result in financially viable council, unable to maintain service levels and will impact liquidity. Regular media on progress of sale and matters.

Status/Risk (select)	Risk rating	Mitigation/Contingency
		Community engagement required on service levels and future state, who is KMC without Blue Haven and what infrastructure and services should Council invest in?
Council resolves to sell none/one site		Council already has resolved to sell all aged care assets on the Bonaira site. Decision is unable to be rescinded. Council will need to downsize all municipal activities to continue to operate aged care. Further asset sales of other Council property will need to explored. SRV will need to be applied for. Loan will need refinancing.
Casting vote/rescissions		Decision to divest of all aged care assets on Bonaira already resolved and rescinded. Cannot be redone. Works significantly implemented. Future resolutions need to be upheld in order to continue meeting PIO.
Proceeds inadequate to clear debt		Further asset sales of other Council property will need to be explored. SRV will need to be applied for. Loan will need refinancing. Valuations indicate positive position.
Non-conforming tender/s		Recommended council considers non-conforming tenders so as to consider all opportunities.
Timeframes blow out		Tight project management of process is recommended. Project control team established and coordinated fortnightly to give oversight to divestment process and manage timing.
Union opposition/staffing impacts		Regular engagement with unions recommended. Focus on development of supportive transitional industrial instruments.

Status/Risk (select)	Risk rating	Mitigation/Contingency
	Moderate (amber)	Further asset sales of other Council property will need to explored. SRV will need to be applied for. Loan will need refinancing. Continued service reviews and significant downsizing of Council operations would need to urgently occur should Council resolve to continue operating Blue Haven.
Delays surpass TCorp debt timing	Low (green)	Low risk, renegotiating terms for extension of final 15 million payment.
Lease option/share service/higher fees	Moderate (amber)	Explored in business case. Capacity to pay any fee for service or management fee would need to be funded through further asset divestment, SRV, downsizing municipal activities, service reviews or significant fee and charges increases.
Due diligence exposes higher risk	High (red)	Business case explored thoroughly operational improvements required. One year operational plan being developed to guide business. Implementation of key findings from business case to address operational issues.
Building/Property legal actions	Moderate (amber)	Business divested as going concern. RV communities registered with NSW government. Defect Project Manager appointed and overseeing process. Regular communications regarding site issues (weekly).

The Risk Profile illustrates the potential risks to the Liquidity Plan objectives - the severity of which is highlighted by colour (High = red, Moderate = amber, Low = green). Mitigations to those risks can be drafted and presented to Council.

8 Conclusion

The Liquidity Plan illustrates, subject to property sales being realised at the values and within the timeframes anticipated, that the concerns with Council's ability to clear its debts, replenish reserves and build working capital to meet its regular outgoings, may be eased. Council has already identified several reserves (restricted funds) to be replenished, such as Employee Leave Entitlements and property. Of course, the forecast impacts on those funds' balances are dependent on annual movements to and from reserves to support adopted budgets.

As workshops and reports are considered, and decisions made by councillors, the risk profile and mitigations may be modified, and the actual returns, distribution of nett proceeds of sale and changes to the forecast financial ratios can be updated in the Plan. Council should be mindful that a healthier balance sheet may not necessarily correspond with enduring cashflows to support ongoing balanced budgets.

While Council's liquidity (identified on the Statement of Financial Position/Balance Sheet) may progressively improve, Council's initial cashflow improvements will rely primarily on the transfer of the Bluehaven operations and associated liabilities, the success and timing of which also influences liquidity (clearing TCorp debt) and cashflow (annual debt servicing and any annual aged care operational losses), then further generational decisions on rating, services, asset investments and organisation resourcing.

3.7 TCorp Loan Repayment Proposal

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.1 Manage Public Funds in accordance with Financial Management Standards and the Local Government Act
Delivery Program:	12.1.3 Manage Council's Financial Sustainability through an increase of revenue and funding sources

Summary

Loans amounting to $45 million are due to be repaid to TCorp by 9 August 2023. It is proposed to repay $30 million by the due date and renegotiate the remaining balance of $15 million to be repaid over a short one to two year time frame, however with the intention at this stage of aligning it to expected asset divestment proceeds, unless a clear strategic reason for holding the debt longer exists.

Financial implication

Variation to Council's 2022/23 adopted budget.

Risk implication

There is a risk that the loan may not be able to be renegotiated and will become payable on the due date which may impact Council's cashflow and liquidity position.

Policy

This report is a requirement under section 377(1)(f) of the *Local Government Act 1993.*

Consultation (internal)

Chief Operating Officer

Chief Financial Officer

Councillor briefing held on 7 February 2023

Communication/Community engagement

TCorp senior staff have been consulted on this repayment plan.

Attachments

Nil

Enclosures

Nil

RECOMMENDATION

That Council:

1. Approve the repayment of borrowings of $30 million to TCorp by 9 August 2023, supported by restricted funds (reserves) of $29.248m, with the balance of funding to be identified in the March QBRS.

2. Delegate the Chief Executive Officer to negotiate agreeable terms for the renewal of loan funds of $15 million with TCorp.
3. Seek approval from the Minister for Local Government to renegotiate a loan of $15 million.

Background

Council raised debt as part of its funding for the Bonaira project in 2019, representing just under 60% of the project cost. Council entered a loan agreement with TCorp totalling $60 million (4 x $15m loan facilities), paying interest expenses around $5.50 million over that period.

$15 million was repaid in FY2021 in line with the repayment schedule and $45 million is due for repayment in August 2023.

Council currently holds $29,248,678 in externally restricted funds (sourced from ILU residential deposits) for the purpose of loan repayments to TCorp.

Risk

Regular discussions have been held with TCorp, who are cognizant of Council's financial issues and pathways. TCorp is expecting a significant portion of the remaining debt to be cleared by August 2023, and at Council Management request have signalled a preparedness to negotiate an early payment discount due to the current interest rates being higher than the debt rates. An early payment will assist Council's re-negotiation discussions.

TCorp will require access to (and confidence drawn from) completion of FY21 and FY22 financial statements (both of which are scheduled for audit completion by July 2023), as well as an updated financial plan once Council makes its decisions on Bluehaven and subsequent impacts on liquidity. This will be focus of future discussions with TCorp.

While a new term of say one-two years for the remaining $15 million facility is preferred, TCorp may not contemplate such a term but link it to upcoming asset divestment proceeds. As noted earlier, Management intention and cash flow forecasts currently show the final payment to clear the remaining TCorp debt in the same month (Dec 2023) as the expected sale proceeds from Bonaira (and also possibly Terralong).

There has been a change in the interest environment, with the current loan facility at 2.70% and a new loan indicatively at 5.50%, hence at this stage, full repayment in December 2023 is intended, without an obvious reason to hold debt of $15M at 5.5% interest.

New borrowing

It is proposed to present a proposal to TCorp to repay $30 million (two facilities) funded by the reserve by 9 August 2023, and renegotiate the remaining loan balance of $15 million to be repaid in line with the following terms:

- A one to two year time frame
- A floating interest rate is preferred

- The principal amount can be repaid early
- There is no interest or other penalty for early principal repayment.

Ministerial approval for borrowing of loan funds will be required in accordance with section 622 of the *Local Government Act 1993*.

Impact

Council has considered cashflow reports for several months, illustrating the short term ‘breathing space’ subsequent to the Akuna Street sale (subject to separate report on distribution of proceeds). Full payment in August 2023 places Council at further liquidity risk, diminishing reserves and working capital. Simply put, full payment cannot occur as the unrestricted reserves position that would result is simply untenable.

However, the payment of $30 million has the following financial impacts:

- Cashflow
  - Annual interest only payments reduced
  - Residual payment $15M either December 2023 or up to August 2025
- Liquidity
  - Liability reduced by $30 million to $15M
  - External restricted funds reduced by $29 million when payment made in August 2023
- Ratios
  - An assessment cannot be reliably applied until financial statements are completed

Conclusion

Preliminary discussions have proved to be fruitful to date with TCorp who are open to negotiations for a new loan facility for $15 million to mitigate any detrimental impact on Council’s working capital.

An early payment (or part payment) of the $30M otherwise due in August 2023 has been discussed and this would clearly assist the negotiation process but Management have also noted that an early payment discount is appropriate given current interest rate position. Both parties are progressing the situation in both a professional and collegiate manner.

