
FINANCIAL SUSTAINABILITY REVIEW

UPPER LACHLAN SHIRE COUNCIL

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EXECUTIVE SUMMARY

BACKGROUND

This report presents the outcomes of an independent Financial Sustainability Review, commissioned by the Upper Lachlan Shire Council (Council), following concerns expressed by the Councillors and the Executive Management Team regarding the medium to long-term financial sustainability of the Council. The Council is seeking confirmation as to whether Council's current position and policy settings are sustainable for the future needs of the organisation and the community it serves, and if not, what actions should be taken to correct the financial sustainability of the Council.

The primary objective of the Financial Sustainability Review is to assess the long-term sustainability of the Council's current financial settings and direction, identify key drivers and determinants of future sustainability and facilitate the development of an improved sustainable long-term financial plan with strategies to avert potential issues from emerging in the future.

To address these concerns, the Council commissioned AEC Group Ltd (AEC) to undertake an independent review of their financial sustainability.

PURPOSE & APPROACH

AEC's approach to delivering upon the Terms of Reference is guided by the following definition of financial sustainability:

Financial sustainability is the ability of an entity to maintain financial capital and infrastructure capital over the long term. Maintaining financial capital is concerned with the ability to sustain availability of cash into the future to meet the service and infrastructure needs of the entity. Maintaining infrastructure capital is concerned with the entity's ability to provide physical assets over the long term to meet the service requirements and demand.

Sustainability for local government includes the ability to manage likely developments (built development and socio-demographic development) and unexpected financial shocks in the future.

The AEC approach to assessing financial sustainability includes two fundamental tests:

- Test 1 - Maintaining Fiscal Capital – In delivering the adopted Community Strategic Plan and other service planning, can Council demonstrate the capacity to access cash as required for current and future needs of services and infrastructure?
- Test 2 - Maintaining Infrastructure Capital – In delivery the adopted Community Strategic Plan and other service planning, Can Council demonstrate the capacity to provide infrastructure at an acceptable level of performance as required by current and future services?

To be sustainable Council must satisfy both tests.

KEY FINDINGS

This report draws the following conclusions regarding the financial sustainability of the Council:

Council's Historical Performance

- Council has produced a consolidated net operating deficit in the last two financial years, due primarily to operating deficits produced in the General Fund.
- The Water Fund experienced surpluses until 2018/19 and since then for the last three years produced deficits with the greatest deficit in 2021/22.
- The reported net operating result for the Sewer Fund is a surplus of between \$119,000 and \$225,000 over the past five financial years – although a notable deficit in 2020/21.

- AEC has predicted that the historical structural deficit within the General Fund whereby the recurrent revenue is not able to fund the recurrent expenditure is around the \$3-\$4million.
- Council has a lower average rate for residential and business rating categories comparable to neighbouring Councils. While the service mix provided by each Council is different, and it is difficult to compare levels of service, Upper Lachlan is providing local government services from a lower comparable rate base to similar councils. As per OLG Series Data 2021/22, Upper Lachlan was third lowest for residential average rates and fourth lowest for farmland average rates amongst the group 10 councils (large rural councils).
- The council has in recent financial years increased the use of borrowings, increasing the interest expense and the requirement for repayment of the borrowings.
- At the end of 2021/22, Council had total cash, cash equivalents and investments of \$31.3 million, of which \$18 million is externally restricted, \$9.0 million is internally restricted and a further \$4.2 million is held in reserve for commitments in reported liabilities (mostly contracted grant liabilities). The residual amount of \$28,000 is considered unrestricted and considered significantly insufficient to mitigate unplanned events or essential unplanned asset expenditure.
- The total cash, cash equivalents and investments remained steady from 2017/18 until 2021/22. However, in recent years the Council has depleted internal reserves, protecting the Council from delivering a negative unrestricted cash position. That is, Council no longer has cash restricted for the purposes the cash was being reserved for in reserves that have been depleted, however the future commitment remains. This is indicative of a Council in a declining cash position and is not a sustainable practice. The Council needs to restore the cash reserves for future commitments.
- Upper Lachlan Council has spent in total \$73.3 million over five years till 2021/22 on capital expenditure, at an average of \$14.7 million annually.
- Through the acquisition of new and upgraded assets the Council has significantly increased the annual cost of ownership, including operating costs, interest expense on borrowings, maintenance, and depreciation expense.
- The building and infrastructure renewals ratio indicates that Council has invested in asset renewals sufficiently to meet the 100% target as set by Office of Local Government.
- Council has only met the infrastructure backlog performance measure once (2018/19) in the last five years from 2017/18 to 2021/22. The ratio has deteriorated to 3.9% as reported in 2021/22.
- There is low confidence in the reported backlog in renewals, the condition of assets and the asset maintenance targets due to low maturity in asset management across Council.
- The deterioration of the unrestricted cash balance is a concern and an indication that Council is not generating sufficient cash from operations to be sustainable. Close monitoring of the cash position is required within the current financial year to avoid using cash in that is in restricted reserves. Management of sundry debtors will be important, including timely receipt of grant milestone payments and payments of natural disaster claims.

Forecast of Council's Financial Position

- AEC developed as Base Case Scenario that forecasts the Council's financial position over the next ten years based on current policy settings and no change to the revenue or expenses incurred from the current range and levels of service.
- A key challenge confronted by AEC in developing the forecast was reconciling the conflicting asset management advice provided by the asset managers against Council current asset data.
- The historical operating deficit position is forecast by AEC to continue and to deteriorate further over the forecast period. AEC's forecast indicates that, under the Base Scenario the Council will deliver an average consolidated operating deficit of approximately \$4.0 million over the forecast period (excluding capital grants and contributions), with individual annual results ranging from approx. \$3.0 million to \$5.0 million in deficits.

- AEC was advised to include a commitment in the capital works plan to construct and operate a new indoor heated pool which further deteriorated the availability of cash and deteriorated the forecast operating position in the General Fund.
- The impact of other new and upgraded assets in the capital works plan – being increase in operating expenditure and increase in the depreciation expense – further contributes to the projected deterioration in the structural deficit.
- The forecast for the Statement of Cashflows in the Base Scenario currently indicates a slight increase in total cash and investments from \$29.5 million based on Draft 2022/23 actuals to \$30.0 million by the end of 2033/34. However, while an increase in the total cash position, the Council is forecast to produce negative unrestricted cash balances across the 10-year forecast period, which cannot occur – as noted above, the Council is not able to use restricted cash reserves for any other purpose than the purposes the reserve is established the funds have been constrained for. There is minimal capacity for the Council to reallocated reserves, or “free up cash” from reserves, as has been done in recent past financial years.
- The Base Case Scenario includes a total of \$94.5 million over the next ten years on capital expenditure, comprising \$13.1 million (13.9%) of new and upgraded assets and \$81.3 million (86.1%) of asset renewals over the forecast period.
- Based on projected depreciation expense, Council's investment on asset renewals will achieve an average renewal ratio of 74% over the forecast period, which is substantially below the Office of Local Government target indicator of 100%. If continued over the longer term, this would result in further deterioration of assets.
- Insufficient investment in renewal of assets will result in a general deterioration of assets and continue to increase the backlog in renewals – which increases the likelihood of a range of risks related to assets in poor to very poor condition.
- A notable risk with the Base Case is that assets left to deteriorate past an optimal period for renewal will require substantially greater investment to bring the asset back to a satisfactory standard – for example, rather than resealing the urban roads, Council may be required in the short to medium-term to undertake heavy patching or medium to longer term early rehabilitation of the road at a much higher cost over the longer term.
- Under the Base Case the cash position will deteriorate (negative unrestricted cash position), there is continued under investment in asset renewals and the Council continues to invest in new and upgraded assets. This is not a sustainable scenario – or a plausible Scenario as Council will breach responsibilities and accountabilities for financial management as outlined in the Local Government Act and guidelines established by Office of Local Government.
- It is AEC assessment that to comply with responsibilities outlined in the Local Government Act the Council must act to avoid the forecast as outlined in the Base Case from occurring.

Vision of a Sustainable Scenario for Council

The vision for a sustainable Upper Lachlan Shire Council is that Council will be able to achieve the community objectives outlined in the Community Strategic Plan while maintaining over the medium to long term both fiscal capital (access to cash) and the infrastructure capital (assets that the Council owns).

The following performance indicators were determined to measure whether the Council is likely to be maintaining fiscal capital and infrastructure capital:

- Within the 10-year forecast, Upper Lachlan Shire Council would like to achieve and maintain an operating surplus that meets the industry benchmark of at least a net balanced operating result for all fund types and a balanced net operating position for the consolidated position overall.
- Upper Lachlan Shire Council would like to have at least \$2-3 million in unrestricted cash balance by 30 June 2027. This will assist Council to meet unexpected natural disasters cash outflows and also to manage short-term liquidity issues especially in regard to cash shortfalls for grant funded expenses to be recovered.

- The Council aims to achieve an average 100% asset renewal ratio over the next 10 financial years. This will likely need reviewing once Council has improved the asset register and has a more fully understood quantum of the infrastructure backlog and the renewal investment required.
- The Council would like to keep the infrastructure backlog below the industry benchmark of 2%. It was noted that further actions are required to better determine the backlog, including comprehensive asset condition assessments.

AEC developed a sustainable forecast for the Council – the Enhanced Asset Renewal and Enhanced Cash Scenario. The following is an outline of the sustainable scenario for Council:

- A correction to the cash generated from operations required is equivalent to a permanent 55.0% increase in general rate revenue for 2024/25. General rates do not include annual charges for water, sewer, waste and stormwater operations although these may appear on Council's rates notice.
- Whilst AEC has expressed the correction required to the generation of cash from operations in the form of the percentage equivalent to an increase of 55.0% in Ordinary Rates, this may be achieved through a combination of initiatives, including a Special Rate Variation (SRV) Application to IPART (Independent Pricing and Regulatory Tribunal), operational efficiencies, reduction in service provision, sale of assets to pay down borrowings, rationalisation of assets to reduce the total operating cost of assets and an increase in revenue from operations through increase in service fees and charges.
- The increase in general rates may be achieved in total in 2024/25, or through a staged implementation. This decision would be informed by a capacity to pay assessment and the planned time schedule over which the Council plans to increase the investment in asset renewals. However, if a staged approach is decided upon, to avoid a negative unrestricted cash position, the Council would need a substantial increase in 2024/25 of approximately 35%.
- Under the Enhanced Asset Renewal and Enhanced Cash Scenario, the net average consolidated operating position over the forecast period reflects a surplus of \$2.3 million. This corrects the net operating position and meets the Office of Local Government performance targets.
- Under this scenario unrestricted cash is forecast to remain in a positive balance that improves further in the later years of the 10-year forecast. Council could improve the balance in the short term (over the next 12-24mths) by selling assets and using the revenue received to increase the balance of unrestricted cash to the targeted \$2-3 million.
- The asset investment assumptions in this scenario achieves an asset renewal ratio of 97%. Note that the Base Case had a renewal ratio of 74%. While less than 100% target as set by Office of Local Government, the proposed renewal investment achieves the investment target set through analysis of the renewal demand in workshops with Councillors and Executive members.
- The Enhanced Asset Renewal and Enhanced Cash Scenario does not include a specific program to address the backlog for asset renewals which will need to be considered once the maturity of asset management has improved and a more accurate estimate of the backlog is provided and the risk of the backlog is well understood. The cash generated from the scenario will be used on roads, stormwater and building asset renewals with specific projects identified.

RECOMMENDATIONS

It should be noted that the following recommendations will require additional investment by Council to be implemented in full and for many of the recommendations it will take some time to realise the benefits. Upper Lachlan Shire Council does not have significant capacity within the existing resources to implement the recommendations. AEC considers the recommendation to increase the general rate through the Special Rate Variation is essential to protect the cash position of the Council in the short term, and to enable sufficient funding to be allocated to implement the other recommendations outlined below. In terms of the time period required to implement the recommendations, realistically the Council will need to stage the implementation over the next three years. Protecting the cash position is critical in the short term, therefore recommendations to improve the monitoring and improvements in the cash position should be considered highest priority. Given there is a matter of urgency to protect the Council's cash position the implementation of the Special Rate Variation is essential to proceed with in the first stage of recommendations to be implemented.

With an improvement in the cash position, the Council should focus on the service and asset management planning to ensure increased availability of cash is invested optimally, addressing the highest priority demand for cash investments.

To improve the operating position Council should consider:

1. Increase generation of revenue through:
 - Submit a Special Rate Variation (SRV) Application based on increasing General Fund rates revenue by \$46.1 million over the next 10 years. This can be achieved through a 55.0% increase (inclusive of rate peg) introduced over three years starting 2024/25 (which is a 35% (2024/25), 15% (2025/26) and 5% (2026/27)). The additional cash accumulated for the three years equate to \$11.2 million.
 - Review the pricing for fees and charges and ensure they reflect full cost price for services, as far as it is practical to do so, without impacting significantly on access to services by the community.
2. Decrease operating costs through:
 - Review and prioritisation of efficiencies and productivity improvements cost savings as provided to Executive via AEC's consultation with the senior management team.
 - Establish a productivity and efficiency target to be achieved through the development of a Productivity and Efficiency Plan, which should include consideration of strategies outlined below under Enhanced Productivity and Efficiency of Services.
 - Conduct a strategic review of services to assess the range and levels of service provided.
 - Improve the strategic and technical asset management capability and practices with a focus on planning to manage assets at the most optimal whole of life cost.
3. Develop the demand management approach in service planning to minimise the growth in service costs and avoid increased cost of assets, including:
 - Continue to undertake service reviews, particularly for discretionary services and community service obligations (services that would not be provided if based on a commercial decision)
 - Implement a Strategic Service Planning framework, including the development of a Service Catalogue, that defines the approved range and levels of service.
 - Implement requirement for a Business Case and/or Capital Expenditure Review prior to approving to proceed with material new or upgraded services and assets (mandatory for proposed capital works for new or upgraded assets over \$1million).
 - Implement a framework for grant applications and acceptance to consider the impact of the grant on the Long-Term Financial Plan and financial sustainability.
4. Improve governance and financial controls.

UPPER LACHLAN SHIRE COUNCIL FINANCIAL SUSTAINABILITY REVIEW 2023

- Maintain integration of the Annual Budget and Long-Term Financial Plan with the Delivery Program, Operational Plan, Asset Management Plans, Workforce Strategy, and other adopted plans – each plan should be updated when material decisions are made that impact on the respective plans.
- Implement effective budget and other financial controls – including budget accountability, a project management framework with gateway controls, workforce plan outlining the funded staff establishment, contract management framework.
- Develop an annual budget development process that is activity based rather than largely historical.

To improve the availability of cash Council should consider:

5. Council should budget for and maintain, at least in the short term, an unconstrained cash reserve of at least \$2.0 - 3.0 million as a contingency for unplanned asset renewals/replacements due to asset failure or other unknown or unplanned events.
6. Review internally restricted cash to ensure alignment with intended purpose of the reserves and that the reserves are adequate for the purpose.
7. Implement a quarterly reconciliation and reporting process for all external restrictions.

To improve investment in assets Council should consider:

8. Enhance the capability and effectiveness of asset management, including:
 - Prepare an asset management strategy that provides guidance and direction to improve Council's asset management approach, improve resource allocation, increase the awareness of current asset performance/risk, establish asset management strategies, and integrate the Asset Management Plans and the Long-Term Financial Plan.
 - In the short term, develop the strategic asset management capability to better predict, prioritise and plan for asset renewal programs based on known risks, criticality, condition, and performance of each asset class.
 - Review and update the asset management plans for each asset class to determine and direct the optimal life cycle approach for each asset class.
 - Establish systems and practices that enhances and realises the value of asset management across the organisation.
 - Improve processes for asset data collection, standardisation, and componentisation.
 - Implement a condition inspection program with an initial focus on all critical assets, or assets with high risk, and sample condition assessment for less critical assets (or asset assessed with less risk). This is best through integrated plan with the asset valuation plan.
 - Prepare a pavement management system with a detailed whole of life approach designed specifically for Council's sealed and unsealed road network, including optimised approach to maintenance and renewal of assets and estimated costing to inform the Long-Term Financial Plan.
9. Improve the integration of asset planning with the strategic service planning to better understand, manage and avoid where possible the demand for growth in assets.
10. Explore opportunities to rationalise the land and facilitates assets that are used to deliver Council's services, including the rationalisation of the number of locations services are provided and considering a regional approach to service delivery rather than service in each location.
11. Require the development of a "State of Assets Report" to be prepared and presented to Council to ensure the Councillors understand the preparation of the Draft Report on Infrastructure Assets (schedule to the Annual Financial Statements) and enable discussion between Councillors and Management on progressing improvement in asset management and asset renewal planning.
12. Council should consider reviewing its developer contributions plans, before undertaking any substantial asset programs to ensure that the current contribution levels are able to support the future development costs.

To enhance the strategic service planning Council should consider:

13. Develop a strategic service planning framework to guide and inform the development of the Delivery Program and Resourcing Strategies. A framework that includes an annual review of service performance and alignment to priorities will enable Council to better inform the development of the Annual Budget and review priorities in the allocation of constrained resources.

To enhance productivity and efficiency of services Council should consider:

14. Review the efficiency and effectiveness of current corporate overhead functions, particularly the service with large operating expenditure and potential to support improvements in productivity and efficiencies such as ICT, fleet and plant operations, finance, and asset management.
15. Develop measures of productivity and efficiency when developing the Annual Budget and reporting to assist trend analysis and benchmarking with partner councils – for example \$/km of unsealed road graded, \$/km of road reseal, \$/hectare of mowing, cost/library member, median time taken to resolve customer requests, plant utilisation rates, median time taken to fill a vacancy.
16. Implement and fund productivity and efficiency improvement initiatives previously identified.
17. Council should embark on an initiative to target service efficiencies and increase productivity to contribute to the improvement in the operating position of Council. The initiatives should include corporate initiatives (such as improvement in procurement, salary benchmarking etc.) as well as focused review on the delivery of targeted services.
18. Services with higher net costs hold the greatest potential for efficiencies – including service areas within Infrastructure directorate, Tourism Promotion and Business, and Governance and Real Estate Development.
19. Report to Council on a quarterly basis the progress in achieving efficiency and implement process to track the achievement of the productivity and efficiencies target.

To enhanced governance, prioritisation and decision-making Council should consider:

20. Revise the Resourcing Strategy including the Long-Term Financial Plan informed by funding requirements from strategic asset management, workforce planning and strategic service planning.
21. Implement a comprehensive and robust budget development process with oversight by the Chief Financial Officer and the Executive Team.
22. Implement oversight and control of the funded organisation chart.
23. Implement a Project Management Framework, including appropriate gateways for project selection, planning, execution, and closure, and enforce the project management governance for all potential projects (including approval to proceed with grant applications).
24. Develop the organisational financial management governance and financial acumen of management to improve financial management at all levels of management.

Review Range and Levels of Service:

25. Council may wish to consider undertaking a review of the range of non-core services provided, to determine whether they continue to deliver value to the community and whether there remains a public policy rationale for Council delivery of such services.
26. Council may also wish to consider the levels of service provided within services that are not regulatory required services to reduce the cost of the services provided.
27. Council should implement the use of formal business cases to consider and determine undertaking new projects or service, or a change in current service levels. The financial implications should be a major determinant of the decision making.

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1. INTRODUCTION

1.1 BACKGROUND

Upper Lachlan Shire is a local government area in the Southern Tablelands region of New South Wales, Australia. The Shire was formed in February 2004 from Crookwell Shire and parts of Mulwaree, and Gunning Shires. Like most Regional NSW councils, Upper Lachlan Shire Council (Council) has in recent years faced challenges in the preparation of a sustainable Long Term Financial Plan that meets the Office of the Local Government performance indicators.

Over the past five years, the Council has experienced disasters – most notably COVID pandemic, floods, storm damage and bushfires which has significantly impacted the normal business operations, including asset maintenance and asset renewal programs, as well as impacting upon the availability of cash.

Large operating and capital grants have been received in recent years, including economic stimulus funding from State and Federal governments, as well as grant funding for the restoration and response to the emergencies. The Council's revenue base was also impacted due to restricted operations during COVID.

The Council has also produced historical deficits in the General Fund, which has been a growing concern, including the need to assess the long-term impact that the operating deficits would likely have upon the Council's sustainability over the long term.

The primary objective of the Financial Sustainability Review therefore was to assess the medium to long-term sustainability of the Council's current financial settings and direction, identify key drivers and determinants of future sustainability and facilitate the development of an improved sustainable long-term financial plan with strategies to avert potential issues from emerging in the future.

1.2 PURPOSE OF THIS REPORT

To address concerns with the medium to long-term financial sustainability, the Council commissioned AEC Group Ltd (AEC) to undertake an independent review of the financial sustainability of the Council. This report presents the findings of the review and provides effective strategies to improve the Council's financial sustainability and compliance with the Local Government Act 1993. The report also analyses the potential impacts of the findings on the Council's future financial position, as well as the local community and stakeholders, to ensure the Council's sustainable and efficient operation in the future.

The Financial Sustainability Review terms of reference are to:

1. Review Upper Lachlan Shire Council's past financial performance and the current financial position, including identifying trends, drivers, and other impacts upon the future financial position.
2. Undertake an in-depth review of the costs of services and in liaison with respective service managers identify the current community service levels (not technical), quantify current service activity, quantify future demand for the service and identify opportunities for improvement in service efficiency and productivity.
3. In liaison with Council's asset portfolio managers, conduct a review of the forward planned capital works, including the integration of the LTFP and asset management plans and identify the implication on the LTFP if there needs to be adjustments to asset management plans or capital works plan to sustainability maintain the Council infrastructure.
4. Based on findings of the above, develop an independent forecast of Council's forward financial position and comment on the sustainability of the financial position over the short, medium, and long term.
5. Identify strategic options for Council to improve the forecast position, including potential opportunities for Council to:
 - a. Improve the strategic management of assets, including increased utilisation, asset recycling, rationalisation, and disposal of assets.
 - b. Increase revenue through rates, fees, and charges.
 - c. Decrease the cost of services through council management, operations, service delivery models, delivery of capital programs, procurement approaches and governance systems.
6. Develop recommended options for Council's deliberation, noting the potential risks and benefits of each with consideration of councils adopted risk appetite, plus a recommended implementation strategy.

7. Produce a clear and concise FSR final report, plus a summary report of findings suitable for public release.
8. Review and update the Resourcing Strategy Plans (LTFP, Asset Management Strategy and Workforce Plan) to implement the proposed scenarios – including SRV if required.
9. Assist Council with community engagement as per the community engagement strategy including SRV options preparation.
10. Prepare the SRV application for Council to submit to IPART for assessment – contingent on if Council resolves to apply for SRV.

1.3 APPROACH

AEC's approach to delivering upon the Terms of Reference is guided by the following definition of financial sustainability:

Financial sustainability is the ability of an entity to maintain fiscal capital and infrastructure capital over the long term. Maintaining financial capital is concerned with the ability to sustain availability of cash into the future to meet the service and infrastructure needs of the entity. Maintaining infrastructure capital is concerned with the entity's ability to provide physical assets over the long term to meet the service requirements and demand.

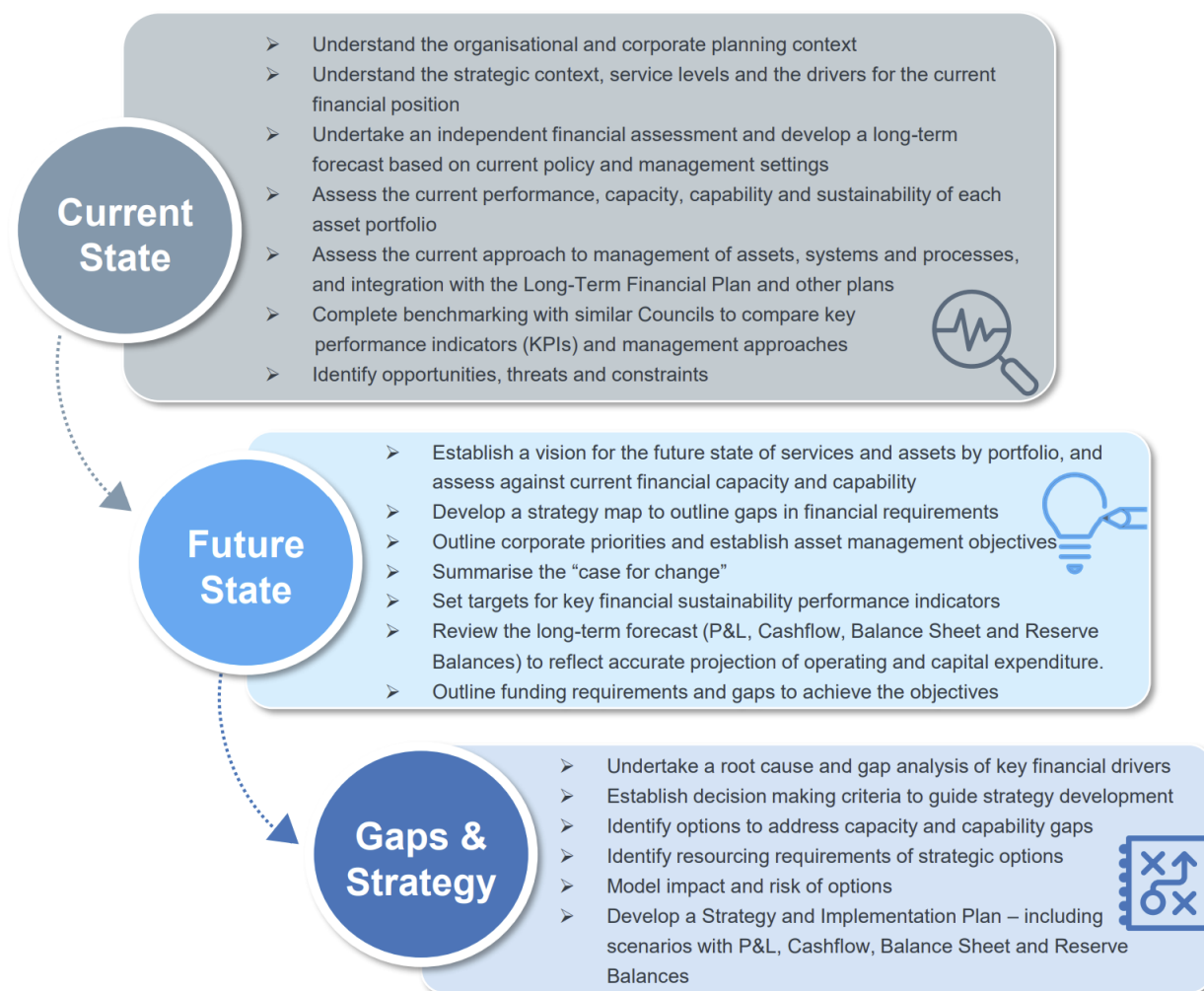
Maintaining fiscal and infrastructure capital includes the ability to manage likely future developments (built development and socio-demographic development) and unexpected financial shocks or unplanned events.

The AEC approach to assessing financial sustainability includes two fundamental tests:

- Test 1 - Maintaining Fiscal Capital – In delivering the adopted Community Strategic Plan and other service planning, can Council demonstrate the capacity to access cash as required for current and future needs of services and infrastructure?
- Test 2 - Maintaining Infrastructure Capital – In delivery the adopted Community Strategic Plan and other service planning, Can Council demonstrate the capacity to provide infrastructure at an acceptable level of performance as required by current and future services?

