



Financial Sustainability and Special Rate Variation - Assessment

Goulburn Mulwaree Council

August 2023



Agenda

- Introduction
- Council financial sustainability
- Current situation
- Base case LTFP
- Special Variation (SV) process criteria, inputs and outputs
- SV strategy and options available
- SV scenario assumptions, modelling and outcomes
- Community engagement
- Next steps
- Questions

Councils' financial sustainability obligations

Foundation to organisational and financial sustainability

NSW Local Government Act – Chapter 3

- 8A Guiding principles for councils
- 8B Principles of sound financial management, councils should:
 - spend responsibly and sustainably align general revenue and expenses
 - invest in responsible and sustainable infrastructure
 - have effective financial and asset management
 - regard to achieving intergenerational equity.
- 8C Integrated planning and reporting principles that apply to councils
- Base performance measures – OLG prescribe measures (AO Report on LG).

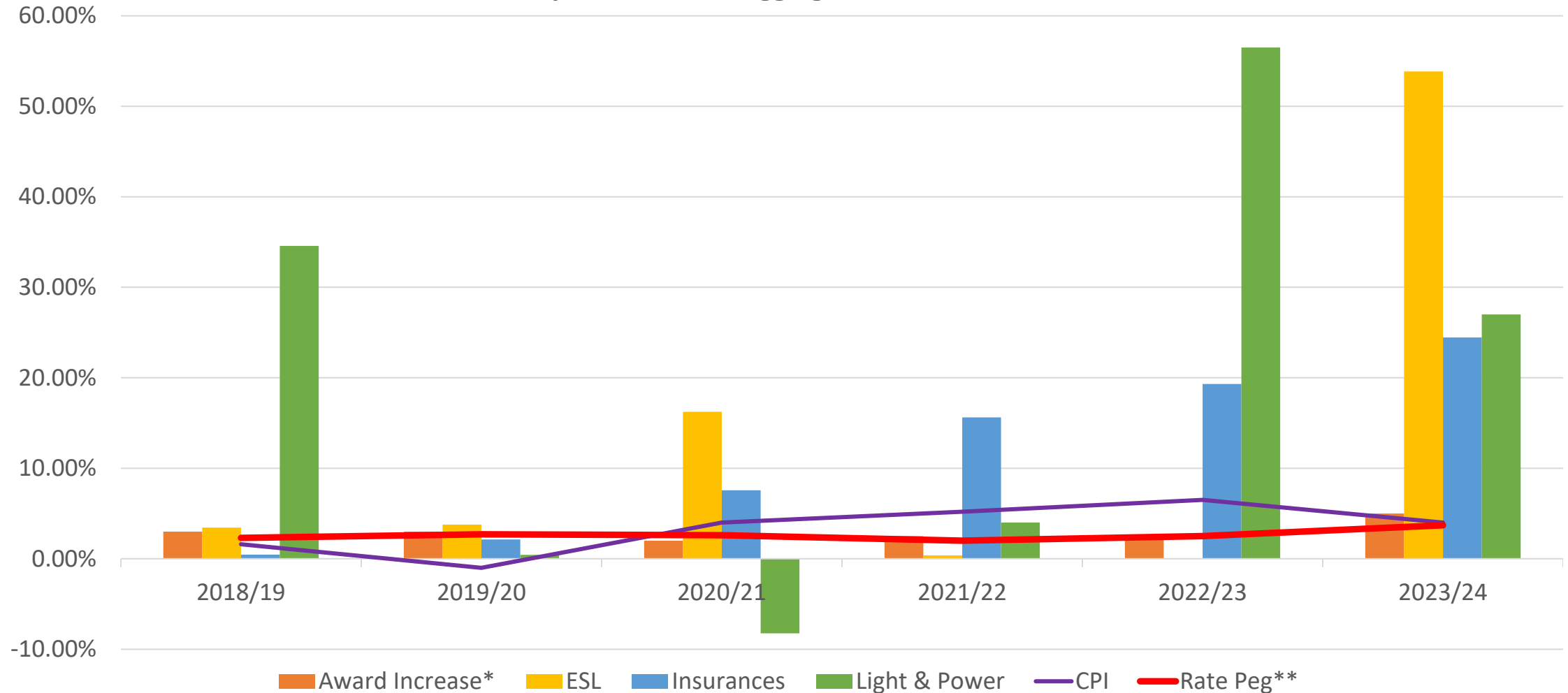
Financial sustainability - what does this mean for councils?

- Financial objectives for Councils:
 - achieving a **fully funded operating position**
 - adequate/sustainable **cash position** and use of reserves and borrowings
 - having an appropriately **funded capital program**
 - maintaining its asset base **'fit for purpose'**
 - having adequate resources to meet ongoing **compliance obligations**.
 - explore options **to improve** financial sustainability.

Council must achieve a fully funded operating position, ensuring that Council collects enough revenue to fund operational expenditure and depreciation.

Current situation - constraints

Expenses v Rate Pegging 2018/19-2023/24



Current situation – General Fund



LTFP Financial Statements by Entity

Resourcing Strategy 2022-26

10 - General Fund

Income Statement	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Income										
Rates & Annual Charges	23,100,234	24,014,564	24,965,456	25,954,371	26,979,744	28,046,041	29,154,894	30,308,004	31,507,136	32,754,130
User Charges & Fees	8,368,471	8,539,331	8,878,973	9,180,148	9,595,316	9,925,034	10,369,883	10,730,467	11,207,414	11,601,376
Interest & Investment Revenue	285,000	285,000	285,000	285,000	285,000	285,000	285,000	285,000	285,000	285,000
Other Revenues	1,542,768	1,594,641	1,658,739	1,740,149	1,809,961	1,872,311	1,947,297	2,015,023	2,095,600	2,169,858
Operating Grants & Contributions	11,283,947	10,905,208	11,089,813	11,222,698	11,388,219	11,559,990	11,734,123	11,962,734	12,144,939	12,331,861
Internal Income	20,002,703	20,302,016	21,012,531	21,722,284	22,456,716	23,216,693	24,003,114	24,816,907	25,659,036	26,530,497
Total Revenue	64,583,124	65,640,760	67,890,512	70,104,650	72,514,956	74,905,069	77,494,311	80,118,134	82,899,125	85,672,721
Expenses										
Employee costs	24,572,002	25,878,133	26,595,900	27,463,765	28,306,258	29,199,916	30,120,247	31,068,045	32,044,126	33,049,358
Materials & Contracts	15,640,990	14,879,156	15,487,742	15,482,945	16,098,769	16,551,865	17,232,863	17,175,067	17,827,887	18,010,510
Borrowing Costs	803,174	865,626	811,572	756,022	698,761	639,860	578,870	515,103	451,363	384,667
Depreciation & Impairment	17,398,184	17,699,086	18,031,725	18,370,685	18,716,085	19,068,047	19,426,697	19,792,161	20,164,569	20,544,052
Other Expenses	1,207,072	1,236,554	1,266,847	1,297,973	1,329,954	1,362,816	1,396,581	1,431,274	1,466,922	1,503,549
Internal Expenses	12,271,752	12,686,750	13,115,954	13,559,855	14,018,960	14,493,796	14,984,906	15,492,853	16,018,220	16,561,610
Total Expenses	71,892,174	73,245,305	75,309,741	76,931,244	79,168,787	81,316,300	83,740,164	85,474,503	87,973,087	90,053,746
Operating Surplus/(Deficit) before Capital	-7,310,050	-7,604,546	-7,419,229	-6,826,594	-6,653,832	-6,411,231	-6,245,853	-5,356,369	-5,073,962	-4,381,025
Capital Income										
Capital Grants & Contributions	22,237,894	1,224,498	1,224,498	1,224,498	1,224,498	1,224,498	1,224,498	1,224,498	1,224,498	1,224,498
Operating Surplus/(Deficit) after Capital	14,927,844	-6,380,048	-6,194,731	-5,602,096	-5,429,334	-5,186,733	-5,021,355	-4,131,871	-3,849,464	-3,156,527