3.8 Draft Property Plan

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.2 Manage our assets so that they create financial sustainability for Council
Delivery Program:	12.2.2 Identify Council owned land and property for future use or disposal opportunity; and manage in accordance with the Local Government Act

Summary

The Temporary Advisor has prepared a covering information report on a Property Plan for Council's discussion and endorsement at the strategic level.

Financial implication

Strategic divestment of Council properties will impact the 2 year cashflow and financial sustainability statement.

Risk implication

Risks associated with property management decisions are discussed in the attached report. Differing risks may arise for individual, locality or common purpose sites, that in turn may prompt differing risk profiles for any proposals to redevelop, repurpose or retire any particular property. Due to the current financial circumstances of Council, the property divestment plan is required as a key liquidity driver. This document needs to be read in conjunction with the liquidity management plan and the cash flow to understand the imperative of property plan.

Policy

Liquidity Management Plan

2 year cash flow

Acquisition and disposal of land and easements policy

Consultation (internal)

Executive Leadership Team

Property Team

Communication/Community engagement

N/A

RECOMMENDATION

That Council:

1. Adopt as a working draft for future discussion and workshop the draft Property Plan as the document that will be used to manage the property holdings of Council, noting further work will need to be done on the schedule.

2. Following Councilor workshops, ensure a further report to Council is provided to finalise the Property Plan.
3. Embed in the Strategic Improvement Plan 2 the action items listed within the document, which management must progress

Background

Kiama Municipal Council (KMC) has a substantial property portfolio with a mix of commercial, industrial, residential, recreational and infrastructure parcels of land or buildings. Those properties have been accumulated over the years in a range of zones and classified as either operational or community land. Often the purpose of acquisition or intended uses of those properties may have changed in that time, may have yielded minimal returns, or the demographic or strategic drivers have shifted.

Council has several policies that guide property management, sales and acquisitions and the local government act governs the processes for land transactions. Many of Council's services to the community are delivered either directly or indirectly through the property and assets portfolio, and a significant portion of Council's budget is spent on operating, improving, or renewing those assets.

The working draft of the Property Plan applies to all Council property assets (land and buildings), that are either Council owned or managed (including Crown land), whether in full or part, or:

- occupied by Council as lessee,
- rights of way,
- leases,
- tenancies,
- licences,
- easements and
- ground leases on the land.

The Temporary Advisor has prepared a covering information report on a Property Plan for Council's discussion and endorsement at the strategic level. Information contained in the property plan should be considered a strategic directions document, that will ultimately be worked on continually by staff, and presented to Council each quarter for review. The intention is to make this document public at each quarter so that the community has transparency over the assets of Council.

The document has been populated by Council's Property staff using available information and will require constant management. Further analysis, discussion and research would be required to fully populate the register and keep it contemporary. It is important however, that Council endorse the strategic direction and framework presented in the property divestment plan, and that the community aware of the process and structure for staff to document and move through the asset holdings.

The document also contains several deliberate actions which will need to be reflected in the Strategic Improvement Plan 2 for the organisation. Management will need to action these items as a matter of priority.

3.9 Distribution of income from Akuna Street landholdings

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.2 Manage our assets so that they create financial sustainability for Council
Delivery Program:	12.2.2 Identify Council owned land and property for future use or disposal opportunity; and manage in accordance with the Local Government Act

Summary

The purpose of this report is to seek Council's review and final decision on the distribution of funds received from the sale of the Akuna Street landholdings. Council resolved its initial position on this matter in June 2022 and it is appropriate to review and finalise Council's decision on the distribution of these funds now that settlement has occurred.

Financial implication

Council received $28 million from the sale of the Akuna Street landholdings.

Costs incurred in the land sale include agent's commission and legal costs (contracts for sale, legal advice during the process, probity plan). Although these costs are offset by the land sale proceeds, they are however accounted for separately in Council's accounts. The Agent's commission on the tender (land purchase price) was $280,000 (1% of sale price) + $23,667 marketing costs. Legal costs incurred were in the order of $25,000.

Net income from the sale is circa $27.65 million.

Risk implication

Council engaged Shaw Reynolds Solicitors to develop a Probity Plan for the Akuna Street landholdings tender process. The EOI and tender process observed the requirements of the Probity Plan.

The EOI and selective tender process was conducted in accordance with s168 of the *Local Government Regulations 2021.*

This report provides Council to utilise the funds gained through the sale for the purposes of addressing immediate and predicted needs to support Council's financial sustainability.

Policy

Local Government Act 1993

Local Government Regulation 2021

Draft Policy – Acquisition and Disposal of Land and Easements

Public Land Management Guidelines

Consultation (internal)

Executive Leadership Team

Councillor briefing held 7 February 2023

Communication/Community engagement

Nil.

Attachments

Nil

Enclosures

Nil

RECOMMENDATION

That Council:

1. Direct the net proceeds from the sale of the land to the mix of purposes and restrictions as provided:

Use of funds	**Amount**
TCorp loan repayment	$1 million
RADS and ILU Prudential Policy requirements	$4.6 million
Employee Leave Entitlement reserves	$2.5 million
Cash injection to unrestricted operational cash	$11 million
Land development restricted reserve	$8.4 million
Real estate / legal fees attached to sale	$350,000
Legal fees associated with court proceedings	$150,000
Total	**$28 million**

2. Note that this resolution replaces the previous resolution made on this matter on 28 June 2022 and that proposed distribution of funds is reflective of Council's current financial position as of February 2023.

Background

On 19 October 2021 Council resolved to sell its Akuna Street landholdings through an open tender process. Following quotation processes Saville's were appointed to oversee the tender, with Shaw Reynolds appointed as the probity lawyer.

As enabled by s168 of the *Local Government Regulation 2021*, the selective tendering method was pursued following public Expression of Interest (EOI) for sale of the land. The EOI process was conducted through March and April 2022 and the selective tender took place in May. Following the detailed due diligence process set out in the probity plan, tenders were assessed by the tender assessment panel and resultant recommendation reported to Council.

On 28 June 2022 Council resolved to award the tender for the sale of the Akuna Street landholdings to *Level 33 Property Group P/L* for $28 million with settlement terms of 42 days from the date of contract exchange.

Details of the tender evaluation are provided in the 28 June 2022 Confidential meeting papers.

Following negotiations regarding settlement terms, contracts were exchanged and the property sale was settled on 15 December 2022 with the full $28 million deposited into Council's accounts.

Current position

As part of the 28 June 2022 resolution, Council allocated the distribution of the $28 million income based on Council's financial position at that time; being as follows:

Restoration of ILU Deposits restriction	$ 5 million
Increase to Employee leave entitlements restriction	$ 2 million
Increase to holdings for TCorp Loan repayments	$ 4 million
Cash Injection to Operation Budget *	$ 8 million
Cash injection to Capital Works Program *	$ 2 million
Remainder to Land Development restriction	$ 6.65 million
Total	**$27.65 million**

* the distribution of the proposed cash injections to the Operations and Capital budgets were to be subject to a future report to Council to consider specific program areas and capital projects to be funded. This report now fulfils that requirement.

Since that time, the needs of Council have changed as has the financial position of Council. It is therefore sensible to reconsider the prior resolution with the current financial information on hand and determine the most appropriate use given the current circumstances of Council.

Financial matters requiring redressing at today's date include, negative restricted operating cash, liquidity, prudential requirements, employee leave entitlements and debt repayment. This report therefore recommends the following distribution of the proceeds of the sale:

Use of funds	**Amount**
TCorp loan repayment	$1 million
RADS and ILU Prudential policy requirements	$4.6 million
Employee Leave Entitlement reserves	$2.5 million
Cash injection to unrestricted operational cash	$11 million
Land development restricted reserve	$8.4 million
Real estate / legal fees attached to sale	$350,000
Legal fees associated with court proceedings	$150,000
Total	**$28 million**

The distribution of these funds will enable Kiama Municipal Council to return to a positive annual operating position and correct two matters identified in the Ministerial

Performance Improvement Orders (prudential balances and employee leave entitlements). The remaining funds will be held in the restricted reserves and are to be spent in accordance with the restricted reserve policy as adopted by Council.

The sale of these land holdings occurred at a time when the market was strong and Council's initial investment to purchase the lands in 2012, 2014 and 2016 totaling approximately $15 million has been realised as an effective investment and divestment process.

