ADDITIONAL SPECIAL VARIATION 22/23

ADDITIONAL INFORMATION TO SUPPORT APPLICATION

Introduction

Gilgandra Shire Council is applying for an Additional Special Variation of 1.8% above the rate peg limit set at 0.7% (making a total increase of 2.5%). This increase is to be ongoing.

Worksheet 7 Financial Information

Council's unrestricted current ratio in this worksheet forecast for the 22/23 year is 1.91 which is outside the application guideline of less than 1.5.

While this is the case, the ratio is set to decline in 22/23 and in the following years. The reason the ratio is at the current level is due to a strong financial position through prudent management. The strong financial position will decline however if rate increases are limited to 0.7% in the future.

Worksheet 8 LTFP Scenarios

The first scenario includes the requested 2.5% increase ongoing and 2.5% increases to continue for the life of the plan. This scenario shows the General Fund returning deficit results for the first 5 years of the plan and surplus results for the remaining 6 years. This scenario, while not ideal, is sustainable.

The second scenario includes the base increase of 0.7% ongoing and 0.7% increases to continue for the life of the plan. This scenario shows the General Fund returning deficit results for the full 11 years of the plan. This scenario is not sustainable.

Community Support from LTFP Assumptions

Community support for this application can be assumed through the adoption of the 21/22 version of Council's Long Term Financial Plan (LTFP) which is included. The LTFP uses a rate increase of 2% for the first year (21/22) and then 3% increases for each of the following years.

The LTFP along with Council's other Integrated Planning and Reporting (IP&R) requirements were placed on public display and community consultation sessions were held last year. There was broad acceptance of the plans at that time.

Other LTFP assumptions used are:
- CPI: 2% for the life of the plan
- Wages: increase by 2% each year
- Investments: earn 1.25% for the life of the plan
- Borrowings: are modelled at 3.5% for the first two years and 4.0% for the remaining years.

Long Term Financial Plan (LTFP)

Council’s existing LTFP (attached to this application) for the General Fund uses the above assumptions and returns a combined result of a $1.2m surplus over the 10 years which equates $120,000 surplus per year. The combined surplus is made up of a combined deficit of $1.4m for the first 4 years and a combined $2.6m surplus for the remaining 6 years.

During the life of the LTFP, the General Fund cash position is projected to decrease by $3.1m.

The purpose for the information is to highlight the fact that the General Fund financial planning is “tight” in nature and that a relatively minor reduction in rating income will have a large impact when carried over a 10 year period.

Planned Capital Works

Attached to this application is a list of planned capital works for the next 10 years (22/23 to 31/32). It also includes planned borrowings and the principal repayments.

The total over the 10 years term is $73.2m with $42.7m in capital funding plus $16.7m in new borrowings. This leaves $13.8m to be funded through general revenue along with $12m in principal loan repayments.

The figures for the 22/23 year are $13m in capital works, $7m in capital funding, $3.5m in new borrowings leaving $2.5m unfunded plus $830,000 in principal loan repayments.

It is obvious that a reduction in general revenue will have an impact on Council being able to complete these planned capital works.

The planned capital works have broad community approval. This is especially so with the works planned around the construction of the Inland Rail project within the LGA. Included with the list of capital works is the portion of income and expenses attributable to this project under the heading of Economic Development.

The capital costs include development of a residential subdivision to house a workers accommodation village and executive staff. Council to construct the executive housing and sell when they are vacated after 5 years. Council to develop an industrial subdivision to accommodate new business opportunities.

The Inland Rail project will employee up to 350 workers that will be accommodated at the village for the 5 year term of construction. During those 5 years, the flow on effect to the community will be considerable. After 5 years, Council will have a developed residential subdivision to service the community into the future.

The community is well aware through numerous public forums, print and social media of the benefits of this project and are supportive of it.

The overall projected income to Council from this project over 10 years is $16.65m. This includes $4.5m in grant funding and $12.15m in lease income and property sales. The projected cost over 10 years is $16.25m with $8.25m in the first year and $5m in the second year. For this reason, Council projects to borrow $8.5m in the first two years. Repayments on these borrowings are estimated to be $672,000 per year.

Any reduction to general income will impact the viability of the repayment of borrowings which, in turn, will impact the project itself.

Conclusion

Council's projected results within the General Fund indicate that a reduced rate peg limit of 0.7% ongoing will return deficit results for the long term. Council's proposed capital works program for the next 10 years contains significant benefits for the community and require substantial borrowings. Reduced general revenues will impact the ability of Council to service those borrowings.

This would be both unsustainable and irresponsible.

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