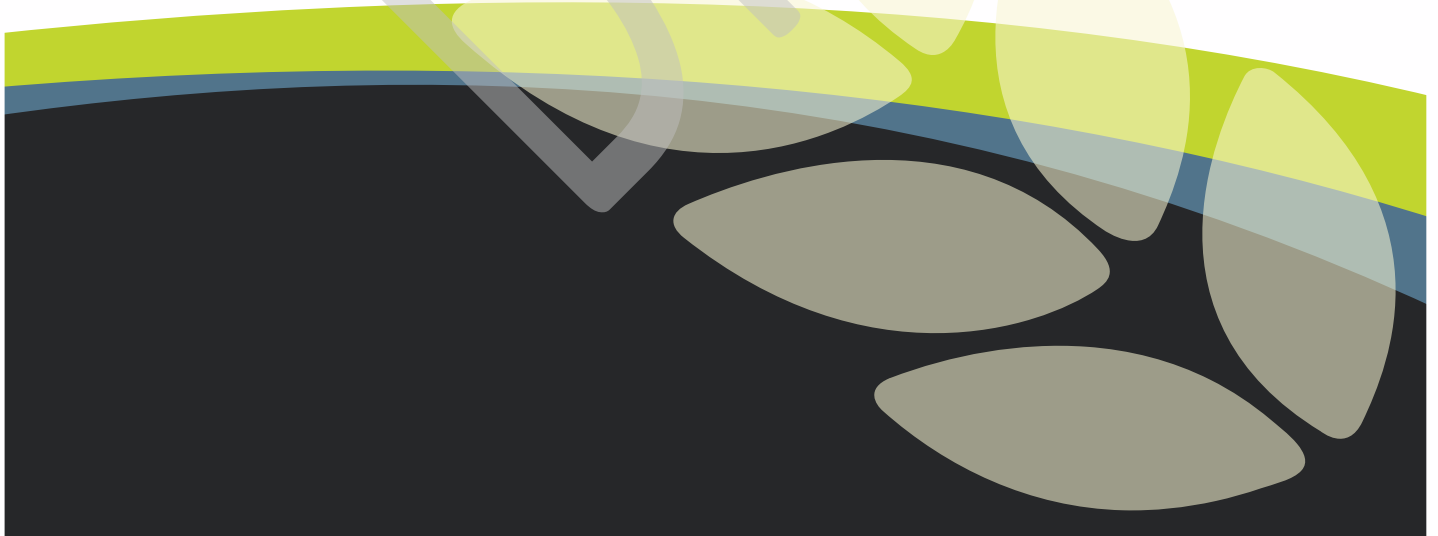




**COOTAMUNDRA-
GUNDAGAI** REGIONAL
COUNCIL

**2020-21 to 2029-30
Long Term
Financial Plan
Addendum for SRV
Proposal
December 2020**



Long Term Financial Plan 2020/21 to 2029/30: Addendum for SRV proposal

Council adopted its 2020-21 to 2029-30 Long Term Financial Plan (LTFP) on 30 June 2020 after public exhibition.

The adopted LTFP included provision for a S508A Special Rate Variation of 17.5%, 17.5% and 10% (including rate peg) over three consecutive years, commencing 2021/2022, to be retained permanently in the rate base.

Following the completion of Draft Financial Statements for the 2019/20 financial year, the financial projections for the Long Term Financial Plan have been updated in order to inform public consultation and an application for Special Rate Variation to IPART in February 2021.

The addendum applies only to the general fund, as the water, sewer and waste operations will be unaffected by the SRV proposal.

This addendum includes a Status Quo Scenario (no special rate variation) and a proposed Special Rate Variation under S508A of the Local Government Act 1993 of 19%, 18%, 5%, 5% and 5% in five consecutive years, commencing 2021/22, to be retained permanently in the rate base. This is a cumulative rate increase of 62.6% over the five-year period.

Some adjustments have been made to the projection based on the Draft Financial Statements for 2019/20 (recently completed), and are consistent with the independent report produced by Deloitte Touch Tohmatsu (Deloitte report) for the Boundaries Commission (with data updated based on the Draft Financial Statements 19/20 and budget review to date 20/21) and the submission prepared by Professor Joseph Drew (Drew report). Detailed changes and underlying assumptions are included in the following pages.