3.10 Service Reviews

CSP Objective:	Outcome 12: Public funds and assets are managed strategically, transparently and efficiently
CSP Strategy:	12.1 Manage Public Funds in accordance with Financial Management Standards and the Local Government Act
Delivery Program:	12.1.6 Review service delivery model for strategic assets and services to ensure optimal utilisation and maximum return on investment

Summary

This report seeks Council's endorsement for the scope of the proposed services reviews into Council's commercial businesses, including waste services, holiday parks, leisure centre and The Pavilion.

Financial implication

Council now has access to separated municipal services from aged care services accounts, which differentiates rates and charges, fees, grants and contributions revenues and employment, contract, supplier and depreciation expenses associated with municipal, holiday park, waste, leisure centre and pavilion operations.

In so doing, relevant costs of asset operations, maintenance and renewal requirements may be delineated, and balances available for community, economic, environment and administrative services identified.

While on one hand, the revenues available for municipal assets and services are finite, the appropriateness and performance of asset and services have not been tested for some time – a matter raised by the Finance Advisory Committee (FAC) and an area of interest for the Audit, Risk and Improvement Committee (ARIC). As a first step, it is proposed the business elements of KMC be examined over the next year.

The completion of the commercial business services reviews can be funded from some of the operational savings resulting from the removal of the loss making aged care operations during 2023/24. It is expected those reviews would be externally facilitated, with briefs based on the elements outlined in this report.

The request for funding in the 2023/24 budget for the rolling program of service reviews is to be referred to the forward budget estimates register.

Risk implication

The organisation has not regularly been completing service reviews and there is in no standardised approach developed. The risks associated with this are lost opportunities for financial and operational performance alongside lack of understanding about compliance and effectiveness.

Policy

The notion of service reviews are captured in the ambitions of the Community Strategic Plan and actions of the Delivery Program, however the process and scope to underake the reviews have not been defined.

It is suggested a formal approach, such as that developed by the former Australian Centre for Excellence in Local Government (ACELG) be applied to commercial business services including waste services, holiday parks, leisure centre and The Pavilion.

For other services more broadly captured under the environment, economic and community pillars, a simpler initial approach is proposed.

Consultation (internal)

Executive Leadership Team

Communication/Community engagement

It is proposed that community engagement would be included at the first step of the service review methodology to include community surveys or feedback, and evaluation of community expectations.

Attachments

Nil

Enclosures

Nil

RECOMMENDATION

That Council:

1. Endorse the seven (7) stage methodology described in the service review process on the following business areas:
   - Waste services
   - Leisure Centre
   - The Pavilion
   - Holiday Parks.
2. Utilise funding from associated operational savings to complete the four services reviews outlined at resolution one (1) above, as a matter of priority.
3. Define the structure, scope, deliverables and performance for other municipal programs into Service Statements, from which levels of service and resourcing for future budgets may be developed.
4. Refer the request for a rolling budget for service reviews to the forward budget estimates register for consideration as part of the 2023/24 budget process.

Background

Local governments deliver wide-ranging services, such as health, community, economic, waste, recreation, infrastructure, planning and environmental services. Services vary across councils, depending on the demographics, size, location and priorities of each community. Councils also have corporate services - such as finance, payroll, human resources and IT - to support their frontline service delivery.

Generally, the condition, quality, servicing and maintenance of infrastructure and property assets (such as library buildings, public toilets, sporting fields, drainage) influence the scope and performance of services.

Since the introduction of rate pegging, it is vital that councils have robust service planning and review processes to ensure the services they provide are both cost effective and meeting community needs. Councils must both plan for and review services to ensure they are financially sustainable and designed to meet community needs. Although service planning and review is not explicitly required by the Act, it is part of good governance. Section 8 requires councils to deploy responsible and sustainable assets and finances, drawing on the Integrated Planning and Reporting framework.

To deliver effective services, councils need a robust approach to service planning that sets clear objectives and outlines the resources required to achieve them. Councils typically document their service planning in a service plan or service catalogue, or as part of the Delivery Program and Operational Plan.

Effective service planning requires councils to understand the current and future needs of their communities and to identify the resources required to achieve the desired level and quality of service. Councils also need to review the services they provide to ensure they are meeting their intended objectives, and to consider improvements in service delivery.

Service reviews are an essential part of running mature organisations. At the end of the service review process the organisation can rely on the documentation to propose ways to improve the service, including quick wins as well as longer term improvements. Service reviews provide an effective way of scrutinising a service to find any potential improvements that could be made, in order to generate cost savings and improve customer services.

In turn, service reviews may guide redesign of organisation structures and resourcing.

Service Plan approach

A two-part approach is proposed:

<u>General Services</u> (community, environment, economic)

- Revise the service-program-activity framework
- Prepare service statements to describe the service-programs
- Define the drivers, scope, deliverables, performance and benchmarks
- Draw on community satisfaction survey rankings (services, assets)
- Determine the role of council with that service-program (provide, fund, regulate etc)
- Check resourcing mix (capacity/capability) available to perform those role/s
- Determine the benefit (public, private, shared, regulatory, market, incentive)
- Establish pricing path for those roles (rates, charges, fee type)

- Confirm costing structures to record asset servicing from maintenance and renewal
- Introduce activity-based costing to attribute portion of administrative support to services

As the organisation matures, and councillors begin to establish levels of service (perhaps by quality, location, frequency), then the scope and scale of services should guide the resourcing strategy, in particular the workforce plan and procurement plan.

<u>Business Services</u> (waste, holiday parks, leisure centre, pavilion)

The former Australian Centre for Excellence in Local Government (ACELG) developed better practice resources for local government, which are still available from the University of Technology Sydney. Figure 1 outlines the key steps in ACELG's 2015 *Service Delivery Review: A how to manual for local government*.

Figure 1 ACELG's key steps for service review

Step	Description
Establish the building blocks	Councils need to understand the foundations required for an effective service review project, including commitment to stakeholder engagement and continuous improvement.
Set the project up	Councils should agree on the objectives, scope and resources for review and establish a review team.
Gather existing information	Review teams should gather and record information about the services under review.
Analyse services	Review teams should examine existing service levels, review service delivery models and conduct relevant financial and risk assessments.
Engage stakeholders	Councils need to share their findings with stakeholders, including the community.
Implement change	Councils should develop meaningful recommendations, implement them and monitor the outcomes of any changes.
Evaluate and drive continuous improvement	To ensure continuous improvements, councils should evaluate the review process and share learnings across the organisation.

Source: VAGO based on ACELG, Service Delivery Review: A how to manual for local government, 2015.

Good business practice would see a standard template developed for the service reviews so that all departments within Council can utilise the same approach, on a scheduled frequency of every three years in order to inform the four year cycle of the delivery program and operational plans required by the legislation.

Service planning can take different forms, but common objectives for service reviews include:

- define the type and level of service to be delivered
- set out the resources (human and financial) and infrastructure (assets, systems, and processes) required to deliver a service and assess against current and future state
- explore opportunities for revenue increases, diversified service models, partnerships, or opportunities
- set clear objectives against which regularly to assess business performance
- evaluate whether a service is meeting community expectations
- understand if the current mode of service delivery is appropriate and meeting legislated requirements
- explore whether outsourcing (parts, components or all of the service) or a shared service model would achieve greater value for money.

This is a deeper dive than the general service review, as it would be expected these business services are not disproportionately funded by rates/taxes or could be delivered by parties contracted to Council. In that way, these service reviews may inform Council's competitiveness.

It is important that service planning aligns with a council's other strategic planning processes, including the delivery program and asset management plan, to ensure that the council can coordinate its efforts to achieve agreed priorities.

The methodology proposed to use for Kiama Municipal Council's service reviews will be as follows:

Stage 1: Project team establishment, research, analysis, and evidence collection. Including review of any community surveys or staff feedback and evaluation of community expectations. Engagement with FAC and ARIC.

Stage 2: Review of human and financial resources and existing service levels, cost and financial analysis on service levels, fees and charges as well as asset management plan review

Stage 3: Opportunities and challenges exploration, including innovations, system change, outsourcing, shared services or partnerships

Stage 4: Legislative compliance, regulatory reporting, service risks analysis and development of key performance indicators for the business

Stage 5: Final report submitted to executive for review and sign off complete with short, medium and longer term recommendations and actions. Items requiring budgets will be referred to the forward budget estimate register.