To be sustainable Council must satisfy both tests.

Figure 1.1 AEC Financial Sustainability Review Approach



Source: AEC Proposal (unpublished)

1.4 PROJECT STAGES

Figure 1.2 Project Stages



Source: AEC Proposal (unpublished)

2. SOCIO-ECONOMIC PROFILE

2.1 UPPER LACHLAN SHIRE

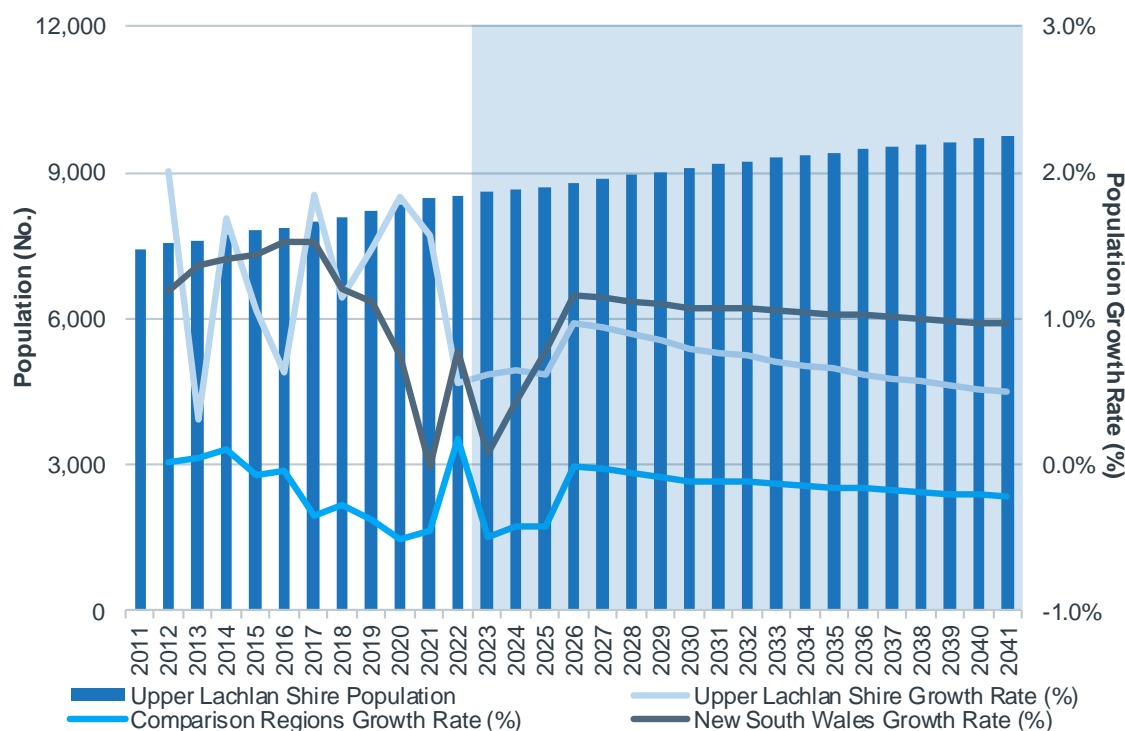
This section provides an overview of the current socio-economic environment of the Upper Lachlan Local Government Area (LGA) (hereafter referred to as Upper Lachlan or Council), with comparisons to other regions across New South Wales where relevant. The comparison regions include the following LGA's.

Table 2.1 Group of Councils

Council	Est Population (2021)	Council Area (km ²)
Berrigan	8,612	2,065.9
Bland	5,542	8,557.7
Blayney	7,508	1,524.6
Cobar	4,098	45,575.4
Dungog	9,525	2,250.0
Edward River	8,437	8,883.4
Forbes	9,383	4,710.1
Glen Innes Severn	8,922	5,480.0
Gwydir	4,911	9,259.7
Junee	6,450	2,030.0
Kyogle	9,344	3,584.2
Lachlan	6,149	14,968.3
Liverpool Plains	7,608	5,082.2
Narrandera	5,731	4,116.3
Narromine	6,448	5,261.5
Oberon	5,564	3,625.0
Temora	6,012	2,802.0
Tenterfield	6,798	7,324.3
Upper Lachlan	8,491	7,127.4
Uralla	5,993	3,226.5
Walgett	5,590	22,308.3
Warrumbungle Shire	9,254	12,372.1
Wenworth	7,487	26,255.9

Source: OLG Series Data 2021-22

Figure 2.1 Historical and Projected Population, Upper Lachlan LGA, 2011 to 2041



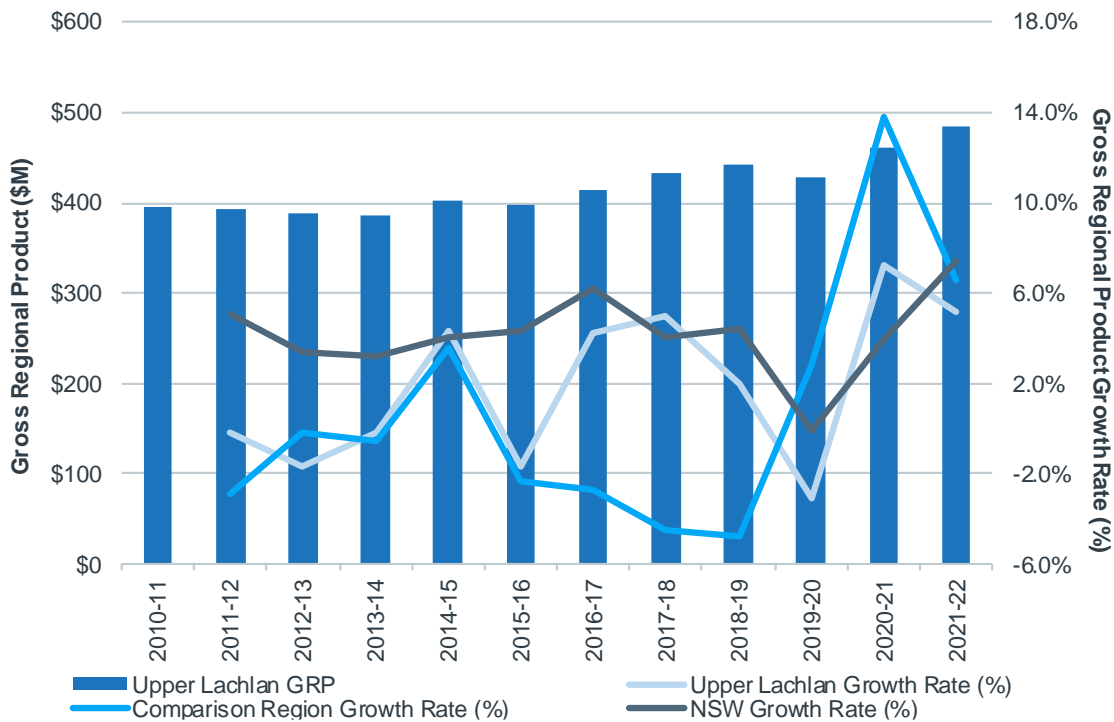
Source: ABS (2023 b), NSW Department of Planning and Environment (2022).

The following highlights key characteristics of the existing socio-economic environment in Upper Lachlan:

- Upper Lachlan has a recorded population of approximately 8,540 residents, which has historically grown at a faster rate than New South Wales:** Upper Lachlan recorded a population of over 8,500 residents in 2022 and experienced an average annual growth rate of 1.3% since 2011. This growth rate is more in line with the overall state, which grew by 1.1% per annum over the 11-year period than the comparison regions which experienced negative growth of 0.2% per annum (ABS, 2023 b). Population within Upper Lachlan is projected to grow by an average annual rate of 0.7% from 2022 to 2041 to 9,740 residents in 2041. Meanwhile, the comparison regions are anticipated to follow historical trends and experience a decline in overall population (at an average annual rate of 0.2%) (NSW Department of Planning and Environment, 2022).
- Upper Lachlan’s economy experienced stronger growth than the comparison regions, reaching a Gross Regional Product of over \$480 million in 2021-22:** Upper Lachlan’s Gross Regional Product (GRP) increased from \$394.8 million in 2010-11 to \$483.9 million in 2021-22, which equates to an average annual rate of 1.9% (AEC, unpublished a). In comparison, Upper Lachlan’s average annual growth has been higher than the comparison regions (average of 0.7% per annum), however, substantially lower compared to the average annual growth rate of New South Wales (4.2% from 2010-11 to 2021-22).

Growth in Upper Lachlan’s GRP over the past 11 years is predominantly attributable to the construction industry which saw an increase of \$13.1 million between 2010-11 and 2021-22. This was followed by ownership of dwellings and health care and social assistance, experiencing a \$12.1 million and \$9.5 million increase respectively.

Figure 2.2 Gross Regional Product (\$M), Upper Lachlan, 2010-11 to 2021-22



Source: AEC (unpublished a)

- Upper Lachlan’s economy is underpinned by a strong agriculture presence:** Agriculture, forestry and fishing was the largest contributing sector to Upper Lachlan’s Industry Value Add (IVA) in 2021-22 contributing \$155.2 million (40.0%) to Upper Lachlan’s total IVA. Construction was the second largest contributing sector to IVA contributing \$32.9 million (8.5%) followed by health care and social assistance with \$28.0 million (7.2%).

Table 2.2 Industry Value Add (IVA) Contribution (%), 2016-17 & 2021-22

Industry	Upper Lachlan		Comparison Regions		New South Wales	
	2016-17	2021-22	2016-17	2021-22	2016-17	2021-22
Agriculture, forestry, and fishing	42.0%	40.0%	30.1%	29.5%	2.4%	2.9%
Construction	6.9%	8.5%	6.3%	5.6%	8.7%	8.4%
Health care and social assistance	6.8%	7.2%	5.1%	5.0%	7.5%	8.7%
Manufacturing	4.7%	5.5%	4.9%	4.1%	6.4%	6.3%
Public administration and safety	5.2%	5.3%	4.5%	4.3%	5.3%	5.3%
Professional, scientific, and technical services	4.8%	5.0%	2.6%	2.4%	9.6%	11.0%
Education and training	4.5%	4.8%	4.4%	4.2%	5.5%	5.8%
Retail trade	3.5%	3.5%	3.3%	3.0%	5.1%	4.9%
Administrative and support services	2.4%	2.8%	2.7%	2.5%	4.5%	4.7%
Electricity, gas, water, and waste services	4.2%	2.6%	3.0%	2.5%	2.4%	2.0%
Other services	2.8%	2.4%	1.5%	1.2%	2.1%	1.6%
Wholesale trade	2.4%	2.3%	3.0%	2.8%	5.2%	5.1%
Transport, postal and warehousing	2.4%	2.0%	3.5%	3.4%	6.3%	5.1%
Financial and insurance services	1.1%	2.0%	2.0%	1.4%	12.9%	12.2%
Accommodation and food services	2.8%	1.9%	2.2%	1.8%	3.1%	2.3%
Rental, hiring and real estate services	1.4%	1.6%	1.5%	1.3%	4.6%	4.2%

Industry	Upper Lachlan		Comparison Regions		New South Wales	
	2016-17	2021-22	2016-17	2021-22	2016-17	2021-22
Mining	0.8%	0.9%	19.0%	24.2%	3.6%	5.0%
Information media and telecommunications	0.9%	0.8%	0.3%	0.4%	3.9%	3.8%
Arts and recreation services	0.6%	0.7%	0.4%	0.4%	0.9%	0.7%
IVA (\$M)	\$327.1	\$387.6	\$10,157.8	\$11,640.3	\$474,056.0	\$582,335.1

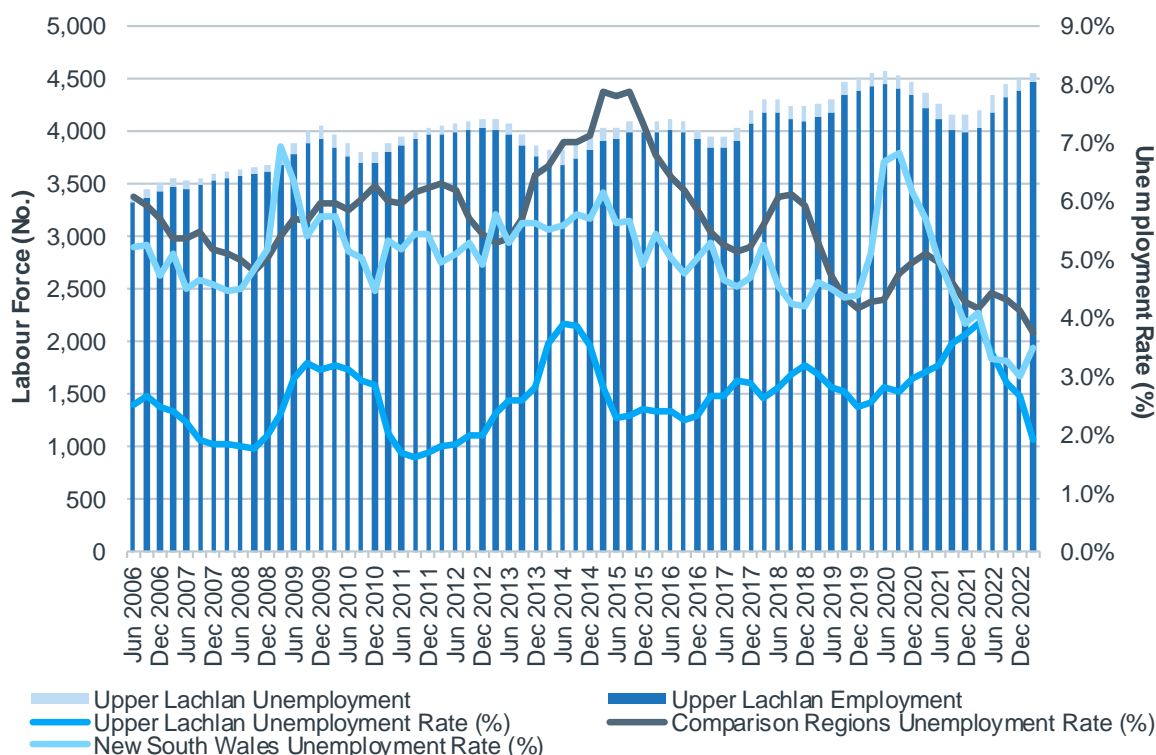
Source: AEC (unpublished a).

- Upper Lachlan has grown its employment base to over 2,750 jobs in 2021-22 and has recorded stronger growth compared to the comparison regions:** Upper Lachlan experienced an increase of 255 jobs between 2010-11 and 2021-22 to 2,758 jobs in 2021-22, equating to an average annual growth rate of 0.9% over the period (AEC, unpublished b). This rate was higher than the comparison regions (average annual growth rate of -0.1%), but lower than the growth experienced in New South Wales (1.6% per annum) (AEC, unpublished b). Agriculture, forestry, and fishing was the largest employing industry in Upper Lachlan in 2021-22 representing 33.9% of jobs (or 934 persons). Health care and social assistance was the second largest employing industry representing 11.9% of all jobs, followed by construction representing 8.0% of jobs (AEC, unpublished b).

Health care and social assistance recorded the largest increases in the number of jobs in Upper Lachlan from 2010-11 to 2021-22 with an increase of 104 jobs (AEC, unpublished b). Construction experienced the second largest increase of 67 jobs over the same period (AEC, unpublished b).

- Upper Lachlan has historically recorded lower unemployment rates lower than the comparison regions and New South Wales:** Upper Lachlan has consistently recorded lower unemployment rates than the comparison regions and New South Wales. Upper Lachlan’s unemployment rate was resilient during the peak of the pandemic where it recorded an unemployment rate of 2.7% in September 2020. During the same time, comparison regions recorded an unemployment rate of 4.8% and New South Wales unemployment rate reached 6.7%. Upper Lachlan’s unemployment rate reached a recent peak of 3.9% in March 2022 however remained lower than the comparison regions and New South Wales (4.2% and 4.1% respectively) (Jobs and Skills Australia, 2023) during the same period. As of March 2023, Upper Lachlan recorded an unemployment rate of 1.9% which is lower than the comparison regions and New South Wales (3.8% and 3.5% respectively) (Jobs and Skills Australia, 2023).

Figure 2.3 Labour Market, Upper Lachlan, Jun 2006 to March 2023



Source: Jobs and Skills Australia (2023).

- **Weekly household incomes in Upper Lachlan average approximately \$300 more than the comparison regions:** Weekly household incomes averaged approximately \$1,925 per week in 2021, \$309 higher than the comparison regions average of \$1,616 per week (ABS, 2022a). Despite this, the average weekly household income in Upper Lachlan was lower compared to New South Wales, which recorded an average weekly household income of \$2,272 per week (ABS, 2022a). A large proportion of the workforce in Upper Lachlan (33.9%) were employed in agriculture, forestry and fishing in 2021-22 which has a lower wage (\$1,193 per week) and New South Wales has a higher proportion of employment in higher income industries such as financial and insurance services and professional, scientific and technical services.
- **Upper Lachlan's vacancy rate was 21.5% in 2021, which was relatively higher than the comparison regions and New South Wales more broadly:** Over the years, the vacancy rate in upper Lachlan has declined, reducing from 25.2% in 2011 to 21.5% in 2021 (ABS, 2022 a). Despite this decrease, Upper Lachlan still has a substantially higher vacancy rate compared to the comparison regions (13.5%) and New South Wales (8.9%).
- **Upper Lachlan has experienced an increase in the number of building approvals in recent years:** Residential building approvals in Upper Lachlan have fluctuated over the years between 10 and 55 building approvals in 2018-19 and 2021-22, with growth recorded year on year from 2018-19 (ABS, 2023). The surge in the number of buildings approved since 2018-19 can be attributed to record low interest rates during these periods (RBA, 2023) and the Federal Government's response to protect and generate construction jobs during the pandemic. Eligible owner-occupiers were able to access a \$15,000 to \$25,000 HomeBuilder grant to help build or substantially renovate an existing home (NSW Revenue, 2023).

2.2 TOURISM

- **Upper Lachlan recorded over 557,000 visitors in 2021-22, down from the pre-pandemic visitation of over 690,000 visitors in 2019-20:** Between 2015-16 and 2018-19, Upper Lachlan's visitation ranged from approximately 391,000 visitors to over 690,000 visitors in 2019-20. Strong visitation growth was experienced pre-pandemic, with visitation growing by an average annual rate of 12.2% (TRA, 2023a 2023b 2023c). The largest yearly growth experienced was between 2016-17 and 2017-18 where visitation increased by approximately 111,000 visitors (25.3% increase). This growth was predominantly due to an increase in overnight visitation which increased by approximately 91,000 visitors (TRA, 2023a 2023b 2023c). Visitation numbers experienced a significant decrease during the pandemic where average visitation in 2020-21 declined to approximately 436,000 visitors with daytrip visitation experiencing the largest decline of over 205,000 visitors (TRA, 2023a 2023b 2023c).
- **In 2021-22, domestic overnight visitors to Upper Lachlan stayed an average of 2.6 nights per trip:** Upper Lachlan recorded an average of 2.6 nights per domestic overnight visitor in 2021-22 and 11.3 per international overnight visitor. The average length of stay for domestic overnight visitors in 2021-22 was the highest experienced since 2017-18. Length of stay was higher than the comparison regions, however, lower than New South Wales (2.2 nights per trip and 4.8 nights per trip respectively) (TRA, 2023b 2023c).
- **Tourism provides significant expenditure within the Upper Lachlan economy:** In 2019, domestic day trip visitors to Upper Lachlan spent approximately \$72 per day and domestic overnight visitors spent \$217 per trip (TRA, 2019).
- **Visitation to Upper Lachlan is predominantly holiday and visiting friends and relative's visitation:** Holiday visitation accounted for 48.0% of visitation on average over the past five years (2017-18 to 2021-22), followed by visiting friends and relatives with 33.3% of visitation (on average). Business visitation accounted for 13.8% of visitation with other reasons accounting for 5.0% of visitation on average from 2017-18 to 2021-22) (TRA, 2023a 2023b 2023c).

3. OVERVIEW OF SERVICE DELIVERY AND PROVISION OF INFRASTRUCTURE

This section provides an overview of the Council's service delivery decisions, infrastructure managed by the Council, and other key service strategies. Decisions regarding the range and levels of services provided is a key determinant of Council's financial sustainability, including decisions made on the provision of infrastructure and other assets, and the management approach to acquiring, operating, maintaining, renewing/replacing and/or disposing of the assets.

3.1 STRATEGIC OBJECTIVES

The Upper Lachlan Community Strategic Plan 2042 outlines the strategic objectives that guide the provision of services and infrastructure by Council. It serves as a vision for Council's planned achievements. The plan's vision is "to build and maintain sustainable communities while retaining the region's natural beauty". Sustainable communities "refers to both social, environmental, and economic sustainability. Social connections, civic leadership, environmental health, and economic prosperity can be maintained to meet current and future needs".

Table 3.1 Strategic Objectives

Strategic Objectives	Strategies	Council's Role	Council's Partners
Our community's health and wellbeing is supported by access to services, facilities, and Activities	<ul style="list-style-type: none"> A.1 Our community has access to health and community services that support physical health and mental wellbeing through all life stages. A.2 Our community driven sports and recreation groups are supported. A.3 Advocate state and federal government agencies for infrastructure and services that meet the health and wellbeing needs of the community. 	<ul style="list-style-type: none"> Provide Collaborate Advocate 	<ul style="list-style-type: none"> NSW State Government Commonwealth Government Health services Community services Community members Community groups
We have an inclusive, respectful, and vibrant community life	<ul style="list-style-type: none"> A.4 Our Traditional Owners and First Nations people ongoing and historic connection to Country is acknowledged. A.5 Events celebrate the identity of our towns, produce, heritage and culture. A.6 Support the community by encouraging. creative expression through arts and culture 	<ul style="list-style-type: none"> Provide Collaborate 	<ul style="list-style-type: none"> Traditional Owners and First Nations people Artists Tourism bodies Community groups
Our community is close-knit and connected.	<ul style="list-style-type: none"> A.7 Support participation in a broad range of activities to foster community connectivity and informal support networks. A.8 Support and promote services, community groups and local initiatives as a way of supporting residents and welcoming and including new residents 	<ul style="list-style-type: none"> Provide Collaborate 	<ul style="list-style-type: none"> Community members Community groups
Our businesses and industries are thriving, providing employment across the community	<ul style="list-style-type: none"> B.1 Promote the region as an ideal location for businesses and industry. B.2 Foster a diverse and resilient agricultural industry. B.3 Partner with businesses and other organisations to attract and retain skilled employees. B.4 Enhance economic resilience to adapt and respond to shocks like COVID 19 and natural disasters. 	<ul style="list-style-type: none"> Collaborate Advocate 	<ul style="list-style-type: none"> Local business and industry NSW State Government Commonwealth Government CRJO RDASI
The local and regional tourism offering is expanded, increasing visitation to the region.	<ul style="list-style-type: none"> B.5 Foster strategic partnerships with tourism authorities to harness marketing and attraction opportunities. B.6 Support and encourage the growth of tourism infrastructure such as accommodation, visitor facilities and restaurants. 	<ul style="list-style-type: none"> Provide Collaborate 	<ul style="list-style-type: none"> Local business and industry CRJO RDASI Tourism bodies
Our community can access local education, training, and employment options.	<ul style="list-style-type: none"> B.7 Support our young people to access surrounding education, training, and employment pathways. B.8 Advocate for better telecommunications connectivity to support local education, training, and employment opportunities. 	<ul style="list-style-type: none"> Provide Collaborate Advocate 	<ul style="list-style-type: none"> Education and training providers Local business and industry NSW State Government Commonwealth Government Telecommunications providers

Strategic Objectives	Strategies	Council's Role	Council's Partners
Our natural environment is maintained, protected, and enhanced in line with community expectations.	<ul style="list-style-type: none"> C.1 Protect and enhance the existing natural environment, including flora and fauna native to the region. C.2 Implement effective integrated weed and pest animal management. C.3 Protect and rehabilitate waterways and catchments. 	<ul style="list-style-type: none"> Provide Collaborate 	<ul style="list-style-type: none"> NSW State Government Water authorities Community groups
Adopt environmental sustainability practices	<ul style="list-style-type: none"> C.4 Investigate and implement approaches to reduce Council's carbon footprint. C.5 Council to investigate and adopt environmentally sustainable practices and purchasing across the organisation. 	<ul style="list-style-type: none"> Provide 	
Our rural character and natural landscapes are protected and maintained	<ul style="list-style-type: none"> C.6 Maintain a balance between growth, development, environmental protection, and agriculture through sensible planning. C.7 Consider community feedback, local character and identity, economic factors, and social impact in planning decisions. C.8 Encourage positive social and environmental contributions from developers 	<ul style="list-style-type: none"> Provide Collaborate 	<ul style="list-style-type: none"> Community members Community groups Housing providers
Improved transport links connecting towns within the Shire and increased access to major centres.	<ul style="list-style-type: none"> D.1 Plan for, maintain and improve road corridor networks. D.2 Advocate for funding to improve road corridor conditions and connectivity. 	<ul style="list-style-type: none"> Provide Collaborate Advocate 	<ul style="list-style-type: none"> NSW State Government Commonwealth Government
Our rural and heritage atmosphere is maintained through sensitive development and preservation	<ul style="list-style-type: none"> D.3 Our local character is maintained through the protection and preservation of historic buildings. D.4 Encourage community pride through the beautification of our towns and rural areas. D.5 Develop infrastructure and attractions that emphasise the natural and heritage features of the region 	<ul style="list-style-type: none"> Provide Collaborate Advocate 	<ul style="list-style-type: none"> NSW State Government Commonwealth Government Community groups Community members
Our network of community infrastructure supports connected communities and meets community and visitor needs	<ul style="list-style-type: none"> D.6 Our community infrastructure is accessible and fosters inclusive, healthy, and active recreation. D.7 Infrastructure improvements and additions support our communities and enhance visitor experiences. D.8 Management of community infrastructure is supported by strong relationships between Council and community groups and used to the maximum extent possible. D.9 Advocate to state and federal government agencies for infrastructure that meets the needs of all people in our communities and our visitors 	<ul style="list-style-type: none"> Provide Collaborate Advocate 	<ul style="list-style-type: none"> Community groups Tourism bodies NSW State Government Commonwealth Government
Council is an effective, responsible, and innovative organisation	<ul style="list-style-type: none"> E.1 Council practices and processes are undertaken in an efficient manner that meets legislative requirements. E.2 Make doing business with Council easier. E.3 Governance provides a sound basis for decision making. E.4 Council actively participates in regional bodies such as CRJO to identify innovations and opportunities for our region 	<ul style="list-style-type: none"> Provide Advocate 	<ul style="list-style-type: none"> Community members CRJO RDASI
Council is a financially sustainable organisation that can meet community needs	<ul style="list-style-type: none"> E.5 Manage resources in a responsible manner that supports the ongoing viability of Council. E.6 Seek out and pursue income generating opportunities for Council. E.7 Manage assets in a proactive way across their lifespan within resources limitations. 	<ul style="list-style-type: none"> Provide Collaborate 	<ul style="list-style-type: none"> Business and industry
Our community is informed and engaged in decision making	<ul style="list-style-type: none"> E.8 Our community is empowered to access engagement opportunities and provide input into the future direction of the region. E.9 Council understands the aspirations of the community and seeks to work together to solve local issues. E.10 Residents have access to timely, relevant, and accurate information on matters that affect them. E.11 We aim to engage 'hard to reach' parts of our community in decisions that affect them and our region 	<ul style="list-style-type: none"> Provide Collaborate 	<ul style="list-style-type: none"> Community members Community groups

Source: Upper Lachlan Community Strategic Plan 2042.