The Deloitte report and the Drew report may be found at the following links:

<https://www.cgrc.nsw.gov.au/special-rate-variation-srv/>

Version Control

Ref	Date	Date effective	Council Resolution	Description
1.0	1 June 2020	1 June 2020	134/2020	2020-2021 to 2029-30 LTFP placed on public exhibition. Adopted 30 June 2020.
	3 December 2020	3 December 2020	412/2020	Addendum for SRV placed on Public Exhibition

Material Changes and Underlying Assumptions

Material Changes

The material changes from the adopted 2020-21 to 2029-30 Long Term Financial Plan for the General Fund are as follows:

- Increase in other revenues of around \$500,000 per year from 2020/21. This is a more realistic figure based on historic receipts.
- Increase in capital grants of \$500,000 per year from 2021/22, and indexed thereafter. This is to allow for unknown but reasonably probable grant receipts, and is to apply to capital works already budgeted.
- Include savings of materials and contracts of \$2,100,000 in 2020/21 and \$2,400,000 pa thereafter.
- Increase depreciation by around \$277,000 from 2020/21 and indexed thereafter. The 2019/20 revaluation of transport assets resulted in the recognition of a significantly increased value, and annual depreciation expense.
- Employee costs have been reduced by \$500,000 in 2022/23 and increase by only 1% pa thereafter as Council continues to seek ongoing productivity improvements. Employee costs have increased by approximately 18% since merger. The proposed savings in 2022/23 will reduce post-merger wage increase to a level consistent with other merged Councils.
- Capital expenditure on roads has been reduced by \$1,000,000 in 2020/21 and \$800,000 in 2021/22. The adjusted figure is the same as that recommended by the previous Moloney report, and similar to the recently updated 2020 version.
- Borrow \$1,000,000 in the general fund to provide for co-contributions required by budgeted capital grants. Repayments over 10 years with fixed interest.

Underlying Assumptions

The following underlying assumptions have been made:

- User charges and fees are increased by 4% pa with the exception of RMCC Income which is increased by 1% pa from 2022/23, because this is outside Council control.
- Interest on investments has been included at 1% pa.
- Employee costs are indexed at 1% pa beyond 2022/23.
- Materials and Contracts are indexed at 2.5% pa from 2022/23.
- Other expenses are indexed at 2.5% pa.
- Depreciation has been adjusted for the 2019/20 result, and is indexed at 1% pa.

Scenario 1: Status Quo

In the Status Quo Scenario rates are increased by the rate peg of 2% for 2021/22 and 2.5% each year thereafter.

Applying the material changes and underlying assumptions described on the previous page with no SRV or other drastic measures results in general fund annual operating losses before capital income of between \$3.4 and \$6.2 million over the 10-year period. The liquidity of the general fund continues to be an immediate concern, with unrestricted cash projected to be exhausted in the 2021/22 financial year. As presented, internally restricted and unrestricted cash and investments reduces from \$8.01 million to negative \$-17.15 million and unrestricted cash to less than -\$24.8 million.

The outcomes in the Status Quo scenario as presented cannot be contemplated and if a significant SRV is not implemented, must be prevented by imposition of urgent and significant austerity measures.