Stage 6: Councillor engagement on draft report, including workshop and final presentation of report as part of ordinary business.

Stage 7: Project close out and debrief.

The objectives for business plans will be as described in the body of this report. Community expectations / satisfaction with services will be market sampled by an external independent company, the results of which will be fed into Stage 1 reporting.

The commercial business areas of Kiama Municipal Council are recommended to be completed first as these generate revenue. Following these areas it is recommended that the executive and management team develop a rolling program (which will be included in the Strategic Improvement Plan 2) for general service reviews over the coming years, guided by the services with lowest rankings in biennial community satisfaction surveys. A budget will need to be considered for allocation for the rolling program as part of the budget development for the 2023/24 year.

It is recommended that the key performance indicators which will be identified for each service are considered for inclusion in the half yearly Delivery Program and Operational Plan reporting to Council in order to measure performance and outcomes.

3.11 Blue Haven review - keep, partnership, sell

CSP Objective: Outcome 12: Public funds and assets are managed strategically, transparently and efficiently

CSP Strategy: 12.2 Manage our assets so that they create financial sustainability for Council

Delivery Program: 12.2.3 Continue to implement Council Resolution 22/1040C for Blue Haven

Summary

Council resolved and commissioned a detailed independent review / business case of the entire Blue Haven operation, to review the feasibility of Council continuing to operate residential aged care, in home aged care and retirement living.

The business case considers whether Blue Haven should be:

1. Kept in Council ownership;
2. Operated in partnership with another provider (potentially leased or as a joint venture); or
3. Sold.

The analysis, conducted by Paul Sadler Consultancy and StewartBrown Chartered Accountants, has now been completed and presented to Council in this report, following a workshop with councillors last month.

Financial implication

Council's financial position and concerns regarding its financial sustainability are well known and have been the subject of many reports and review from external regulators. The Bonaira development and the significant use of internal cash reserves to supplement the development cost has also been well documented, and noted as a main contributor to the balance sheet and cash difficulties facing Council. The significant operating losses over the past 3 years have and continue to cause financial concern.

Risk implication

Apart from the financial risk associated with the above comments, there is significant risk regarding compliance with a rapidly expanding compliance and reform agenda by Government following the Royal Commission in to Aged Care. The aged care industry has changed over the past 10-15 years and in recent years many smaller and single service providers have divested or exited the system, either voluntarily as a strategic decision by the organisation's governing body or forced due to general compliance, clinical reviews and accreditation, building certification, lack of senior staffing, support structures and/or financial circumstances. For Council, not only is there the direct risk from owning and managing the operations noted here, but also the broader governance, viability and reputational risk that the remainder of the Council's operations may be subjected and adversely impacted as a result.

Policy

The business case has been undertaken from the context of considering the strategic, governance, risk and financial implications of keeping, partnering or selling Blue Haven. This is consistent with the roles and responsibilities typical for any board of directors or governing body such as Council. Whilst these considerations are specific to the ownership of Blue Haven, they also link and relate to the other functions and operations of council expected by the community.

Consultation (internal)

Councilor workshop held 31 January 2023. A commercial in confidence paper has been provided to councillors. Meetings and discussions with Council Management. Consultants engaged with some staff and residents.

Communication/Community engagement

Applicable Council reports were shared with the community. Council website provided FAQ input opportunities for community. Resident meetings and staff meetings held. Newsletter updates provided. Local community media provided with updates

Attachments

Nil

Enclosures

Nil

RECOMMENDATION

That Council:

1. Receive the commercial in confidence report titled "*Business Case for Blue Haven*", authored by Paul Sadler Consultancy and StewartBrown Chartered Accountants".
2. Note that the commercial in confidence report substantiates the previous resolution of Council in October 2022 to divest of all aged care assets and operations (residential, aged care, home care, community transport) located on the Blue Haven Bonaira site.
3. Include the Terralong site aged care assets in the divestment process to continue the divestment of aged care services.
4. Note the steps proposed to progress a tender, property sale/s and transition of aged care, community care, community transport and residential operations.
5. Note that Council divesting and transferring ownership of the assets, does not mean the service will close, with an expectation existing aged care operators and home care providers will expand into those operations. Under legislation the Terralong and Bonaira sites will continue as aged care services, dedicated to residential age care services, home care or retirement village communities for the people of Kiama to access.

6. Note the Section 55 Local Government Act exemptions to appoint Trademark Consulting (in accordance with existing delegations and process outlined in the procurement policy) as the Project Manager for the defects works for Blue Haven, and Bonaira and StewartBrown Advisory as the aged care experts coordinating the tender and divestment process on behalf of Kiama Municipal Council.
7. Fund the specialist and other expenses for a sale and transition from the Blue Haven budget.
8. Receive a further report from the Chief Executive Officer outlining staff and community engagement around right sizing the organisation post aged care divestment and establishes service expectations for Kiama Municipal Council

Background

Kiama Council is the largest remaining local government owner-operator of an aged care business in Australia. Its aged care operations include Blue Haven Bonaira, comprising a 134-bed Residential Aged Care (RAC) Facility and 59 Independent Living Units (ILU), Blue Haven Terralong with its 203 Independent Living Units, and a range of in-home community support services.

In the 1970's, Council believed that owning and managing aged care was the only and /or best way to introduce such services directly into the Kiama community. Since then, there has been a significant increase in aged care and in home services and providers across the Illawarra, including neighbouring local government areas.

Over the past 40 years since Blue Haven commenced operations, there has been significant change in the operating, financial and regulatory environment. Briefly, this has included:

- increased consumer expectations,
- built environment and certification requirements,
- changes to the aged care sector brought about by the Aged Care Royal Commission,
- challenges caused by the pandemic and general economic conditions,
- Council's capability, performance and business maturity tested as an aged care services provider,
- ageing population and increased acuity levels in community, both physically and mentally,
- increasing regulatory and compliance environment, and sweeping reforms of legislation,
- increased competition from other providers and workforce issues,
- exposure to increased aged care accreditation and aged care wage expense, and
- obligation to renew and refurbish aged residential living accommodation.

Around 2012, Council began considering redevelopment of the original Havilah Place Residential Aged Care Home after completing some additional 80 ILUs at the adjoining Terralong site. This culminated with the development of the Bonaira site and 134 RAC places (additional 52 from the original 82) and a further 59 ILUs. This particular development has resulted in much of the current financial cash flow and sustainability concerns of Council today.

The decision to continue the project or descope the scale of that investment should perhaps have been contemplated at that time. In the context of the current environment and impending obligations to renew aged Terralong residential assets, Council is at a similar decision point.

For some time, Council has been assessing whether owning and operating Blue Haven is in the best interest of Blue Haven residents and the broader community as whole and if in fact this service is the core business of a municipal local government.

Council has publicly shared numerous reports about its financial position which identify that the cost blowout from the construction of Blue Haven Bonaira, along with ongoing operational losses at Blue Haven, are having a severe negative impact on Council's finances. This situation has created an ongoing deficit in the budgetary position of Council.

During 2022 there was considerable debate over whether, after 40 years of delivering aged care, Council should step away from this business and focus on its core local government functions.

As a result of these deliberations, in October 2022 Council resolved to sell the Blue Haven Bonaira site and all aged care services operating from that location. This includes the 134 place Residential Aged Care Facility, 59 Independent Living Units, 220 In Home Aged Care and Commonwealth Home Support Aged Care services along with some 300 clients accessing Community Transport services.

Before the sale can proceed, the land on which Blue Haven Bonaira sits needs to be reclassified from community land to operational land. Council has resolved to move forward with this process, as it ought to have been completed within three months of taking certified occupancy of the site. That process is now at the point of advertising and public hearings, having progressed through relevant NSW Government gateways.

At the time of the decision in October 2022, Council voted to keep its ownership of Blue Haven Terralong.

Independent review

In parallel with these decisions, Council resolved to develop a detailed business case of the entire Blue Haven operation, to review the feasibility of Council continuing to operate residential aged care, in home aged care and retirement living.

The review was to consider whether Blue Haven should be:

1. Kept in Council ownership;
2. Operated in partnership with another provider (potentially leased or as a joint venture); or
3. Sold.

The analysis, conducted by Paul Sadler Consultancy and StewartBrown Chartered Accountants, has now been completed and presented to councillors.