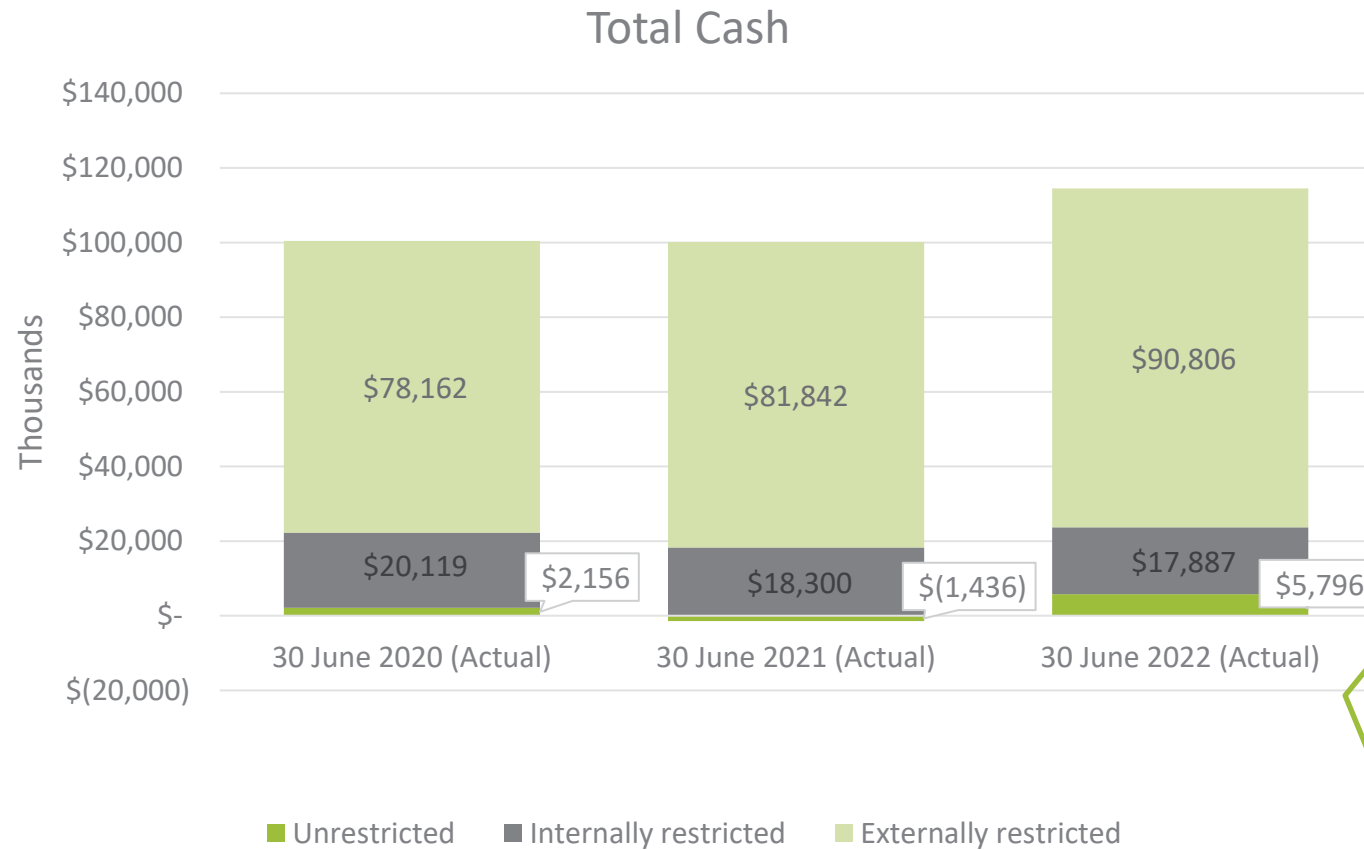
Current situation – General Fund



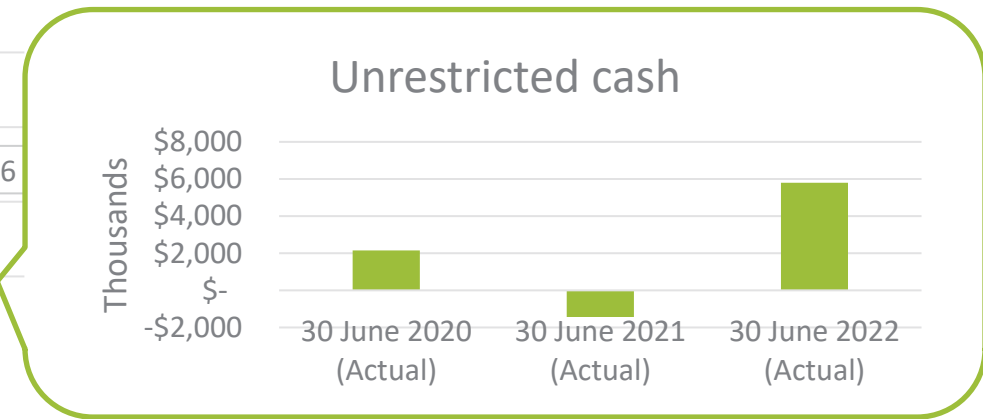
Budget by Entity for the Proposed 2023/24 Original PJ Budget

Income Statement - General Fund	2022/23 Quarter 4 PJ	2023/24	2024/25	2025/26	2026/27
Income					
Rates & Annual Charges	23,065,535	24,061,340	25,026,430	26,032,633	27,081,830
User Charges & Fees	8,422,226	8,931,836	9,297,573	9,617,476	10,051,669
Interest & Investment Revenue	685,000	785,000	735,000	685,000	635,000
Other Revenues	1,415,606	1,567,761	1,633,438	1,691,174	1,761,022
Operating Grants & Contributions	18,230,612	11,878,327	11,224,419	11,453,745	11,663,204
Internal Income	21,052,012	21,643,853	22,153,058	22,968,443	23,696,388
Total Revenue	72,870,992	68,868,116	70,069,918	72,448,472	74,889,112
Expenses					
Employee costs	25,351,497	27,255,573	27,664,411	28,679,364	29,575,856
Materials & Contracts	22,113,929	17,055,491	16,910,976	16,982,879	17,599,052
Borrowing Costs	803,174	748,024	936,700	877,419	815,992
Depreciation & Impairment	17,398,184	17,412,649	17,412,649	17,412,649	17,412,649
Other Expenses	1,362,482	1,463,718	1,530,154	1,585,960	1,629,489
Internal Expenses	12,260,084	13,010,975	13,650,571	14,195,726	14,631,619
Total Expenses	79,289,350	76,946,429	78,105,461	79,733,996	81,664,656
Operating Surplus/(Deficit) before Capital	-6,418,358	-8,078,312	-8,035,542	-7,285,524	-6,775,543

Current Cash Position



- While Council holds significant cash reserves, most of this is externally restricted.
- The level of unrestricted cash to fund day to day operations is dangerous low



Current cash position – General Fund

Cash/Fund Flow Statement - General Fund	2023/24 Original	2023/24	2024/25	2025/26	2026/27
Non Cash					
Depreciation & Impairment	17,398,184	17,412,649	17,412,649	17,412,649	17,412,649
Total Non Cash	17,398,184	17,412,649	17,412,649	17,412,649	17,412,649
Investing Fund Flows					
Capital Works	-43,380,762	-45,897,278	-17,260,936	-13,497,244	-13,765,312
Asset Sales	320,000	640,000	320,000	320,000	320,000
Total Investing Fund Flows	-43,060,762	-45,257,278	-16,940,936	-13,177,244	-13,445,312
Financing Fund Flows					
Loan Principal	-2,105,485	-1,816,872	-2,034,492	-2,093,770	-2,155,199
Hockey Facility Contract	-300,000	-300,000	-300,000	-300,000	-300,000
Proceeds from Borrowings	0	4,000,000	0	0	0
Movement in Contract Assets	2,168,560	2,290,553	0	0	0
Movement in Contract Liabilities	-2,982,484	-3,118,608	0	0	0
Total Financing Fund Flows	-3,219,409	1,055,073	-2,334,492	-2,393,770	-2,455,199
Net Inc/(Dec) in Funds before Transfers	-17,031,042	-8,843,425	263,619	1,930,609	2,111,093
Reserve Movements					
Transfers to Internal Reserves	-2,362,199	191,583	-857,190	-976,690	-977,190
Transfers to Developer Contributions	-2,829,500	-2,819,500	-2,819,500	-2,819,500	-2,819,500
Transfers to Other External Reserves	-2,561,924	0	-10,000	0	-10,000
Transfers from Internal Reserves	5,278,509	5,119,834	1,446,837	1,094,344	1,088,875
Transfers from Developer Contributions	6,891,469	2,033,321	1,471,700	651,487	696,247
Transfers from Other External Reserves	8,576,955	3,287,285	0	0	0
Total Reserve Movements	12,993,310	7,812,523	-768,153	-2,050,359	-2,021,568
Net Inc/(Dec) in Unrestricted Funds	-4,037,732	-1,030,902	-504,534	-119,750	89,525
Estimated Unrestricted Funds Balance	1,758,268	727,365	222,831	103,081	192,605

Unrestricted cash requirement equivalent to 4 months of total operating expenses less depreciation & internal expenses ~ \$16.5m

Base Case - assumptions

- Macro assumptions in line with current draft 2022-33 LTFP:
 - Rate peg 3.5% in 2024-25 and 2.5% year after
 - Employee costs in line with state award increases (\$1000 per employee or 0.5% for 24/25 & 25/26) plus increase in compulsory superannuation
 - Other costs in line with CPI forecasts
- Asset funding gaps – actual/planned renewal and maintenance (not required renewal and maintenance)
- No improvement plan initiatives.