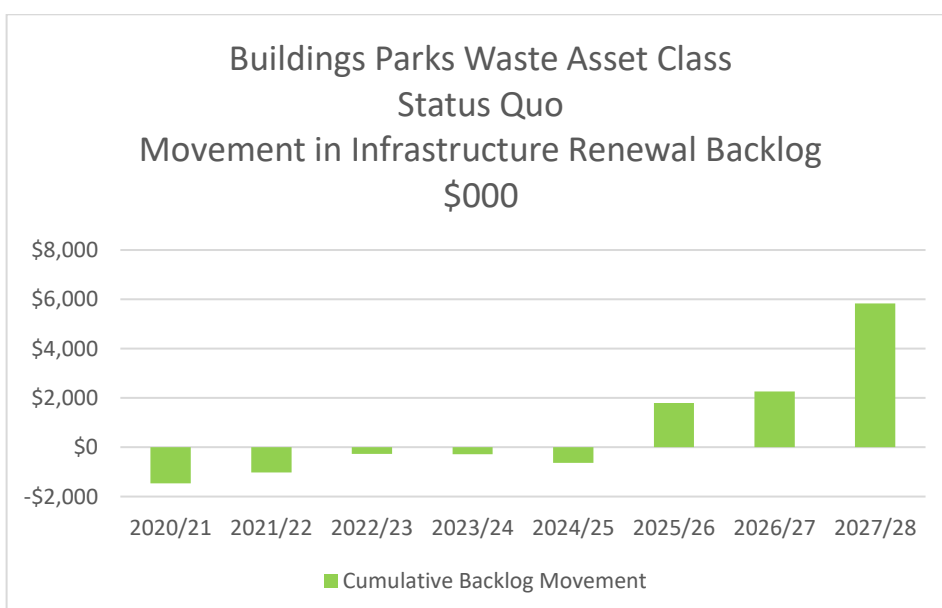
Examples of the scale of the cuts required are:

- Reducing the workforce by 25%; or
- Cutting the capital expenditure budget by 30% causing unsustainable increases in asset renewal backlog; or
- Ceasing Tourism and Economic Development activities; closing libraries, museums, visitor information facilities, swimming pools and sporting facilities, reducing maintenance of parks and gardens.