The business case covered key areas which form the remit of a Board of Directors or ultimate governing body in the Local Government context (ie Council), including strategic, governance, risk and financial and considered:

- The policy environment in the aged care sector including significant changes for providers
- Market conditions in the Illawarra region in both aged care and retirement village
- Blue Haven's performance against financial and quality benchmarks
- Current service operations including internal resources and support structures

- Overall financial position.

Work leading up to and part of the consultant review included a detailed assessment of financial, quality, compliance and other operational documents, site visits and interviews with staff and some residents, and a review of the aged care and retirement village sector.

Concurrently, Blue Haven successfully progressed an independent accreditation process under s9-3B. It should be noted, several further investments are required to maintain that accreditation in coming years.

While many details in the review are commercial-in-confidence and need to remain as such, this report provides a summary of its key observations and findings and places as much information as possible onto the public record.

The matrix below summarises the options:

Table 2 – Evaluation of Options against review requirements

Criterion	Keep Option	Partnership Option	Sell Option
Strategic	Services remain in LGA	Services remain in LGA	Services remain in LGA
Governance	Difficult to support high quality as standalone provider. Will require extensive effort by Council to stay on top of reforms	Improves support for high quality but would require tight contract management. Lease or partner contract arrangement may still place onus on Council as ultimate owner	Industry specific purchaser best placed to provide high quality care for residents and clients, and workplace support for staff
Risk	Will require extensive effort by Council to stay on top of compliance and reforms. Combined with Governance & Finance, risk to Council overall is significant	Lease or partner contract arrangement may still place onus on Council as ultimate owner. Financial and reputational risk may also exist	Council and LGA community is removed from risks of owning / operating aged care. Purchaser can stay on top of reforms and is responsible for risk
Finance	Even if the significant recurrent financial viability issues can be resolved by say 2025, does little to address the capital and balance sheet financial structural deficits	Any middle ground arrangement (between Sell & Keep) will require a recurrent financial cost eg $1M-$2M depending on share of risk and finance. No improvement to the capital and balance sheet financial structural deficits	Sale of Bonaira immediately improves operating financial position of Council and contributes to addressing financial structural deficits. Adding Terralong would improve this

The business case by the external consultants resulted in a recommendation that Council sell Blue Haven (real estate and operations) in its entirety, including both the Bonaira and Terralong sites. The business case shows that the sell option does not prevent the strategic outcomes of having these services in the local community, but removes the ownership, financial and risk obligations to Council.

Indeed, it is anticipated an experienced aged care, residential and home care operator/s with suitable scale and specialties would fill that void – an option that was not available when KMC moved into the aged care business decades ago.

The impact of aged care reform and general economic conditions

Aged care in Australia is undergoing significant reform. The introduction of the Australian National Aged Care Classification funding tool in October 2022 heralded major changes to requirements for the care delivered to residents, the way residential care places are assigned, and additional requirements for aged care providers.

Major changes are also expected to in-home support and home care services (formerly known as HACC). To underpin a new Support at Home Program, it's anticipated a new Aged Care

Act will be enacted in 2023. As with residential care, regulatory expectations are also increasing, making it difficult for Council to manage this as a standalone provider.

Given the focus of the Aged Care Royal Commission, the government has adopted numerous recommendations to improve quality and safety across the aged care sector, along with more financial transparency. Blue Haven will need to ensure its governance and other systems are prepared for these reforms.

Similarly, the NSW government has implemented a range of reforms to retirement village regulations, targeting greater transparency and tighter obligations on operators.

Financial data for aged care, including the StewartBrown Aged Care Benchmarking Survey for the June 2022 quarter, shows a sector largely struggling for sustainability, especially in residential aged care. Residential aged care homes have an average loss of $14.67 per bed per day in 2021-22, with 67% of homes recording an operating loss. It is expected these figures will deteriorate further in 2022-23.

Expected wage increases

The Royal Commission identified workforce challenges as a primary issue for the aged care sector, with evidence suggesting the current workforce is under-paid and under-trained. The ageing of the population means many more workers will be needed.

The ALP Government has committed to fully fund the outcome of the Fair Work Commission aged care worker remuneration case. Deliberations are continuing after unions lodged a claim for a 25% pay increase for all aged care workers.

The details of timing and funding mechanisms are expected to be resolved soon, allowing Blue Haven to increase the wages of staff, probably from the middle of 2023. Local Government NSW (LGNSW) is currently seeking industrial advice for Council on how this will apply. Council will also need to consider flow-on implications for other employees engaged in aged or home care but remunerated under the Local Government Award outside aged care.

Vacant positions

Like most aged care providers, Blue Haven is experiencing serious difficulties in recruiting leadership and skilled positions, nurses, care workers and, to some extent, volunteers.

Currently there is a shortfall of around 16.5% filled by agency staff in Blue Haven's residential care service, distorting the KMC consultant expenditure ratios. Adding to the shortfall of around 10 care staff in home care, this equates to more than 15% of the total roster being unfilled.

Given the scale of the workforce shortages, investment in human resources is clearly critical for Blue Haven.

Financial and quality considerations

In developing the business case, all Blue Haven services were analysed and performance compared with industry benchmarks. The review included an analysis of the strategic and governance options for Blue Haven, including key risk areas such as regulatory compliance, quality performance and staffing structures.

The report made a number of observations:

> *"Based on industry benchmarks, Blue Haven faces risks across both financial and quality performance. For residential care, it currently operates on a much worse than average basis on all financial measures except occupancy. Bonaira RAC having operating losses of some $10M over the 3 years since opening in December 2019.*
>
> *For home care, its revenue is around average and utilisation is better than average, but operating result and profit margin are below average ranging from losses of $200K to*

breakeven. Competition in the region from other providers is high and a risk for council in terms of competitive neutrality, service provision and ongoing accreditation.

The ILU appear on Council financial reports as generating significant surpluses but these results do not include any significant asset upgrading costs from a cash flow perspective and nor do they include any depreciation from an income & expenditure perspective. If these costs were included, the results would be significantly reduced and breakeven at best.

Blue Haven has accumulated an operating loss of $2.4m in the last two years of operations. Losses have increased from $671,000 in the 2021 financial year to $1.7 million in the 2022 financial year. Losses have continued into FY23, albeit at an improved average level from the previous year.

Blue Haven's aged care operations generated revenues of almost $24 million for the 2022 financial year. It is expected these revenues will continue to grow for FY23. However, operational expenditure levels have been growing at a faster rate, with $25.5 million spent in FY22. Blue Haven is forecasting that while expenditure levels will continue to be higher than revenue, they will improve in FY23. This loss situation will continue as Council fulfils maintenance, asset management and replacement requirements, noting that the asset upgrade costs and/or depreciation are currently not included in ILU cash flow and budget forecasts.

Any cash losses resulting from Blue Haven operations are funded by other Council funds.

On quality benchmarks, Blue Haven has higher than average numbers of cases in certain areas including pressure injuries and weight loss. It will be important for Blue Haven to focus quality improvement initiatives in these areas.

There has never been a strong strategic plan for Blue Haven. An operating plan for the interim period is being developed to guide business activities. Given the complexities of the sector and the expectations on aged care providers, Council cannot regard aged care as just another one of its local government services. Very few NSW councils run residential aged care, with Kiama Council the only one doing so east of the Great Dividing Range.

As a local government body, Council operates under the NSW Local Government Act and there are limitations placed on its capability to run an aged care service as the Federal Aged Care Act might envisage. For example, Council cannot establish a board to run Blue Haven as an independent operation. Council ought to account for the Blue Haven as a commercial activity in its financial statements and has never secured required permissions from the Minister to establish this commercial activity.

Council's organisational structure for managing Blue Haven is not well-fitted to the requirements of the aged care sector into the future. Information gathered for the review included that Council's knowledge of aged care and retirement village regulations and operations is "patchy at best", with no aged care skills required for councillors and a lack of clinical expertise in governance and senior leadership positions. Given the mandate for local services in any municipal authority, it is not unreasonable to expect that Senior staff are experts in local government services, and not aged care.

There is limited governance record keeping for Blue Haven, along with gaps in the finance systems operating between Blue Haven and Council. There is a need to ensure quality systems are strengthened and improved before further quality reviews.