****Attention****

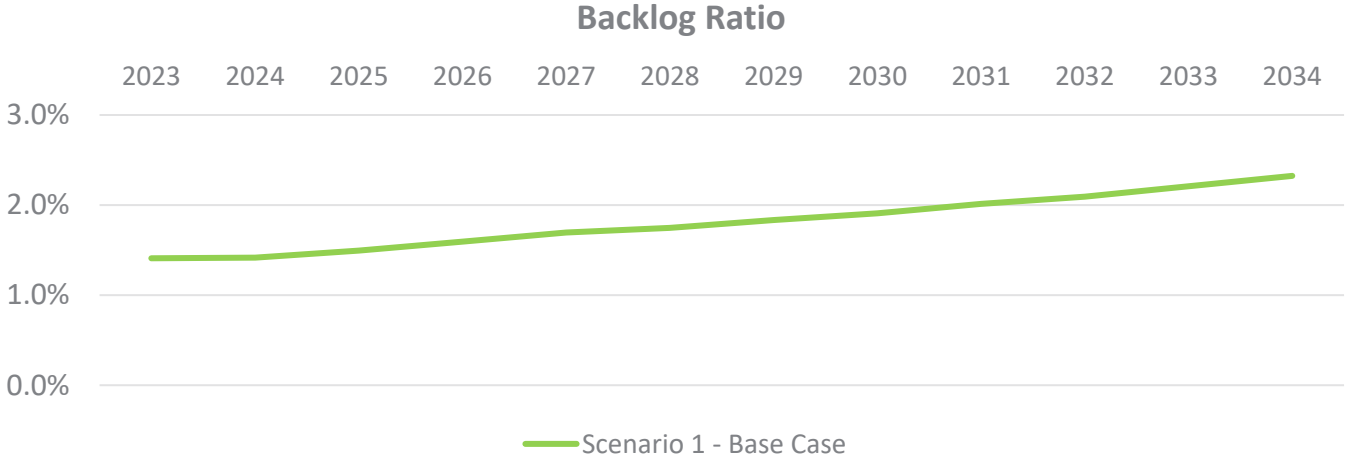
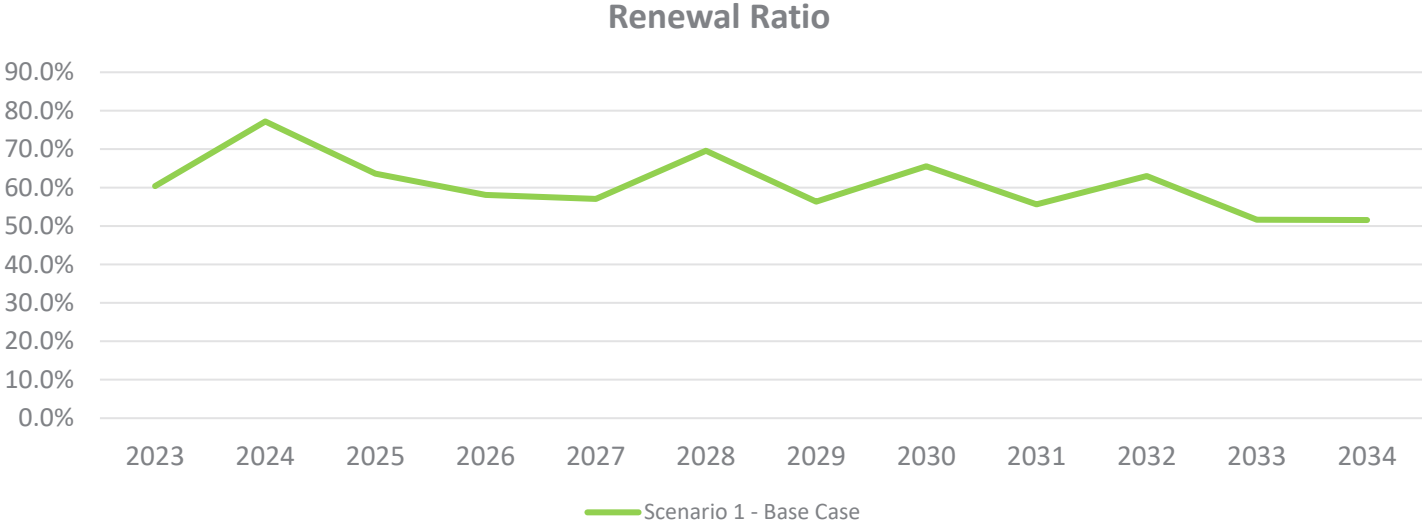
General Fund from this point, unless otherwise stated.

Base Case – Forecasted Operating Result

- Persistent General Fund deficit, averaging \$10.7 million per annum over 10-year forecast
- Average operating performance ratio of **-13.4%**



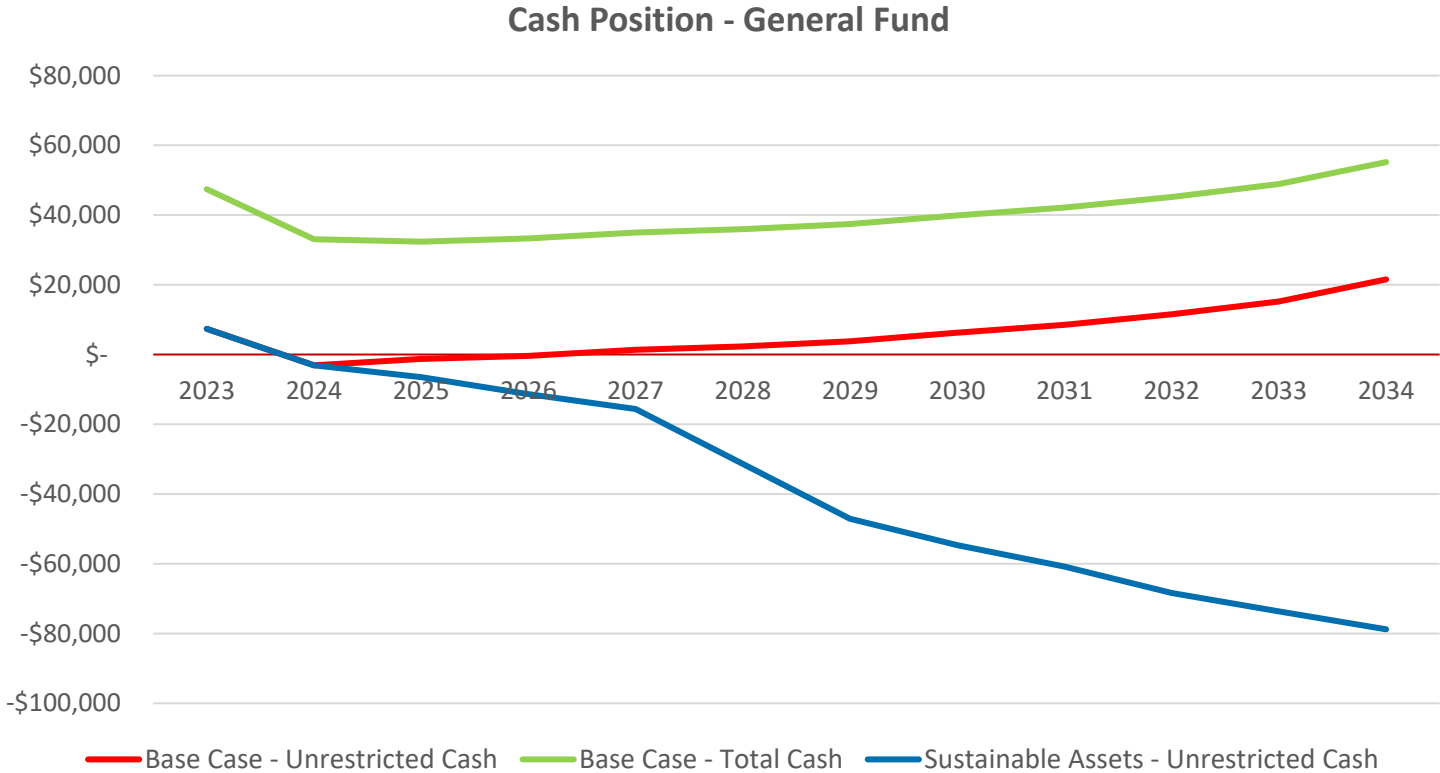
Base Case – Asset Renewal and Backlog Forecast



