

 Adelaide Plains Council	21.3 Confidential Item
23 April 2019	

21.3 Financial Impact of Organisational Review

RECOMMENDATION

“that:-

- 1. Pursuant to section 90(2) of the *Local Government Act 1999*, the Council orders that all members of the public, except Chief Executive Officer be excluded from attendance at the meeting of the Council for Agenda Item 21.3 – *Financial Impact of Organisational Review*;**
- 2. Council is satisfied that pursuant to section 90(3)(a) of the *Local Government Act 1999*, Item 21.3 – *Financial Impact of Organisational Review* concerns information the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person (living or dead) being information pertaining to the review and potential restructure of Council’s administration; and**
- 3. Council is satisfied that the principle that Council meetings should be conducted in a place open to the public has been outweighed by the need to keep the information, matter and discussion confidential.”**

 Adelaide Plains Council	21.3	Financial Impact of Organisational Review
	Department: Report Author:	Finance and Economic Development General Manager - Finance and Economic Development
Date: 23 April 2019	Document Ref:	D19/16961

OVERVIEW

At the Adjourned March 2019 Ordinary Meeting of the Adelaide Plains Council, following resolution was adopted.

21.3 *Organisational Review – March 2019*

Moved Cr Keen

Seconded Cr Parker

2019/ 145

“that Council, in consideration of the Organisational Review and proposed restructure, instructs the Chief Executive Officer to bring a further report back to Council for consideration at the 23 April 2019 Ordinary Meeting that financially models how any new positions will be funded and where savings can be achieved. Further, that the Chief Executive Officer, in providing this report, puts forward a demonstration of efficiency gains that can be identified through the proposed restructure.”

CARRIED

Discussion

The thrust of the above resolution is that Council Members would like to receive further information/analysis on:-

- a) Financial modelling of how the new positions will be funded;
- b) Where the savings can be achieved to fund the new positions; and
- c) Efficiency gains that can be identified through the proposed restructure.

The operating deficit for the 2019/2020 Financial Year was \$0.705m as per report presented to the March Ordinary Council meeting. Since then, the budget has been updated to reflect income and expenses associated with Two Wells growth and Council decision to contract rubble crushing operations. However, additional interest expenses associated with any new borrowings has not been accounted for in the budget due to level of borrowing depends on level of capital expenditure and operating deficit. Therefore, for the information of Elected Members, the likely additional interest expense has been estimated under the sub-heading “Borrowings: Short Term vs. Long-Term”

Financial modelling of how the new positions will be funded

Following discussion is based on funding the new positions with a combination of additional 1% rate rises and borrowings. Accordingly, before adjusting the budget for the additional expenses associated with new positions, the estimated operating deficit for next financial year is \$0.554m with a 3% increase in rates. The deficit would be reduced to \$0.470m if the rates are increased by 4%.

If the cost of the new positions (\$0.512m) is added to the next year budget, the operating deficit would be increased to \$1.066m with a 3% increase in rates and to \$0.981m with a 4% increase in rates. Budget impact of new positions on next year budget is summarised below in **Table 1**.

Table 1: Budget Impact of New positions in 2019/2020 Financial Year (\$)

Description	Without new positions	With new positions
Operating Surplus/(Deficit) with a 3% increase in rates	(554,337)	(1,065,837)
Operating Surplus/(Deficit) with a 4% increase in rates	(469,881)	(981,381)
Borrowings required with a 3% increase in rates	2,348,614	2,860,114
Borrowings required with a 4% increase in rates	2,264,158	2,775,658

Long-term Financial Impact over the next 10 Financial Years

With a 3% increase in rates for the next ten (10) financial years and excluding the cost of additional positions, Council will have an operating deficit for the next three (3) financial years and an operating surplus from 2023/2024 Financial Year onwards. The level of borrowing required would be \$2.349m in 2019/2020 and \$0.395m in 2020/2021. No new borrowings are required after 2020/2021.

If the cost of the new positions (\$0.511m) is incorporated in to the budget, Council is estimated to have an operating deficit for the next six (6) financial years and operating surplus thereafter. Similarly, the level of borrowings also would go up to \$2.860m, \$0.922m and \$0.518m for the first three (3) financial years and no new borrowings thereafter. Following Graphs (**Figure 1** and **Figure 2**) shows the long-term financial impact of new positions, with 3% and 4% increase in rates along with need to borrow funds for the next 10 financial years.