Blue Haven relies on Council 's IT infrastructure, including systems that do not integrate. manual intervention is required which is time consuming and prone to error. The *systems are also not efficient enough to meet quarterly government reporting requirements. With a residential aged care facility generating $12 million in revenue, and holding $30 million in resident funds, Blue Haven needs to run residential aged care appropriate software which is fit for purpose and allows systems integration."*

The business case strongly recommends that new fit-for-purpose systems and processes are implemented for residential aged care, community care and retirement living."

If the sale of Bonaira progresses, the forecast ongoing losses from operations would no longer need to be supported from Council funds. Considerable ongoing operational savings from the divestment in combined aged care services would be secured year upon year, including savings from employee costs. Likewise, the removal of the current liabilities associated with both Bonaira and Terralong would transfer to any new purchaser. This represents the removal of $132 million in current liabilities.

Terralong options

Council had already resolved to sell the aged care assets at the Bonaira site but retain ownership of Terralong. That decision should be re-prosecuted in light of the business case. The age of buildings and renewal, as well as newer developments in the area should be considered. There is a risk of reduced demand for Terralong as a stand-alone facility as the property ages.

There are no reserves for any Blue Haven asset, either for renewal or redevelopment, especially. This is of particular concern for the older buildings in Stages 1-3 at Terralong that date back to 1980's and early 1990's. The business case recommends that Council consider developing financial modelling to determine how the closure of the older building stock at Terralong (Stage 1 and Stage 2) will be planned for with no cash reserves currently available for significant refurbishment or new buildings – should that facility be retained. This is a key concern and risk.

There is a case for also considering the sale of Terralong to improve the Council's financial position. As Terralong is well established, notwithstanding some of its stock is 25 to 40 years old and produces limited positive cash flows in the short term, it may generate interest from potential buyers, especially those who have economies of scale to absorb it into their wider operations to manage the lifecycle and renewal of Terralong. The combined proceeds would ensure that all debts were extinguished, and Council's balance sheet was stabilised.

Organisation transition

Council is also at a key strategic and governance point in terms of its history and positioning. The structure, systems, processes and focus of the organisation needs "right-sizing". Councillors are the effectively board of aged care and municipal operations – quite unusual for NSW local government.

This concept of right sizing is not simply in terms of workforce, but in terms of the municipal Local Government's strategic role, remit, and responsibility to the broader community - the core reason for the entity's existence as a local government authority. Turnover of key staff, the scarcity of skilled aged care and municipal staff and shifts in economic climate has exacerbated risk to Council.

Streamlining ownership and operational responsibilities out of non-core activities such as aged care and retirement village living will help this significantly. It is evident that the municipal side of operations has not had the attention, resourcing nor strategic focus that it demands as a complex business on its own. Issues such as stormwater, overland flow, roads, rates, waste, asset maintenance and upgrade of essential public buildings such as the leisure centre, surf clubs, public amenities and community halls are vital to the community and require significant investment and funding.

For example, the presentation and performance of infrastructure and building assets are visual signals to the community of the pride, success and sustainability of a council. Those assets in turn are the cornerstone for delivery of services (eg leisure, library, community, toilets, parks).

Council's existing cashflow and liquidity position will simply not allow for a continued dual focused business involved in aged care and municipal services and difficult decisions are required for the organisation to have a sustainable future.

Council should engage with the community to understand what level of service does the community require from their local government, what assets require upgrading or renewals, what infrastructure, programs or events needs investing in or changing.

Each service or business the municipal council runs now, is proposed to be reviewed and provided performance measure (refer separate report to this meeting). A robust community engagement plan will need to be undertaken to make sure that post any divestment, the municipal side of the business is sustainable and fit for purpose – ie fit for the future.

Blue Haven: Keep, partnership or sell scenarios

The independent business case considered the various elements impacting Blue Haven and assessed the "keep, partnership or sell" options against these factors:

1. Will it ensure ***continuity of care and accommodation*** for existing Blue Haven residents / clients for the foreseeable future?
2. Will it strengthen Blue Haven management and workforce capacity to ***provide high quality care and accommodation***?
3. Will it position Blue Haven services to respond to the challenges and opportunities posed by ***aged care and retirement village reforms***?
4. Will it ***address structural financial deficits*** for Blue Haven and Council?

"Keep" option

The business case observed that in the current aged care environment, residential care is the most difficult service for any council to operate successfully. The NSW Office of Local Government has concluded that Kiama Council should move out of residential care and return to core local government services to restore financial sustainability as required by legislation for every local authority.

Council has already resolved to sell Blue Haven Bonaira and the business case substantiates the validity of this prior resolution. The business case found that if Council were to maintain ownership of Bonaira residential care service, it would have to overcome significant challenges including turning around the recurrent deficit and responding to the various upcoming changes to aged care quality standards. There is little evidence to indicate Council could achieve this as a standalone provider and with the existing structural deficit and liquidity challenges that Council faces.

While the financial risks are considerably lower for home care and home support, the review concluded that home care will work best in the future by being strongly linked to a continuum of care, from retirement living all the way through to residential care. Separating out home care (or elements of it) will not be in the best interests of older people.

With the decision to sell Blue Haven Bonaira and retain Terralong, the business case observed Council is placing itself at continued risk in terms of ongoing management and compliance, given that retirement village regulation is becoming more demanding for operators. It will not be easy to resource the level of compliance required, from the revenue of just one village. Given that some Terralong units are around 40 years old, there is an urgent need for an asset life cycle management plan and there are no reserves for asset replacement or renewal for any age cares services, on either site. This is a key exposure and risk for Council and would require significant investment to restore.

The business case also found that separating Terralong from the continuum of care offerings of a consolidated aged care provider will risk disadvantaging residents in the long term. The report notes a stronger value proposition at market when the two sites are combined. Optimum returns from rate payers historic and current investment in aged care needs to be realised and for that reason the combination of the two sites is recommended as representing the best commercial interests for Council.

The business case concluded that from the financial analysis, it appears clear that selling Bonaira alone will not resolve the serious financial issues faced by Council and Blue Haven. Keeping Terralong may not also be in the interests of Council or Terralong residents in the short or long term.

It is to be noted that Council divesting and transferring ownership of the assets, does not mean the service will be discontinued. Both sites are considered as going concern businesses and under legislation will continue as aged care services, dedicated to residential age care services, homes care or retirement village communities.

Partnership option

Under this option, Council would identify a partner organisation who could focus on managing operations and compliance while Council remained the owner of Blue Haven.

While there are various ways this could be put in place, the business case observed that neither a lease nor management agreement option would resolve Blue Haven's structural financial deficit. Any administration savings would likely be consumed by additional management fees.

A partnership approach would have little impact on the financial results of Blue Haven. Kiama Council's current liquidity challenges cannot support this outcome.

"Sell" option

The business case reinforced that the sale of Blue Haven Bonaira reduces Council's risks. It also observed that, if the right purchaser can be identified, the continuity and quality of service to residents and their carers may be improved.

The sale would also contribute to resolving the structural financial deficit for Blue Haven and Council.

The business case noted that some local aged care providers have already publicly expressed interest in buying Blue Haven Bonaira. It concluded that the sale of Terralong should also be considered and is likely to make it even more attractive for prospective purchasers. Using a tender process that accepts conforming and non-conforming tenders was identified as a positive solution for Council. The combination of the two sites, does resolve the structural deficits and will zero out the $132 million in current liabilities.

Addressing risk

A key consideration of the business case was how to reduce the risks associated with Council managing an aged care operation.

Strategic: Under all three options, the services provided by Blue Haven would continue to exist within the Kiama local government area. Transferring to a new operator would ensure the service can be viable in the long-term.

Governance: The partnership and sell options both place the risk on the new operator, who would become responsible for accreditation and compliance. However, Council may still have ultimate responsibility under a partnership arrangement so the risk would not be eliminated. In a partnership model, Council would still be "key personnel" for Aged Care Act purposes and likely the ultimate governing body.

Operational: The partnership and sell options both pass responsibility to the partner/purchaser. Again, partnership means Council remains "key personnel" and likely the ultimate governing body.

Financial: Only the sell option removes the risk for Council.