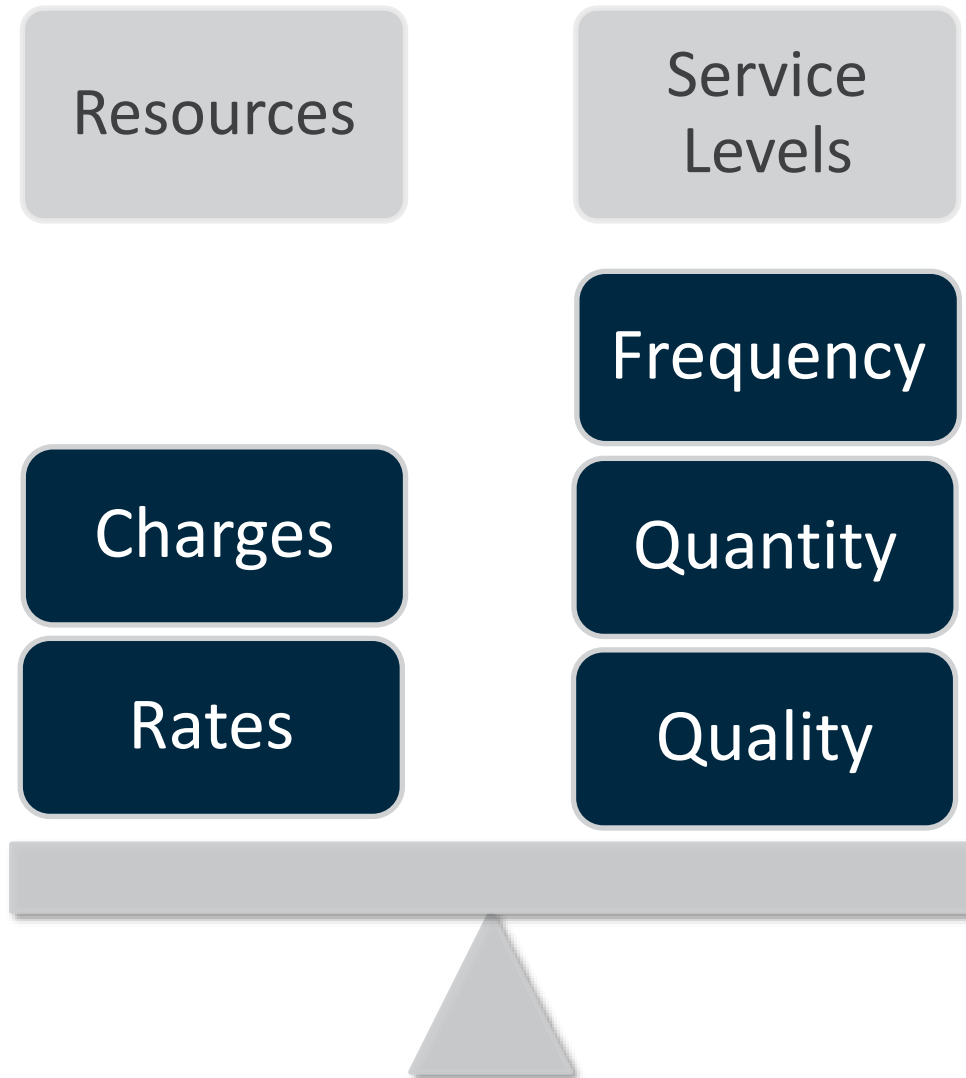
- Asset renewal ratio averaging 60.8%, significantly less than 100% benchmark.
- As a result, the backlog ratio grows from 1.4% to 2.3% by 2033-34.

Base Case – Cash position

- Negative unrestricted cash balances from 2023-24



Balancing services and resources



Councils must:

- ***achieve a fully funded operating position; by either/both***
 - ***Reduce services/assets; or***
 - ***Increase revenue***

Reduce Services means:

- Closure or reduce hours of service operations such as:
 - Libraries, Pools, Performing Arts Centre, Community Services, Waste Management Centres, increase DA times.
- Reduce availability of facilities and assets standards such as
 - Sporting Fields, Animal Shelter, Road maintenance, Asset Renewals (capital works).
- Reduce Regional/Community events
Ultimately a reduction in staff

SV process

Phase 1: SV preparation

- Project kick-off
- AMS and AMPs
- Base Case LTFP
- Improvement plan
- Integrated LTFP
- Capacity to pay
- SV content and scenarios
- Council and staff reviews

Phase 2: community engagement

- Engagement plan program and activities
- Community engagement
- Community engagement report

Phase 3: SV application

- Final LTFP scenarios and aligned AMPs
- Prepare SV application
- Review and submit SV application

IPART SV criteria

1. The **need and purpose** of a different revenue path for the council's **general fund** is clearly articulated and identified in council's Integrated Planning and Reporting (IP&R) documents.
2. Evidence that the **community is aware** of the need for, and extent of, a rate rise.
3. The **impact on affected ratepayers** must be reasonable.
4. The relevant **IP&R documents** must include **SV consideration** and be exhibited (where required).
5. Need to **evidence productivity improvements** and cost containment strategies.
6. Any other matter that IPART considers relevant.
 - 70% of NSW councils have applied at least once, but it is still not a day-to-day activity for a local council.

SV Strategy and available options

SV strategic lever:	Considerations	Modelling
<p>Type of increase: Councils can seek to increase minimum rates as well as the ad valorem.</p>	<p>This lever is most useful when population growth coming from high density units to address rates equity issues.</p>	<p>n/a</p>
<p>Duration of increase: Councils can seek a permanent or temporary increase.</p> <ul style="list-style-type: none"> - Permanent increases to meet ongoing service or asset requirements. - Temporary increases to fund initiatives and new/upgrade capital works. 	<p>Sustainability Scenario SV to address ongoing financial sustainability should be permanent. Growth Scenario has many projects but is using debt to smooth out the cashflow.</p>	<p>Permanent SV</p>
<p>Implementation period: Councils can request the total increase in a single year or over 2-7 years.</p>	<p>Decision usually based on capacity to pay. Both scenario amounts are feasible as one-year SVs.</p>	<p>Two options – one-year and a two-year SV</p>

SV - Assumptions

- Macro assumptions in line with current draft 2022-33 LTFP:
 - Rate peg 3.5% in 2024-25 and 2.5% year after
 - Employee costs include compulsory superannuation increases
 - Other costs in line with CPI
- Growth assumptions
 - Increase in assessments of 1.25% pa
 - Annual Charges year on year increase of 3% pa
- Included required asset renewal investment
- Present improvement plan initiatives and additional resources are included.
- Allowing for provisions for rehabilitation for tips and gravel pits.

SV - Outcomes

The SV options are calculated to achieve:

- Financial sustainability and capacity over the longer – operating surplus and improved cash position
- IT system implementation and enhanced cyber security.
- Increase resourcing capacity to delivery current and expanding services
- Appropriately fund additional asset renewal requirements
- Sufficient financial provisions for future rehabilitation obligations over forecast period

Required Asset Renewal

GENERAL FUND

Budget Gap by Asset Plan (\$000's)	Expenditure Type	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Depreciable Land Improvements	Actual (Budgeted) Expenditure											
Buildings	Renewal	\$11,401	\$10,469	\$9,772	\$9,828	\$12,455	\$10,428	\$12,465	\$10,809	\$12,566	\$10,519	\$10,754
Other structures	New and Expanded	\$28,120	\$4,590	\$1,270	\$1,295	\$10,320	\$12,215	\$2,040	\$2,335	\$2,340	\$2,335	\$2,285
Roads	Maintenance and Operations	\$12,573	\$12,849	\$13,132	\$13,421	\$13,716	\$14,018	\$14,326	\$14,641	\$14,964	\$15,293	\$15,629
Bridges	Total Expenditure	\$52,094	\$27,908	\$24,174	\$24,544	\$36,491	\$36,661	\$28,831	\$27,785	\$29,870	\$28,147	\$28,668
Footpaths												
Stormwater drainage	Required Expenditure											
Swimming pools	Required Renewal (Depreciation)	\$15,549	\$16,410	\$16,832	\$17,234	\$17,644	\$18,256	\$18,889	\$19,341	\$19,809	\$20,287	\$20,776
Other open space/recreational assets Other assets:	New and Expanded	\$28,120	\$4,590	\$1,270	\$1,295	\$10,320	\$12,215	\$2,040	\$2,335	\$2,340	\$2,335	\$2,285
Tip assets	Required O&M	\$8,837	\$9,116	\$9,378	\$9,647	\$10,370	\$11,219	\$11,533	\$11,855	\$12,184	\$12,521	\$12,864
Quarry assets	Total Required Expenditure	\$52,505	\$30,115	\$27,480	\$28,176	\$38,334	\$41,690	\$32,462	\$33,531	\$34,333	\$35,143	\$35,926
	OPEX Balance (GAP)	\$3,736	\$3,734	\$3,754	\$3,774	\$3,346	\$2,799	\$2,794	\$2,786	\$2,779	\$2,772	\$2,765
	RENEWAL Balance (GAP)	-\$4,147	-\$5,941	-\$7,060	-\$7,405	-\$5,189	-\$7,828	-\$6,424	-\$8,532	-\$7,243	-\$9,768	-\$10,023
	TOTAL Balance (GAP)	-\$412	-\$2,207	-\$3,306	-\$3,632	-\$1,843	-\$5,029	-\$3,631	-\$5,746	-\$4,463	-\$6,997	-\$7,258

Improvement Sustainability Plan

Improvements & additional resources – SV 1 & 2	Type of benefit	Amount per year
Review of fees and charges, license agreements, stormwater levy, events sponsorship.	Increase Income	\$320K by 26/27
LED lighting, energy audit savings, haulage route reviews, asset renewal strategy not maintenance, review vacancy rates, reduced electricity connections,	Expenses Savings	\$1.13m by 26/27
Cost of implementation	Increase costs	\$1.9m (one-off cost)
Increase in staffing resources to meet service and growth demands	Increase costs	\$2.5m

A range of absorb costs, productivity and efficiency improvements including:

- Loss ESL subsidy 2023/24 impact
- Better use of technology – use Tech One full capacity, paperless DA applications, electronic systems/processes.
- Revised asset management strategy and plans
- Administration and operational process – reporting, standardising procedures and flexible workplace arrangements
- Past Improvements - \$0.6 million pa (LED street lighting, internal loans, mobile library service ceased savings) plus efficiency and productivity improvements. One off land sales of \$5.2m

Scenario modelling

We have modelled two SV scenarios over two years.

Both scenarios were designed to ensure that they:

- Generate an operating surplus, before capital income.
- Council is able to fully fund its required renewal and maintenance are funded.
- Council is able to bring back and maintain a positive unrestricted cash position.
- Council delivers all its improvement program initiatives.