3.2 DELIVERY PROGRAM

The Combined Delivery Program and Operational Plan (the Delivery Program) lays out the principal activities and projects that Council will undertake over the four years of the current elected term to achieve the vision and strategic objectives outlined in the Community Strategic Plan.

3.2.1 Planned Services

The Delivery Program outlines the projects and services to be delivered by each of the business units and service areas – see Table 2.2 below for an outline of the services provided. The measures also provide an insight into the levels of service required and to be funded through the Annual Budget and Long-Term Financial Plan.

Table 3.2 Organisation of Planned Services

Fund	Directorate	Department/Service Area
General	Chief Executive Officer	Tourism & Economic Development
		Caravan Parks
		Bank House
General	Environment and Planning	Animal Control
		Building Control
		Environmental Systems and Protection
		Food Control and Inspections
		Information Technology
		Noxious Weeds Control
		Sporting Grounds and Parks & Gardens
		Swimming Pools
		Town Planning and Development Control
Waste	Environment and Planning	Domestic Waste Management
		Waste Centres, Rubbish Tips & Street Cleaning
General	Finance and Administration	Administration and Corporate Support
		Depreciation Operating Expense
		Financial Services
		General Purpose Items and Rates
		Governance and Real Estate Development
		Public Cemeteries
		Public Libraries
		Purchasing
		Workforce (Human Resources and WHS)
General	Infrastructure	Engineering & Works Supervision
		Emergency Services & Fire Protection
		Health Services, Aged, Disabled & Community Services
		Housing
		Plant and Equipment Operations
		Public Conveniences
		Public Halls, Cultural Serv, Community Centres & Museums
		Quarries and Gravel Pits
		Roads, Bridges, Cycleways, Footpaths and Kerb & Gutter
		Stormwater and Drainage
Sewer	Environment and Planning	Sewerage Services
Water	Environment and Planning	Water Supply Services

Source: Upper Lachlan Shire Council Annual Budget 2023 & 2024.

3.2.2 Service Costs

Table 3.3 Operational Cost of Services – 2023/24 Forecast

SERVICE	Employee benefits and on-costs	Materials and services	Borrowing costs	Depreciation, amortisation and impairment of non-financial assets	Other expenses	Net losses from the disposal of assets	Total expenses from continuing operations
General Manager							
Tourism Promotion and Business*	909,325	2,516,732	-	-	-	-	3,426,057
Bank House	377	19,763	-	-	-	-	20,140
Caravan Parks	16,662	24,571	-	-	-	-	41,233
Finance & Administration							
Administration and Corporate Support	1,012,917	416,374	-	-	-	-	1,429,291
Depreciation Operating Expense	-	-	-	9,592,841	-	-	9,592,841
Financial Services	483,581	198,000	249,224	-	3,000	-	933,805
General Purpose Items and Rates	-	-	-	-	-	-	-
Governance and Real Estate Development	771,827	537,822	-	-	43,000	-	1,352,649
Public Cemeteries	14,215	55,342	-	-	-	-	69,557
Public Libraries	239,824	212,149	-	-	-	-	451,973
Purchasing	-	-	-	-	-	-	-
Workforce (Human Resources and WHS)	821,797	6,700	-	-	-	-	828,497
Environment & Planning							
Animal Control	132,594	28,452	-	-	-	-	161,046
Building Control	530,652	2,400	-	-	-	-	533,052
Domestic Waste Management	366,061	1,225,433	-	-	-	-	1,591,494
Environmental Systems and Protection	95,931	1,600	-	-	-	-	97,531
Food Control and Inspections	-	12,000	-	-	-	-	12,000
Information Technology	367,056	383,034	-	-	-	-	750,090
Noxious Weeds Control	358,804	16,252	-	-	-	-	375,056
Swimming Pools	191,908	70,425	-	-	-	-	262,333
Town Planning and Development Control	620,463	72,300	-	-	-	-	692,763
Waste Centres, Rubbish Tips & Street Cleaning	335,762	345,069	-	-	-	-	680,831
Sporting Grounds and Parks & Gardens	403,480	342,980	-	-	-	-	746,460
Sewerage Services	533,586	636,409	5,643	-	-	-	1,175,638
Water Supply Services	777,858	1,066,208	24,163	-	10,200	-	1,878,429
Infrastructure							
Engineering & Works Supervision	919,401	60,025	-	-	-	-	979,426
Emergency Services & Fire Protection	6,185	81,071	-	-	793,727	-	880,983
Health Serv, Aged, Disabled & Community Services	355,886	62,299	-	-	12,100	-	430,285
Housing	11,604	18,706	-	-	-	-	30,310
Plant and Equipment Operations	397,986	(1,934,150)	-	-	-	104,136	(1,432,028)
Public Conveniences	210,575	73,368	-	-	-	-	283,943
Public Halls, Cultural Serv, Community Centers & Museums	39,563	156,604	-	-	15,600	-	211,767
Quarries and Gravel Pits	52,873	579,100	-	-	-	-	631,973
Roads, Bridges, Cycleways, Footpaths and Kerbs & Gutters	3,129,752	5,544,730	-	-	-	-	8,674,482
Stormwater and Drainage	28,716	1,000	-	-	-	-	29,716
GRAND TOTAL	14,137,221	12,832,768	279,030	9,592,841	877,627	104,136	37,823,623

Source: Council 2023/24 Budget

*includes State Road contract, MR54 and private works

3.2.3 Financial Overview of Assets and Infrastructure

Table 3.4 Overview of Asset Financial Measures by Asset Category (as at 30 June 2022)

Asset Class/ Asset Category	Estimated Cost to Bring Assets to Satisfactory Standard \$'000	2021/22 Estimated Cost to Bring to the Agreed Level of Service Set by Council \$'000	2021/22 Required Maintenance \$'000	2021/22 Actual Maintenance \$'000	Net Carrying Amount \$'000	Gross Replacement Cost (GRC) \$'000	Consumption Ratio
Buildings							
Buildings - Non-Specialised	475	475	132	61	2,480	5,467	55%
Buildings – Specialised	648	648	854	677	27,642	53,852	49%
Other							
Sub-total	1,123	1,123	986	738	30,122	59,319	49%
Other Structure							
Other Structures	35	35	29	939	1,403	2,288	39%
Sub-total	35	35	29	939	1,403	2,288	39%
Roads							
Roads	3,088	3,088	2,232	5,226	302,211	365,889	17%
Bridges	745	745	767	78	52,367	75,218	30%
Footpaths	90	90	57	15	2,683	4,417	39%
Sub-total	3,923	3,923	3,056	5,319	357,261	445,524	20%
Water supply network							
Water supply network	2,750	2,750	1,292	1,856	27,750	44,059	37%
Sub-total	2,750	2,750	1,292	1,856	27,750	44,059	37%
Sewerage network							
Sewerage network	950	950	448	999	18,556	30,959	40%
Sub-total	950	950	448	999	18,556	30,959	40%
Stormwater drainage							
Stormwater drainage	8,566	8,566	1,179	728	13,962	33,149	58%
Sub-total	8,566	8,566	1,179	728	13,962	33,149	58%
Open Space/recreational assets							
Swimming pools	-	-	18	117	378	910	58%
Other open space/recreational assets	516	516	109	809	2,366	4,297	45%
Sub-total	516	516	127	926	2,744	5,207	47%
Total -all assets	17,863	17,863	7,117	11,505	451,798	620,505	27%

Source: Council Annual Financial Statements 2021/22, Report on Infrastructure assets as at 30 June 2022.

3.2.4 Asset Condition

The condition of Council's assets is shown in the Report on Infrastructure Assets, a special schedule attached to the Annual Financial Statements, and is summarised in the table below.

Table 3.5 Overview of Asset Financial Measures by Asset Category (as at 30 June 2022)

Asset Class/ Asset Category	Asset Condition as a percentage of gross replacement costs				
	1 %	2 %	3 %	4 %	5 %
Buildings					
Buildings - Non-Specialised	-	23.7	54.6	21.7	-
Buildings - Specialised	19.6	22.9	54.6	2.8	0.1
Other	20.0	-	-	-	-
Sub-total	17.8	22.9	54.6	4.5	0.1
Other Structure					
Other Structures	31.4	39.1	25.6	3.9	-
Sub-total	31.4	39.1	25.6	3.9	-
Roads					
Roads	28.5	17.1	52.3	2.1	-
Bridges	46.2	42.0	9.5	1.8	0.4
Footpaths	32.4	38.4	24.1	5.1	-
Sub-total	31.5	21.5	44.8	2.1	0.1
Water supply network					
Water supply network	40.3	25.9	23.1	0.9	9.8
Sub-total	40.3	25.9	23.1	0.9	9.8
Sewerage network					
Sewerage network	34.7	27.1	30.6	7.6	0.1
Sub-total	34.7	27.1	30.6	7.6	0.1
Stormwater drainage					
Stormwater drainage	16.9	17.3	1.4	64.1	0.3
Sub-total	16.9	17.3	1.4	64.1	0.3
Open Space/recreational assets					
Swimming pools	-	-	100.0	-	-
Other open space/recreational assets	30.2	33.2	8.2	25.3	3.2
Sub-total	24.9	27.4	24.3	20.8	2.6
Total -all assets	30.1	22.1	40.9	6.0	0.8

Source: Council Annual Financial Statements 2021/22, Report on Infrastructure assets as at 30 June 2022.

Note: Condition score based on following criteria:

- Condition 1 – Excellent (normal maintenance)
- Condition 2 – Good (only minor maintenance work required)
- Condition 3 – Satisfactory (maintenance work required)
- Condition 4 – Poor (renewal required)
- Condition 5 – Very Poor (urgent renewal/upgrade required)

3.3 OTHER KEY STRATEGIES AND PLANS

3.3.1 Asset Management Strategy

The Asset Management Strategy has been developed to enable Council to demonstrate how the asset portfolios will meet the current and future service delivery needs of the community and to ensure the integration of Council's asset management practices with the long-term strategic plans. The strategy outlines an asset management improvement plan detailing a program of work required to bring Council to a minimum 'core' level of asset maturity and competence. Council also has to ensure that are able to fulfil the OLG requirement of a 10-year capital program with at minimum recurrent asset renewal program.

3.3.2 Economic Development Strategy

Council's Economic Development Strategy is created to facilitate growth in the local economy and to the benefit of the Shire in the short and long term. The strategy has been designed to promote the attractiveness of the Shire's natural and economic environment to residents and businesses to ensure growth and sustainability into the future.

Council's vision is to:

- Encourage community growth and development and
- Contribute to the efficient and effective management of the environment, community, and economy for present and future generations.

4. ASSESSMENT OF FINANCIAL PERFORMANCE

4.1 BACKGROUND

AEC's analysis of the historical and projected financial performance of Council, and the underlying drivers of financial performance, was based on the review of evidence in the form of audited financial statements, complimented through additional contextual information gained through engagement with Council's key staff.

Historically, Council has reported a consolidated position as well as three fund types that are included in the consolidated position:

- Water Fund – Provision of water network services to properties within the serviceable areas and funded through the water access charge, consumption charge and other water fees.
- Sewer Fund - Provision of sewer network services to properties within the serviceable areas and funded through the sewerage access charge and other sewerage fees.
- General Fund – All other services and infrastructure provided by Council not funded by water or sewerage revenue. Revenue for the general fund is predominantly general rate revenue and grant funding, as well as revenue earned from fees and charges for services provided.

Council does report domestic waste management (DWM) as a separate business activity within its Special Purpose Statements.

While analysis of Council's consolidated position is provided below, greater emphasis is placed on the analysis of the individual fund types that determine the consolidated position.

4.2 OPERATING POSITION

Council is required to prepare financial statements to report the operating result in two ways:

- Operating result from continuing operations, and
- Net operating result for the year before grants and contributions provided for capital purposes.

It is generally considered more appropriate to consider the operating result excluding the grants received for capital purposes, as such revenue is not able to be used to fund operating expenditure. However, a major expense contributing to the operating result is depreciation, and it should be noted that Council receives grants for capital purposes that are used to renew depreciating assets.

Furthermore, while the policy positions of State and Federal governments will almost certainly impact on the quantum and the recurrent nature of capital grants, sources of grant funding for capital such as Roads to Recovery, Regional Roads, and Block Grant, which are used by Council to renew depreciating assets, have been established for some time and likely to continue. Therefore, from an assessment of whether Council can fund all operating expenses, particularly when depreciation is a major expense item, some caution needs to be applied when just considering the financial operating position excluding all capital grant revenue.

4.2.1 Consolidated Operating Position

Table 4.1 below outlines the reported consolidated income statement for Council from 2017/18 to 2021/22 with 2022/23 and 2023/24 original budgets as adopted by Council. The consolidated position is determined by the average net operating result of the three fund types.

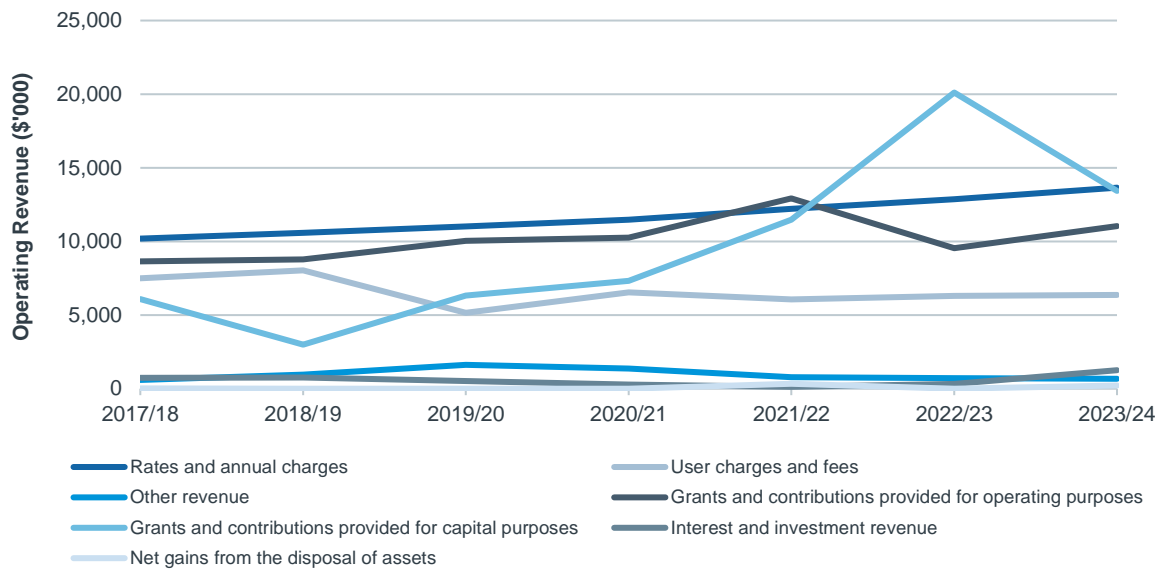
Table 4.1 Income Statement – Consolidated

INCOME STATEMENT - CONSOLIDATED	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	10,195	10,580	11,028	11,479	12,221	12,863	13,529
User charges and fees	7,509	8,037	5,155	6,544	6,055	6,311	6,353
Other revenue	597	948	1,622	1,367	775	717	674
Grants and contributions provided for operating purposes	8,648	8,777	10,036	10,263	12,924	9,550	10,968
Grants and contributions provided for capital purposes	6,082	2,993	6,319	7,336	11,484	20,113	13,426
Interest and investment revenue	731	772	512	289	127	322	1,258
Other income	-	-	-	-	-	-	-
Net gains from the disposal of assets	16	-	-	-	336	10	36
Internal Revenue	-	-	-	-	-	-	-
Total income from continuing operations	33,778	32,107	34,672	37,278	43,922	49,886	46,244
Expenses from continuing operations							
Employee benefits and on-costs	9,943	11,105	11,123	11,847	12,708	12,383	14,138
Materials and services	7,339	7,930	7,084	12,564	11,683	9,903	12,832
Borrowing costs	172	223	177	282	49	257	279
Depreciation, amortisation, and impairment of non-financial assets	6,086	6,682	6,766	7,223	8,522	8,451	8,994
Other expenses	2,675	2,759	2,757	617	639	617	877
Internal expenditure	-	-	-	-	-	-	-
Net losses from the disposal of assets	51	202	89	1,299	-	240	-
Total expenses from continuing operations	26,266	28,901	27,996	33,832	33,601	31,851	37,120
Operating result from continuing operations	7,512	3,206	6,676	3,446	10,321	18,035	9,124
Net operating result for the year before grants and contributions provided for capital purposes	1,430	213	357	(3,890)	(1,163)	(2,078)	(4,302)

Source – Council Published Financial Statements

Council has produced a net operating deficit in the last two years of the five past financial years. The deficits were due to a significant increase in material and services, reduced investment and interest income and increase in depreciation costs. The significant increase in materials and services was due to accounting changes in the treatment of some expenses previously stated as other expenses (approximately \$2.2 million).

Figure 4.1 Operating Revenue Trend - Consolidated



Source – Council Published Financial Statements

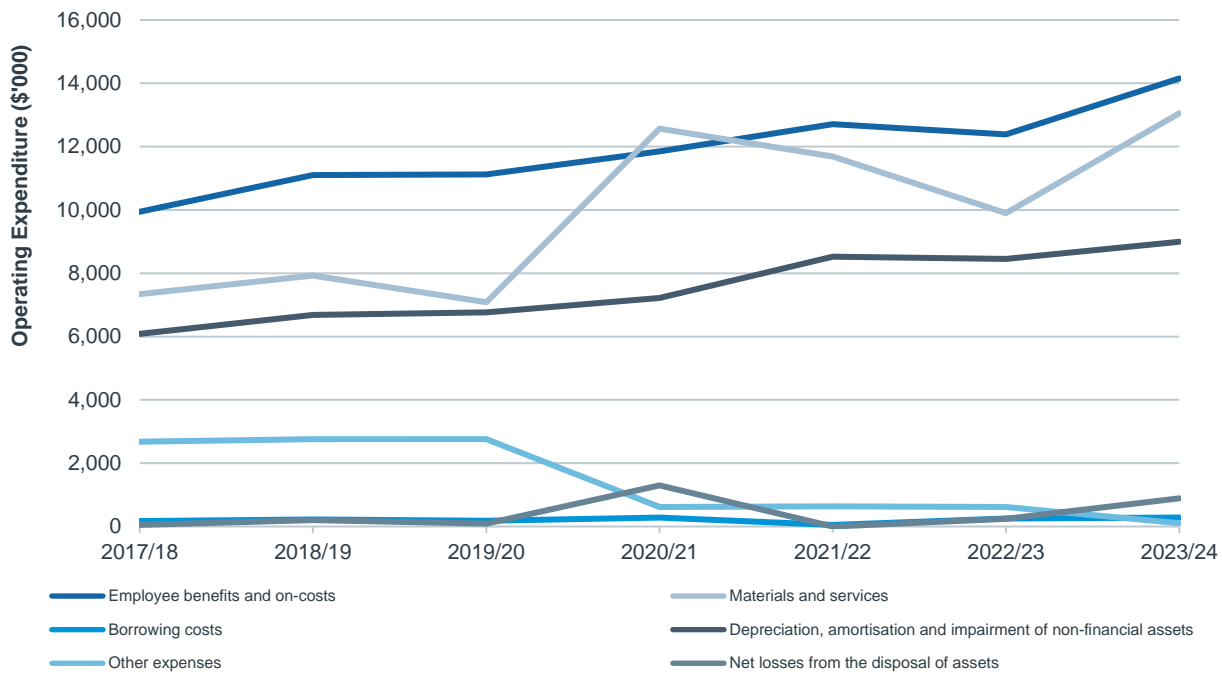
Table 4.2 Income Percentage (%) Changes over 7-year period - Consolidated

P&L Items	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Rates and annual charges	3.8%	4.2%	4.1%	6.5%	5.3%	6.1%
- Rates*	3.7%	2.8%	3.6%	4.7%	6.3%	4.9%
- Annual Charges	3.9%	6.9%	4.9%	9.5%	3.4%	8.3%
User charges and fees	7.0%	-35.9%	26.9%	-7.5%	4.2%	0.8%
Other revenue	58.8%	71.1%	-15.7%	-43.3%	-7.5%	-5.9%
Grants and contributions provided for operating purposes	1.5%	14.3%	2.3%	25.9%	-26.1%	15.7%
Grants and contributions provided for capital purposes	-50.8%	111.1%	16.1%	56.5%	75.1%	-33.2%
Interest and investment revenue	5.6%	-33.7%	-43.6%	-56.1%	153.5%	290.7%
Other income	3.8%	4.2%	4.1%	6.5%	5.3%	6.1%
Net gains from the disposal of assets					-97.0%	

Source – Council Published Financial Statements

*the increase will also include change (possible growth) in rates assessments over the year

Figure 4.2 Operating Expense Trend - Consolidated



Source – Council Published Financial Statements

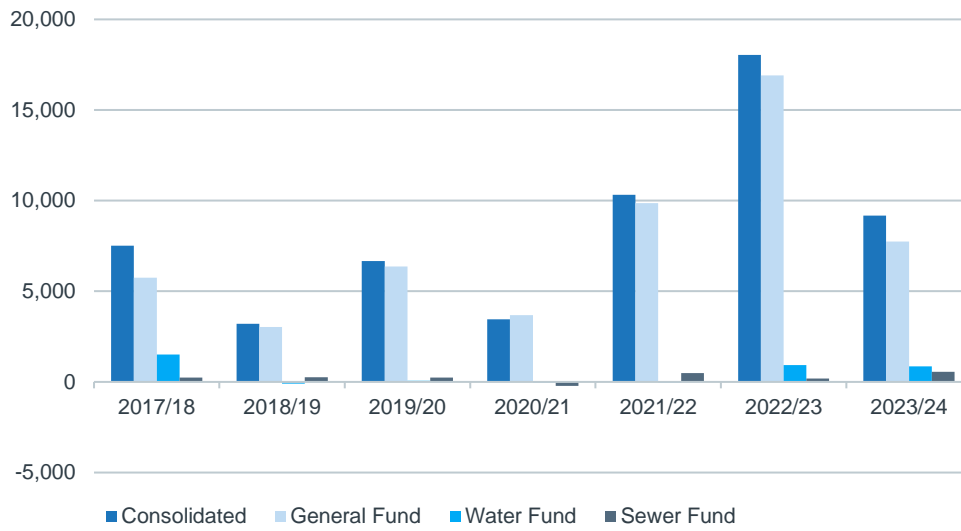
Table 4.3 Expense Percentage (%) Changes over 7-year period - Consolidated

P&L Items	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Employee benefits and on-costs	11.7%	0.2%	6.5%	7.3%	-2.6%	14.3%
Materials and services	8.1%	-10.7%	77.4%	-7.0%	-0.8%	6.4%
Borrowing costs	29.7%	-20.6%	59.3%	-82.6%	424.5%	8.6%
Depreciation, amortisation, and impairment of non-financial assets	9.8%	1.3%	6.8%	18.0%	-0.8%	6.4%
Other expenses	3.1%	-0.1%	-77.6%	3.6%	-3.4%	-83.1%
Net losses from the disposal of assets	296.1%	-55.9%	1359.6%	-100.0%		270.8%

Source – Council Published Financial Statements

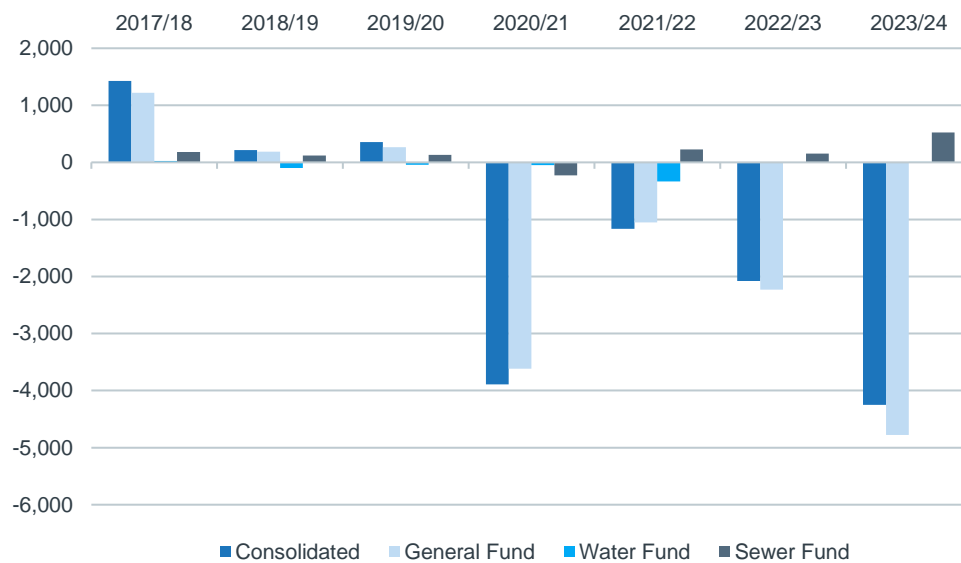
4.2.2 Overview by Fund

Figure 4.3 Operating Result by Fund



Source – Council Published Financial Statements

Figure 4.4 Operating Result before Capital Grants & Contributions by Fund



Source – Council Published Financial Statements

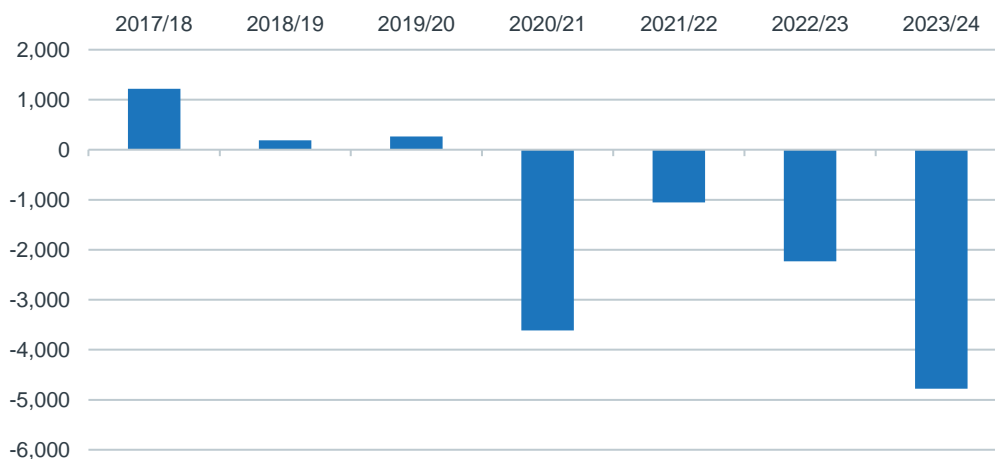
4.2.3 General fund

Table 4.4 and Figure 4.5 below outline Council’s income statement for the General Fund from 2017/18 to 2021/22 and 2022/23 and 2023/24 original budget.