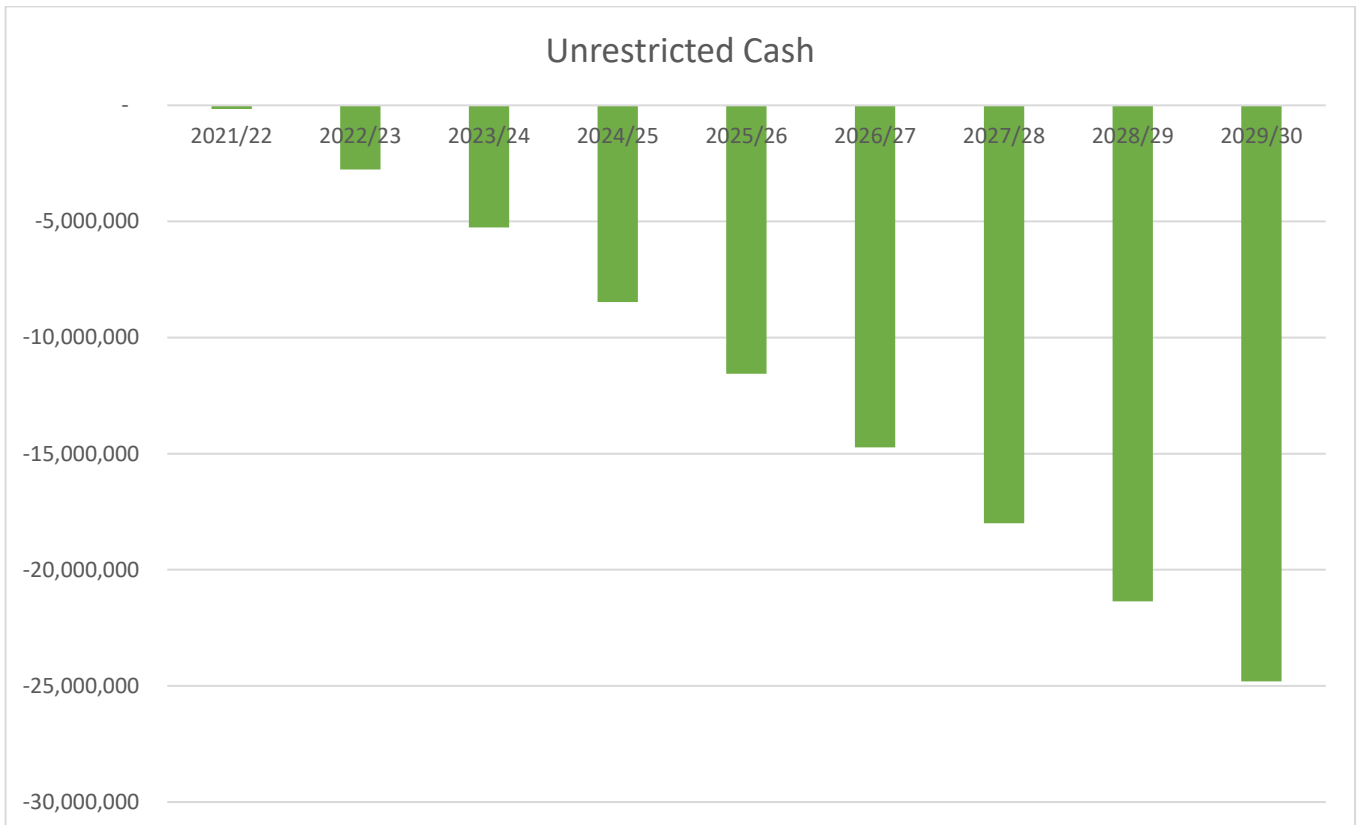
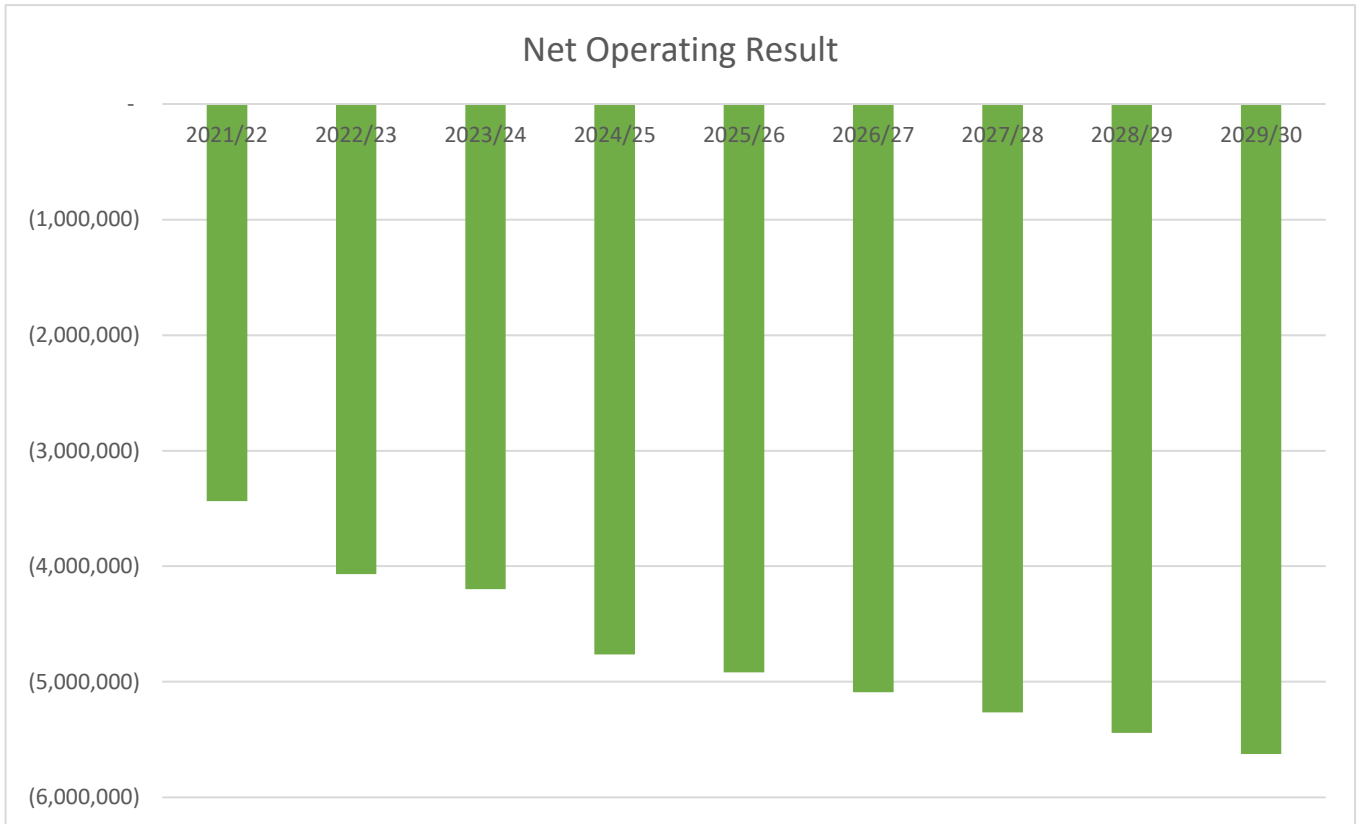
These measures, or more likely a combination of lesser reductions in each category, would drastically reduce service levels with significant social impacts and generate unsustainable infrastructure renewal backlogs.