Scenarios	2024-25	2025-26	Cumulative
Base Case – Rate Peg	3.5%	2.5%*	6.1% (over two years)
Option 1 – One -year SV (including rate peg)	43.5%	2.5%	47.1% (over two years)
SV only	40.0%		40.0% (No rate peg)
Option 2 – Two -year SV (including rate peg)	25.5%	20.5%	51.2% (over two years)
SV only	22.0%	18.0%	44.0% (No rate peg)

Note: Cumulative amounts are expressed as required by IPART and only go to the end year of the SV. Grey excludes rate peg percentage.

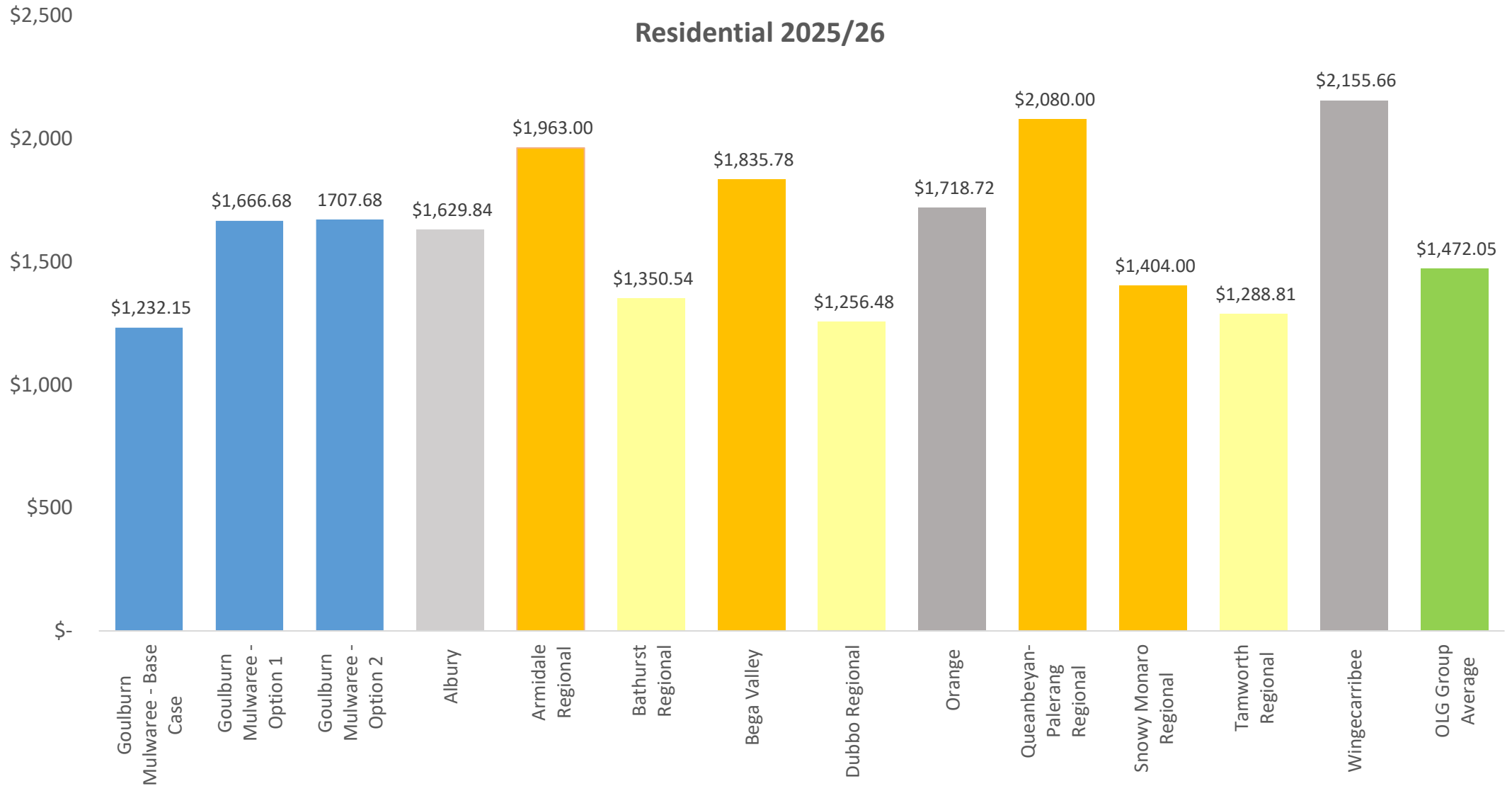
SV impact on average rates

Residential SV Options	2023-24	2024-25	2025-26	Two-year increase (including rate peg)
Base Case	\$1,161.45	\$1,202.10	\$1,232.15	\$70.70
Option 1	\$1,161.45	\$1,666.03	\$1,707.68	\$546.23
Option 2	\$1,161.45	\$1,445.05	\$1,719.32	\$557.87

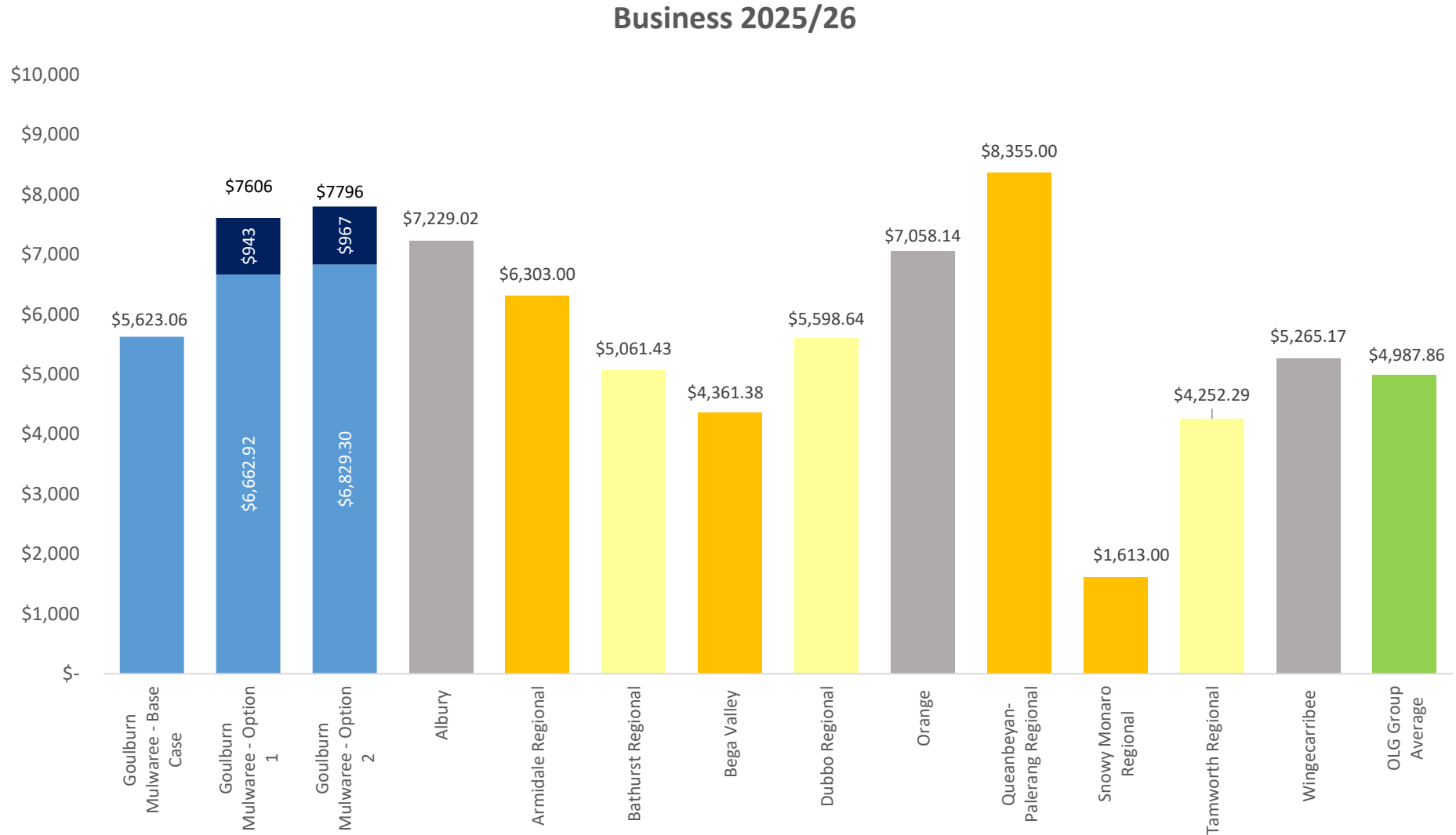
Business SV Options	2023-24	2024-25	2025-26	Two-year increase (including rate peg)
Base Case	\$5,300.40	\$5,485.91	\$5,623.06	\$322.66
Option 1	\$5,300.40	\$7,605.50	\$7,795.64	\$2,495.24
Option 2	\$5,300.40	\$6,651.50	\$7,848.77	\$2,548.37

Farmland SV Options	2023-24	2024-25	2025-26	Two -year increase (including rate peg)
Base Case	\$2,543.03	\$2,632.04	\$2,697.84	\$154.81
Option 1	\$2,543.03	\$3,649.21	\$3,740.43	\$1,197.40
Option 2	\$2,543.03	\$3,191.46	\$3,765.93	\$1,222.90