In summary, the business case states:

> "*The keep option is not preferred. There is a risk that services cannot be maintained, it is difficult to support consistent high-quality care as standalone provider, it will require extensive effort by Council to stay on top of reforms and even if recurrent viability can be resolved, it will do little to address structural deficits*.
>
> *A partnership option improves the evaluation, with the partner expertise improving potential to operate viably and an aged care focus assisting Council to stay on top of reforms. But it is the sell option which rates most highly, with a purchaser most likely to ensure service continuity and future viable operations, best placed to provide high quality care, and the proceeds of a sale contribute to addressing the structural deficit. That deficit will be eliminated if Terralong retirement village is added in.*"

Notwithstanding, several risks remain – including market interest; retaining service, addressing fee gaps and cost growth in the interim; access to skills and industrial harmony; and retaining accreditation for example. Several divestment process risks and mitigations have been recorded in the working draft Property Plan (refer to sperate report to this meeting).

Applying the business case recommendation

In considering the findings of the business case, Council has three primary considerations.

- Is selling all of Blue Haven, including the Terralong site, in the best interest of Blue Haven residents and clients?
- Is a sale in the best interest of the broader Kiama community, rate payers and residents?
- What will be the broader impact on the financial viability of the local government authority if aged care is not divested of?

Blue Haven residents

Residents and their families are understandably unsettled and concerned about the long-running debate on the future of Blue Haven. Council has previously confirmed Blue Haven Bonaira would be sold to an approved aged care provider, operating under the Aged Care Act. While the owner/operating organisation would be different, residents would continue to live in and enjoy aged care services and facilities in the Kiama local government area. Any sale of the retirement villages (ILU's) at either Terralong and Bonaira, is premised on the sites being registered as retirement villages, and being sold as a going concern and will continue to operate on this basis.

As well as continuity of local care, selling Blue Haven should improve the quality of care and service for residents. The business case has reinforced quality concerns previously identified by Council, stemming from a complex range of factors including staff shortages and turnover, and below-standard reporting systems. At the same time, quality expectations are increasing for providers. A specialist aged care operator – unlike Council which operates Blue Haven as one of many services – is better placed to deliver care at the high standards of quality essential to a modern, best-practice aged care facility. Improved quality is in the best interest of Blue Haven residents and carers.

While workforce shortages are being experienced across the aged care sector, Blue Haven as a standalone provider is particularly struggling to fill its staff roster. Key leadership positions are now filled, but there is ongoing risk of gaps when senior staff leave. Blue Haven in its current form needs to invest heavily in human resources, something it would struggle to afford in the context of Kiama Municipal Council's available budget.

Sale to an approved aged care provider, potentially with the benefit of multiple sites, with established HR systems and a broader staff pool from which to draw, would improve staff continuity which in turn would improve resident experience. Opportunities for staff training and promotion, currently limited within Blue Haven's relatively small operation, are also likely to increase with the sale to a provider whose core business is aged care.

The business case has strongly recommended Council invests in new systems and processes to better administer its aged care operations, should it retain that business. Operating sub-standard systems, including finance and IT, is not in the best interest of Blue Haven residents, their families and carers. An experienced provider, already operating with established fit-for-purpose systems, would bring new levels of efficiency that would benefit residents, clients and staff.

The report identified that if Council retains Blue Haven Terralong, there is no funds in reserve to refurbish older buildings or develop new ones. Given the age of the assets, this is a key risk for the residents and for Council. It also found that operating Terralong on its own, separate from the holistic care of a consolidated aged care provider, risks disadvantaging residents in the long term. Sale to a specialist aged care provider and releasing Blue Haven from the severe financial constraints it currently faces as part of Council, opens up new possibilities for residents across Blue Haven's services.

Residents of the Kiama LGA

The business case highlighted how important aged care services are to the Kiama community. Selling Blue Haven would not diminish this; a new provider would continue to operate Blue Haven's services in the Kiama local government area.

While Blue Haven has a strong emotional connection for many in the broader community, Council has been unable to fully focus on delivering its core local government services while operating a complex aged care business in an increasingly challenging environment.

Absorbing the capital cost of the Bonaira development, and operational costs expounded through the Aged Care reforms and upgraded standards, has meant Council operations have been subsidising the aged care business, compared to the years before.

Council's financial position has been well documented and publicly discussed. A Performance Improvement Order now in place recognises that the continued operation of Blue Haven causes significant financial stress to the municipal business of the local authority.

The business case has identified that selling Blue Haven property should generate enough funds to extinguish all debts, remove excessive current liabilities and stabilise the Council's liquidity position; while the transfer of aged care, home care and community transport operations should relieve annual losses, extinguish unfunded asset renewal risk, and minimise any cross subsidy between municipal and business operations.

Releasing the Kiama community from its financial responsibility for Blue Haven would free up resources that could be redirected into improving fundamental Council services and facilities. However, there will be several in the community who would consider Council should remain in the aged care/community care domain – even at a loss. Equally, several in the community would object to aged care and residential fees being raised by Council to reach benchmark parity with the sector. The acute challenge for Kiama Municipal Council in this regard, is that the current financial situation has no capacity to sustain enduring losses, or provide for significant required investments, and will create an untenable situation for the liquidity of the overall business.

Industrial

Staff engaged in aged care and home care operate under different Awards and pay scales. The aged care sector is expecting a significant uplift in wages to attract and retain skills to the sector. That two-speed remuneration arrangement is difficult to reconcile with staff.

This report has already outlined challenges with rosters and vacancies, and enduring costs associated with agency staff to maintain mandated staff/resident ratios.

Further, any transition from a council operation to a private or NGO operator/s will need to be communicated and managed sensitively with staff, noting while some roles may be retained or transferred, several may require redefinition and resizing to revert to municipal operations if appropriate. Some may also choose to separate from the operation.

Staff have been regularly updated and engaged by the CEO and COO and will continue to be supported in their operations and performance. Consistent delivery of uninterrupted care and professionalism has been Management's and staff's core driver during the process of decision making, and will continue as our shared priority to those we serve and care for.

Next steps

Should Council confirm its decision to sell the Blue Haven aged care/community care/residential property and operations at the Bonaira site, and extend that decision to the Terralong site, then the following steps are proposed:

- Prepare project, risk and probity plans
- Prepare relevant dilapidation, asset register, building maintenance plans for properties to be sold
- Engage suitable specialist expertise to facilitate due diligence and derisking the transition and sale, and prepare and present the property/ies and operations to market
- Engage with aged care/community care resident, associated community and staff around proposals to sell and transition
- Engage and negotiate with relevant agencies and operators to maintain accreditation to transition out of aged care/community care
- Continue to separately budget and report on municipal from aged care/community care operations and assets
- Regularly report on market, risk and sale methods
- Consider distributions identified in the finalisation of the Liquidity Plan from any proceeds of sale

Summary

Council is at a key strategic and governance point in terms of its history and positioning. Streamlining its ownership and operational responsibilities out of non-core activities will help this significantly. Retirement Village management is not a core activity of a local government authority.

This future viability of Kiama Municipal Council is constrained while Council continues to juggle its local government and aged care responsibilities with insufficient budget. Continued decision making which risks the continuation of essential local government services should be avoided.

Based on confidential valuations, the potential sale of Bonaira and Terralong property, as recommended independently in the business case, is expected to:

- release sufficient funds to clear TCorp debt, ILU, RAD and related aged care liabilities
- reduce unfunded leave liabilities
- reduce unfunded property renewal and refurbishment obligations
- assist the replenishment of key restricted funds (reserves) set aside for future projects and works
- improve liquidity ratios.

However, the timing and value of any property sale does not necessarily remedy cashflow and related financial indicators. The transfer of operations (and any associated losses), moderated by any shift in back office support provided between the aged care and municipal services, should assist balancing of future budgets.

There is a real opportunity for Kiama Municipal Council post a divestment of aged care service to return to core local government services. That will require a substantial program of business reform and organisational transformation to “right size” the business, deliver a sleeker, agile and mature local government, that is well connected to its communities changing needs.

Item 4.1

4 REPORTS FOR INFORMATION

4.1 Planning Proposal: reclassification of land at 14A Bonaira Street, Kiama

Responsible Director: Environmental Services

On 10 February 2023 the Department of Planning and Environment determined that Council should proceed with the planning proposal for the reclassification of land at 14A Bonaira Street, Kiama. This Planning Proposal (PP) seeks to reclassify the land (on which the aged care facility and associated ILUs are located) from Community to Operational.

The Gateway Determination received from the Department specifies that Council now needs to undertake:

- Consultation with the Rural Fire Service (RFS).
- Formal exhibition of the Planning Proposal for 20 days.