It is noted that:

- Council’s Asset Management Plan for Buildings, Parks & Waste Assets projects an increasing renewal backlog, based on budgeted capital renewal expenditure of \$590,000 pa. By 2027/28, the cumulative increase in backlog in this class is predicted to be \$5.8 million per the graph below. [The intent of Council is not to undertake renewal on an asset until it reaches its ‘intervention level’, that is the condition at which the community has determined renewal is required. Typically, assets will be renewed between condition 6 & 8 which ranges from fair/poor to very poor depending on their classification. For the purpose of Council’s asset management plans, modelling assumes that all assets will be renewed at condition grade 7]
- Additional increases in fees and charges would not be reasonable given increases already imposed and planned annual increases of 4% pa, and in any case are not a significant income source.
- Unlike LGAs in city areas, Council doesn’t have many readily saleable assets. While some asset realisation is possible, this has not been considered as a realistic short-term option.



Status Quo Graphs



Scenario 2: Proposed SRV

The following increases to rates via special rate variation are proposed:

Year	Increase
2021/22	19.00%
2022/23	18.00%
2023/24	5.00%
*2024/25	5.00%
2025/26	5.00%

*In 2024/25 the increase is net of expiring Gundagai Main Street SRV. This represents a cumulative increase of 62.6% over the 5-year period.

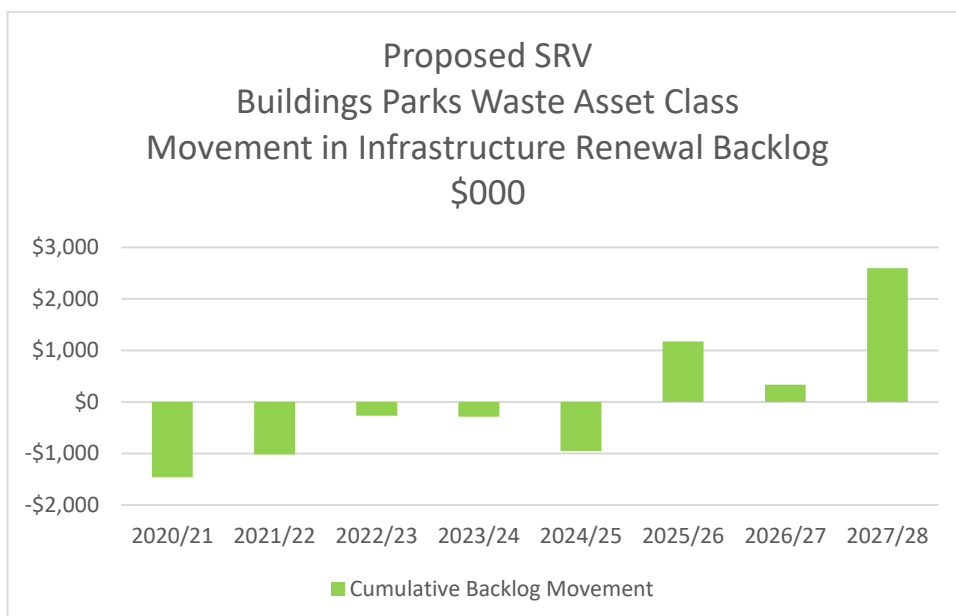
In this scenario, general fund operating losses before capital income are still projected after 10 years in the order of \$1.5 million pa.

Unrestricted cash remains uncomfortably tight in the early years reducing to a low of \$831,000 in 2020/21 before increasing to a reasonable range of between \$1.5 million and \$3 million.