Rates Comparisons 2025/26 – Residential

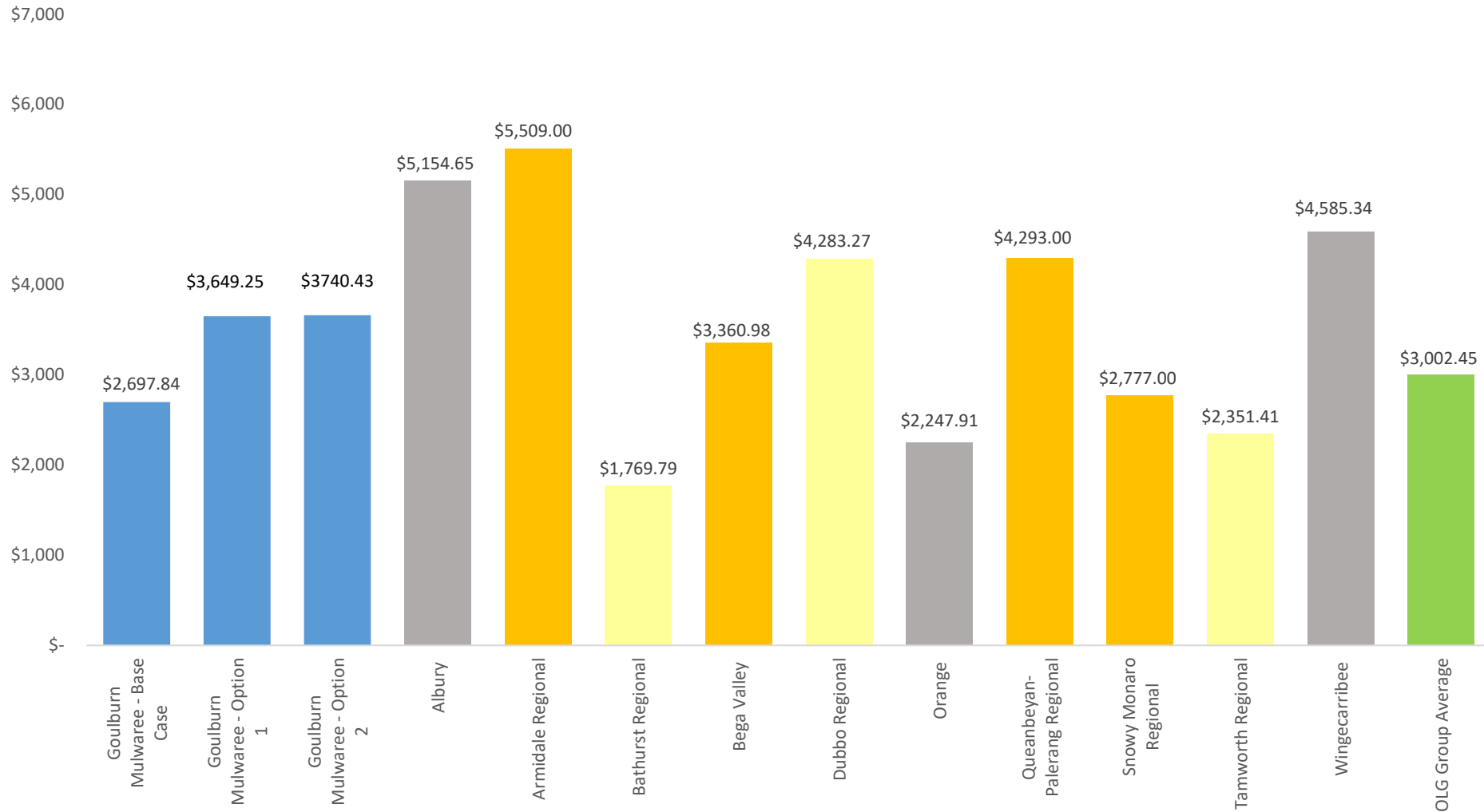


Rates Comparison 2025/26 - Business

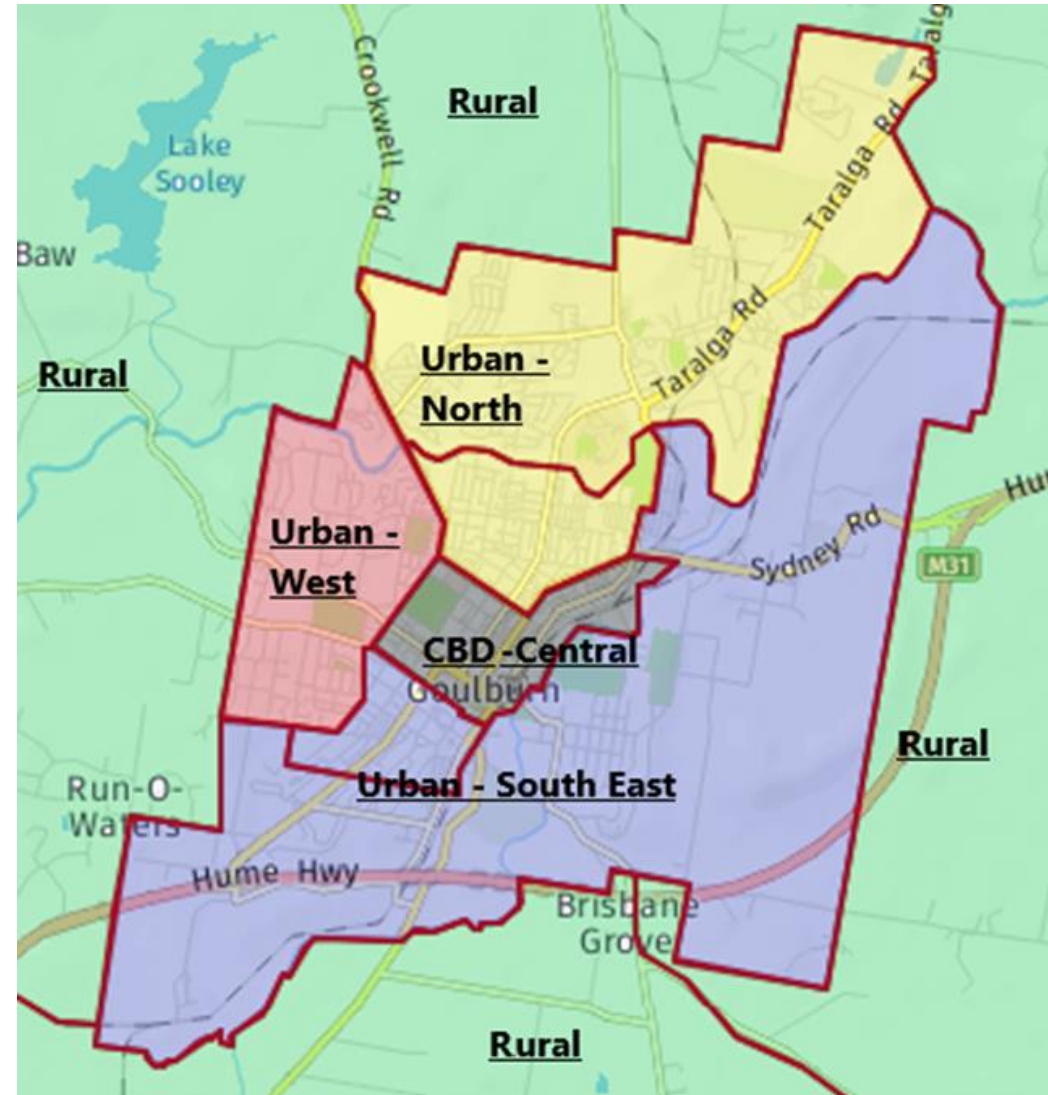
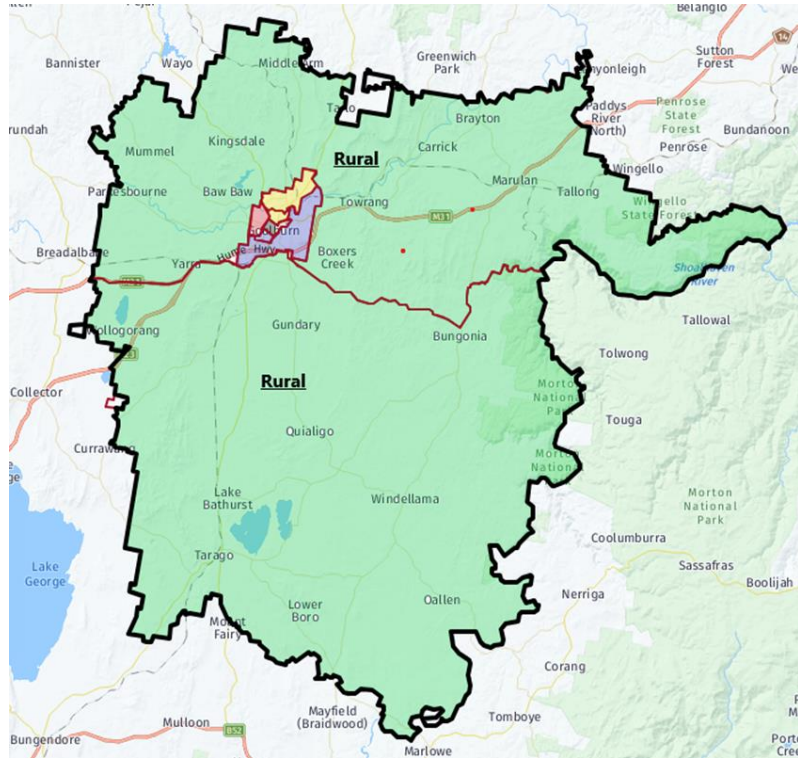