Figure 1: Long-Term Financial Projections with 3% Increase in Rates for Next 10 Years (\$'000)

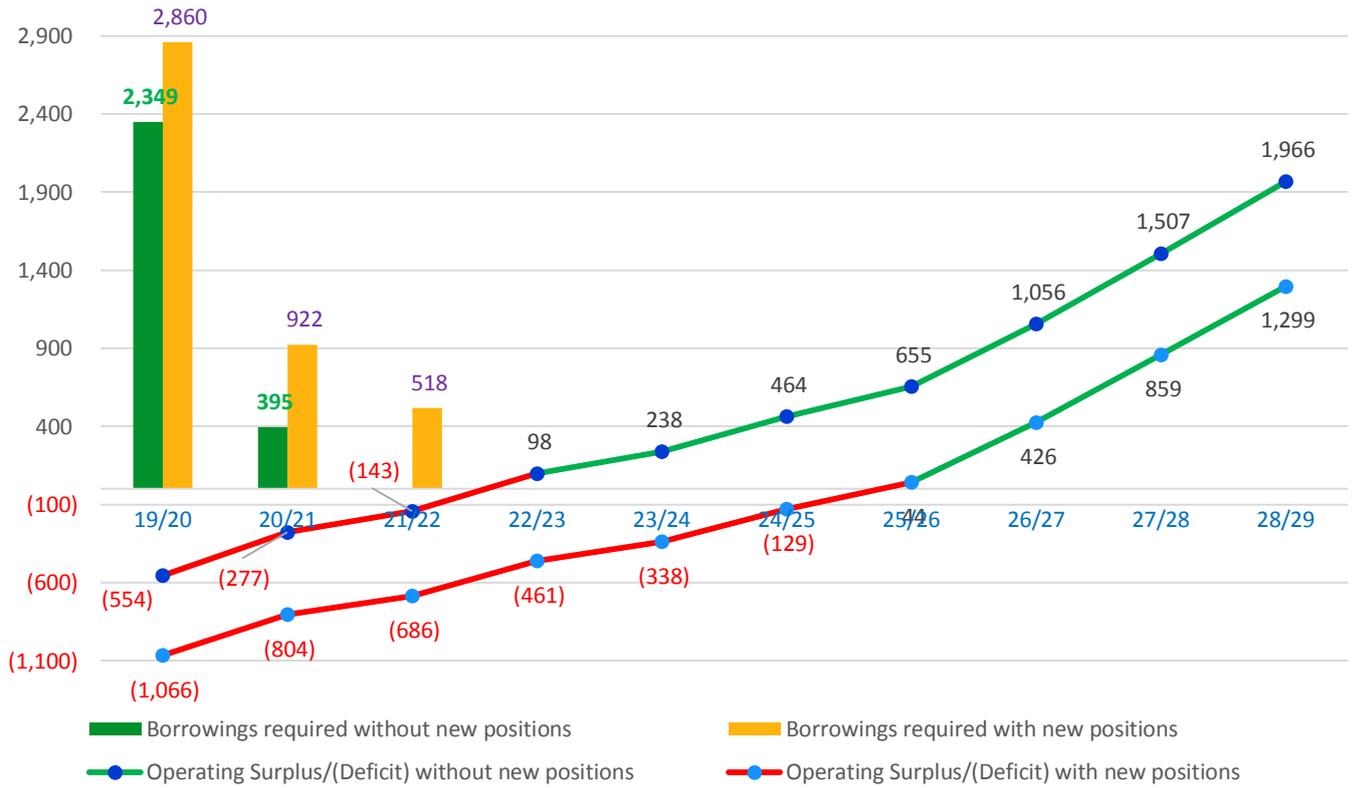
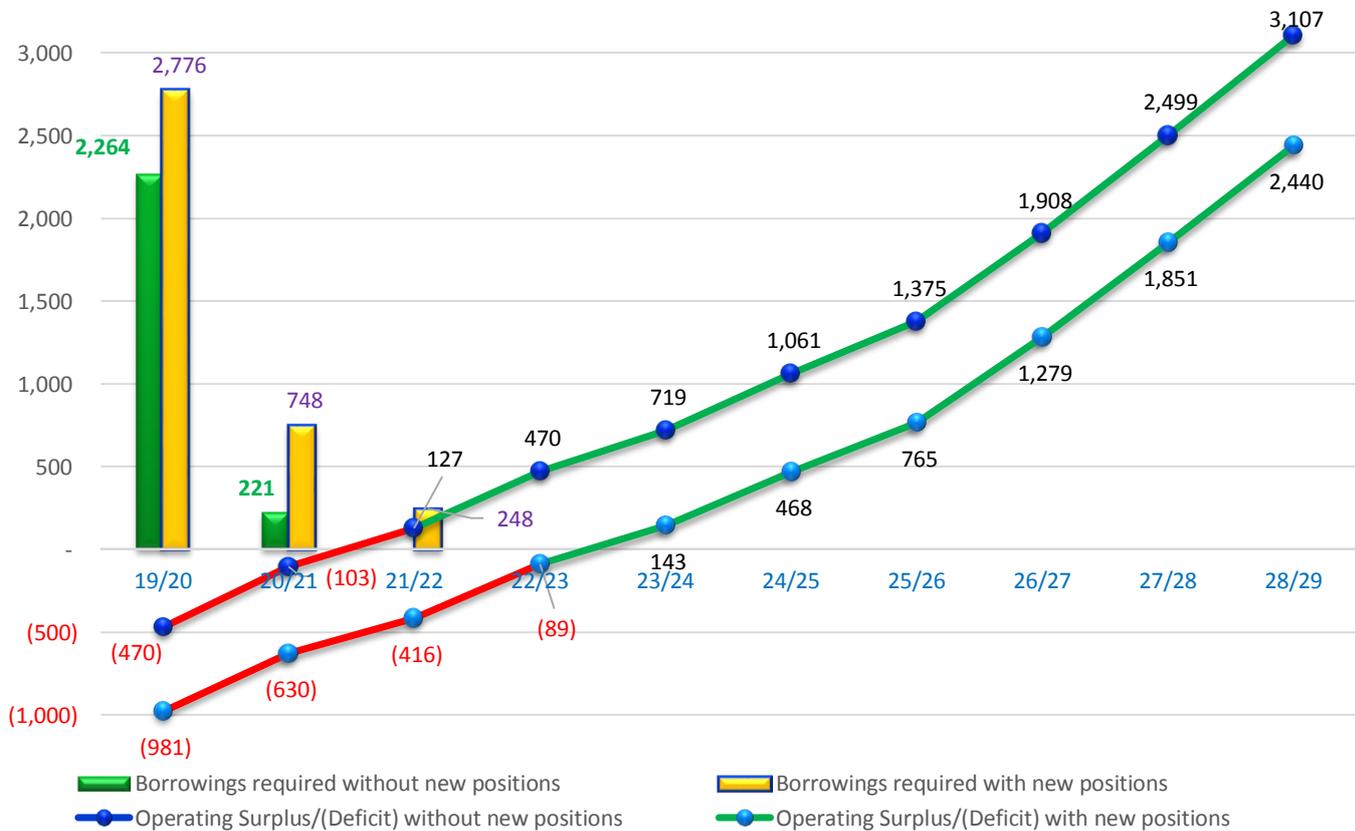