Table 4.4 Income Statement – General Fund

INCOME STATEMENT – GENERAL	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	8,254	8,624	8,931	9,290	9,875	10,395	10,985
User charges and fees	6,253	6,735	3,730	5,222	4,626	4,868	4,906
Other revenue	590	948	1,622	850	664	717	675
Grants and contributions provided for operating purposes	8,630	8,743	10,000	10,227	12,888	9,510	11,047
Grants and contributions provided for capital purposes	4,531	2,841	6,107	7,305	10,912	19,137	12,527
Interest and investment revenue	564	583	391	251	94	184	761
Other income	-	-	-	-	-	-	-
Net gains from the disposal of assets	-	-	-	288	341	-	140
Internal Revenue	-	-	-	-	-	-	-
Total income from continuing operations	28,822	28,474	30,781	33,433	39,400	44,811	41,041
Expenses from continuing operations							
Employee benefits and on-costs	9,162	10,149	10,095	10,550	11,575	11,138	12,841
Materials and services	6,380	6,882	5,954	10,507	9,920	8,319	11,313
Borrowing costs	102	161	123	236	12	220	249
Depreciation, amortisation, and impairment of non-financial assets	5,067	5,631	5,780	6,214	7,406	7,421	7,938
Other expenses	2,308	2,416	2,367	612	626	617	849
Internal expenditure	-	-	-	-	-	-	-
Net losses from the disposal of assets	51	204	89	1,623	-	190	104
Total expenses from continuing operations	23,070	25,443	24,408	29,742	29,539	27,905	33,294
Operating result from continuing operations	5,752	3,031	6,373	3,691	9,861	16,906	7,747
Net operating result for the year before grants and contributions provided for capital purposes	1,221	190	266	(3,614)	(1,051)	(2,231)	(4,780)

Source – Council Published Financial Statements

Figure 4.5 Net Operating Result (before grants and contributions for capital) – General Fund

Source – Council Published Financial Statements

The General Fund's net operating position has been in a deficit position over the past two years, most notably impacted by increasing depreciation costs and high reliance on grants and contributions provided for capital purposes. This income increased from \$7.3 million in 2020/21 to \$10.9 million in 2021/22.

UPPER LACHLAN SHIRE COUNCIL FINANCIAL SUSTAINABILITY REVIEW 2023

The next two years (2022/23 & 2023/24) also predicted significant deficits in the General Fund of \$2.2 million and \$4.8 million, respectively. This is not a sustainable position for the general fund. Through the project AEC, we have further reviewed and analysed the historical factors and drivers that were contributing to the deficit position and forecast the position and the impact on availability of cash and asset condition, assuming no action is taken to correct the deficit. This within the forecast is the Base Scenario whereby what would happen if no preventive measures were taken to correct the issue. This has assisted the team to communicate the significance of the problem, and suitable recommendations have been provided within this report for Council to implement that supports Council's vision of being financially sustainable for the future.

4.2.4 Water Fund

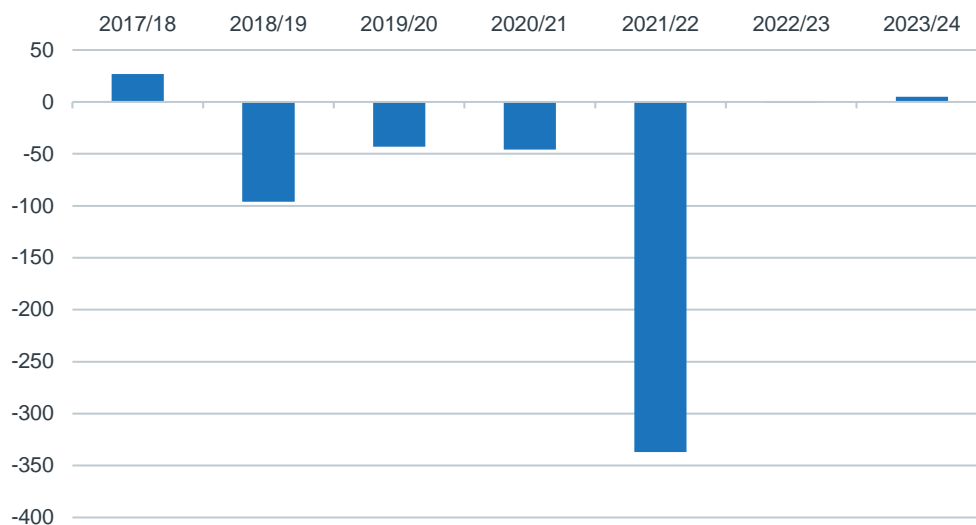
Table 4.5 below outlines the reported income statement for the Water Fund from 2017/18 to 2021/22 and budgets for 2022/23 and 2023/24. Figure 4.6 depicts the actual operating result of the fund before capital grants and contributions over the seven years.

The Water Fund experienced the last actual surplus in 2017/18 and since then for the last four years produced deficits. The subsequent budgets for 2022/23 and 2023/24 are planned to produce close to a breakeven, producing a small deficit in 2022/23 and a surplus in 2023/24.

Table 4.5 Income Statement – Water Fund

INCOME STATEMENT – WATER	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	839	840	900	945	1,012	1,062	1,117
User charges and fees	995	1,038	1,127	998	1,031	1,113	1,106
Other revenue	7	-	-	498	111	-	-
Grants and contributions provided for operating purposes	18	18	19	19	19	21	-
Grants and contributions provided for capital purposes	1,492	9	111	21	315	936	858
Interest and investment revenue	63	68	43	13	13	55	191
Other income	-	-	-	-	-	-	-
Net gains from the disposal of assets	-	-	-	14	-	10	19
Total income from continuing operations	3,414	1,973	2,200	2,508	2,501	3,197	3,291
Expenses from continuing operations							
Employee benefits and on-costs	477	584	640	759	675	693	778
Materials and services	627	673	727	1,225	1,198	979	1,052
Borrowing costs	50	45	40	35	29	29	24
Depreciation, amortisation, and impairment of non-financial assets	546	575	492	509	603	520	533
Other expenses	195	183	233	5	13	-	-
Net losses from the disposal of assets	-	-	-	-	5	41	41
Total expenses from continuing operations	1,895	2,060	2,132	2,533	2,523	2,262	2,428
Operating result from continuing operations	1,519	(87)	68	(25)	(22)	935	863
Net operating result for the year before grants and contributions provided for capital purposes	27	(96)	(43)	(46)	(337)	(1)	5

Source – Council Published Financial Statements

Figure 4.6 Net Operating Result (before grants and contributions for capital) – Water Fund

Source – Council Published Financial Statements

4.2.5 Sewer Fund

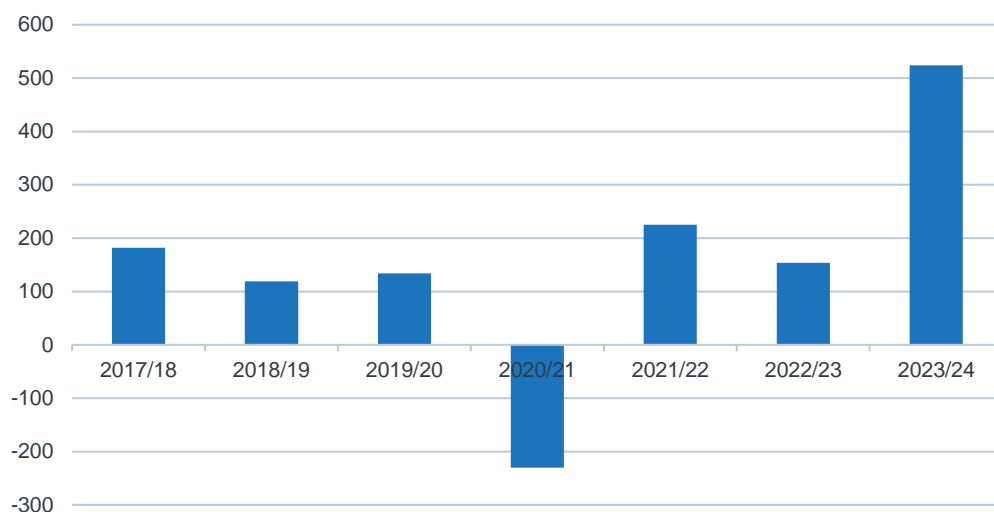
Table 4.7 below outlines the reported income statement for the Sewerage Fund from 2017/18 to 2021/22 and budgets for 2022/23 and 2023/24. Figure 4.8 depicts the actual operating result of the fund before capital grants and contributions over the seven years.

Figure 4.7 Income Statement – Sewer Fund

INCOME STATEMENT – SEWER	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	1,102	1,116	1,197	1,244	1,334	1,406	1,550
User charges and fees	261	264	298	324	398	330	347
Other revenue	-	-	-	19	-	-	-
Grants and contributions provided for operating purposes	-	16	17	17	17	19	-
Grants and contributions provided for capital purposes	59	143	101	10	257	40	41
Interest and investment revenue	104	121	78	25	20	83	306
Other income	-	-	-	-	-	-	-
Net gains from the disposal of assets	16	-	-	22	-	-	70
Internal Revenue	-	-	-	-	-	-	-
Total income from continuing operations	1,542	1,660	1,691	1,661	2,026	1,878	2,314
Expenses from continuing operations							
Employee benefits and on-costs	304	372	388	538	458	552	534
Materials and services	332	375	403	832	565	605	686
Borrowing costs	20	17	14	11	8	8	6
Depreciation, amortisation, and impairment of non-financial assets	473	476	494	500	513	510	523
Other expenses	172	160	157	-	-	-	-
Internal expenditure	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	(2)	-	-	-	9	-
Total expenses from continuing operations	1,301	1,398	1,456	1,881	1,544	1,684	1,749
Operating result from continuing operations	241	262	235	(220)	482	194	565
Net operating result for the year before grants and contributions provided for capital purposes	182	119	134	(230)	225	154	524

Source – Council Published Financial Statements

Figure 4.8 Net Operating Result (before grants and contributions for capital) – Sewer Fund



Source – Council Published Financial Statements

The reported net operating result for the Sewer Fund is between deficit of \$0.23 million and surplus of \$0.23 million over the past five financial years. 2020/21 produced a deficit of \$0.23 million and bounced back to a surplus of \$0.23 million. The budgets projected surpluses in the two financial years.

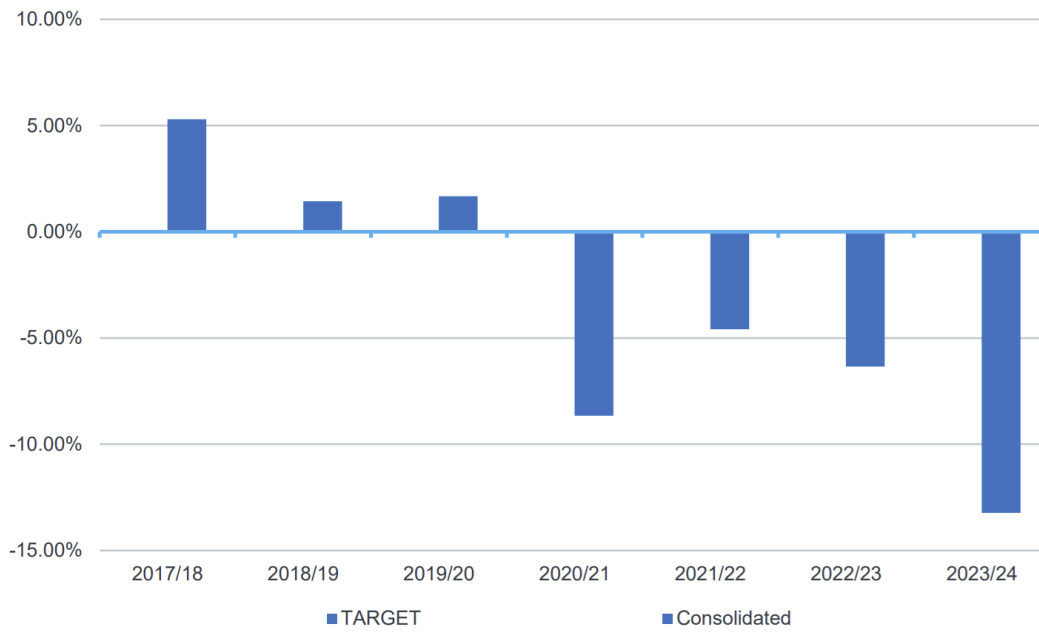
4.3 FINANCIAL PERFORMANCE MEASURES

4.3.1 Operating Performance Ratio

This performance ratio measures Council's achievement of containing operating expenditure within operating revenue. The industry benchmark is for councils to be greater than 0.00%.

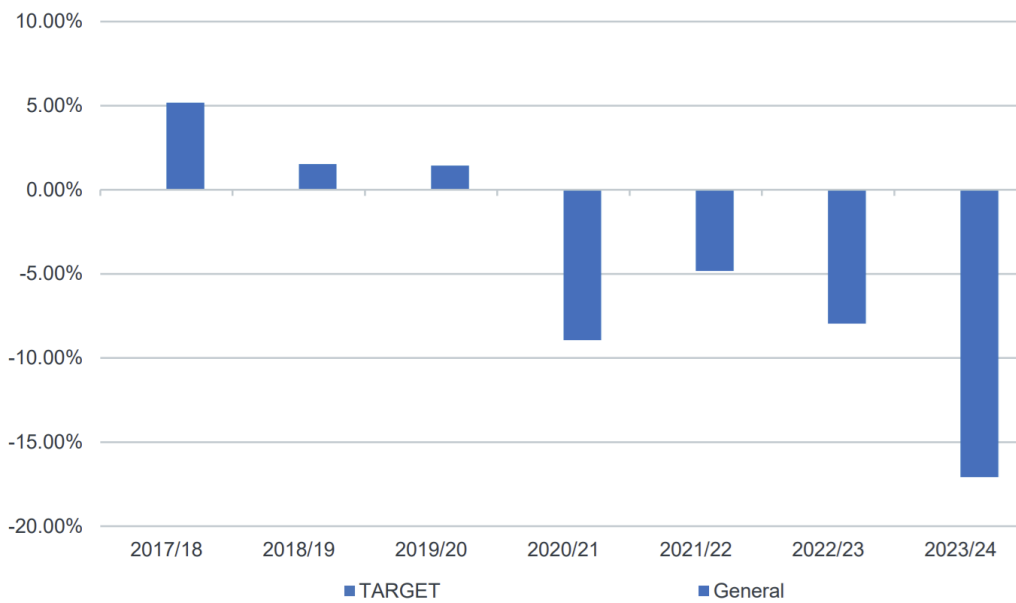
Council's operating performance ratio in 2020/21 had deteriorated, the sewer operations is the only fund that has met the industry performance measures over the seven years of assessment except for 2020/21.

Figure 4.9 Operating Performance Ratio - Consolidated



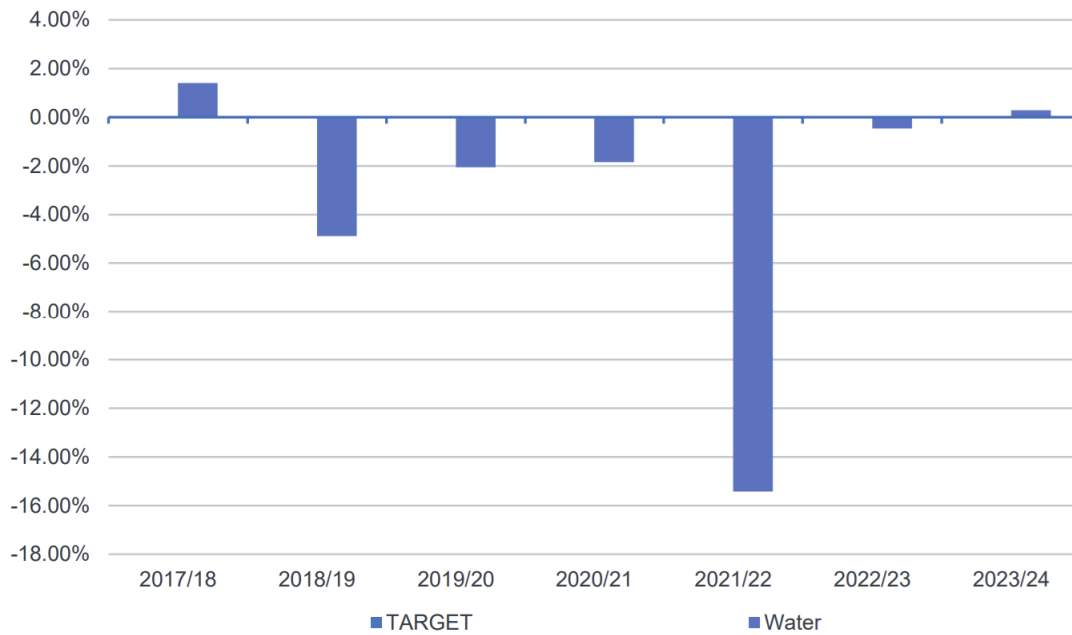
Source – Council Published Financial Statements

Figure 4.10 Operating Performance Ratio - General



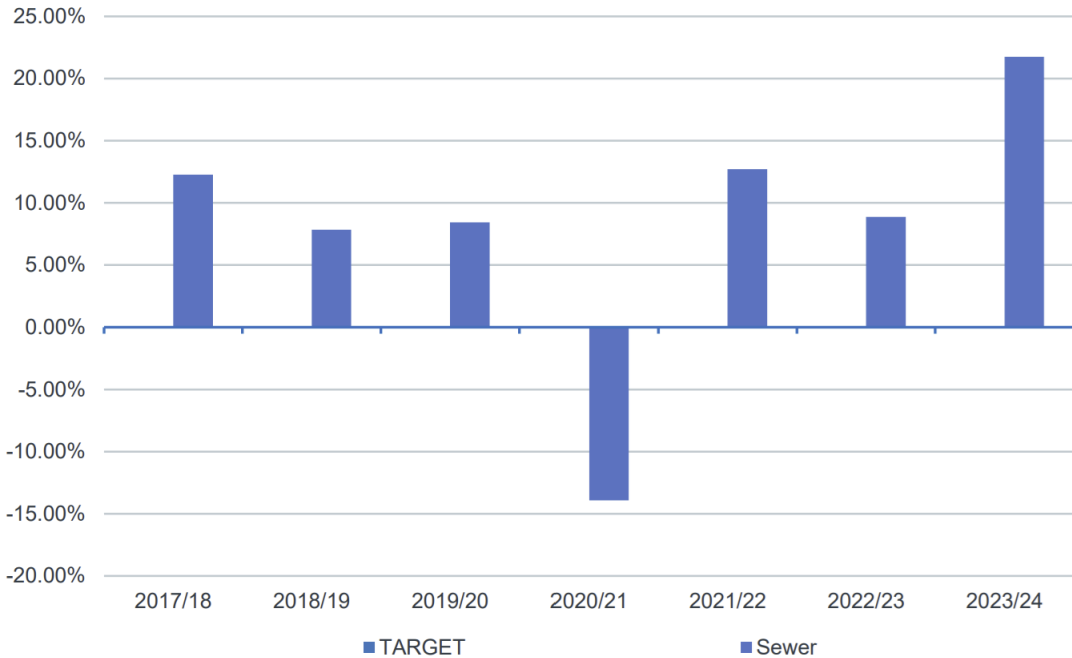
Source – Council Published Financial Statements

Figure 4.11 Operating Performance Ratio - Water



Source – Council Published Financial Statements

Figure 4.12 Operating Performance Ratio - Sewer



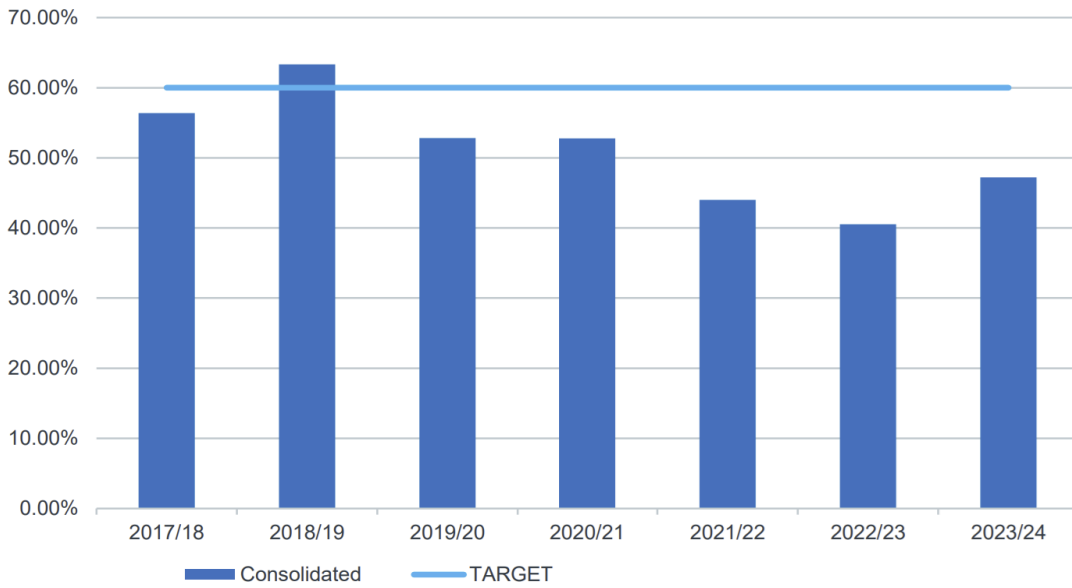
Source – Council Published Financial Statements

4.3.2 Own Source Operating Revenue Ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. This benchmark is set at greater than 60%. Council has not met this performance measure over the five years except for 2018/19, and 2021/22 is the lowest over the period at 40.53% and this is due to an increase in capital grants and contributions received by Council.

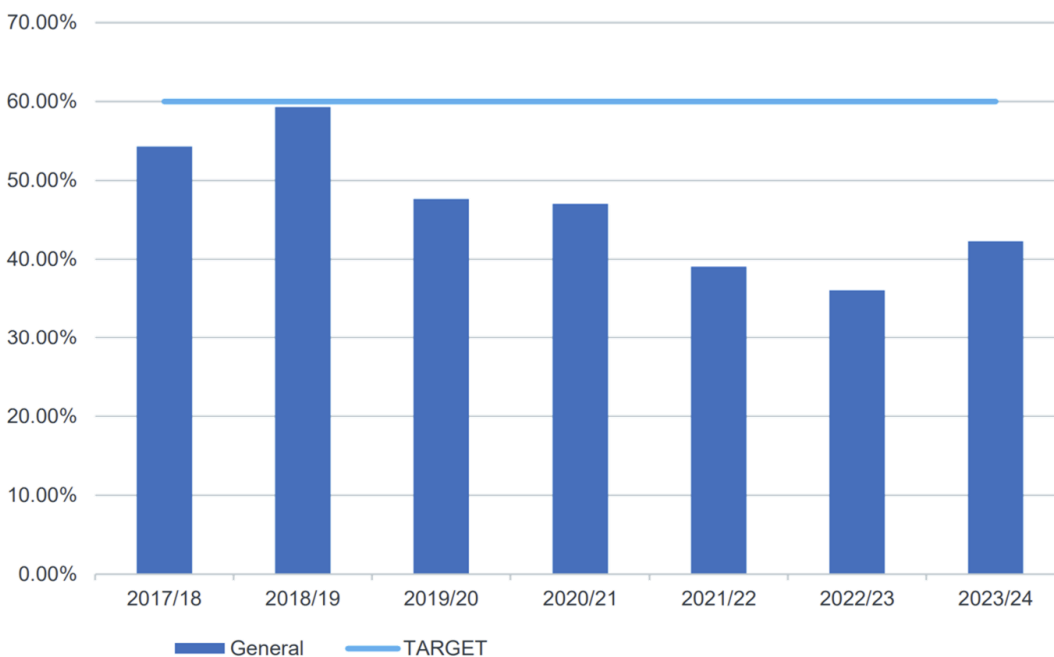
General funds have not met the performance measure over the five-year period and the 2023/24 budget also shows non-compliance to this performance measure.