Rates Comparison 2025/26 - Farmland

Farmland 2025/26



Capacity to Pay



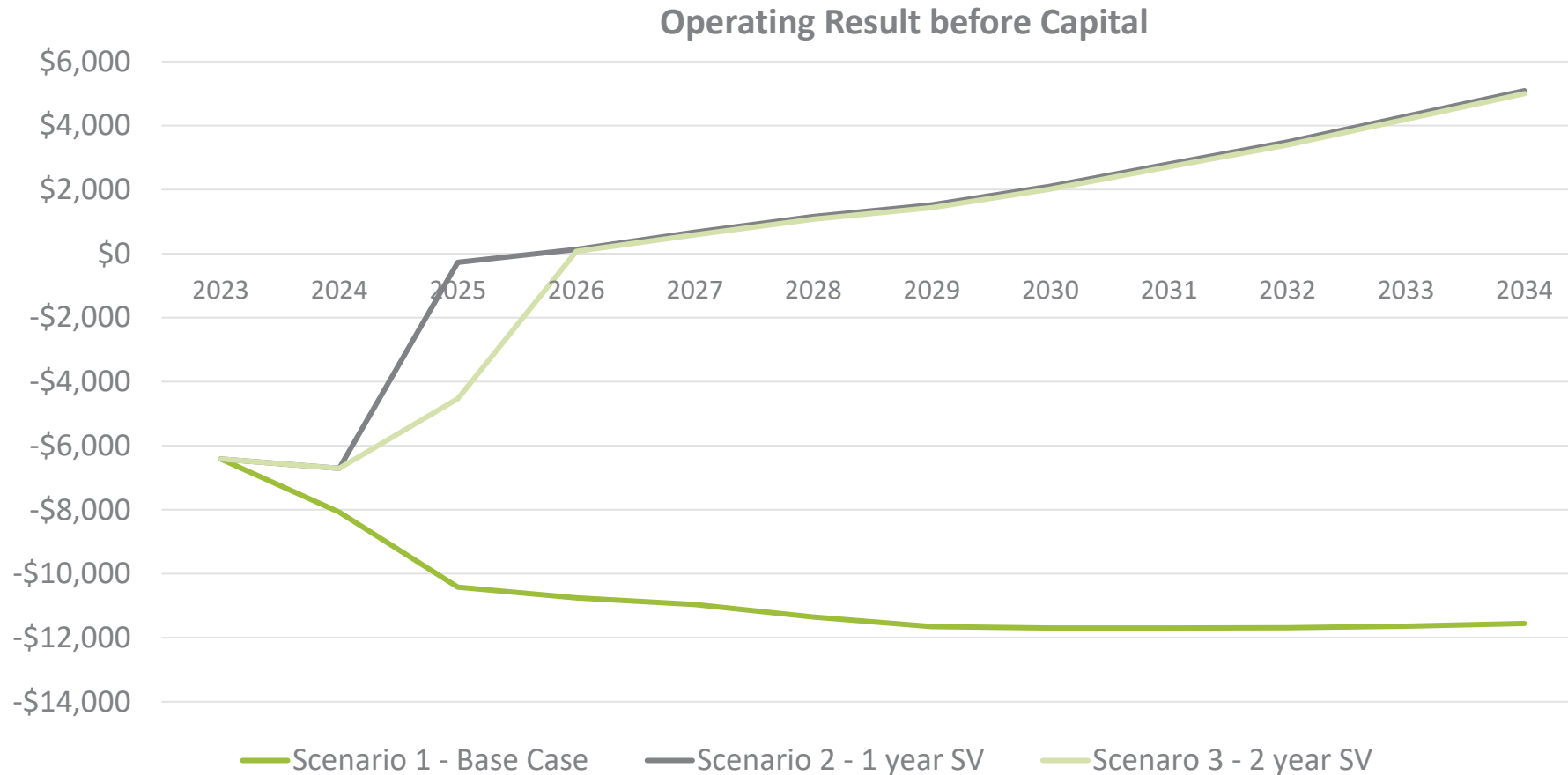
Grouping	Population (2021)
CBD-Central	2,463
Urban-West	3,926
Urban-South East	5,633
Rural	8,090
Urban-North	11,946
Goulburn Mulwaree LGA	32,058

Capacity to Pay

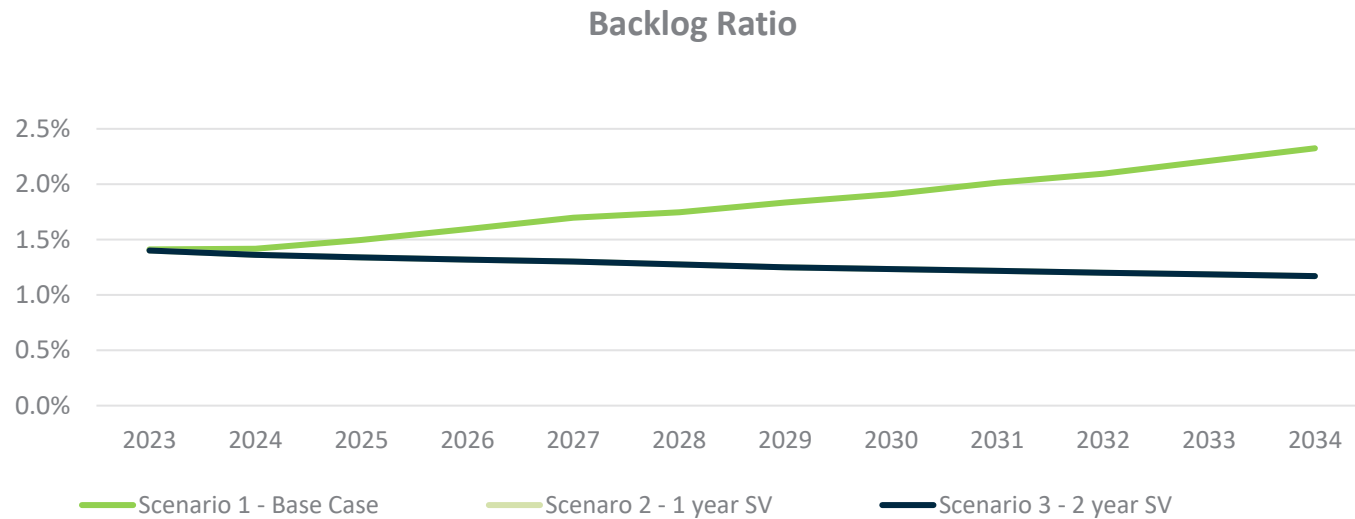
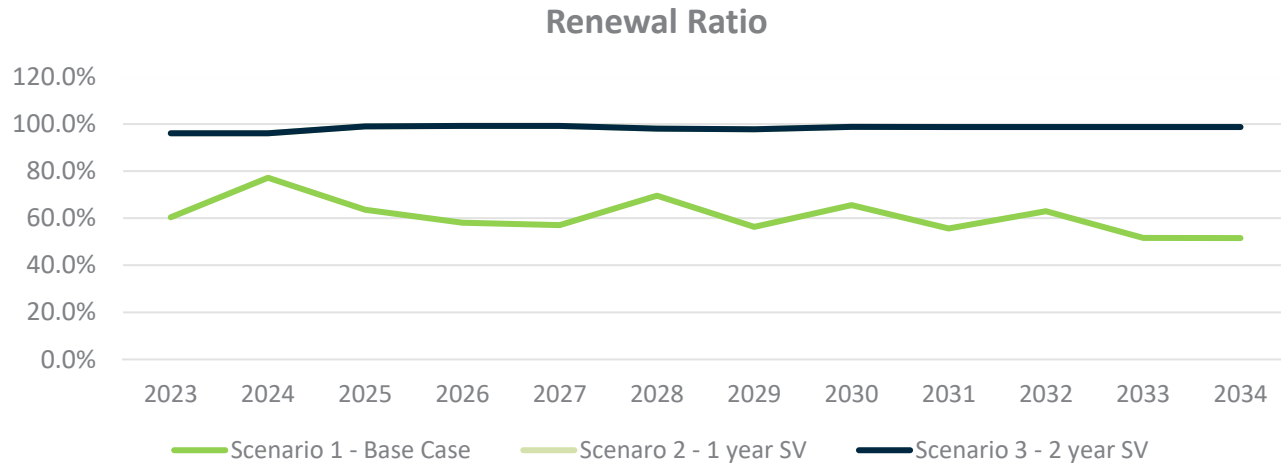
Grouping	Findings
CBD-Central	<ul style="list-style-type: none"> • Contains the smallest percentage of the LGA population – 8%. • Highest proportion of lone person households – 40%. • Highest proportion of renters – 41%. • Lowest proportion of households with a mortgage – 21%. • Highest proportion of renting households where rental costs exceed 30% of income – 35%. • Highest unemployment rate in the LGA – 6%.
Urban-West	<ul style="list-style-type: none"> • Highest proportion of seniors (70 to 84 years) – 14.6%. • Second highest proportion of resident households that pay rates – 71%. • Largest proportion of households in the highest income quartile – 21%. • Equal lowest unemployment rate in the LGA – 3%
Urban-South East	<ul style="list-style-type: none"> • Equal highest proportion of parents and homebuilders (35 to 49 years) – 18.5%. • Highest proportion of households requiring assistance – 9%. • Lowest proportion of renting households where rental costs exceed 30% of income – 4%.
Rural	<ul style="list-style-type: none"> • Highest proportion of resident households that pay rates – 78%. • Lowest proportion of renters – 10%. • Highest proportion of fully-owned households – 41%. • Lowest proportion of households requiring assistance – 5%. • Equal lowest unemployment rate in the LGA – 3%.
Urban-North	<ul style="list-style-type: none"> • Contains the highest percentage of the LGA population – 37%. • Equal lowest percentage of fully owned households – 29%. • Highest proportion of households paying high mortgage repayments (\$2,600 or more) – 23%. • Highest proportion of households where mortgage costs exceed 30% of income – 23.2%.