Figure 2: Long-Term Financial Projections with 4% Increase in Rates for Next 10 Years (\$'000)



As shown in the **Figure 2** above, with a 4% increase in rates for the next 10 financial years and excluding the cost of additional positions, Council will have an operating deficit for the next two (2) financial years and an operating surplus from 2022/2023 Financial Year onwards. The level of borrowing required would be \$2.264m in 2019/2020 and \$0.221m in 2020/2021. No new borrowings are required after 2020/2021.

If the cost of the new positions is incorporated in to the budget, Council is estimated to have an operating deficit for the next three (3) financial years and operating surplus thereafter. Similarly, the level of borrowings also would go up to \$2.776m, \$0.748m and \$0.248m for the first three (3) financial years and no new borrowings thereafter.

Borrowings: Short-Term vs. Long-Term

Current interest rates for the short-term and long-term borrowings are given below in **Table 2**. As per Local Government Financing Authority (LGFA), the medium term outlook for interest rate is to go down over the coming month due uncertainties in global economies and weaknesses in Australian economy.

Table 2: Interest Rates with LGFA

Loan Term	Interest Rate (15 March 2019)	Interest Rate (January 2019)	Interest Rate (November 2018)
On call (Cash Advance)	3.60%	3.60%	3.60%
5 Years	3.25%	3.45%	3.75%
10 Years	3.85%	4.05%	4.35%
15 Years	4.05%	4.25%	4.50%

As the need for additional cash through borrowings is temporary, Council can use short-term borrowings rather than long-term borrowings as short-term borrowings can be repaid anytime whenever Council has excess cash. However, as shown in the above table, at present cash advance interest rate is higher than five (5) year fixed-term rate and therefore, flexible repayment term comes at an additional costs.

Additional Interest Expense

If Council borrows \$2.000m on a cash advance basis, interest expense on the new loan would be \$72,000 (at 3.60%) in the first year whereas it would be \$64,151 (at 3.25%) for a 5 year fixed-term loan.

