

## EXTRAORDINARY MEETING OF THE COUNCIL

May 17, 2023

**ITEM 2**BROKEN HILL CITY COUNCIL REPORT NO. 93/23SUBJECT:                    DRAFT LONG TERM FINANCIAL PLAN 2024-2033                    D23/24707**Recommendation**

1. That Broken Hill City Council Report No. 93/23 dated May 17, 2023, be received.
2. That Council endorse the Draft Long Term Financial Plan 2024-2033 for public exhibition.
3. That that Draft Long Term Financial Plan 2024-2033 be placed on public display for 28 days in accordance with legislation.

**Executive Summary:**

Council faces several challenges in terms of financial sustainability. Our Council administers the largest regional centre in the western half of New South Wales.

Based on Council's most recent economic and data projections, Council is estimating that between 2023 and 2046, the population for Broken Hill City is forecast to increase by 197 persons (1.10% growth), at an average annual change of 0.10%.

Whilst this information is based on the current state of play, with the looming commencement of major mining and renewable industries along with Council economic growth plan, Council is boldly predicting and planning for City growth much larger. As a result of these latest trends and projections, this plan has been formulated on the prospect of job growth and further housing development for the City as well as a growing population base. On this basis, the City must plan to maintain service standards and increase services in some areas to ensure long term liveability and investment attractiveness of the City.

Council currently operates on an annual income of around \$30 million, with a substantial percentage being derived from government grants which cannot be guaranteed into the future. The historical population decline has put pressure on the affordability of services by the ratepayers, and as a result Council has experienced a lack of funding to adequately maintain or renew public infrastructure.

In this year's review of the Long Term Financial Plan, a focus on asset renewals has again been a main focus. It is forecast that asset renewals will be maintained at a rate equal to or greater than 110% of asset consumption throughout the review period. This is a significant step forward for Council's financial and asset sustainability as it begins to ensure that quality infrastructure is maintained and available for future generations.

Council achieved an improved financial determination from the Office of Local Government and Treasury Corporation (T-Corp) in 2020 as a result of meeting T-Corp's strict lending criteria focused on long term financial and asset sustainability. This was a result of strong decisions and hard work in achieving the outcomes and strategies identified in the Long

Term Financial Plan. However, as highlighted in the Long Term Financial Plan, this hard work needs to continue to ensure Council's long term financial sustainability and the break-even point is achieved in 2023/2024 as well as maintaining a healthy cash reserve.

If the strategies put in place in the Balanced Scenario are not achieved and Council continues to deliver services without finding efficiencies, rationalising assets and services or increasing revenue; Council will not be forecasting a surplus within the planning period, liquidity would rapidly diminish and community assets would further deteriorate.

#### Key points Included in the Proposed Long Term Financial Plan

- Break-even projected for 2024
- asset renewals projected at a rate greater than 110% over the planning period
- expectation of continued efficiencies
- Expenditure reductions through efficiencies despite rising costs
- Asset service level reviews to continue with a view of asset and service rationalisation

The Balanced Scenario is ambitious but achievable, affordable and significantly improves the financial position of Council allowing Council to continue to meet the expectations of the community, maintain service levels and stimulates the local economy to assist in the economic recovery of businesses and retain and grow local employment.

Council must continue to develop and implement strategies during 2023/24 to ensure the forecast efficiency gains and productivity improvements are realised and this will be monitored annually.

Broken Hill City Council remains committed to ensuring internal efficiencies are realised before considering increasing the financial burden on the community.

#### **Report:**

A Long-Term Financial Plan is one of the three key Resourcing Strategies required by the NSW Integrated Planning & Reporting legislation.

Local Government operations are vital to its community, and it is important stakeholders can understand the financial implications arising from its Community Strategic Plan, Delivery Program and annual Operational Plan.

A Long Term Financial Plan provides a framework in which a council can assess its revenue building capacity to meet the activities and level of services outlined in its Community Strategic Plan. It also:

- establishes greater transparency and accountability of council to the community;
- provides an opportunity for early identification of financial issues and any likely impacts in the longer term;
- provides a mechanism to
  - o solve financial problems as a whole;
  - o see how various plans fit together
  - o understand the impact of some decisions on other plans or strategies;
- provides a means of measuring council's success in implementing strategies; and,
- confirms that council can remain financially sustainable in the longer term.

The Long Term Financial Plan includes:

- projected income and expenditure
- balance sheet

- cash flow statement
- planning assumptions used to develop the plan
- financial modelling for different scenarios
- methods of monitoring financial performance

Broken Hill City Council remains committed to operating within a financially sustainable framework, to ensure that its community and other stakeholders can rely upon the ongoing provision of a full and diverse range of quality community services, facilities and infrastructure.

The Council plans to maintain its financial position and performance, to ensure resilience and maintain capacity to adapt and respond to emerging community needs in a measured and equitable manner.

The following are the key principles employed in the financial planning and modelling process:

- Financially sustainable.
- Maintain diversity of income sources.
- Return the Council to surplus in a sustainable manner.
- Maintain tight control over expenditure and staff numbers.
- Deliver best value services, facilities and infrastructure.
- Effective and efficient utilisation of funding sources to fund capital works and asset acquisitions.
- Prudent financial investment.

The Long-Term Financial Plan continues the Council's commitment to maintain tight control over its financial position and performance, an achievement that has been demonstrated through reducing the annual operating deficit in line with a break-even result in 2024.

The Operational Plan and forward projections have been set to allow for the delivery of appropriate levels of service, incorporating asset rationalisation and to adequately allow for all known and anticipated changes over the coming ten-year period.

Unexpected cost pressures will always arise (as evidenced by the COVID-19 pandemic), along with increasing service demands. However, in responding to these challenges, the Council will continue to underpin its quality of services with a value for money approach through competitive procurement processes, internal controls and the completion of business improvement programs, incorporating customer feedback; to ensure effectiveness and efficiency.