SV Options – Forecasted Operating Result (GF)

- Improves operating position with scenario 2 in surplus from 2024-25 and scenario 3 from 2025-26

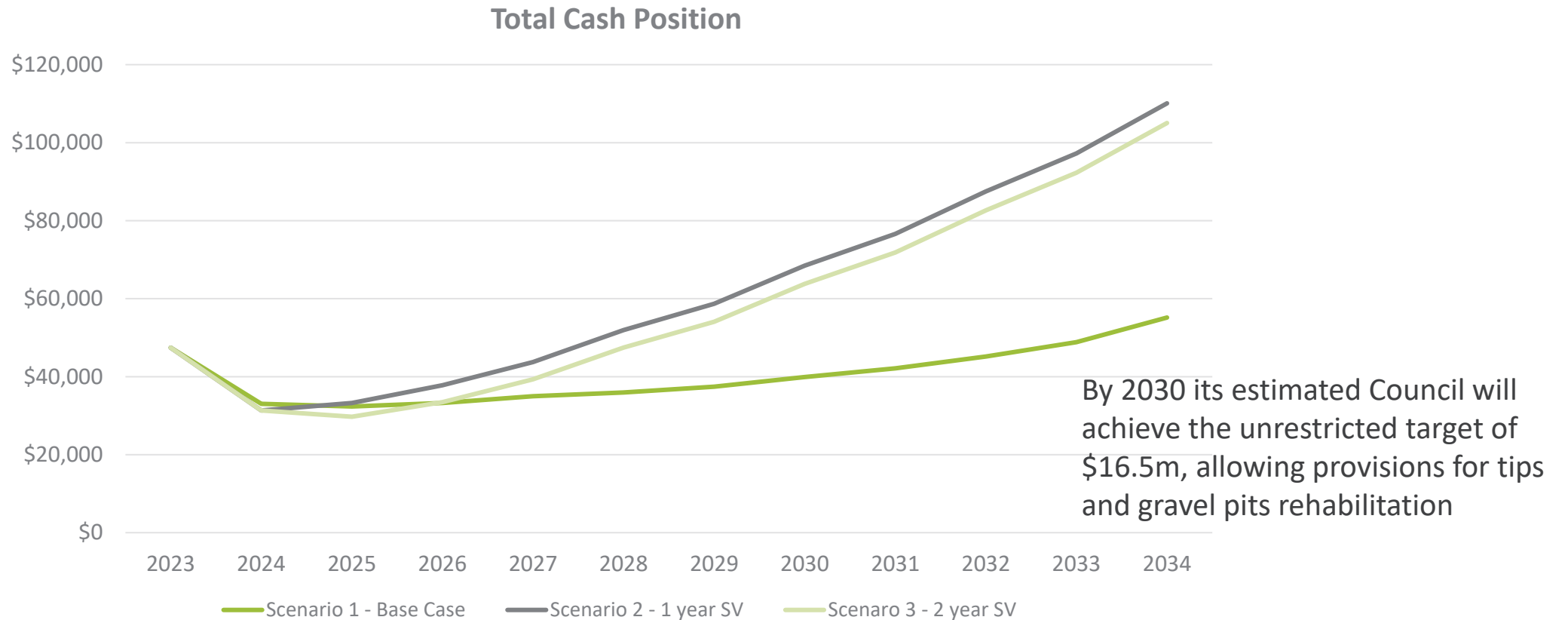


SV Options – Asset Renewal and Backlog Forecast (GF)



- All SV options produce the same result (Scenario 2 is not visible as directly behind Scenario 3)
- Scenarios asset renewal ratio averaging 98% for all options.
- As a result, the backlog ratio starts to slowly decline from 1.4% to 1.2% by 2033-34.

SV Options – Total Cash position (GF)



- All SV options show positive unrestricted cash balance, each year, for the 10-year period.
- Unrestricted cash balances start to grow – enables cash generation for repayment of debt, less reliance on grant funding (which may not continue at current levels) and prudent capital investment in the back end of the forecast period.

Discussion / things to consider

- Agreed on Councils current unsustainable financial position
- Any gaps/issues not covered in the financial sustainability assessment?
- Agreed SV position and option(s)
- Consideration and timing of community engagement.

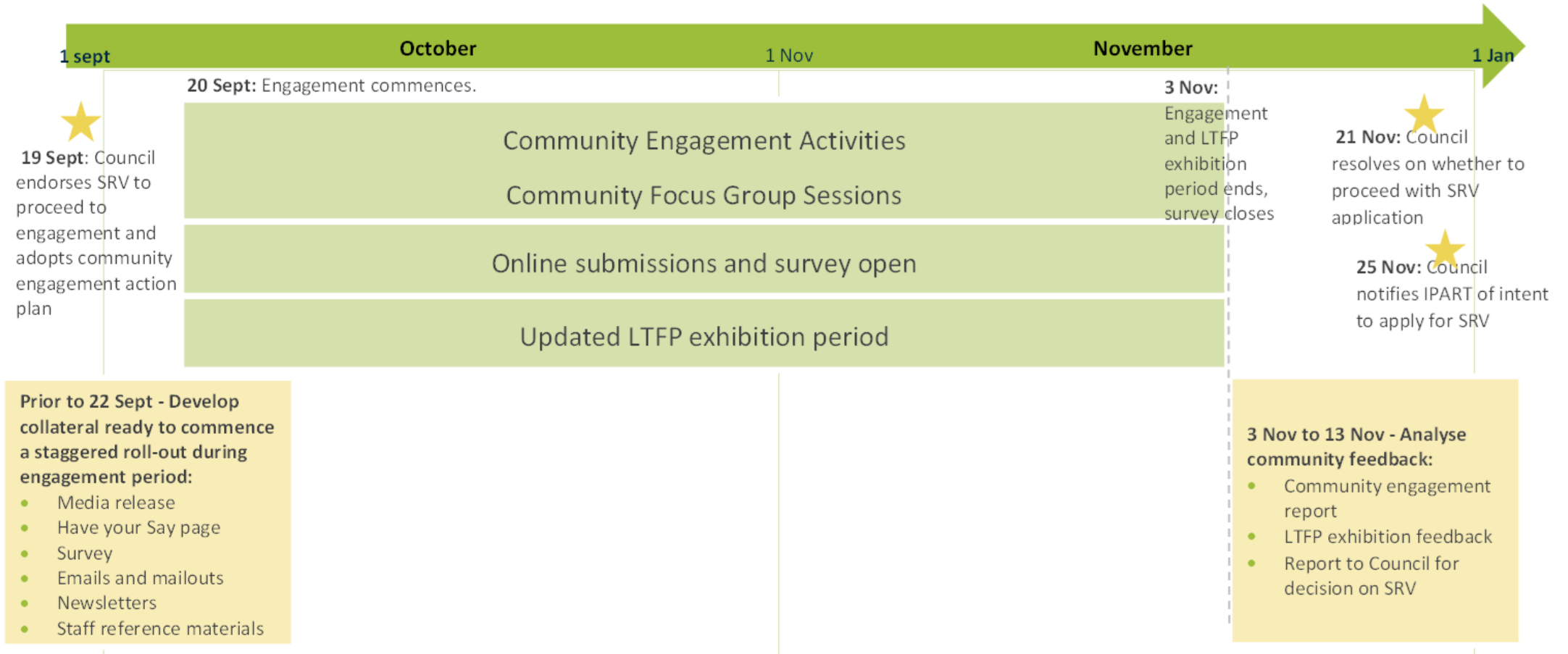
Community engagement - awareness

Evidence that the **community is aware** of the need for, and extent of, a rate rise.

Our observations

- Leadership is essential - strong and committed to reasons for SRV
- Have a community plan/activities that can be delivered
- It is about making the community aware NOT seeking approval
- Communicate as early as possible and be upfront – *‘Tell it as it is’*
- It is tough demonstrating the need for an SRV – community believe Council can just cut costs without impact on services/assets.

Community engagement - program



Next steps

- Councillors agree to consider an SV for community engagement only
- Information for Council meeting
 - Create SV Background paper
 - Develop Community Engagement Plan
 - Revised LTFP and DP documents
- Prepare Council report
- Concurrently develop collateral ready to commence engagement - Media release, 'SV Have your Say' page website, emails and mailouts, newsletters, staff reference material.

Questions