Figure 4.13 Own Source Revenue Ratio - Consolidated



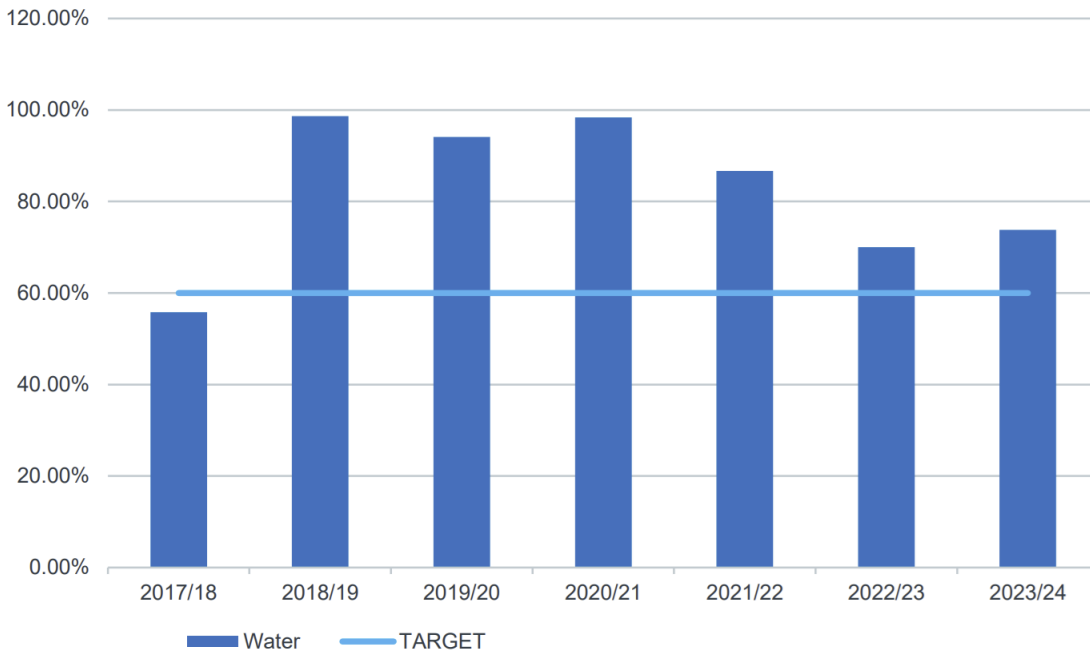
Source – Council Published Financial Statements

Figure 4.14 Own Source Revenue Ratio - General



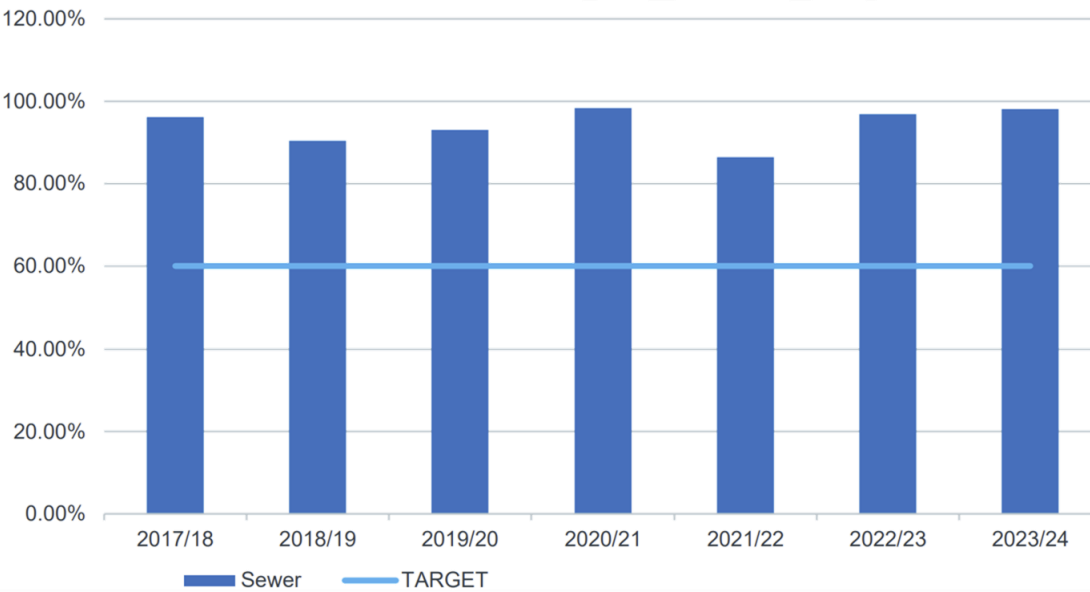
Source – Council Published Financial Statements

Figure 4.15 Own Source Revenue Ratio - Water



Source – Council Published Financial Statements

Figure 4.16 Own Source Revenue Ratio - Sewer



Source – Council Published Financial Statements

4.3.3 Unrestricted Current Ratio

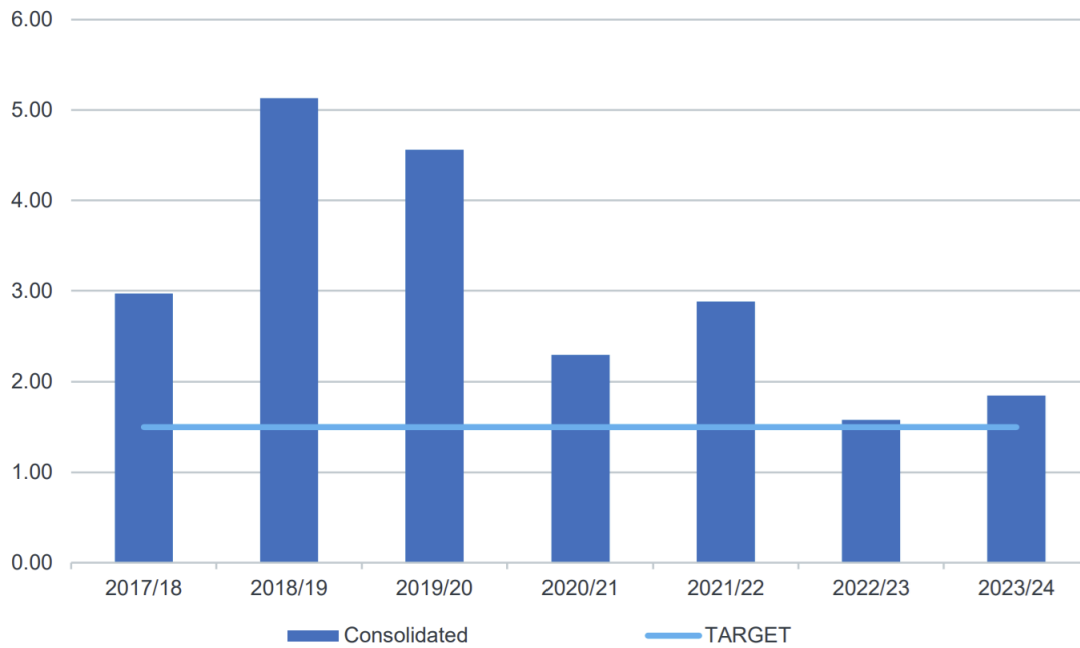
The purpose of this ratio is to assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council. Benchmark been greater than 1.5.

Council has met this benchmark through all its fund and financial years Council maintains a higher level of current assets over its current obligations or liability.

It should be noted that Council funds carried over capital works from previous year from the residual unrestricted cash available as at the end of the previous year. This results in minimal unrestricted cash available to mitigate risk to budgets and unforeseen events effecting services that are within the General Fund.

It should also be further noted that the adequacy of internal and external reserves needs to be assessed by management as to whether the reserves are sufficient to address the infrastructure investments required for both asset renewals and investment in new assets to meet growth requirements.

Figure 4.17 Unrestricted Current Ratio - Consolidated

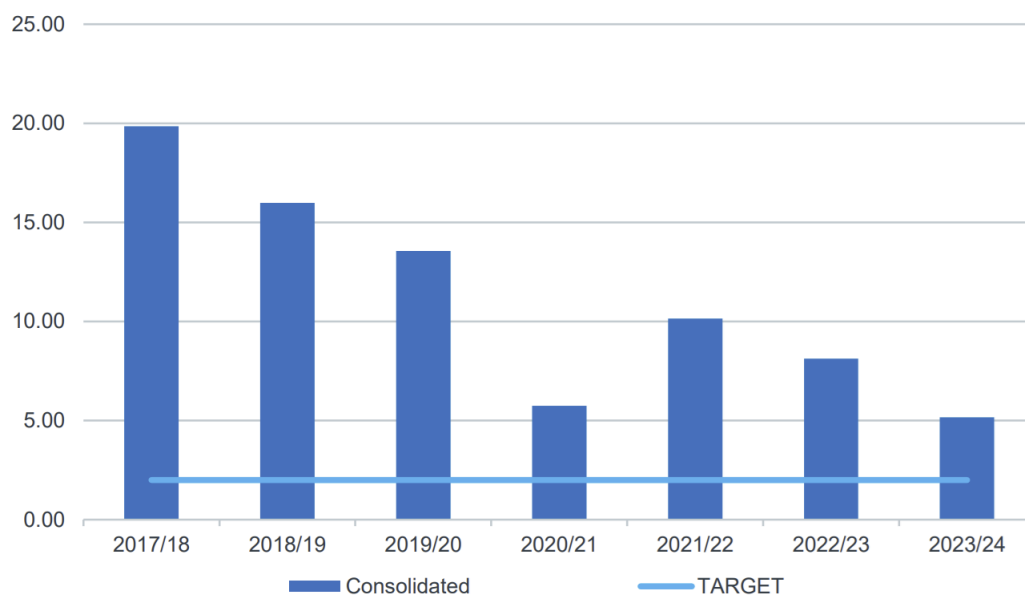


Source – Council Published Financial Statements

4.3.4 Debt Service Cover Ratio

The rationale of the debt service cover ratio measures the availability of operating cash to service debt including interest, principal, and lease payments. Council has at a consolidated level met the benchmark of 2.00. The lowest ratio was in 2020/21 at 5.75, which was due to the impact of COVID 19 during the year which impacted Council's operating cash. The drop in 2020/21 was also due to large borrowing undertaken by Council for timber bridge replacements. Council was able to turn this ratio up in the following year in 2021/22 with a ratio of 10.14 higher than the benchmark of 2.00.

Figure 4.18 Debt Service Cover Ratio - Consolidated



Source – Council Published Financial Statements

4.4 AVAILABILITY OF CASH

The following sections provide analysis of Council’s historical performance in generating and using cash for operating, investing, and financing activities. Council does not report cashflow by fund type in the financial statements and therefore the following analysis is on a consolidated basis.

4.4.1 Cashflow

Table 4.6 below outlines the reported consolidated cashflows for financial years from 2017/18 to 2021/22 and the two preceding years of budgets. The cash generated from operating activities fluctuated significantly over the period, most notably due to grants and contributions. The fluctuations in grants received differs from the Income Statement due to a change in accounting standards (reflected from 2019/20 onwards) that require Council to recognise the grants provided for specific purposes to be aligned with the delivery of the service or asset acquisition that the grant has been provided for. In the Statement of Cashflows, the grant is recognised when received. It is therefore important that Council accounts for grants within constrained reserves to ensure the cash received is quarantined for the purposes of the grant.

Total cash, cash equivalents and investments increased in the first four years till 2017/18 and then fluctuated over the assessment period. This can be further analysed to identify which funding types and what service areas have accumulated cash and what is the unrestricted component of the cash that Council has accumulated.

Figure 4.19 highlights the consolidated cash flows for operating, investing, and financing activities. Both the cash flows generated from operating activities and the cash flows used in investing activities fluctuate. The fluctuation is due to grant funding received and used in investment in assets, as well as the annual completion of other investments in the annual capital works plan.

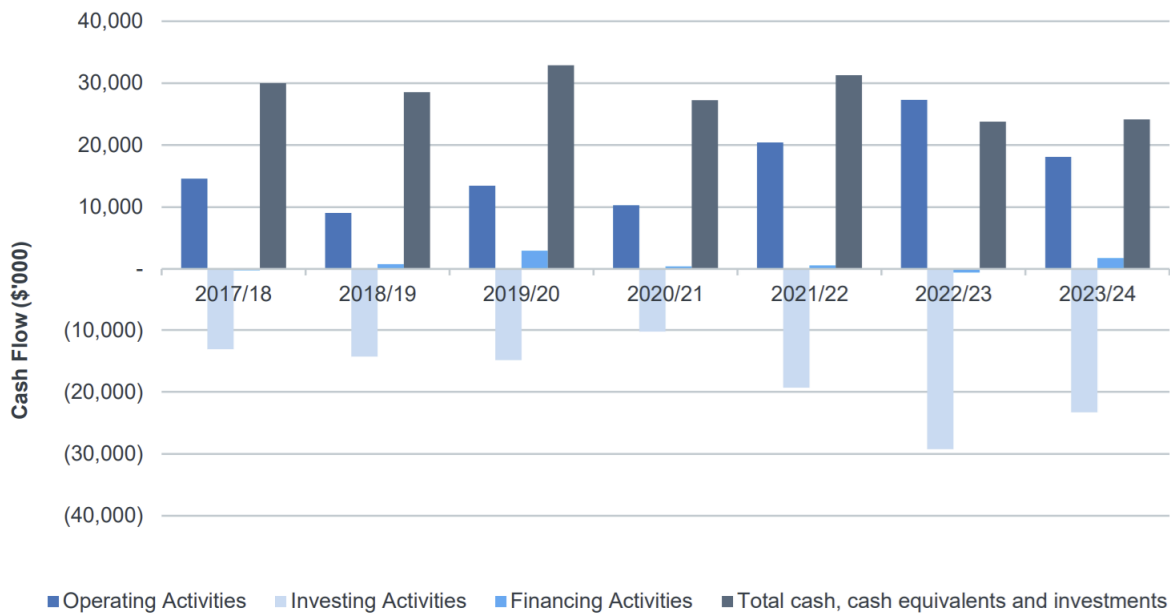
Figure 4.20 highlights what proportion of the cash that has been accumulating is managed from within readily accessible cash accounts (cash & cash equivalent) and what is used in investments – investments return a higher return than cash within readily accessible bank accounts. Forward planning of the use of Council’s cash enables the interest earned from cash to be maximised by investing responsibly. Investments have increased from \$19.3 million at the end of 2017/18 to \$21.4 million at the end of 2021/22.

Total cash, cash equivalent and investment have a slight increase in the same period from \$30.0 million to \$31.3 million. Council is budgeting a reduction of this to \$24.1 million by end of 2023/24 financial year.

Table 4.6 Statement of Cashflow - Consolidated

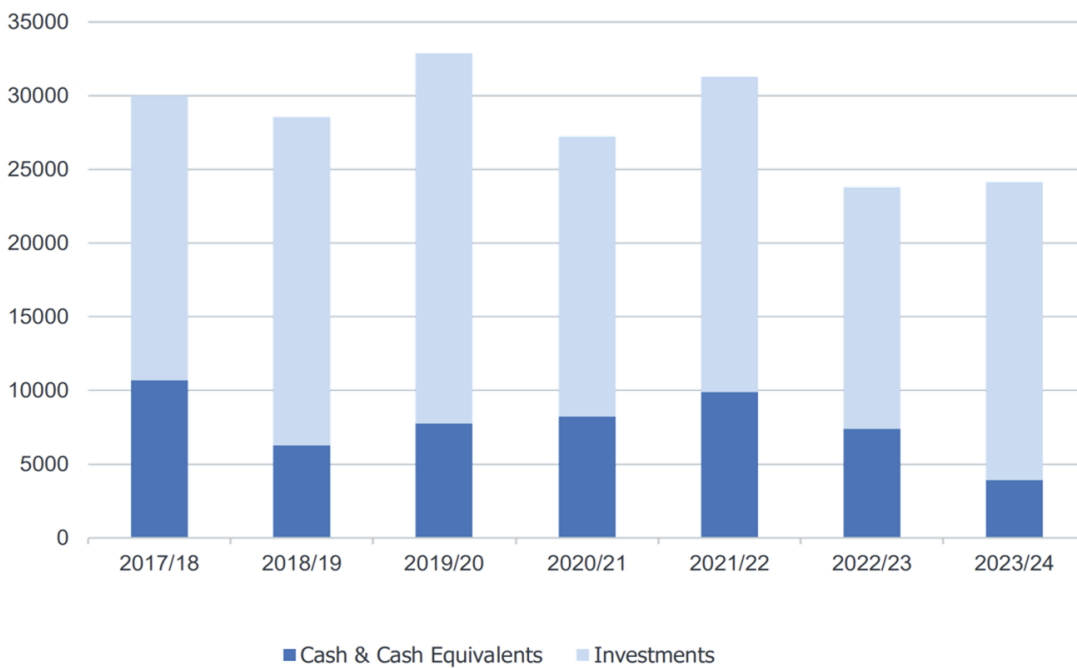
STATEMENT OF CASH FLOWS - CONSOLIDATED	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL					BUDGET	
Cash Flows from operating activities							
<i>Receipts:</i>							
Rates and annual charges	10,228	10,627	10,989	11,496	12,407	12,845	13,528
User charges and fees	7,344	7,271	4,780	1,209	7,814	6,875	6,358
Investment and interest revenue received	726	770	568	359	171	320	1,259
Grants and contributions	14,730	11,770	15,731	19,601	26,810	29,734	24,388
Bonds, deposits, and retention amounts received	-	124	-	-	50	-	-
Other operating	834	635	1,779	1,285	833	716	675
<i>Payments:</i>							
Employee benefits and on-costs	(9,837)	(11,061)	(10,927)	(12,097)	(12,448)	(12,261)	(14,153)
Materials and services	(8,207)	(8,336)	(6,382)	(10,590)	(13,465)	(10,051)	(12,819)
Borrowing costs	(156)	(223)	(177)	(219)	(213)	(189)	(279)
Bonds, deposits, and retention amounts refunded	(30)	-	(116)	(70)	-	-	-
Other operating	(1,039)	(2,516)	(2,789)	(693)	(1,518)	(689)	(878)
Net cash provided (or used in) operating activities	14,593	9,061	13,456	10,281	20,441	27,300	18,079
Cash Flows from investing activities							
<i>Receipts:</i>							
Sale of investments	14,700	6,700	16,200	11,500	15,700	696	11,500
Sale of infrastructure, property, plant and equipment	245	418	238	575	503	543	291
Deferred Debtors Receipts	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-
<i>Payments:</i>							
Purchase of investment securities	(13,100)	(9,700)	(19,000)	(5,400)	(18,100)	-	(11,500)
Purchase of infrastructure, property, plant, and equipment	(14,937)	(11,685)	(12,309)	(16,931)	(17,429)	(30,455)	(23,570)
Purchase of intangible assets	-	-	-	-	-	-	-
Purchase of real estate assets	-	-	-	-	-	-	-
Deferred debtors and advances made	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-
Net cash provided (or used in) investing activities	(13,092)	(14,267)	(14,871)	(10,256)	(19,326)	(29,216)	(23,279)
Cash Flows from financing activities							
<i>Receipts:</i>							
New Residential Accommodation Bonds	-	-	-	-	-	-	-
Proceeds from borrowings	-	1,000	3,300	1,000	1,200	-	2,400
Other financing	-	-	-	-	-	-	-
<i>Payments:</i>							
Repayment of borrowings and advances	(217)	(235)	(341)	(546)	(632)	(583)	(676)
Principal component of lease payments	-	-	(29)	(27)	(19)	-	-
Other financing	-	-	-	-	-	-	-
Net cash provided (or used in) financing activities	(217)	765	2,930	427	549	(583)	1,724
Net increase/(decrease) in cash and cash equivalents	1,284	(4,441)	1,515	452	1,664	(2,499)	(3,476)
Cash and cash equivalents - beginning of year	9,421	10,705	6,264	7,779	8,231	9,895	7,396
Cash and cash equivalents - end of the year	10,705	6,264	7,779	8,231	9,895	7,396	3,920
Investments on hand - end of year	19,300	22,300	25,100	19,000	21,400	16,416	20,224
Total cash, cash equivalents and investments	30,005	28,564	32,879	27,231	31,295	23,812	24,144

Figure 4.19 Cash Flows for Operating, Investing and Financing Activities - Consolidated



Source – Council Published Financial Statements

Figure 4.20 Total Cash and Investments at end of financial year - Consolidated



Source – Council Published Financial Statements

4.4.2 Cash Restrictions

Table 4.7 below outlines the balance of cash held within the different reserves and what cash is unrestricted.

Table 4.7 Cash Restrictions

	Fund	2018 \$'000	2019 \$'000	2020 \$'000	2021 \$'000	2022 \$'000
External Restrictions - Included in Liabilities						
Specific Purpose Unexpended Grants - General Fund	General				-	4,247
External Restrictions - Included in Liabilities		-	-	-	-	4,247
External Restrictions – Other						
Developer Contributions – General	General	3,616	3,426	4,069	4,104	4,590
Developer Contributions - Water Fund	Water	117	79	192	214	463
Developer Contributions - Sewer Fund	Sewer	113	227	332	343	606
RMS Contributions	General	845				
Specific Purpose Unexpended Grants	General	1,625	780	1,311	2,774	1,577
Water fund	Water	2,412	2,472	2,770	2,442	3,047
Sewer fund	Sewer	4,237	4,544	5,063	5,056	5,371
Stormwater Management	General	283	247	294	302	315
Wind Farms Community Fund	General	- 8	33	96	92	309
Trust Fund	General	16	6	2	2	2
Domestic Waste Management	General	1,776	1,498	1,772	1,589	1,722
External Restrictions – Other		15,032	13,312	15,901	16,918	18,002
Total External Restrictions		15,032	13,312	15,901	16,918	22,249
Internal Restrictions						
Council Houses Capital Works	General	61	63	70	67	67
Committed Capital Works	General	2,496	2,311	2,692	1,971	1,108
Deposits, retentions, and bonds	General	161	283	166	96	229
Employees Leave Entitlement	General	1,917	2,018	2,058	1,937	1,445
Buildings and Infrastructure Improvements	General	1,360	1,159	1,155		
Community Projects	General	12	12	12		
Financial Assistance Grant	General	2,289	2,475	2,528	2,574	4,096
Garbage/Waste Disposal	General	37	37	37	37	
Garvel Pit Restoration	General	333	353	345		
Information Technology and Equipment	General	269	220	293	384	410
Library Cooperative	General	71	71	71	71	71
Public Halls Capital Improvements	General	39	39	36	36	
Rubbish Tips Remediations	General	1,809	1,500	834	834	
State Road Works Contingencies	General	195	582	716	199	
Plant & Vehicle Replacement	General	1,445	1,667	1,359		
Upper Lachlan Tourist Association	General	32	32	45	70	70
Multipurpose Aquatic & Activity Centre Crookwell	General				786	786
Unexpended Loans/Borrowings	General			1,625	834	736
Total Internal Restrictions		12,526	12,822	14,042	9,896	9,018
TOTAL RESTRICTIONS		27,558	26,134	29,943	26,814	31,267
Total cash, cash equivalents and investments						
		30,005	28,564	32,879	27,231	31,295
Externally restricted cash		15,032	13,312	15,901	16,918	18,002
Internally restricted cash		12,526	12,822	14,042	9,896	9,018
Externally restricted - included in liabilities		-	-	-	-	4,247
Unrestricted and unallocated cash, cash equivalent and investments		2,447	2,430	2,936	417	28

Source: Councils Annual Financial Statements

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At the end of 2021/22, Council had total cash, cash equivalents and investments of \$31.3 million, of which \$18.0 million is externally restricted, \$9.0 million is internally restricted and a further \$4.2 million is held in reserve for commitments in reported liabilities (mostly contracted grant liabilities). The residual amount of \$28,000 is considered unrestricted.

Internal reserves have been created by historical Council resolutions. Council should review its internal reserves at least on an annual basis for its relevance.

4.5 INVESTMENT IN ASSETS

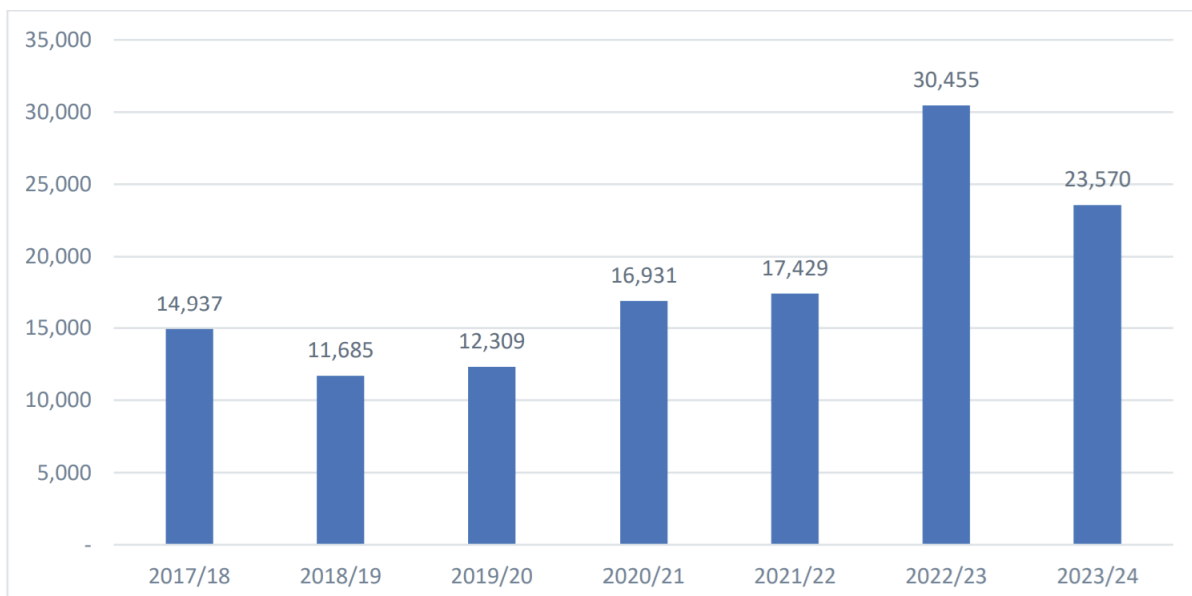
Asset management as outlined in the approach is an important component of the financial sustainability review. Asset management is a core discipline and an essential management approach to ensuring Council’s investment in assets delivers on both the sustainability of physical assets and fiscal capital (that is, Council’s ability to access cash).

The following analysis outlines Council’s current approach to asset management, followed by analysis of Council’s performance of investing in assets by fund type.

4.5.1 Capital Works Spend

Upper Lachlan Shire Council has spent in total \$73.3 million over five years on capital expenditure, an average of \$14.7 million annually. Council had budgeted to spend another \$54.0 million in 2022/23 and 2023/24.

Figure 4.21 Capital Program Spend - Consolidated



Source: Council’s Annual Financial Statements

4.5.2 REPORTED CONDITION OF ASSETS

In preparing the Annual Financial Statements, Council is required to complete the Special Schedules, which includes the Report on Infrastructure Assets. Figure 4.22 below is an extract from the 2021/22 Annual Financial Statements.

Figure 4.22 Report on Infrastructure Assets

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard		Estimated cost to bring to the agreed level of service set by Council	2021/22 Required maintenance ^(a)	2021/22 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000			\$ '000	1	2	3	4
Buildings	Buildings – non-specialised	475	475	132	61	2,480	5,467	0.0%	23.7%	54.6%	21.7%	0.0%	
	Buildings – specialised	648	648	854	677	27,642	53,852	19.6%	22.9%	54.6%	2.8%	0.1%	
	Other	–	–	–	–	–	–	20.0%	0.0%	0.0%	0.0%	0.0%	
	Sub-total	1,123	1,123	986	738	30,122	59,319	17.8%	22.9%	54.6%	4.5%	0.1%	
Other structures	Other structures	35	35	29	939	1,403	2,288	31.4%	39.1%	25.6%	3.9%	0.0%	
	Sub-total	35	35	29	939	1,403	2,288	31.4%	39.1%	25.6%	3.9%	0.0%	
Roads	Roads	3,088	3,088	2,232	5,226	302,211	365,889	28.5%	17.1%	52.3%	2.1%	0.0%	
	Bridges	745	745	767	78	52,367	75,218	46.2%	42.0%	9.5%	1.8%	0.4%	
	Footpaths	90	90	57	15	2,683	4,417	32.4%	38.4%	24.1%	5.1%	0.0%	
	Sub-total	3,923	3,923	3,056	5,319	357,261	445,524	31.5%	21.5%	44.8%	2.1%	0.1%	
Water supply network	Water supply network	2,750	2,750	1,292	1,856	27,750	44,059	40.3%	25.9%	23.1%	0.9%	9.8%	
	Sub-total	2,750	2,750	1,292	1,856	27,750	44,059	40.3%	25.9%	23.1%	0.9%	9.8%	
Sewerage network	Sewerage network	950	950	448	999	18,556	30,959	34.7%	27.1%	30.6%	7.6%	0.1%	
	Sub-total	950	950	448	999	18,556	30,959	34.7%	27.1%	30.6%	7.6%	0.1%	
Stormwater drainage	Stormwater drainage	8,566	8,566	1,179	728	13,962	33,149	16.9%	17.3%	1.4%	64.1%	0.3%	
	Sub-total	8,566	8,566	1,179	728	13,962	33,149	16.9%	17.3%	1.4%	64.1%	0.3%	
Open space / recreational assets	Swimming pools	–	–	18	117	378	910	0.0%	0.0%	100.0%	0.0%	0.0%	
	Other open space/recreational assets	516	516	109	809	2,366	4,297	30.2%	33.2%	8.2%	25.3%	3.2%	
	Sub-total	516	516	127	926	2,744	5,207	24.9%	27.4%	24.3%	20.8%	2.6%	
Total – all assets		17,863	17,863	7,117	11,505	451,798	620,505	30.1%	22.1%	40.9%	6.0%	0.8%	

(a) Required maintenance is the amount identified in Council's asset management plans.

Source: Council's Annual Financial Statement 2021/22

AEC has reviewed the preparation of the Report on Infrastructure Assets as at 30 June 2022 and completed analysis to inform the assessment as to whether Council has been investing in assets in a sustainable manner.

Our review and discussions with asset managers indicate that the Report on Infrastructure Assets was completed without reliable data on the actual asset condition and backlog reporting and is therefore may not be reliable as an accurate reflection of the condition of Council's assets.

The following observations were made by AEC:

- Reported condition of the assets is not determined by a qualitative assessment, relying upon opinion of officers involved in the management of the assets.
- The estimated cost to bring assets to satisfactory standard is based on opinion of officers involved in the preparation of the report, not based on a quantitative assessment of Council's asset register.
- Required maintenance is based on historical expenditure, not on a cost of required and planned maintenance.