### **The Proposed Plan (Balanced Scenario)**

The Council's 2023/24 financial year budgets (as detailed in the Operational Plan and included in the attached plan) form the basis of the financial projections within the Long Term Financial Plan. While relevant adjustments have been made in the plan's short term, in respect of the current financial climate, the underlying Income Statement and Balance Sheet, are taken to represent "business-as-usual". The underlying income and expenditure form the basis of the later years in the plan, having been escalated by appropriate indices, with appropriate adjustments.

Where new initiatives/projects that will impact operating income and/or expenditure are anticipated, additional adjustments are made to long term projections in the model.

The Balanced Scenario assumes that Council:

1. Undertakes additional operational changes to generate productivity improvements and efficiency gains thus reducing employment costs and materials and contracts costs;
2. Undertakes service level reviews to determine the communities service needs and what they are willing to pay; and

3. Undertakes a review of assets held and where appropriate adopts a rationalisation strategy to reduce overall operating costs, whilst factoring new infrastructure for liveability.

Successful implementation of the plan will result in all financial indicators (excluding extraordinary items and other than the operating indicator) being maintained within the Office of Local Government benchmarks throughout the planning period.

A review of asset management plans to align with updated financial projections are currently being undertaken along with revised asset valuations to better analyse Council's asset ratios.

Based upon planned asset expenditure and cash and investments, Council's available funds for asset renewals over the planning period under the balanced scenario is equal to or greater than the 100% of the rate of asset consumption via depreciation

The Balanced Scenario is the preferred option as it ensures the ongoing financial sustainability of the organisation whilst also providing economic stimulus to the City to retain and grow employment whilst also providing improvement to key community infrastructure for increased livability and attractiveness of the City.

Key Aspects of the proposed Balanced scenario are:

- Break even result in 2024.
- Maintain Council's current permanent workforce.
- Ensure a healthy cash reserve to weather any unforeseen financial shocks (such as an International Finance Crisis).
- Ensure an appropriate rate of asset renewals is maintained so the City's infrastructure backlog is continually reduced.
- Meet all key financial & OLG benchmarks apart from the Operational Ratio for 2024 and 2025.

This plan is sensitive to a number of internal and external drivers including: Council decisions, operational performance, the external economic environment and State and Federal Government decisions including changes to legislation. Within the Long-Term Financial Plan, there are a number of examples that demonstrate some of Council's main sensitivities and outline the impact of various scenarios on Council's long-term financial position.

**SCENARIO 2 – Decreased Rate Peg**

This scenario follows the same assumptions as the 'Balanced Scenario' but assumes the 2024 rate peg of 3.7% is decreased to 2.5% for 2025 and beyond.

This model does not alter Council's breakeven point of 2024 however sees Council slip back into deficit in 2025 due to the combined effect of the additional cost of Council elections and inflation. If the assumptions of this model come to be, a deficit would be expected in 2025 approximately equal to the cost of the election.

Key Aspects of this Scenario are:

- Breakeven 2024.
- Deficit in 2025
- Surplus for 2026 onwards.

### SCENARIO 3 – Continued High inflation with reduced rate peg

This scenario is based on the same expenditure assumptions in line with the previous two scenarios, however, Rates revenue is projected using the standard forecast 2.5% rate peg as advised by IPART but with inflation at 5% until 2027. As you will see below, this pushes Council's return to surplus back to 2028 and puts Council in a high-risk cash position for the immediate future.

#### Key Aspects to this Scenario

- Breakeven pushed back to 2028
- Borrowings remain the same.
- Some key financial ratios & OLG benchmarks will not be met in the short term.

The Balanced Scenario is ambitious but achievable, affordable and significantly improves the financial position of Council allowing Council to continue to meet the expectations of the community, maintain service levels and stimulates the local economy to assist in the economic recovery of businesses and retain and grow local employment.

Under the proposed model, the organisation is sustainable and financially viable and with the use of internal restrictions as well as prudent and responsible budgeting, planning and financial management, the Council will be able to rebuild its reserves, continue to deliver quality services to the community and replace and renew assets now and into the future, ensuring the same level of service for each generation.

#### **Community Engagement:**

The Long-Term Financial Plan will be placed on public display for 28 days following the outcome of this meeting.

#### **Strategic Direction:**

Key Direction:	4	Our Leadership
Objective:	4.1	Openness and transparency in decision making
Strategy:	4.1.1	Support the organisation to operate its legal framework

#### **Relevant Legislation:**

The LTFP must contain the essential elements as outlined in the IP&R Guidelines:

Must be used to inform the decision-making during the preparation and finalisation of the Community Strategic Plan and the development of the Delivery Program.

Must be for a minimum of 10 years

Must be updated at least annually as part of the development of the Operational Plan, and

Must be reviewed in detail as part of the four-yearly review of the Community Strategic Plan.

The basic structure of the LTFP is outlined in the IP&R Guidelines at point 3.9 under the section on Resourcing Strategy and must include:

- Projected income and expenditure, balance sheet and cash flow statement;
- The planning assumptions used to develop the Plan (the "Planning Assumptions Statement");
- Sensitivity analysis highlighting factors/assumptions most likely to affect the Plan Methods of monitoring financial performance;
- Financial modelling for different scenarios;
- Methods of monitoring financial performance.

**Financial Implications:**

A Long Term Financial Plan provides a framework in which a council can assess its revenue building capacity to meet the activities and level of services outlined in its Community Strategic Plan.

**Attachments**

1. [↓](#) Long Term Financial Plan

SIMON BROWN  
CHIEF FINANCIAL OFFICER

JAY NANKIVELL  
GENERAL MANAGER