Additional funding of \$310,000 is invested in building renewals from 2024/25 and additional \$1,000,000 in renewals for the Buildings, Parks & Waste Asset Class in each of 2026/27, 2027/28 and 2028/29, rising to \$2,000,000 in 2029/30. The projected increase of Infrastructure Renewal Backlog in the Proposed SRV Scenario is reduced to \$2.6 million, compared to the increase of renewal backlog in the Status Quo Scenario of \$5.8 million.

The easing liquidity pressures later in the projection also allow capital works on transport assets to be increased to the 2020 Moloney Report recommendation of \$4,700,000 pa from the amount of \$4,290,000 pa included in the Status Quo Scenario.

While ongoing operating losses before capital are predicted for the 10 year term of the plan, the improved cash flow delivered by the proposed SRV will allow Council time to implement further service level reviews and productivity improvements.



Proposed SRV Income Statement and Unrestricted Cash

											
		2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
General fund - Financial Statement											
Income from continuing operations											
Rates		7,653,564	9,107,741	10,747,135	11,284,491	11,848,716	12,441,152	12,752,180	13,070,985	13,397,760	13,732,704
User charges and fees		4,058,911	4,687,467	4,793,588	4,903,140	5,016,252	5,133,058	5,253,698	5,378,317	5,507,065	5,640,100
Interest and investment revenue		65,000	65,065	65,130	65,130	65,195	65,195	65,260	65,260	65,326	65,326
Other revenues		885,649	888,306	890,971	893,644	896,325	899,014	901,711	904,416	907,129	909,850
Operating grants and contributions		10,101,458	8,029,498	8,109,793	8,190,891	8,272,800	8,355,528	8,439,083	8,523,474	8,608,709	8,694,796
Capital grants and contributions		5,313,054	1,565,650	571,307	577,020	582,790	588,618	594,504	600,449	606,453	612,518
Recovery of corporate overhead expenditure		1,877,561	1,894,691	1,912,018	1,929,544	1,947,272	1,965,204	1,983,341	2,001,688	2,020,245	2,039,016
Rental income		-	-	-	-	-	-	-	-	-	-
Net gain from the disposal of assets		-	-	-	-	-	-	-	-	-	-
Total Income		29,955,197	26,238,419	27,089,941	27,843,860	28,629,349	29,447,768	29,989,778	30,544,589	31,112,687	31,694,309
Expenses from continuing operations											
Employee benefits and on-costs		10,700,609	11,045,108	10,816,007	11,093,625	11,378,132	11,669,697	11,968,498	12,274,714	12,588,531	12,910,138
Borrowing costs		86,487	76,259	59,781	40,391	26,263	15,320	15,320	15,320	15,320	15,320
Materials and contracts		5,684,527	5,501,640	5,621,681	5,744,723	5,870,841	6,000,112	6,132,615	6,268,431	6,407,641	6,550,332
Depreciation and amortisation		8,171,135	8,252,847	8,335,375	8,418,729	8,502,916	8,587,945	8,673,825	8,760,563	8,848,169	8,936,650
Other expenses		2,987,250	3,061,931	3,138,480	3,216,942	3,297,365	3,379,799	3,464,294	3,550,902	3,639,674	3,730,666
Corporate overhead costs		432,000	436,320	440,683	445,090	449,541	454,036	458,577	463,162	467,794	472,472
Easement rental expense		-	-	-	-	-	-	-	-	-	-
Net loss from the disposal of assets		-	-	-	-	-	-	-	-	-	-
Total Expenses		28,062,008	28,374,106	28,412,007	28,959,500	29,525,058	30,106,911	30,713,129	31,333,092	31,967,130	32,615,579
Net Operating Result		1,893,189	(2,135,687)	(1,322,066)	(1,115,640)	(895,709)	(659,143)	(723,351)	(788,503)	(854,443)	(921,270)
Net operating result before grants and contributions provided for capital purposes											
Unrestricted Cash		831,692	1,142,813	1,278,003	1,873,004	2,222,110	3,079,396	2,958,085	2,858,419	2,780,813	1,725,602
Rates Percentage Increase			19.00%	18.00%	5.00%	5.00%	5.00%	2.50%	2.50%	2.50%	2.50%

Proposed SRV Graphs