AEC has undertaken at least 9 virtual engagements with asset managers to understand the asset management approach currently practiced by Council. The approach involved modelling asset renewals, engaging with key asset management personnel via online meetings, and utilising an engagement framework to evaluate the current approach's maturity and financial impact on Council's planning.

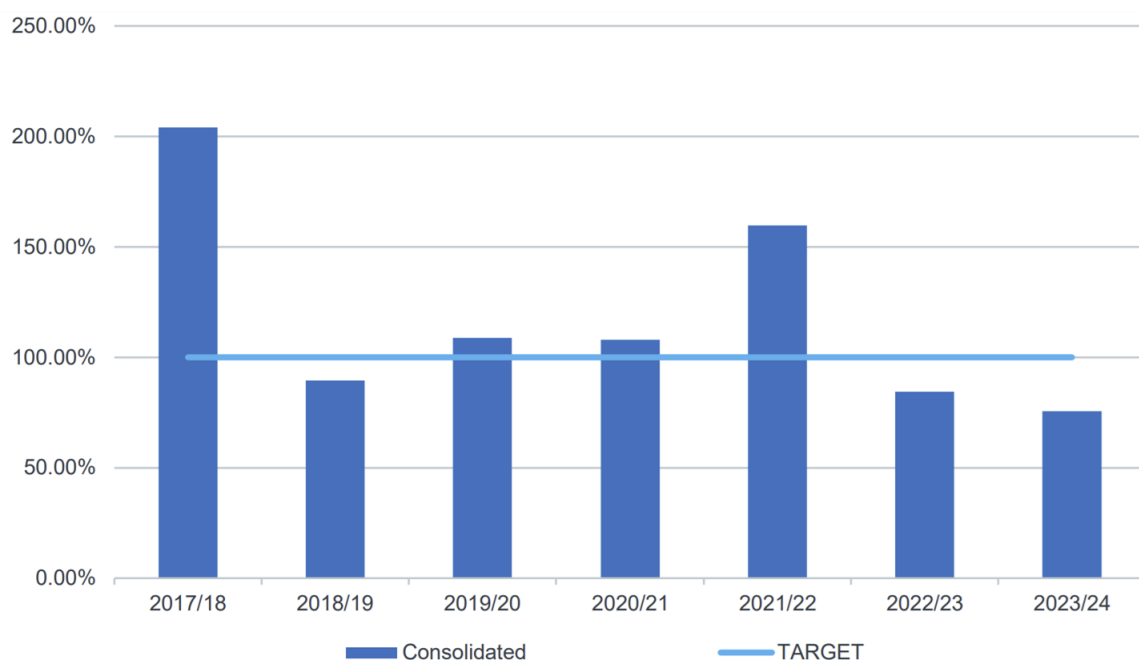
Conclusions from our investigations include:

- Council has not invested in condition assessments since 2000 (Assetic/Brightly – undertook an asset condition assessment) to adequately plan for asset renewals and maintenance.
- Council should refine its methodology for determining the funding programs of works, and prioritising the programs of works to ensure adequate investment in programs of renewals over the mid-term, while providing flexibility from year to year to adjust within the program.
- Development of funding requirements for renewal programs should be activity based where possible, with known quantity of works at a known cost rate e.g., 150kms or road reseals at rate of \$15/m².

- Council should develop and maintain records to inform productivity assessment and productivity targets in setting budgets – e.g., \$/km graded, \$/m of pipe relined, \$/km of gravel re-sheeting.
- Maintenance is heavily reactive, with limited planning for cyclical and other preventative maintenance. Generally, cost of maintenance for reactive works is at least 3 times that of planned maintenance, with breakdown maintenance costing more than 5 times the cost to maintain assets. It would suggest there is significant capacity to improve the efficiency of Council’s maintenance activities.
- Absence of an updated Development Contribution Plan (current plan dated 2007) may result in foregone revenue as development is occurring that will place new infrastructure demands on Council, and the framework is not in place to collect the appropriate developer contributions to fund these infrastructure demands.

4.5.3 Performance Measure – Building and Infrastructure Renewals Ratio

Figure 4.23 Building and Infrastructure Renewals Ratio - Consolidated



Source: Council’s Annual Financial Statement

Figure 4.23 above outlines the Council’s consolidated historical performance based on the building and infrastructure renewals ratio. The ratio is calculated by the value of asset renewals on buildings and infrastructure divided by the depreciation of buildings and infrastructure. If the ratio is above 100%, the cost of renewals in the financial year exceeds the estimate of the value of the assets consumed within the year (that is, depreciation expense). Over the long term, the average building and infrastructure renewal need to be at least 100% to indicate that Council is replacing assets at the same rate as the assets are being consumed. The ratio will only be accurate if the calculation of annual depreciation expense materially reflects actual consumption – this was tested through the project.

The building and infrastructure renewals ratio indicated that Council has spent enough on building and infrastructure asset renewals then its forecast depreciation of building and infrastructure assets.

Upper Lachlan Shire Council has met this ratio four of the past five years whereby indicating that the renewal of building and infrastructure assets are more than the depreciation (or consumption) of assets.

It should also be noted, if renewal treatments are required to protect other asset components, such as reseals and roof replacements, deferring the renewal treatment increases the risk of early deterioration of the other asset components, which typically result in a significantly higher cost – for example, water penetrating into the pavement of the road and requiring rehabilitation of the pavement which is approximately \$200/m² compared to reseal at approximately \$8-10/m².

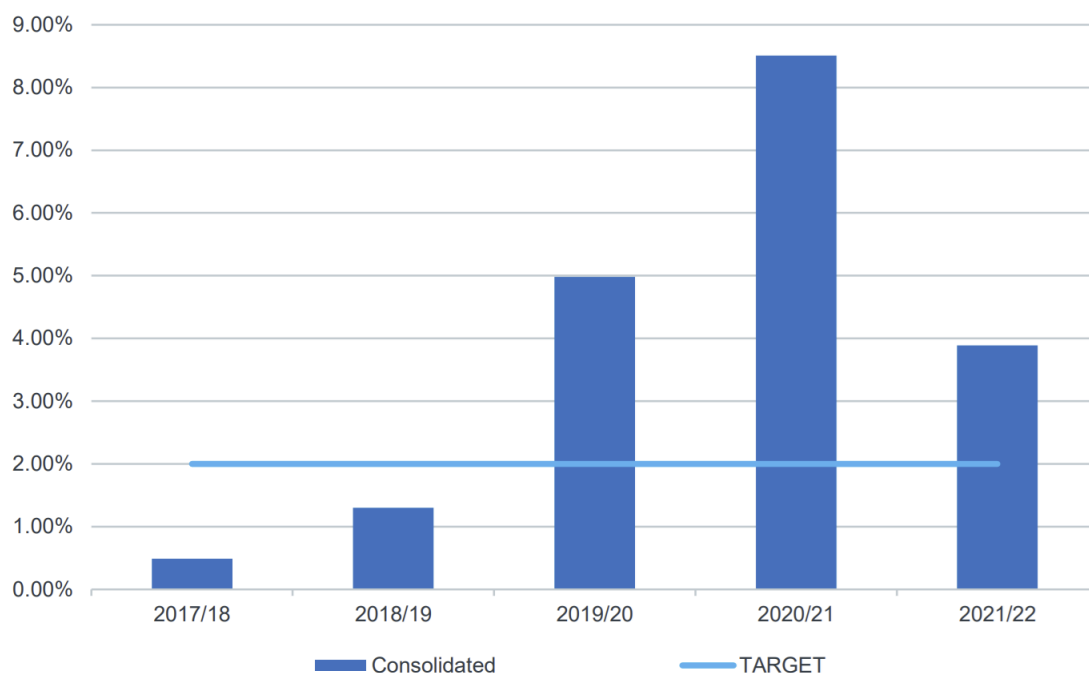
4.5.4 Performance Ratio – Infrastructure Backlog Ratio

The infrastructure backlog ratio is calculated by dividing the total estimated cost to bring assets back to satisfactory standard by the total gross replacement cost of assets. A target of below 2% is the established industry benchmark. The reported ratio for Council has fluctuated across the previous five financial years, most likely due to a difference in the measurements used rather than being indicative of the investment made to reducing the actual backlog.

Upper Lachlan in the past three years of the five financial years assessed has not met this performance measure as it has been over 2%. 2020/21 financial year been the worst with 8.51%. It is also very important to note that has been a major reduction in backlog reported in 2021/22, down to 3.89%.

The accuracy of the performance reported depends upon how accurate the Council has been in estimating the cost of the backlog.

Figure 4.24 Infrastructure Backlog - Consolidated



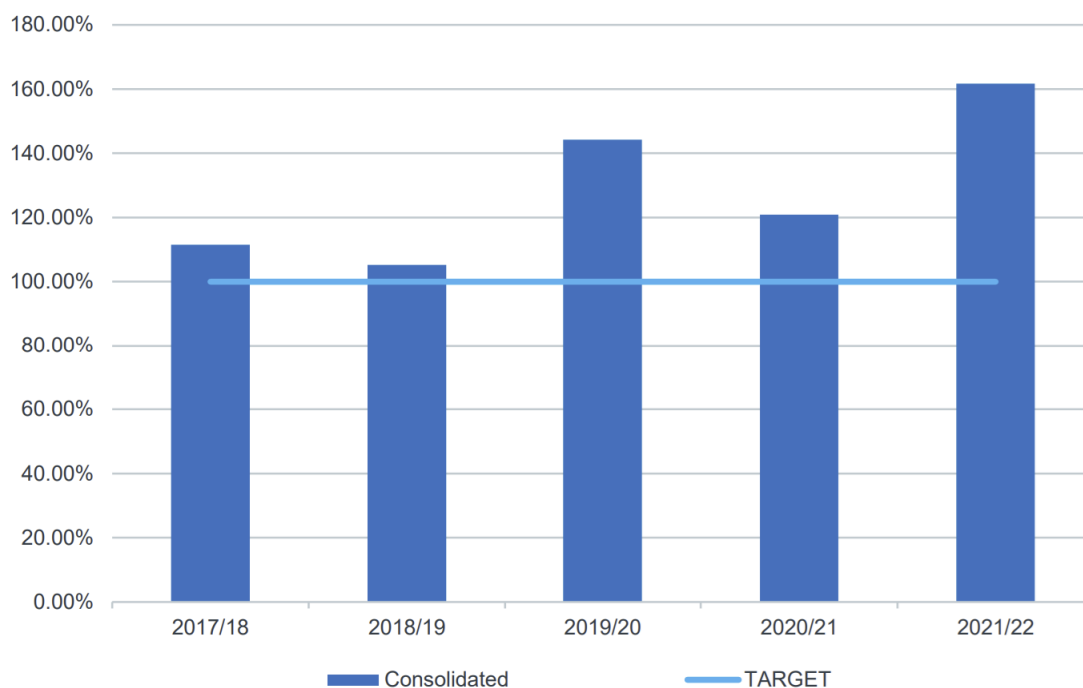
Source: Council Annual Financial Statements

4.5.5 Performance Ratio – Asset Maintenance Ratio

The asset maintenance ratio is calculated by dividing the actual maintenance spend for the reported financial year by the total cost of planned asset maintenance (as outlined in the Asset Management Plans). Figure 30 indicates that the Council’s actual expenditure on maintenance has been reasonably consistent with the planned maintenance.

Upper Lachlan Shire Council is above the industry performance measure of 1.0, indicating that Council’s actual asset maintenance is above the planned asset maintenance as stated in Council’s Asset Management Plans.

The reliability of this ratio is questionable as firstly the asset management plans are outdated and will not reflect the current and forecast asset maintenance. It was clearly visible that the ratio was determined against actual trends rather than using the AMPs as the guiding principle.

Figure 4.25 Asset Maintenance Ratio - Consolidated

Source: Council Annual Financial Statements

4.6 KEY FACTORS CONTRIBUTING TO THE HISTORICAL FINANCIAL PERFORMANCE

This section outlines the factors that most likely have contributed to the historical financial performance of the Council – these are based on observations throughout the review of documents and the processes of the council, and discussions held with key staff by the AEC project team.

4.6.1 A Structural Operating Deficit

Upper Lachlan Shire Council has produced operating deficits in its General Fund over the past two years with forecast showing a further deterioration of the operating result in 2022/23 and 2023/24. AEC has predicted that the structural deficit within the General Fund whereby the recurrent revenue is not able to fund the recurrent expenditure is around the \$4.0 to \$5.0 million.

4.6.2 Growing Gap Between Operating Revenue and Operating Expenditure

Not dissimilar to many other NSW rural councils, Council has experienced in recent years a growing gap between operating revenue and operating expenditure. The growth in the cost base of current services provided has exceeded the growth in revenue.

The growth in the cost base is due to several factors including:

- Growth in service demand
- Growth in levels of services (improvements to the range and quality of the services provided)
- New and upgraded assets (related to growth in levels of service) increasing operational costs and depreciation expense.
- Increased regulatory responsibilities imposed upon Council.
- Cost shifting – as outlined in the biannual LGNSW report - “The Impact of Cost Shifting on NSW local government: A Survey of Councils”.

Rate-pegging has limited the ability of the Council to increase its rating revenue to support increasing operating expenditure arising from escalating costs, increased depreciation, and cost-shifting.

Limited asset management maturity across the organisation has also been a contributing factor to a reactive rather than planned approach to asset expenditure resulting in less-than-optimal asset maintenance costs. Generally, a heavy reliance upon reactive

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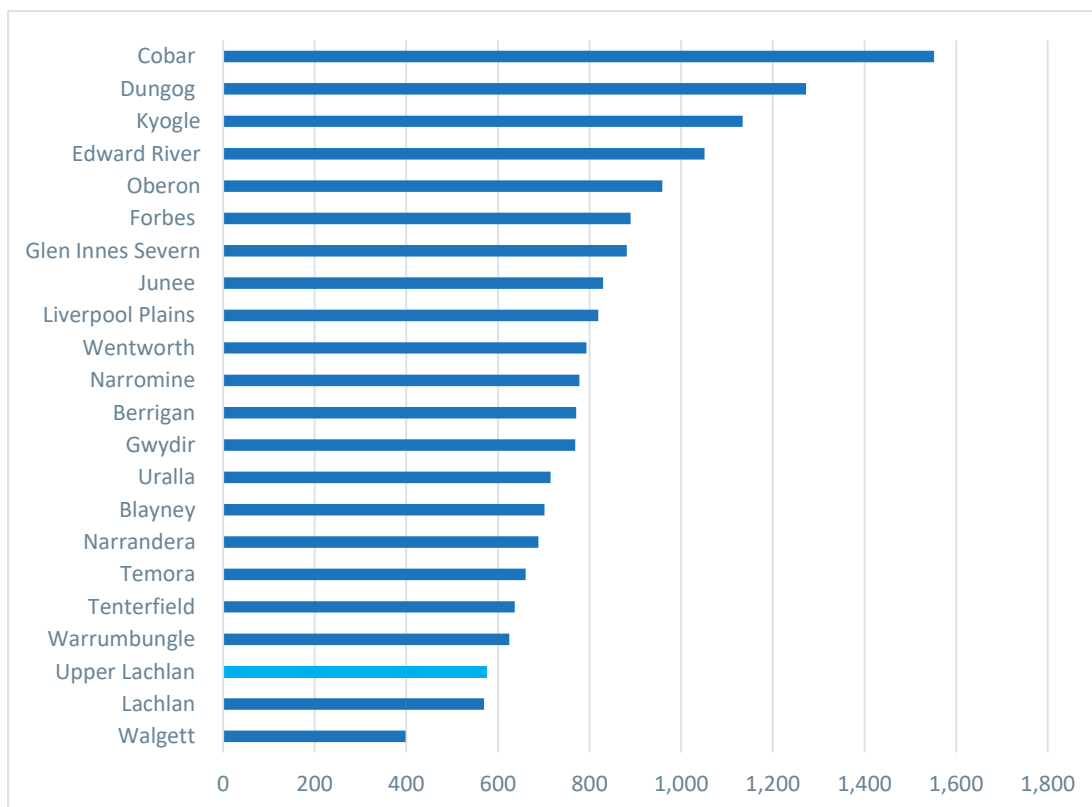
approach to asset maintenance can cost a Council up to 3.5 times the cost of planned maintenance, and up to 5 times for breakdown maintenance – and often the cost-of-service disruption is not reflected in the estimates of maintenance costs.

While improvements to the efficiency and productivity of service delivery will assist in closing the gap between revenue and costs, there is a need for Council to significantly increase the revenue generated from operations. Given the quantum of the correction required – as outlined further in this report - this will need to be predominantly through increases in the general rate revenue to improve the operation performance of the General Fund.

4.6.3 Lower Rating Revenue Comparable to Neighbouring Councils

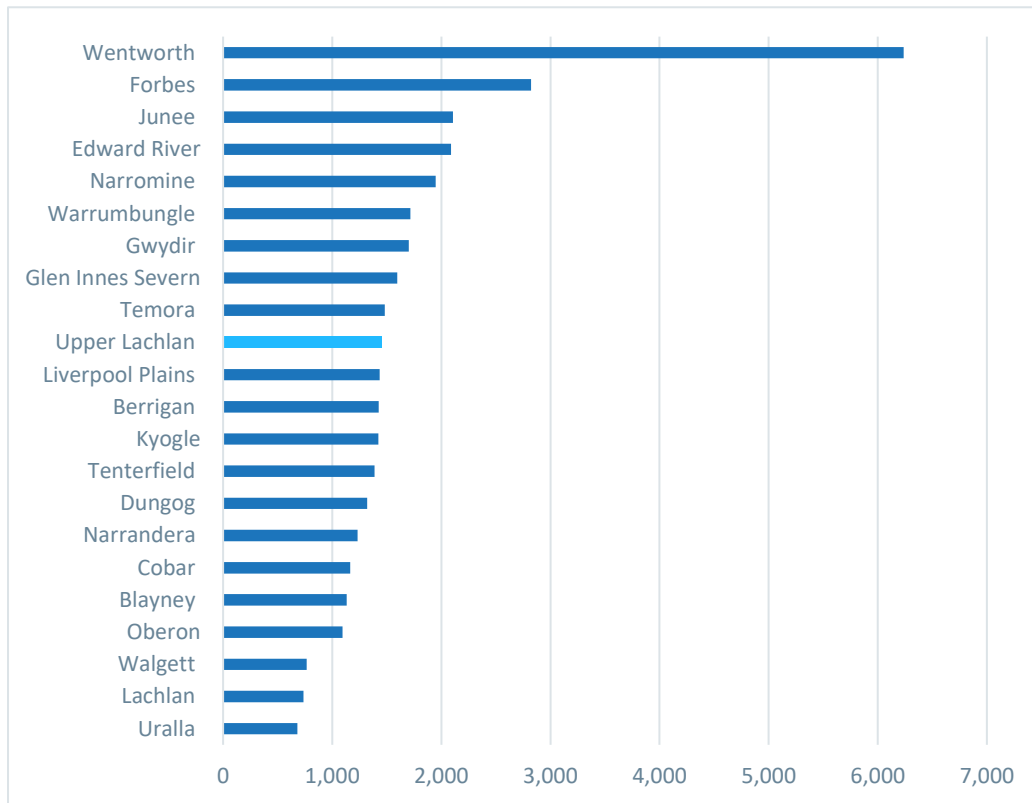
Council has a lower average rate for residential and business rating categories comparable to neighbouring Councils. While each Council is different, and it is difficult to compare levels of service.

Figure 4.26 Average Residential Rate 2021/22



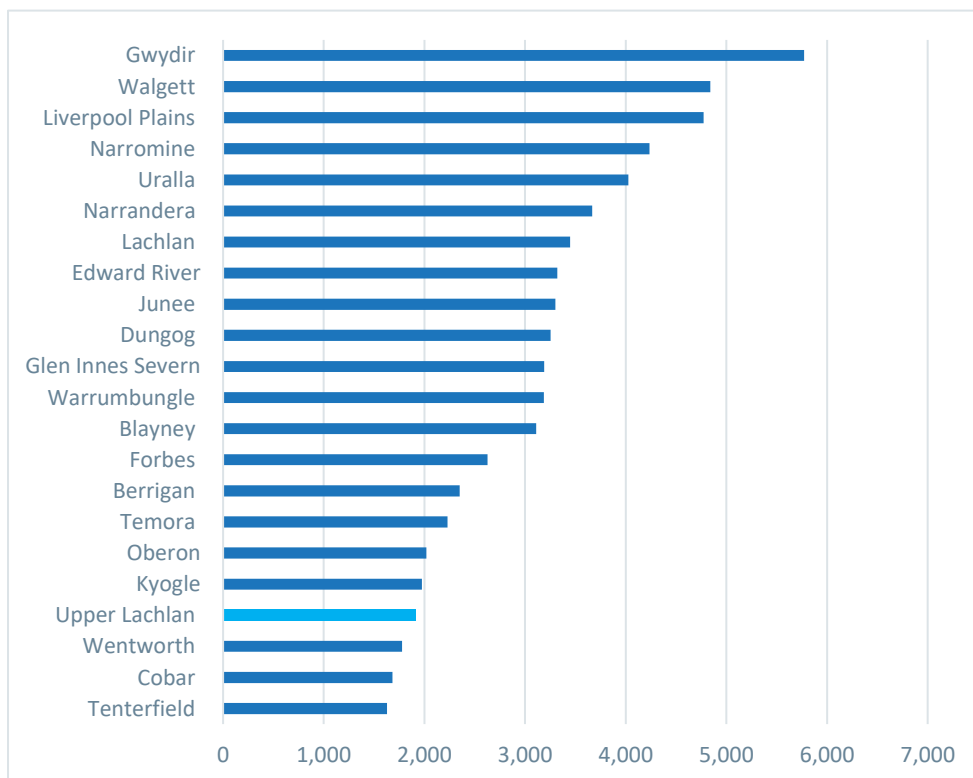
Source: OLG Series Data 2021/22

Figure 4.27 Average Business Rates 2021/22



Source: OLG Series Data 2021/22

Figure 4.28 Average Farmland Rates 2021/22



Source: OLG Series Data 2021/22

4.6.4 Integrated Planning and Delivery

Based on the historical performance of the Council, and observations made by AEC of the planning documents and budget working papers, it appears that there is a lack of integration in the allocation of resources and the intended implementation of the Delivery Program and the Operational Plan. Inadequate budgeting for the delivery of infrastructure services and the maintenance of a long-term capital works program was observed by AEC. The absence of a long term (10 year) capital works program was a major constraint in the completion of the review undertaken by AEC. Council only had a four-year capital works program which AEC had to make assumptions and create a reasonable IP&R required capital program.

AEC reviewed the process for the development of the Resourcing Strategy documents and the 2023/24 Annual Budget to inform a view on the completeness and effectiveness of the resource plans (Long-Term Financial Plan, Workforce Plan and Infrastructure Plan and Other Plans) to control and effect sustainable financial management. AEC concluded that the resource plans were not substantially integrated and were developed on poor quality of data to inform the planning. More specifically, the following observations were made of the development of resource plans:

- The asset management plans were observed to be immature, outdated, and prepared based on poor quality of asset data. Asset hierarchy and criticality is not used effectively to inform renewal planning and the approach to maintenance of the assets is immature. Asset maintenance is mostly reactive. Planning for asset renewals used to inform the Long-Term Financial Plan is based predominantly on historical spend rather than based on condition and asset performance. The renewal of road assets is not informed by a pavement management system that outlines the optimal approach to managing the renewal and replacement of the region's transport assets.
- There was some uncertainty on what positions are funded and what positions were planned to remain vacant. There appears to be a disconnect between the workforce planning and the employee costs budget. On review of the employee cost budgeting, this is not position based but rather done on historical actuals and in infrastructure service area, costs are drawn out of any annual allocated amount.

4.6.5 Increase in the Cost of Asset Ownership

Through the acquisition of new and upgraded assets the Council has increased the annual cost of ownership, including operating costs, maintenance, and depreciation expense. The increase in the cost of asset ownership is expected to continue through the delivery of the 2023/24 Operational Plan and future planned capital works program.

In the current 2023/24 Budget there is a total of \$23.3 million in capital works, of which \$8.1 million of expenditure is on new assets.

Prior to completing the financial sustainability review, Council decided on including the capital and operational costs of the Crookwell indoor heated pool which has added \$6.0 million to new assets, and this is to be funded capital grants (\$4.5 million) and new borrowing (\$1.5 million). This added approximately \$0.4 million in operational costs and a revenue estimated annually of \$50,000.

Additional cost of asset ownership through new and upgraded assets, without an adequate increase in revenue generated from the project, is a significant contributor to the underlying operating deficit for Council.

5. SCENARIO PLANNING

5.1 METHODOLOGY AND APPROACH

To enable the two assessments, AEC has developed several scenarios that illustrate the mid to long term considerations of Council's financial position. Each scenario includes an assessment of the consolidated financial outcomes, as well the financial outcome for the General Fund, Sewer Fund, Water Fund, and Waste Fund.

The scenarios are as follows:

1) **Base Scenario – continuation of current financing and asset investment practices.**

This scenario is accumulating cash in the sewer and waste funds and declines the cash position within the General Fund. Waste as previously mentioned currently is not specific to domestic waste but encompasses the full waste services. The main reason why Water and Sewer are building up a healthy cash position is because there is no major capital expenditure identified in the provided Capital Works Program. Water has an average capital spend of \$0.33 million whilst Sewer has \$0.32 million. Within this scenario or Base Case, the assets are expected to deteriorate further due to insufficient investment in asset renewals but the correct nature of this yet to be fully determined with proper asset condition assessment and strategic plans and policies. If the backlog stated in the 30 June 2022 Report on Infrastructure Assets is within the range and with the lack of current renewals, it is at an unsustainable level and likely to defer substantially greater funding burden in the near and future terms. AEC concludes this is not a sustainable scenario.

2) **Enhanced asset renewal program.**

This scenario demonstrates that if Council was to increase the cash investment in the renewal of assets, compared to the base scenario, the Council will significantly deteriorate the cash position in the General Fund – This is not a sustainable scenario.

Whilst the asset renewal does not quite reach 100%, AEC have consulted with asset managers and based on the limited asset planning that Council has, the increased renewal spend is adequate to manage the current known demand. Council may need to spend more on renewals than planned if after updating the AMP the demand for renewals is materially higher than that modelled by AEC.

3) **Sustainable cash and asset scenario**

This scenario proposes a range of actions that Council may wish to consider achieving both maintaining the condition of assets managed by Council, whilst also increasing the cash generated from operations significantly to meet the funding demand for increased renewals.

Each of these scenarios has been developed through adopting the following methodology and approach:

- Configuration of the AEC LTFP tool to forecast Council's primary statements (income statement, balance sheet and the statement of cash flows) throughout the assessment period.
- Creating an additional fund for Waste, separating waste services from other services within the General Fund.
- Determining Council's current operational costs and revenues by referring to:
 - Previous years audited financial statements - 2017/18 to 2021/22
 - Council most recent draft financial statements for the 2022/23 financial year.
 - The 2023/24 adjusted budget advised by Council reflecting the current financial operating performance of Council services. Due to the major impact of indexation of depreciation costs, this expense was amended to reflect the correct cost based on 2022/23 audit indexation rates.
- Using the 2022/23 draft financial statements, establish the reserve balances as at 1 July 2023 and project forward the balance of the individual reserves based on services and assets the reserves are intended for.
- Developing assumptions for the indexation and growth of both operating and capital expenditure and revenue.
- Forecasting future non-cash costs, such as depreciation based on a thorough review of Council's non-financial assets under management (infrastructure, roads, buildings, etc), and including forecasting adjustments for future depreciation based on

changes in the carrying value of assets under management within each asset class. AEC has assumed that the mix of asset lives / depreciation rates remains broadly consistent within each asset class as the value of assets under management is adjusted.

