

Building Portfolio Presents Challenges for Council

Escalating material and insurance costs are presenting challenges for South Gippsland Shire Council as it struggles to maintain a large, and increasingly expensive building portfolio.

Council currently has 454 buildings and structures in its portfolio ranging from halls, to toilet blocks, to community centres and aquatic facilities. Many of these buildings are ageing and in need of investment to meet compliance standards and the expectations of users. The replacement value of the portfolio is estimated at just over \$121M.

Due to the various cost increases in the construction industry, and financial influences such as inflation and cost shifting, Council's building portfolio has become too large and too costly to maintain without some asset rationalisation. Rate capping has also hampered Council's ability to maintain the portfolio because the cost of construction and materials is rising faster than the cap.

Many of Council's buildings are used by community-based groups, and whilst everyone – including Council – would like its building portfolio to remain accessible to as many groups as possible, the \$104 annual rental charge for community groups doesn't come close to covering the cost of building maintenance.

With this in mind, Council is seeking to relocate some tenants into newer buildings that require less maintenance, and with shared occupancy where possible. This model will help to ensure that Council owned buildings are used to their optimum, and will consider usage levels as well as whether or not prospective tenants do in fact, require a community rent subsidy.

In the proposed 2024/25 Annual Budget, Council has allocated an additional \$300,000 toward building maintenance. This proposed additional spend is a small step towards helping to close the gap on the maintenance shortfall but there is still a long way to go before the portfolio is more financially sustainable.

Quote attributable to Kerryn Ellis, Chief Executive Officer of South Gippsland Shire Council

"To combat escalating costs in a difficult financial environment, difficult decisions need to be made. This includes determining how Council's building portfolio is managed and where building maintenance funding is best directed. These decisions are guided by Council's 'Community and Economic Blueprint 2021-2036'

which was developed to provide a long-term look at the portfolio over a 15-year period. This document will also help to inform future lease agreements.

In the interest of transparency, we want to be open with the South Gippsland community and share with them the challenges that we are facing. Council will continue to work closely with any impacted community group to support them to find suitable alternative arrangements.”

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