Where the savings can be achieved to fund the new positions

As the draft budget for 2019/2020 has already accounted for monetary savings made in previous years, there is no direct financial savings that can be achieved if the new positions are approved by the Council. The direct non-monetary benefit of new positions would be;

- i. Improved response time to planning and infrastructure related customer inquiries;
- ii. Time taken for approving planning applications would be shorter;
- iii. Council record management practices would be compliant with State Records Act;
- iv. Provide contingency and back up resources in finance department;
- v. Less reliant on consultant engineers on infrastructure development matters; and
- vi. Dedicated focus for economic development and private sector investments to the region.

Therefore, additional resources would help Council to improve its reputation, legislative compliance and operational continuity rather than savings of dollars. Having said that following contracted staff have been engaged/currently being engaged by the Council in this financial year but proved to be very expensive when compared to employing Council's own staff.

Table 3: Cost Currently Incurred/Incurred in the past by the Council to Engage Contract Staff (\$)

Position Description	Fulltime Equivalent Annual Costs for contract staff	Cost of New Position as Proposed in the Org. Review	Cost Savings
Admin Support (Depot/Planning) - \$39.72/hour	82,618	79,227	3,390
Records Support Officer - \$42.34/hour	88,067	79,227	8,840
Planning Consultant - \$120.00/hour	249,600	160,437	89,163
Development Engineer - \$150.00/hour	312,000	51,159	260,841
Total Costs	732,285	370,051	362,233

Efficiency gains that can be identified through the proposed restructure

Efficiency gains that has been identified as part of six-months long organisation restructure and that can be converted in to monetary gains have already been accounted for in the budget and the main objective of the proposed organisational restructure is to achieve non-financial gains such as improved customer service, quicker turnaround for planning applications, regulatory compliance and business continuity. Monetary gains already accounted for in the draft 2019/2020 budget are;

Table 4: Cost Savings Achieved and Incorporated in to Draft 2019/2020 Budget (\$)

Cost Savings Achieved	Average Costs in Previous Years	Budget for 2019/2020	Savings Achieved
Collection of overdue Council Rates - Debt Collection agency	48,000	5,000	43,000
Reduction in Council Cash Advance Loan Interest	112,000	35,000	77,000
Total Costs	160,000	40,000	120,000

In addition to the above savings, Council decision to contract rubble crushing and management decision to not sign up with South Australian Power Network (SAPN) tariff for public lighting in Eden and Liberty housing estates will save significant amount of money in years to come as shown in **Table 5** below.

Table 5: Future Costs Savings Accounted for in the Long-Term Financial Plan (\$)

Savings to be achieved for	Amount
Replacement of Crushing Plant is not Required in 2020/2021	645,000
Potential Proceeds from Sale of Mallala Waste Transfer Station	235,000
Proceeds from Sale of Old Crushing Plant and Generator	250,000
Annual Savings to be achieved in relation to choosing Energy only vs. SAPN Tariff for Eden	18,960
Annual Savings to be achieved in relation to choosing Energy only vs. SAPN Tariff for Liberty	368,667
Total Future Savings	1,517,627

Overall Savings

Excluding benefits that shall be derived from the establishment of a Business Engagement and Innovation Department, the total sum of savings as outlined above equates to **\$199,860**.

Forecast Reduction in Legal Expenditure

In addition, one objective of the organisational review is to reduce Council legal expenses which is on average \$130,000 per annum for the last nine (9) financial years.

With significant growth ahead, coupled with the need to review a raft of Community Land Management Plans, it is anticipated that the partial delivery of this body of work may be actioned in house, therefore leading to cost savings in relation to legal expenditure.

RECOMMENDATION

“that Council, having considered Item 21.3 – *Financial Impact of Organisational Review*, dated 23 April 2019, receives and notes the report.”

Attachments

Nil

References

Legislation

Local Government Act 1999 – Section 99 (2) – Role of Chief Executive Officer

Council Policies/Plans

Prudential Management Policy

Budget Management Policy

Treasury Management Policy

RECOMMENDATION

“that Council, having considered the matter of Agenda Item 21.3 – *Financial Impact of Organisational Review*, dated 23 April 2019, in confidence under sections 90(2) and 90(3)(a) of the *Local Government Act 1999*, resolves that:-

- 1. The agenda item, report and any other associated information pertaining to Agenda Item 21.3 – *Financial Impact of Organisational Review*, and the minutes of this meeting in relation to the matter remain confidential and not available for public inspection until further order of Council;**
- 2. Pursuant to section 91(9)(a) of the *Local Government Act 1999*, the confidentiality of the matter will be reviewed every 12 months; and**
- 3. Pursuant to section 91(9)(c) of the *Local Government Act 1999*, Council delegates the power to revoke this confidentiality order to the Chief Executive Officer.”**