- AEC has also included forecasts for operating costs related to new and upgraded assets, such as operating and asset maintenance costs.
- AEC has forecast financial costs such as interest on borrowings and revenue from investments based on forecast rates of return and our calculated forecasts of the balance sheet position of Council throughout the forecast period.

The specific assumptions with respect to Council's capital works program (both new assets and renewals program) vary between scenarios, but broadly AEC has constructed a range of scenarios that are informed by Council's current capital works program (new and renewals). The Base Case assumes that the current investment in renewals included in the 10-year capital works program will continue for the remainder of the assessment period.

The two scenarios with enhanced asset management have been developed by AEC informed by our analysis of Council asset management reports, including carrying value of assets and asset lives, Council's records of asset conditions, interviews with asset managers in relation to the accuracy and reliability of asset data held in Council's asset management records. Ideally AEC would use mature Asset Management Plans to inform the renewal budget required, however Council's currently Asset Management Plans do not have sufficient planning for asset renewals.

5.2 GUIDE TO INTERPRETATION OF AEC FINANCIAL REPORTS

5.2.1 Reporting Format

AEC has sought to provide financial forecasting reports that are, to the extent possible, consistent with Council audited financial reports, as we anticipate that the audience for this report are familiar with Council's audited financial statements.

5.2.2 Breakdown by Fund

Historically, Council has reported a consolidated position as well as three fund types that are included in the consolidated position.

AEC has generally adopted a similar reporting hierarchy but have also separated waste related services into a separate 'Waste Fund'. This is also reflected in a separate reserve to manage the cash restrictions in relation to domestic waste management.

The funds reported (in addition to the consolidated position reflecting the sum of all funds) are therefore summarised as follows:

- Water Fund – Provision of water network services to properties within the serviceable areas and funded through the water access charge, consumption charge and other water fees.
- Sewer Fund - Provision of sewer network services to properties within the serviceable areas and funded through the sewerage access charge and other sewerage fees.
- Waste Fund – all domestic and other waste management services provided by Council. Revenue for the waste fund is principally waste management charges levied by Council.
- General Fund – All other services and infrastructure provided by Council not funded by water, sewerage, or waste revenue. Revenue for the general fund is predominantly general rate revenue and grant funding, as well as revenue earned from fees and charges for services provided.

While analysis of Council's consolidated position is provided below, greater emphasis is placed on the analysis of the individual fund types that determine the consolidated position.

5.3 OPERATING PERFORMANCE

Our assessment indicates that Council operations are currently not able to generate sufficient cash from operations to fully fund an asset maintenance and renewal program capable of maintaining assets sustainably.

Key issues are summarised as follows:

- Council has produced consolidated operating deficits (excluding capital grants) for two (2) years and are projecting another deficit at year end 30 June 2023 (2022/23), which is contributed to by significant operating deficits in the General and Water Fund,

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offset by operating surplus in the Sewer Fund and small surpluses in Waste Fund. The draft 2022/23 actual is exhibiting a surplus in the General Fund which seems to be driven by much higher reported grants and contributions for operating purposes and 100 percent prepayment of the financial assistance grants (FAG) for 2023/24 in 2022/23. It is not a sustainable option to be relying on non-recurrent income to manage Council's operations.

- The operating deficit in the General Fund has deteriorated in recent years to an AEC estimate of approximately \$5.1 million as at end of 2023/24 after separating Waste (this could be considered as a "structural deficit" due to being recurrent in nature). This structural deficit in the General Fund is forecast to maintain steadily around an average of \$4.9 million deficit over the forecast period from 2024/25 to 2033/34.
- The impact of new and upgraded assets – being an increase in operating expenditure and increase in the depreciation expense – contributes to the deterioration in structural deficit.
- The consolidated position of Council shows sufficient cash being generated and total cash and investments remain steady around \$30.0 million (\$29.5 million in 2023/24 and \$27.9 million in 2033/34). This is through sufficient cash generated in the Water and Sewer funds where there seems to be barely any investment in assets to offset cash decline in the General Fund. General Fund cash is deteriorating from \$18.0 million in 2022/23 to negative \$1.6 million in 2033/34. Although, the consolidated position is looking healthy from a cash position; it is a false view as General Fund is leaking cash and Water and Sewer are not investing sufficiently in its assets. This is surely unsustainable from both AEC tests of financial sustainability.
- Council has a deteriorating unrestricted cash and with internal reserves remaining stable. Unrestricted cash balance goes into negative from the initial forecast year and worsens through the period to (\$32.4) million. At this stage, Council has a total cash and investments balance of \$27.9 million with an external restriction of \$45.8 million and internal restrictions of \$14.5 million.
- Domestic waste management reserve also moves into a negative position even though the Waste Fund is making a small surplus. This would indicate that Council has not priced its domestic waste service accordingly to recover costs of operations.
- Other than Water and Sewer reserves, the Developer Contributions – General is also accumulating over the period. But prior to making any decision regarding spend from this reserve, Council should review its Contribution Plans as these are outdated and would be more a financial issue. The works are outdated, and the costs would be heavily understated.
- Insufficient investment in renewal of assets will result in a general deterioration of assets and continue to increase the backlog in renewals – which increases likelihood of range of risks that deteriorated assets exposed the Council to.

As a result, Council will, over the mid to long term either:

- 1) Suffer a loss in asset condition (whilst maintaining reasonable cash balances) – this broadly reflects current practices and the Base Case Scenario
- 2) Need to increase its expenditure on asset renewals to maintain asset condition, but this will result in an unsustainable decline in cash availability required to fund operations. This broadly reflects Enhanced Asset Renewal Scenario.
- 3) Adopt a path of sustainable asset management and cash management, which will require both an increase in expenditure on asset management and an improvement in operating performance through a combination of:
 - a. Identification of operational efficiencies or productivity improvements.
 - b. Reduction in service provision – either by reducing the range and/or levels of service.
 - c. Sale of surplus assets to pay down debt.
 - d. Increase in revenue from operations through increase in service fees, rates and or charges.

6. FORECAST POSITION – BASE SCENARIO

6.1 ASSUMPTIONS AND QUALIFICATIONS

The following key assumptions have been made in the compilation of the Base Case Scenario, which represents the forecast position on the assumption that Council continues the implementation of current operations and practices throughout the forecast period:

- AEC has included Council's forecast capital works program (new assets and renewals) as provided by Council (4-year) and with consultation with relevant staff to extrapolate to a 10-year IP&R Framework requirement.
- Our calculation of the forecast position of internal and external reserves includes escalation of operating revenues and costs, together with other cash flows based on continuation of existing practices and capital works funding advised in Council's 10-year capital works program.
- AEC has used escalation to forecast Council's recurrent income and expenditure over the assessment period as presented in the appendix.
- AEC has also assumed CPI cost indexation based on Australian Government Budget 2023/24 indexation forecasts (where available) and continuation of trend increases thereafter.

6.2 CONSOLIDATED OPERATING POSITION

Council has produced a net operating deficit in the last two (2) financial years and presenting a small surplus in the draft 2022/23 financials in terms of Net Operating Result before grants and contributions. This deficit position is to continue and even worsen through the budgeted and forecast period.

AEC's forecast indicates that, under the Base Case Scenario (continuation of current practices) Council is forecast to deliver an average operating deficit of approximately \$4.6 million over the forecast period (excluding capital grants and contributions), with individual annual results ranging from approx. \$3.5 million to \$5.5 million in deficits.

Table 6.1 below outlines the reported consolidated Income Statement for Council showing historical audited financial results, 2022/23 draft financial results, 2023/24 adopted budget and ten years forecast from 2024/25 to 2033/34. The consolidated position is determined by the aggregate net operating result of the four Funds.

Table 6.1 Income Statement – Consolidated

INCOME STATEMENT - CONSOLIDATED	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	DRAFT ACTUAL	BUDGET	FORECAST	FORWARD PLAN									
Income from continuing operations													
Rates and annual charges	12,883	13,529	13,528	13,950	14,298	14,656	15,050	15,456	15,872	16,299	16,739	17,190	17,653
User charges and fees	6,736	6,353	6,352	6,527	6,741	6,910	7,083	7,260	7,441	7,627	7,818	8,013	8,214
Other revenue	879	674	675	693	710	728	746	765	784	804	824	845	866
Grants and contributions provided for operating purposes	16,920	10,968	10,968	11,426	11,712	12,005	12,305	12,612	12,928	13,251	13,582	13,922	14,270
Grants and contributions provided for capital purposes	9,157	13,426	14,741	7,097	2,298	2,010	2,379	2,439	2,500	2,562	2,626	2,692	2,759
Interest and investment revenue	972	1,258	1,259	1,180	1,188	1,179	1,183	1,176	1,166	1,159	1,149	1,140	1,128
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-
Net gains from the disposal of assets	-	36	140	197	202	207	212	218	223	229	235	240	246
Total income from continuing operations	47,547	46,244	47,663	41,070	37,150	37,695	38,959	39,925	40,914	41,931	42,972	44,041	45,136
Expenses from continuing operations													
Employee benefits and on-costs	13,430	14,138	14,137	14,632	15,174	15,629	16,098	16,581	17,078	17,591	18,119	18,662	19,222
Materials and services	14,235	12,832	12,833	11,224	11,823	12,121	12,423	12,733	13,052	13,378	13,713	14,055	14,407
Borrowing costs	289	279	279	625	603	574	545	515	474	455	424	395	364
Depreciation, amortisation, and impairment of non-financial assets	9,291	8,994	9,593	10,040	10,451	10,717	10,981	11,257	11,539	11,829	12,125	12,429	12,741
Other expenses	640	877	878	902	924	947	971	995	1,020	1,046	1,072	1,099	1,126
Net losses from the disposal of assets	618	-	104	-	-	-	-	-	-	-	-	-	-
Total expenses from continuing operations	38,503	37,120	37,824	37,423	38,975	39,989	41,018	42,081	43,164	44,298	45,453	46,640	47,860
Operating result from continuing operations	9,044	9,124	9,840	3,647	(1,825)	(2,294)	(2,059)	(2,156)	(2,250)	(2,366)	(2,481)	(2,599)	(2,724)
Net operating result for the year before grants and contributions provided for capital purposes	(113)	(4,302)	(4,901)	(3,450)	(4,122)	(4,304)	(4,438)	(4,595)	(4,750)	(4,928)	(5,107)	(5,291)	(5,483)

Source – AEC (unpublished)

Table 6.2 Income Statement – General

INCOME STATEMENT – GENERAL	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	DRAFT ACTUAL	BUDGET	FORECAST	FORWARD PLAN									
Income from continuing operations													
Rates and annual charges	10,359	9,280	9,280	9,595	9,835	10,081	10,338	10,602	10,872	11,149	11,433	11,725	12,024
User charges and fees	5,279	4,899	4,899	5,034	5,211	5,341	5,474	5,611	5,752	5,895	6,043	6,194	6,349
Other revenue	879	674	675	693	710	728	746	765	784	804	824	845	866
Grants and contributions provided for operating purposes	16,885	10,968	10,968	11,426	11,712	12,005	12,305	12,612	12,928	13,251	13,582	13,922	14,270
Grants and contributions provided for capital purposes	9,009	12,509	13,824	6,155	1,333	1,021	1,365	1,399	1,434	1,470	1,507	1,545	1,583
Interest and investment revenue	649	662	662	718	672	605	552	481	403	323	235	143	44
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-
Net gains from the disposal of assets	-	36	140	197	202	207	212	218	223	229	235	240	246
Total income from continuing operations	43,060	39,028	40,448	33,819	29,675	29,988	30,994	31,689	32,396	33,121	33,858	34,613	35,381
Expenses from continuing operations													
Employee benefits and on-costs	12,339	12,460	12,460	12,896	13,386	13,787	14,201	14,627	15,066	15,518	15,983	16,463	16,957
Materials and services	11,888	9,905	9,905	8,196	8,720	8,941	9,164	9,393	9,629	9,870	10,117	10,371	10,630
Borrowing costs	258	249	249	504	487	466	445	422	399	378	357	336	315
Depreciation, amortisation and impairment of non-financial assets	7,862	7,818	8,173	8,561	8,935	9,164	9,390	9,626	9,868	10,116	10,371	10,632	10,899
Other expenses	634	867	867	891	914	936	960	984	1,008	1,034	1,059	1,086	1,113
Net losses from the disposal of assets	601	-	104	-	-	-	-	-	-	-	-	-	-
Total expenses from continuing operations	33,582	31,299	31,758	31,047	32,442	33,295	34,159	35,051	35,970	36,915	37,887	38,887	39,914
Operating result from continuing operations	9,478	7,729	8,689	2,772	(2,767)	(3,307)	(3,165)	(3,363)	(3,574)	(3,795)	(4,029)	(4,274)	(4,533)
Net operating result for the year before grants and contributions provided for capital purposes	469	(4,780)	(5,135)	(3,383)	(4,099)	(4,327)	(4,530)	(4,762)	(5,008)	(5,265)	(5,536)	(5,819)	(6,116)

Source – AEC (unpublished)

Table 6.3 Expenses Percentage (%) Forecast Trend – Consolidated

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Expenses from continuing operations	%	%	%	%	%	%	%	%	%	%
Employee benefits and on-costs	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Materials and services	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Borrowing costs	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Depreciation, amortisation, and impairment of non-financial assets	(14.0)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other expenses	98.3	(4.7)	(4.3)	(4.6)	(5.1)	(7.6)	(3.1)	(5.8)	(5.9)	(6.5)
Net losses from the disposal of assets										
Total expenses from continuing operations	(1.9)	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6

Source – AEC (unpublished)

Table 6.4 Income Percentage (%) Forecast Trend – Consolidated

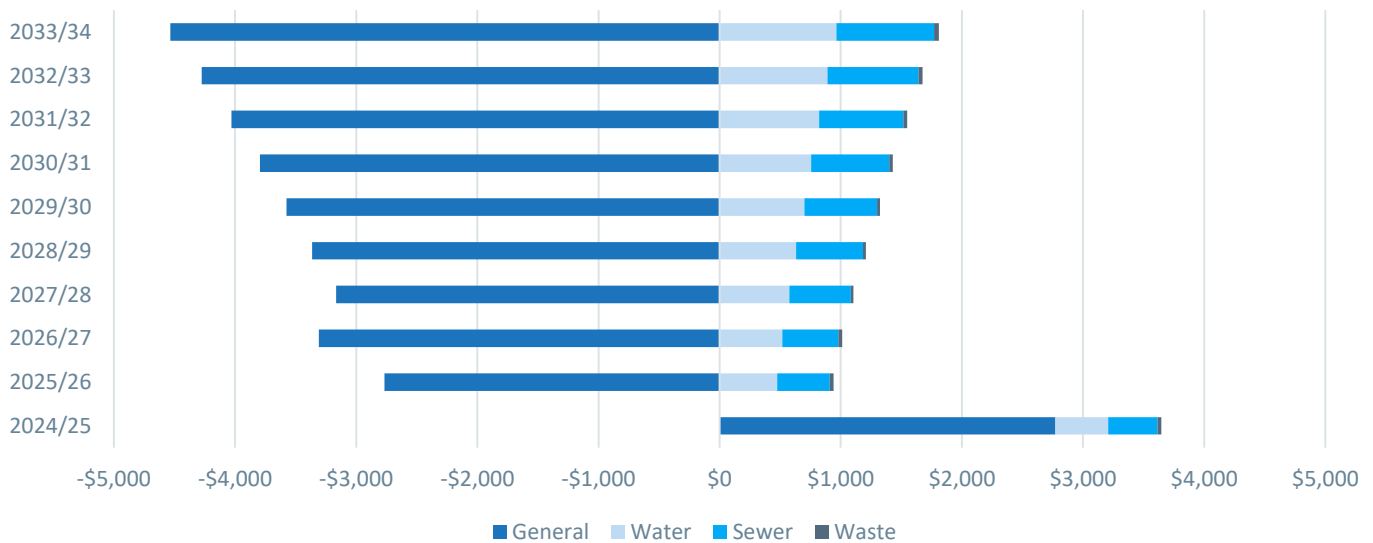
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Income from continuing operations	%	%	%	%	%	%	%	%	%	%
Rates and annual charges	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
User charges and fees	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other revenue	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Grants and contributions provided for operating purposes	4.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Grants and contributions provided for capital purposes	(81.6)	(7.1)	(12.5)	18.4	2.5	2.5	2.5	2.5	2.5	2.5
Interest and investment revenue	(4.7)	1.3	2.0	3.4	2.5	2.6	3.1	3.1	3.5	3.5
Other income										
Net gains from the disposal of assets	141.0	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6
Total income from continuing operations	(21.1)	2.0	1.7	3.6	2.7	2.7	2.7	2.7	2.7	2.7

Source – AEC (unpublished)

6.2.1 Overview Results by Fund

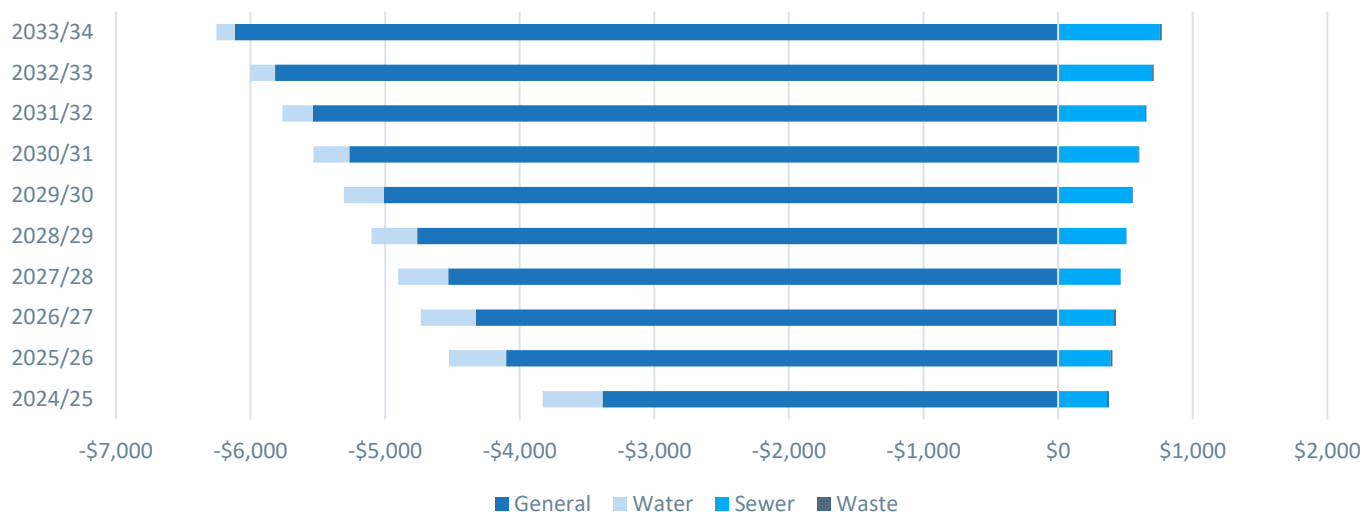
The following figures indicate the forecast contribution by Fund to the consolidated Forecast Operating Result in the Base Case Scenario.

Figure 6.1 Operating Result from Continuing Operations by Fund (includes capital grants)



Source – AEC (unpublished)

Figure 6.2 Operating Result before Capital Grants & Contributions by Fund



Source – AEC (unpublished)

6.2.2 Operating Performance by Service

Table 6.6 provides a listing of Council services within the four directorates including the General Manager’s office. Operating performance by service indicates the net operating result for each service and may be interpreted broadly as the cost to Council of providing each service.

The following Table 6.5 outlines Top 10 of Council’s 34 services in order from highest to lowest in operating expenditure in the 2023/24 Budget. Should Council seek to achieve efficiencies across the services in the General Fund, the services outlined in the Table below present the most material opportunity to reduce operating costs and improve the cash generated from operations to fund assets.

Table 6.5 Top 10 Council services ranked by 2023/24 forecast operating expenditure.

Council Service	Operating Expenditure (excluding depreciation) 2023/24 Budget \$m	Portion of Total Expenses (%)
Roads, Bridges, Cycleways, Footpaths and Kerbs & Gutters	8.7	22.9
Tourism Promotion and Business*	3.4	9.1
Water Supply Services	1.9	5.0
Domestic Waste Management	1.6	4.2
Administration and Corporate Support	1.4	3.8
Governance and Real Estate Development	1.4	3.6
Sewerage Services	1.2	3.1
Engineering, Purchasing & Works Supervision	1.0	2.6
Financial Services	0.9	2.5
Emergency Services & Fire Protection	0.9	2.5

*Tourism Promotions and Business service includes the cost of the State Road Contract

Source: AEC (unpublished)

Table 6.6 Service Catalogue – Net Operating Result by Service (based on 2023/24 Forecast)

SERVICE	Total income from continuing operations	Total expenses from continuing operations	Net Operating Result	Net Operating Result (less capital revenue)
General Manager				
Tourism Promotion and Business	3,322,050	3,426,057	(104,007)	(104,007)
Bank House	18,502	20,140	(1,638)	(1,638)
Caravan Parks	75,282	41,233	34,049	34,049
Finance & Administration				
Administration and Corporate Support	373,927	1,429,291	(1,055,364)	(1,055,364)
Depreciation Operating Expense	-	9,592,841	(9,592,841)	(9,592,841)
Financial Services	-	933,805	(933,805)	(933,805)
General Purpose Items and Rates	15,058,096	-	15,058,096	15,058,096
Governance and Real Estate Development	(19,390)	1,352,649	(1,372,039)	(1,372,039)
Public Cemeteries	94,284	69,557	24,727	24,727
Public Libraries	81,064	451,973	(370,909)	(370,909)
Workforce (Human Resources and OHS)	500	828,497	(827,997)	(827,997)
Environment & Planning				
Animal Control	11,600	161,046	(149,446)	(149,446)
Building Control	225,000	533,052	(308,052)	(308,052)
Domestic Waste Management	1,728,995	1,591,494	137,501	120,001
Environmental Systems and Protection	-	97,531	(97,531)	(97,531)
Food Control and Inspections	15,000	12,000	3,000	3,000
Sewerage Services	2,212,030	1,175,638	1,036,392	995,292
Sporting Grounds and Parks & Gardens	2,122,836	746,460	1,376,376	(744,949)
Information Technology	-	750,090	(750,090)	(750,090)
Noxious Weeds Control	144,386	375,056	(230,670)	(230,670)
Swimming Pools	2,895,942	262,333	2,633,609	(230,659)
Town Planning and Development Control	871,600	692,763	178,837	(414,563)
Waste Centres, Rubbish Tips & Street Cleaning	971,015	680,831	290,184	290,184
Water Supply Services	3,274,767	1,878,429	1,396,338	538,538
Infrastructure				
Engineering, Purchasing & Works Supervision	209,354	979,426	(770,072)	(770,072)
Emergency Services & Fire Protection	189,909	880,983	(691,074)	(731,074)
Health Service, Aged, Disabled & Community Services	100,363	430,285	(329,922)	(329,922)
Housing	15,431	30,310	(14,879)	(14,879)
Plant and Equipment Operations	139,957	(1,432,028)	1,571,985	1,571,985
Public Conveniences	(3,645)	283,943	(287,588)	(287,588)
Public Halls, Cultural Serv, Community Centres & Museums	53,423	211,767	(158,344)	(188,344)
Quarries and Gravel Pits	695,963	631,973	63,990	63,990
Roads, Bridges, Cycleways, Footpaths and Kerbs & Gutters	11,421,349	8,674,482	2,746,867	(4,113,399)
Stormwater and Drainage	49,000	29,716	19,284	19,284
	-	-	-	-
Council Total	46,348,590	37,823,623	8,524,967	(4,900,692)

Source: Council Budget 2023/24

6.3 AVAILABILITY OF CASH

6.3.1 Cashflow

The Cashflow forecast for the Base Case Scenario currently indicates that total cash and investments has a slight decline from \$29.5 million to \$27.9 million at the end of 2033/34. AEC has used the assumptions for the funding sources for the capital works as provided by Council, this may change depending on Council's completion of a full 10-year capital works program. The cash is maintained as Council is not investing sufficiently in its assets which is not a very sustainable approach.