Council staff have already commenced consultation with the RFS and provided the Planning Proposal to them, for consideration. The RFS has 30 days in which to provide a response to Council.

Next steps - exhibition

Following the issue of a Gateway Determination Council now proceeds to formally exhibition the PP. The PP has been updated in accordance with the Gateway Determination to include further details about Section 9.1 to enable the process to now commence.

The exhibition process is expected to run from 6 March 2023 for 20 days, to ensure timely processing of the PP. Details will be provided on Council's website and the PP exhibition will be communicated to key stakeholders and our community.

Notification of the planning proposal at the public exhibition stage will occur:

- on the Council website
- on the Planning Portal
- in writing to affected and adjoining landowners unless this is impractical and therefore not required as part of the Gateway determination.

These notices must describe or identify:

- the objectives or intended outcomes of the planning proposal
- the land affected by the planning proposal
- where people can view the proposal
- contact details for submissions
- whether Council is the designated Local Planning Making Authority.

The following material must be made available for inspection:

- the planning proposal in the form approved for public exhibition by the Gateway determination

- the Gateway determination
- all relevant additional information relied upon by the planning proposal.

During the 20-day exhibition process community members can make formal submissions to Council about the proposal.

Public Hearing

Given the proposal is for a reclassification of land a formal Public Hearing will also be held. Council will:

- give notice of the arrangements for the public hearing on its website
- give notice in a letter to each of the persons who requested a public hearing when making a submission at least 21 days before the date of the hearing.

It is expected that the likely timing for the Public Hearing would be the last two weeks in April 2022. The community can register to attend the Public Hearing and make representations to the process.

The Public Hearing must be facilitated by an independent facilitator. Council has commissioned a local government expert to support this process and run the public hearing on behalf of Council.

Following the Public Hearing the submissions made during the exhibition process and hearing are compiled into a report. This report is then provided to Council for final decision on the proposal.

Given Council has been granted Local Plan Making Authority, the report to Council would formally make the LEP if supported. This would likely occur in May 2022.

Risk Implication

The reclassification process is essential to ensure appropriate classification of the land on which the aged care facilities are located. Appropriate classification to Operational land supports the ongoing use of the site for commercial/non-public space (eg the residential aged care facility).

Council must follow the process required to reclassify the land appropriately. The timing of this process is also imperative to the ongoing viability of the KMC business and the aged care operations, including the ability to enact the resolution of Council that supports the sale of the land and all services/facilities on site. Not completing this process in a timely and appropriate manner is a significant risk for the organisation.

Attachments

1 Planning Proposal PP2023-244 Letter DPE⇩

2 Gateway Determination⇩

NSW GOVERNMENT

Department of Planning and Environment

Our ref: PP-2023-244/IRF23/281

Ms Jane Stroud
Chief Executive Officer
Kiama Municipal Council
PO Box 74
KIAMA NSW 2533

Attention: Suzi Stojcevska, Strategic Planner

Dear Ms Stroud

Planning proposal – PP-2023-244 – to amend Kiama Local Environmental Plan 2011

I am writing in response to the planning proposal you have forwarded to the Minister under section 3.34(1) of the *Environmental Planning and Assessment Act 1979* (the Act) in respect of the planning proposal to reclassify the site of the Blue Haven Bonaira Retirement Village (14A Bonaira Street, Kiama – Lot 2 DP 1215276) from Community Land to Operational Land.

As delegate of the Minister for Planning, I have determined that the planning proposal should proceed subject to the conditions in the enclosed gateway determination.

I have also agreed, as delegate of the Secretary, the inconsistency of the planning proposal with applicable directions of the Minister under section 9.1 of the EP&A Act (except those outlined below) are justified in accordance with the terms of the Direction.

In relation to Direction 6.2 Reserving Land for Public Purposes, I have agreed any inconsistency is minor as the proposed reclassification corrects a historical land status anomaly to more accurately reflect the existing operational use of the site as a seniors housing facility.

No further approval is required in relation to the Directions.

Council may still need to obtain the agreement of the Secretary to comply with the requirements of relevant applicable directions of the Minister under section 9.1 of the EP&A Act (Direction 4.3 Planning for Bushfire Protection). Council should ensure this occurs prior to public exhibition

Considering the nature of the planning proposal I have determined that Council may exercise local plan-making authority functions in relation to the planning proposal.

The proposed local environmental plan (LEP) is to be finalised on or before 10th December 2023. Council should aim to commence the exhibition of the planning proposal as soon as possible. Should Council seek to make a proposed LEP, the request to draft the LEP should be made directly to Parliamentary Counsel's Office well in advance of the date the LEP is projected to be made. A copy of the request should be forwarded to the Department of Planning and Environment.

PO Box 5475 Wollongong NSW 2520 | T 02 4247 1800 | **www.planning.nsw.gov.au**

The NSW Government has committed to reduce the time taken to complete LEPs. To meet these commitments, the Minister may appoint an alternate planning proposal authority if Council does not meet the timeframes outlined in the gateway determination.

The Department's categorisation of planning proposals in the *Local Environmental Plan Making Guideline* (Department of Planning and Environment, 2021) is supported by category specific timeframes for satisfaction of conditions and authority and Government agency referrals, consultation, and responses. Compliance with milestones will be monitored by the Department to ensure planning proposals are progressing as required.

Should you have any enquiries about this matter, I have arranged for Mr Andrew Hartcher, A/Specialist Planner, to assist you. Mr Hartcher can be contacted on 4247 1823.

Yours sincerely

10/2/2023

Daniel Thompson
Director, Southern Region
Local and Regional Planning

Encl: Gateway determination

Department of Planning and Environment

Gateway Determination

Planning proposal (Department Ref: PP-2023-244)*:* to amend the Kiama Local Environmental Plan 2011 to reclassify land at 14A Bonaira Street, Kiama (Lot 2 DP 1215276) from Community Land to Operational Land.

I, Daniel Thompson the Director, Southern Region, at the Department of Planning and Environment, as delegate of the Minister for Planning, have determined under section 3.34(2) of the *Environmental Planning and Assessment Act 1979* (the Act) that an amendment to the Kiama Local Environmental Plan 2011 as described above should proceed subject to the following conditions:

1. Prior to public exhibition, Section B of the planning proposal is to be updated to provide a more detailed assessment of the proposal against Section 9.1 Direction 5.2 – Reserving Land for Public Purposes.

2. Public exhibition is required under section 3.34(2)(c) and clause 4 of Schedule 1 to the Act as follows:

   (a) the planning proposal is categorised as basic as described in the *Local Environmental Plan Making Guidelines* (Department of Planning and Environment, 2021) and must be made publicly available for a minimum of 20 days; and

   (b) the planning proposal authority must comply with the notice requirements for public exhibition of planning proposals and the specifications for material that must be made publicly available along with planning proposals as identified in *Local Environmental Plan Making Guidelines* (Department of Planning and Environment, 2021).

3. Consultation is required with the NSW Rural Fire Service under section 3.34(2)(d) of the EP&A Act. NSW Rural Fire Service is to be provided with a copy of the planning proposal and any relevant supporting material and given at least 30 days to comment on the proposal.

4. A public hearing is not required to be held into the matter by any person or body under section 3.34(2)(e) of the EP&A Act. This does not discharge Council from any obligation it may otherwise have to conduct a public hearing (for example, in response to a submission or if reclassifying land).

5. The Council as planning proposal authority is authorised to exercise the functions of the local plan-making authority under section 3.36(2) of the EP&A Act subject to the following:

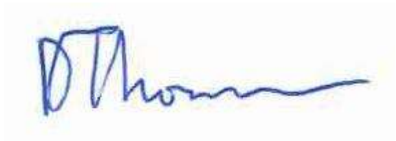
   (a) the planning proposal authority has satisfied all the conditions of the gateway determination;

   (b) the planning proposal is consistent with applicable directions of the Minister under section 9.1 of the EP&A Act or the Secretary has agreed that any inconsistencies are justified; and

   (c) there are no outstanding written objections from public authorities.

6. The LEP should be completed on or before 10th December 2023.

Dated 10th day of February 2023.



Daniel Thompson
Direction, Southern Region
Local and Regional Planning
Department of Planning and Environment

Delegate of the Minister for Planning

PP-2023-244 (IRF No 23/281)

5 CLOSURE