

2022-23 Additional Special Variation

Additional Information to demonstrate evidence of financial need

Points to note.

- When creating the 21-22 LTFP, last years inflation was steady and low. This impacted the assumptions applied specifically to the Financial Statement Line items of Material & Contracts, Employee Costs and Revenue streams.

Generally, Materials and Contracts and Employee Costs were indexed by 2%. This was done as an initiative to effectively ensure that income outstripped expenditure and build higher Operating Results facilitating the capacity to renew our infrastructure Asset Base (General Fund, WDV \$1.4 billion) which is reflected in our forecast Building & Infrastructure Asset Renewal ratio above the 100% target.

By simply increasing the Materials and Contracts index assumption to 3.5% from 22-23 to 26-27 as indicated in the adjusted Worksheet 8 the average Operating Performance Ratio for the five-year period would drop from 2.6% to 1.21%.

If council now adopt to only increase Materials & Contracts by 2% then this effectively would mean that it would have to decrease its levels of service currently been provided.

Whilst inflation is a key issue facing Council, there are many other recent changes in our industry that will continue to impact our LTFP examples listed below.

- The current inflation figures just released could now also lead to higher Employee Costs i.e., above 2% pa.
- Cost increases impact on development and consumers capacity to pay.
- Higher council expenditure will reduce Council Operating results which in turn will mean lower Cash & Investments. This will impact on interest revenue, although this could be more than offset by the increase in interest rates depending on Council's investment portfolio and locked in maturity dates.
- Significant increases in Government Capital Grants in 21-22 have also had a significant impact on Council Asset Renewal programs as well as its asset base. Impacting on council Contributions and asset lifecycle costs. E.g., Fixing Country Bridges Program, Local Roads & Community Infrastructure Program, Community Local Infrastructure Recovery Program and Bushfire recovery funding.
- It is also relevant to take into consideration that our asset data confidence is currently low, which could prove to have a significant impact on the future renewal requirements as our data integrity is validated.
- Our local government area is commonly impacted by natural disasters, on average we get at least 1 event per year. These events are costly, and the recovery process is not fully funded meaning a further impact on general rate revenue and own source revenue. Additionally, these events continue to impact our ability to manage assets on a normal lifecycle approach and challenge our ability to provide long term advice on the cost of managing our large infrastructure asset base.

In summary the LTFP is a living document that can change significantly from year to year. In Clarence Valley Councils case the inclusion of the 21-22 LTFP, 26/27 financial year (Yr 5) is all that results in the average Operating Performance Ratio going over the 2% average i.e., 2.6%. If we look at the average for the period 21-22 to 25-26 the average is 1.74% and as can be seen from the points above, taking into consideration recent economic factors the average now would be more likely to be between 0 and 1.2%.