8. DELIVERY PROGRAM FINANCIAL SUMMARY

The Delivery Program 2022-26 has been developed based upon the current Long-Term Financial Plan (LTFP). The LTFP outlines the principles adopted by Council designed to achieve an acceptable compromise between Council's obligations to:

- achieve financial sustainability
- invest in community infrastructure to maintain the level of service agreed with the community
- preserve essential public services in line with population growth
- keep rates, fees and charges affordable

The LTFP outlines a series of measures to achieve those objectives, including:

- increases in revenues from rates and annual charges and user fees and charges
- new revenue streams from commercial property rental
- introduction of water and sewer dividends
- reduction of consolidated service expenditure through efficiency savings
- increased debt to accommodate substantial investment in new and renewed community infrastructure

As highlighted in the Operational Plan 2022-23, Council's financial position is not currently sustainable with a General Fund deficit of $1.14m after capital income and expenditure is taken into consideration. This means that Council will need to draw on its reserves to fund the deficit. This is not a sustainable way to operate in the long term.

As such, Council will be required to review its services, revenue and expenditure during the 2022-23 financial year to put in place some long-term solutions to ensure the organisation can be financially sustainable.

The following pages will provide some further detail on the financial challenges that Council is facing and the options that may be considered.

Why does council have a budget deficit?

Council was formed in 2016 with the merger of Queanbeyan and Palerang councils. The new Council commenced with a structural deficit that it has maintained since amalgamation. Prior to amalgamation, both councils had begun discussions on the prospect of Special Rate Variations and increases in annual charges.

In 2017, following a financial sustainability review, QPRC adopted a Financial Strategy and Policy and began implementing financial improvements, with a focus on investment in asset renewal, reducing asset maintenance costs, controlling the organisational structure and implementing workforce structural savings over time, increasing fees and capturing merger efficiency savings.

Whilst Council has made significant progress and successfully implemented the Financial Strategy over time, there have also been additional rising costs that have countered the financial improvements, and these have been largely driven by:

- the equalisation of service levels across the LGA – leading to funding higher service levels and driving continually increasing community expectations.
- population growth (at 1.9% pa)
- capital grants for new assets ($122m over 4 years)
- developer contributions and gifted assets ($175m over 4 years)

The bushfire and flood events in 2019, 2020 and 2021 were major natural disasters that significantly interrupted Council's normal operations, diverted resources and triggered one-off costs where asset restoration is not fully funded by the Government's Natural Disaster Funding Arrangements. Council incurred $76m loss / damage to community infrastructure that is being rebuilt over 3-5 years. Recovery operations will continue to change the focus of Council's services to affected communities – and these changes have been funded through several stages of Government funding.

The pandemic also required significant operational and planning response from Council that was largely resourced internally with staff time. The financial impact of the pandemic was mostly felt by businesses and individuals in the community, and Council reduced and waived fees and charges for the use of facilities. Lost fee income has had an ongoing impact with estimated lost annual fee income of up to $1.6m, not yet fully recovered to pre-pandemic levels.

Council is addressing its financial sustainability over the upcoming years with additional targeted efficiency savings that have been included in future year budgets, and this Delivery Program will require Council to examine a number of issues relating to its revenue stream.

Special Rate Variation

As a merged Council, we were unable to adjust or harmonise our rating structures for four years after the merger in 2016. While Council's previous Delivery Program, Operational Plan and Long Term Financial Plans have all signalled the need for a Special Rate Variation, Government Rating Policy and deferred Council elections have delayed the implementation. The cumulative impact of rate pegging and the inability to increase our income to match expenditure has had a significant, ongoing impact on our financial position. Global economic factors have further impacted Council's financial position, with increased costs for providing infrastructure and services

For the 2022-23 financial year, Council again decided to apply the maximum rate peg allowed by the Minister for Local Government (2.5%). From 1 July 2023. Council is canvassing the following financial scenarios – any of which will include a rate rise above the rate peg – called a special variation.

1. **Scenario 1** – Significantly reduced services. A three-year rate increase of 12% each year, including the rate peg. This amounts to a cumulative rates increase of 40.5% and requires additional annual expense reduction of $12M from 2023-24.
2. **Scenario 2** – Reduced services. A three-year rate increase of 18% each year, including the rate peg. This amounts to a cumulative rates increase of 64.3% and requires additional annual expense reduction of $5.5M from 2023-24.
3. **Scenario 3** – Maintain services. A three-year rate increase of 28% (2023-24), 25% (2024-25) and 23% (2025-26), including the rate peg. This amounts to a cumulative rates increase of 96.8% and fully funds Council's current level of services. Under this scenario Council would increase the pensioner rebate by $100 in addition to the compulsory rebate amount. This scenario allows for an appropriate level of asset maintenance and renewal (additional $1.9M pa), funding for Council's existing environmental commitments ($1.3M pa), and provides funds that allow Council to plan for asset expansion for a growing population and match 1:1 capital grant opportunities ($400k pa).

Scenario 3 is the only scenario that includes an allowance to increase the pensioner rebate up to $525, reflected by an increase to Council's voluntary pensioner rebate to $100 for all pensioners across the LGA.

Separate fact sheets and detailed information on all three scenarios, including the impact on rates, will be available on Council's website for community consultation.

Service planning and reviews

This 2022-32 Long Term Financial Plan (LTFP) was adopted by Council in July 2022 after a 28 day public exhibition period where community engagement was sought. With its adoption, Council resolved to conduct an organisational service review to identify opportunities for financial improvement before making any decision to apply for a Special Rate Variation. Council subsequently engaged Morrison Low to undertake an independent financial assessment of Council, including an organisational review to identify financial improvements that could improve value for ratepayers and minimise the SRV.

All of the financial scenarios include additional financial savings measures including one-off cash injections from the sale of property and ongoing productivity targets. In addition to the productivity improvements that had already been implemented and that are ongoing, the Morrison Low report identified potential financial savings including an ongoing program of service reviews, with targeted financial savings of $300,000 per annum.