Table 6.7 Statement of Cash Flows – Consolidated (Base Scenario)

STATEMENT OF CASH FLOWS - CONSOLIDATED	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	DRAFT ACTUAL	FORECAST	FORWARD PLAN									
Cash Flows from operating activities												
Receipts:												
Rates and annual charges	12,858	13,528	13,950	14,298	14,656	15,050	15,456	15,872	16,299	16,739	17,190	17,653
User charges and fees	9,589	6,352	6,527	6,741	6,910	7,083	7,260	7,441	7,627	7,818	8,013	8,214
Investment and interest revenue received	636	1,259	1,180	1,188	1,179	1,183	1,176	1,166	1,159	1,149	1,140	1,128
Grants and contributions	25,047	24,394	18,523	14,010	14,015	14,684	15,051	15,427	15,813	16,208	16,614	17,029
Bonds, deposits and retention amounts received	-	-	-	-	-	-	-	-	-	-	-	-
Other operating	163	675	693	710	728	746	765	784	804	824	845	866
Payments:												
Employee benefits and on-costs	(13,108)	(14,137)	(14,632)	(15,174)	(15,629)	(16,098)	(16,581)	(17,078)	(17,591)	(18,119)	(18,662)	(19,222)
Materials and services	(14,331)	(14,233)	(11,224)	(11,823)	(12,121)	(12,423)	(12,733)	(13,052)	(13,378)	(13,713)	(14,055)	(14,407)
Borrowing costs	(234)	(274)	(625)	(603)	(574)	(545)	(515)	(474)	(455)	(424)	(395)	(364)
Bonds, deposits and retention amounts refunded	(24)	-	-	-	-	-	-	-	-	-	-	-
Other operating	604	(878)	(902)	(924)	(947)	(971)	(995)	(1,020)	(1,046)	(1,072)	(1,099)	(1,126)
Net cash provided (or used in) operating activities	21,200	16,687	13,489	8,424	8,216	8,709	8,883	9,066	9,233	9,410	9,590	9,771
Cash Flows from investing activities												
Receipts:												
Sale of investments	14,800	24,000	23,000	18,886	13,886	9,886	8,886	8,886	8,886	8,886	8,886	8,886
Sale of infrastructure, property, plant and equipment	661	291	411	421	432	443	454	465	477	489	501	513
Deferred Debtors Receipts	-	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-	-
Payments:												

UPPER LACHLAN SHIRE COUNCIL FINANCIAL SUSTAINABILITY REVIEW 2023

STATEMENT OF CASH FLOWS - CONSOLIDATED	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	DRAFT ACTUAL	FORECAST	FORWARD PLAN									
Purchase of investment securities	(17,400)	(23,000)	(18,886)	(13,886)	(9,886)	(8,886)	(8,886)	(8,886)	(8,886)	(8,886)	(8,886)	(8,886)
Purchase of infrastructure, property, plant and equipment	(18,449)	(23,331)	(14,555)	(8,265)	(7,705)	(8,474)	(8,686)	(8,903)	(9,126)	(9,354)	(9,588)	(9,827)
Purchase of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of real estate assets	-	-	-	-	-	-	-	-	-	-	-	-
Deferred debtors and advances made	-	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) investing activities	(20,388)	(22,040)	(10,030)	(2,844)	(3,273)	(7,031)	(8,232)	(8,438)	(8,649)	(8,865)	(9,087)	(9,314)
Cash Flows from financing activities												
<i>Receipts:</i>												
New Residential Accommodation Bonds	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from borrowings	-	2,400	1,541	-	-	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-	-	-	-	-	-
<i>Payments:</i>												
Repayment of borrowings and advances	(585)	(647)	(676)	(809)	(837)	(867)	(898)	(798)	(844)	(763)	(793)	(762)
Principal component of lease payments	(30)	-	-	-	-	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) financing activities	(615)	1,753	865	(809)	(837)	(867)	(898)	(798)	(844)	(763)	(793)	(762)
Net increase/(decrease) in cash and cash equivalents	197	(3,600)	4,325	4,772	4,106	811	(247)	(170)	(259)	(218)	(290)	(305)
Cash and cash equivalents - beginning of year	9,895	10,092	6,492	10,817	15,588	19,694	20,505	20,258	20,088	19,829	19,611	19,321
Cash and cash equivalents - end of the year	10,092	6,492	10,817	15,588	19,694	20,505	20,258	20,088	19,829	19,611	19,321	19,015
Investments on hand - end of year	24,000	23,000	18,886	13,886	9,886	8,886	8,886	8,886	8,886	8,886	8,886	8,886
Total cash, cash equivalents and investments	34,092	29,492	29,703	29,474	29,580	29,391	29,144	28,974	28,715	28,497	28,207	27,901

Source: AEC (unpublished)

Table 6.8 Statement of Cash Flows – General Fund (Base Scenario)

STATEMENT OF CASH FLOWS - GENERAL	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	FORECAST	FORWARD PLAN									
Cash Flows from operating activities											
<i>Receipts:</i>											
Rates and annual charges	9,280	9,595	9,835	10,081	10,338	10,602	10,872	11,149	11,433	11,725	12,024
User charges and fees	4,899	5,034	5,211	5,341	5,474	5,611	5,752	5,895	6,043	6,194	6,349
Investment and interest revenue received	662	718	672	605	552	481	403	323	235	143	44
Grants and contributions	23,478	17,581	13,045	13,025	13,670	14,012	14,362	14,721	15,089	15,466	15,853
Bonds, deposits and retention amounts received	-	-	-	-	-	-	-	-	-	-	-
Other operating	675	693	710	728	746	765	784	804	824	845	866
<i>Payments:</i>											
Employee benefits and on-costs	(12,460)	(12,896)	(13,386)	(13,787)	(14,201)	(14,627)	(15,066)	(15,518)	(15,983)	(16,463)	(16,957)
Materials and services	(9,905)	(8,196)	(8,720)	(8,941)	(9,164)	(9,393)	(9,629)	(9,870)	(10,117)	(10,371)	(10,630)
Borrowing costs	(249)	(504)	(487)	(466)	(445)	(422)	(399)	(378)	(357)	(336)	(315)
Bonds, deposits and retention amounts refunded	-	-	-	-	-	-	-	-	-	-	-
Other operating	(867)	(891)	(914)	(936)	(960)	(984)	(1,008)	(1,034)	(1,059)	(1,086)	(1,113)
Net cash provided (or used in) operating activities	15,512	11,135	5,967	5,650	6,012	6,045	6,071	6,093	6,108	6,117	6,120
Cash Flows from investing activities											
<i>Receipts:</i>											
Sale of investments	14,114	14,114	10,000	5,000	1,000	-	-	-	-	-	-
Sale of infrastructure, property, plant and equipment	291	411	421	432	443	454	465	477	489	501	513
Deferred Debtors Receipts	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-
<i>Payments:</i>											
Purchase of investment securities	(14,114)	(10,000)	(5,000)	(1,000)	-	-	-	-	-	-	-
Purchase of infrastructure, property, plant and equipment	(20,482)	(13,702)	(7,398)	(6,717)	(7,526)	(7,715)	(7,907)	(8,105)	(8,308)	(8,515)	(8,728)
Purchase of intangible assets	-	-	-	-	-	-	-	-	-	-	-
Purchase of real estate assets	-	-	-	-	-	-	-	-	-	-	-
Deferred debtors and advances made	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) investing activities	(20,191)	(9,177)	(1,976)	(2,285)	(6,084)	(7,261)	(7,442)	(7,629)	(7,819)	(8,015)	(8,215)

STATEMENT OF CASH FLOWS - GENERAL	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	FORECAST	FORWARD PLAN									
Cash Flows from financing activities											
Receipts:											
New Residential Accommodation Bonds	-	-	-	-	-	-	-	-	-	-	-
Proceeds from borrowings	1,000	1,541	-	-	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-	-	-	-	-
Payments:											
Repayment of borrowings and advances	(626)	(540)	(666)	(687)	(709)	(733)	(640)	(662)	(573)	(594)	(553)
Principal component of lease payments	-	-	-	-	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) financing activities	374	1,001	(666)	(687)	(709)	(733)	(640)	(662)	(573)	(594)	(553)
Net increase/(decrease) in cash and cash equivalents	(4,305)	2,960	3,325	2,678	(781)	(1,949)	(2,012)	(2,198)	(2,284)	(2,491)	(2,648)
Cash and cash equivalents - beginning of year	8,149	3,844	6,804	10,129	12,806	12,026	10,077	8,065	5,868	3,584	1,093
Cash and cash equivalents - end of the year	3,844	6,804	10,129	12,806	12,026	10,077	8,065	5,868	3,584	1,093	(1,555)
Investments on hand - end of year	14,114	10,000	5,000	1,000	-	-	-	-	-	-	-
Total cash, cash equivalents and investments	17,958	16,804	15,129	13,806	12,026	10,077	8,065	5,868	3,584	1,093	(1,555)

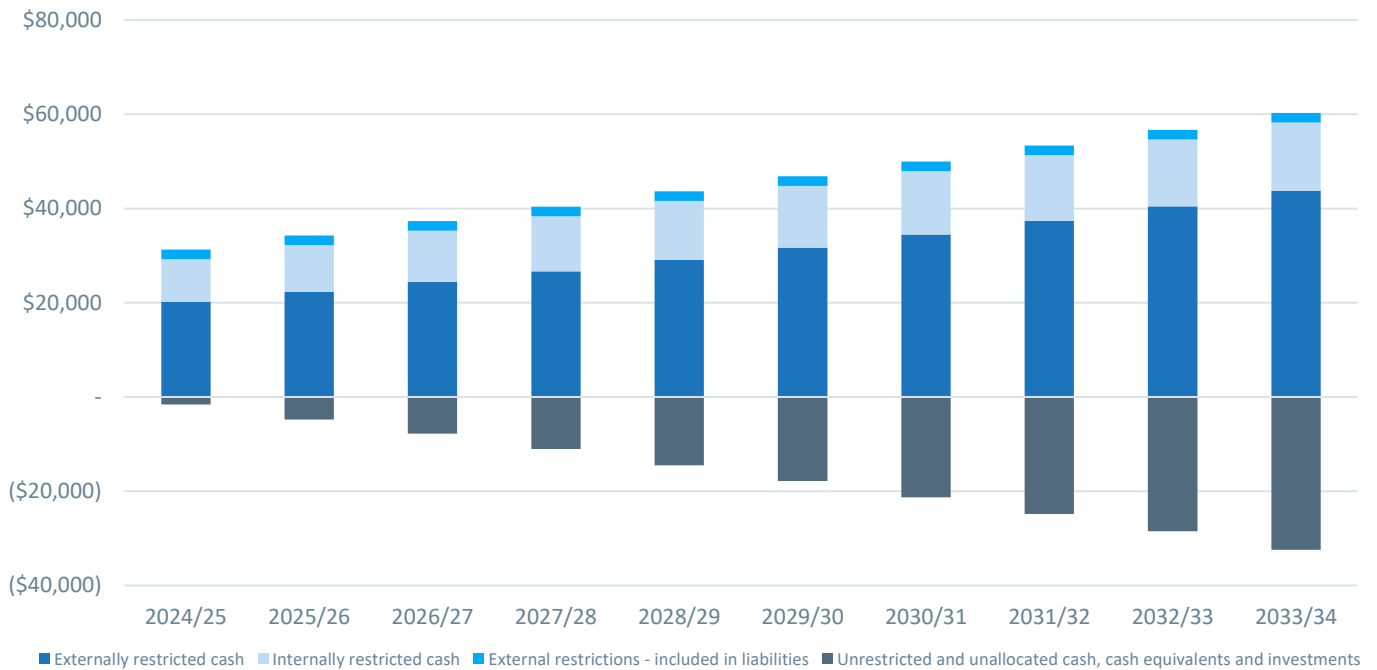
Source: AEC (unpublished)

6.3.2 Cash Reserves and Unrestricted Cash Available

Council currently manages 26 separate internal and external cash reserves including externally restricted and internally restricted cash reserves. As noted above, the balance of cash in the externally and internally restricted cash reserves in the Base Case are projected to increase significantly, and the unrestricted cash balance goes into negative. This is not sustainable.

The cash accumulating in the Water and Sewer funds is due to Council not investing enough in these asset classes or having a Capital Works Program that has much of a planned projects of new assets or renewals. Total restrictions have increased significantly over the period from \$33.9 million to \$60.3 million. Importantly though, this does not impact on the key finding that the General Fund is not producing sufficient cash, which is indicated by the projected negative unrestricted cash reserve.

Table 6.9 Restricted and Unrestricted Cash – (Base Scenario)



Source: AEC (unpublished)

Table 6.10 Reserves Summary – Consolidated (Base Scenario)

RESERVES - CONSOLIDATED	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL	BUDGET	FORWARD PLAN									
Externally Restricted - Liabilities												
Specific Purpose Unexpended Grants - General Fund	2,792	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477
Wind Farms Community Fund	354	354	354	354	354	354	354	354	354	354	354	354
Trust Fund	2	2	2	2	2	2	2	2	2	2	2	2
Deposits, retentions and bonds	205	205	205	205	205	205	205	205	205	205	205	205
External restrictions included in liabilities	3,353	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038
Externally Restricted - Other												
Developer Contributions - General	4,901	4,974	5,543	6,145	6,781	7,451	8,158	8,904	9,691	10,519	11,392	12,310
Developer Contributions - Water Fund	525	588	676	769	868	972	1,082	1,198	1,321	1,450	1,587	1,731
Developer Contributions - Sewer Fund	670	711	782	856	935	1,018	1,105	1,197	1,294	1,396	1,503	1,616
Specific Purpose Unexpended Grants	3,862	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688
Water fund	3,057	3,269	4,020	4,820	5,859	6,831	7,864	8,982	10,148	11,385	12,696	14,085
Sewer fund	5,634	5,400	5,938	6,503	7,350	8,079	8,853	9,681	10,556	11,484	12,469	13,513
Stormwater Management	282	111	58	110	163	180	198	217	237	257	279	301
Domestic Waste Management	1,943	1,566	1,484	1,397	761	466	162	(151)	(472)	(802)	(1,141)	(1,489)
Externally Restricted - Other	20,874	18,306	20,188	22,288	24,404	26,684	29,111	31,718	34,462	37,377	40,472	43,755
Internally Restricted												
Council Houses Capital Works	67	67	67	67	67	67	67	67	67	67	67	67
Carry over works	1,257	977	977	977	977	977	977	977	977	977	977	977
Employees Leave Entitlement	1,572	1,682	1,800	1,926	2,061	2,205	2,359	2,524	2,701	2,890	3,092	3,309
Buildings and Infrastructure Improvements	-	-	-	250	500	750	1,000	1,000	1,000	1,000	1,000	1,000
Financial Assistance Grant	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068
Garbage/Waste Disposal	-	-	-	160	320	480	640	800	800	800	800	800
Gravel Pit Restoration	-	-	-	39	78	117	156	194	233	272	311	350
Information Technology and Equipment	273	92	92	92	92	92	92	92	92	92	92	92
Library Cooperative	58	58	58	58	58	58	58	58	58	58	58	58
State Road Works Contingencies	-	-	-	56	111	167	222	278	333	389	444	500
Plant & Vehicle Replacement	-	-	-	230	565	711	858	1,007	1,156	1,300	1,300	1,300
Upper Lachlan Tourist Association	-	-	-	-	-	-	-	-	-	-	-	-

RESERVES - CONSOLIDATED	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL	BUDGET					FORWARD PLAN					
Multipurpose Aquatic & Activity Centre Crookwell	452	-	-	-	-	-	-	-	-	-	-	-
Unexpended Loans/Borrowings	-	-	-	-	-	-	-	-	-	-	-	-
Internally Restricted	9,747	8,944	9,062	9,922	10,897	11,692	12,497	13,065	13,486	13,913	14,210	14,521
Total internal and external restrictions	33,889	29,288	31,288	34,249	37,340	40,414	43,646	46,821	49,986	53,329	56,720	60,315
Total cash, cash equivalents and investments	34,092	29,492	29,703	29,474	29,580	29,391	29,144	28,974	28,715	28,497	28,207	27,901
Externally restricted cash	20,874	18,306	20,188	22,288	24,404	26,684	29,111	31,718	34,462	37,377	40,472	43,755
Internally restricted cash	9,747	8,944	9,062	9,922	10,897	11,692	12,497	13,065	13,486	13,913	14,210	14,521
External restrictions - included in liabilities	3,353	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038
Unrestricted and unallocated cash, cash equivalents and investments	117	203	(1,586)	(4,775)	(7,760)	(11,023)	(14,503)	(17,847)	(21,272)	(24,832)	(28,514)	(32,413)

Source: AEC (unpublished)

6.4 INVESTMENT IN ASSETS

6.4.1 Capital Works Expenditure

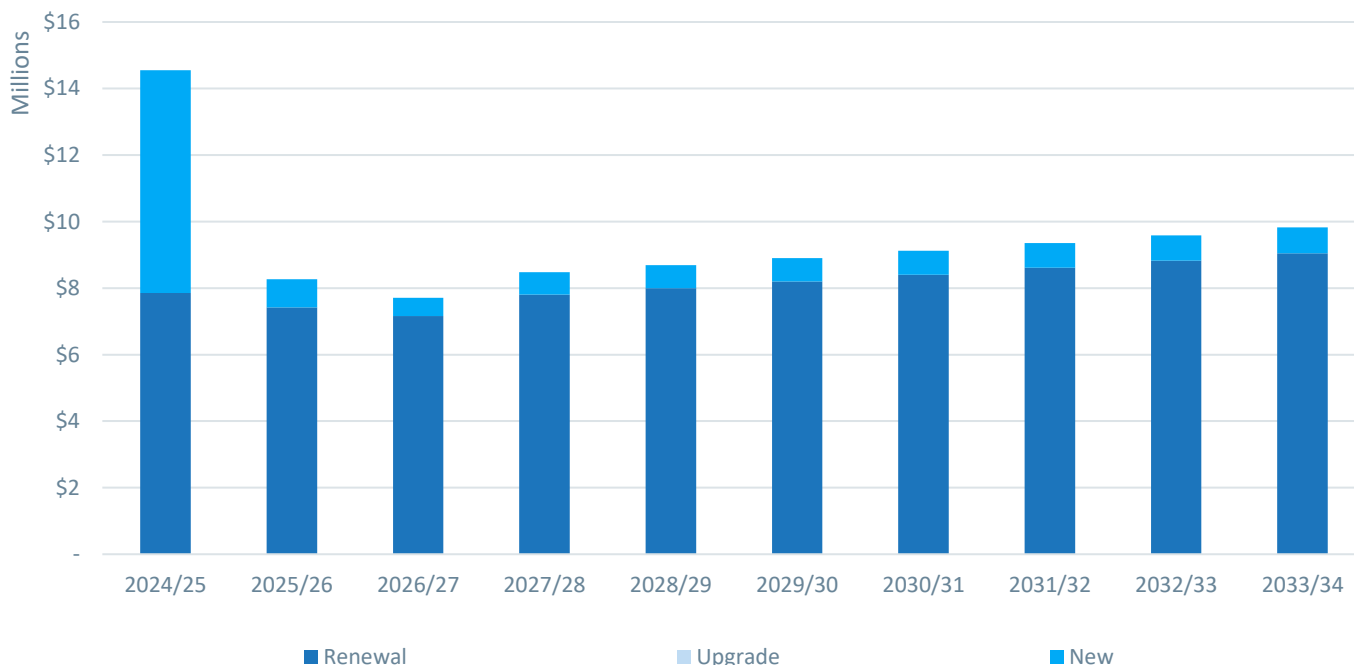
Council has currently prepared a capital works program (new assets, upgrades, and renewals) spanning only the first four years of the forecast period. We note that the Integrated Planning and Reporting framework requires that Councils maintain a 10 year forward program. AEC have therefore extrapolated this for the ten years.

The Base Case Scenario includes a total of \$94.5 million over the next ten years on capital expenditure, comprising \$13.1 million of new and upgraded assets and \$81.4 million of asset renewals over the forecast period.

6.4.2 All Asset Groups

- AEC also analysed Council’s asset register for all asset classes to calculate the annualised depreciation, based on the value of currently held assets and their respective asset lives. To maintain assets without loss of asset condition, the asset renewal program is required to keep pace with depreciation. Our review indicates that depreciation on all assets held (all asset classes) is an average during the forecast period of \$11.4 million.
- By comparison, Council’s annual programmed expenditure on asset renewals during the forecast period is at an average of \$8.1 million, annually. This reflects a shortfall compared to depreciation expense of \$3.3 million annually.
- Based on AEC’s calculation of depreciation expense, Councils current renewals expenditure represents an average renewal ratio over the forecast period of 71%, which is substantially below the Office of Local Government target value of 100%.
- Review of the Capital Works Program is necessary to prevent deterioration of the cash position over the medium term.
- Council requires an updated Development Contributions Plan, with an updated schedule of works. This is a high risk to the cash position of the General Fund until the Development Contributions Plan is updated.

Figure 6.3 Capital Program Spend – Consolidated (Base Scenario)

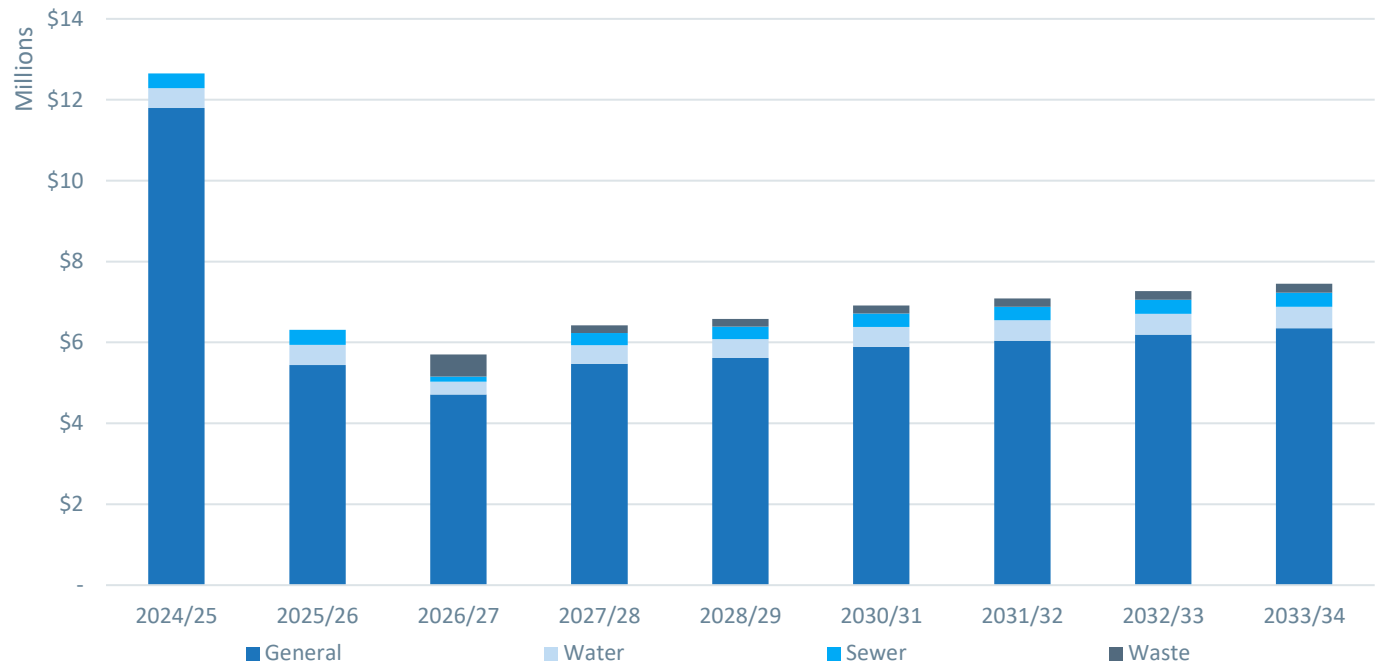


Source – AEC (unpublished)

Note:

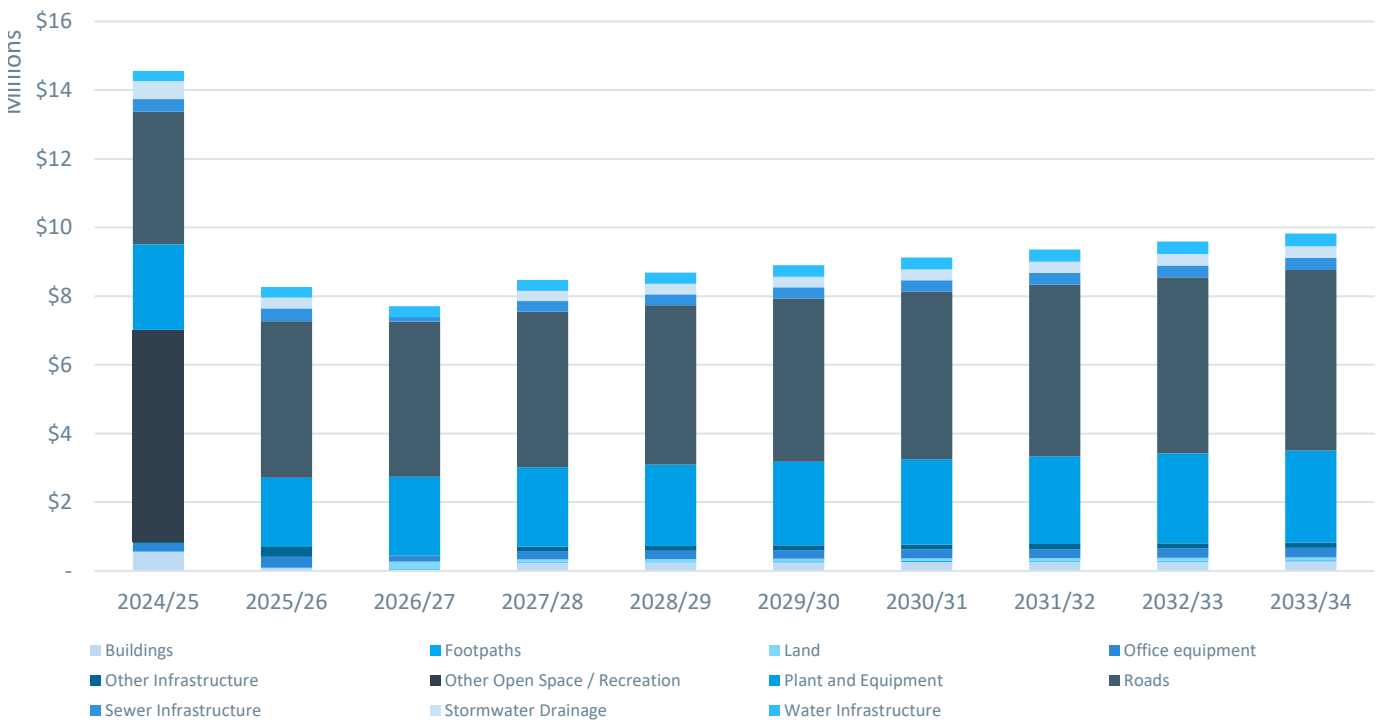
Based on advice from Upper Lachlan Shire Council’s management team, we have included the cost of Crookwell (MAAC) indoor heated swimming pool into the 2024/25 Capital Works Program at a value of \$6 million

Figure 6.4 Capital Works Program by Fund (Base Scenario)



Source – AEC (unpublished)

Figure 6.5 Capital Program Spend – by Asset Class (Base Scenario)



Source – AEC (unpublished)

Table 6.11 Capital Program Spend – by Asset Class (Base Scenario)

Planned Capital Works by Asset Class	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Buildings	3,271,535	557,933	86,361	35,624	242,694	248,762	254,981	261,355	267,889	274,586	281,451
Footpaths	130,000	20,550	21,064	21,590	22,130	22,683	23,250	23,832	24,427	25,038	25,664
Land	0	0	0	215,903	73,767	75,612	77,502	79,439	81,425	83,461	85,548
Office equipment	575,788	217,962	307,778	151,132	237,664	243,606	249,696	255,938	262,337	268,895	275,617
Other Infrastructure	117,000	59,441	300,940	21,244	133,987	137,336	140,770	144,289	147,896	151,594	155,383
Other Open Space / Recreation	4,377,668	6,165,000	0	0	0	0	0	0	0	0	0
Plant and Equipment	1,135,000	2,486,550	1,996,844	2,296,673	2,311,949	2,369,748	2,428,992	2,489,717	2,551,960	2,615,759	2,681,153
Roads	11,174,527	3,870,640	4,557,191	4,519,988	4,529,713	4,642,956	4,759,030	4,878,006	4,999,956	5,124,955	5,253,079
Sewer Infrastructure	1,225,000	364,763	373,882	129,542	306,133	313,787	321,631	329,672	337,914	346,362	355,021
Stormwater Drainage	220,000	513,750	315,956	0	295,067	302,444	310,005	317,755	325,699	333,842	342,188
Water Infrastructure	1,104,300	297,975	305,424	313,060	320,886	328,909	337,131	345,560	354,199	363,054	372,130
TOTAL EXPENSES	23,330,818	14,554,562	8,265,440	7,704,758	8,473,992	8,685,842	8,902,988	9,125,563	9,353,702	9,587,545	9,827,233
New	8,082,203	6,699,300	842,550	539,759	671,279	688,061	705,263	722,894	740,966	759,491	778,478
Upgrade	0	0	0	0	0	0	0	0	0	0	0
Renewal	15,248,615	7,855,262	7,422,890	7,164,999	7,802,713	7,997,781	8,197,726	8,402,669	8,612,736	8,828,054	9,048,755
TOTAL EXPENSES	23,330,818	14,554,562	8,265,440	7,704,758	8,473,992	8,685,842	8,902,988	9,125,563	9,353,702	9,587,545	9,827,233
	9,592,841	10,039,887	10,450,997	10,717,416	10,980,933	11,256,518	11,538,993	11,828,530	12,125,305	12,429,499	12,741,299
	159%	78%	71%	67%	71%	71%	71%	71%	71%	71%	71%

Source – AEC (unpublished)

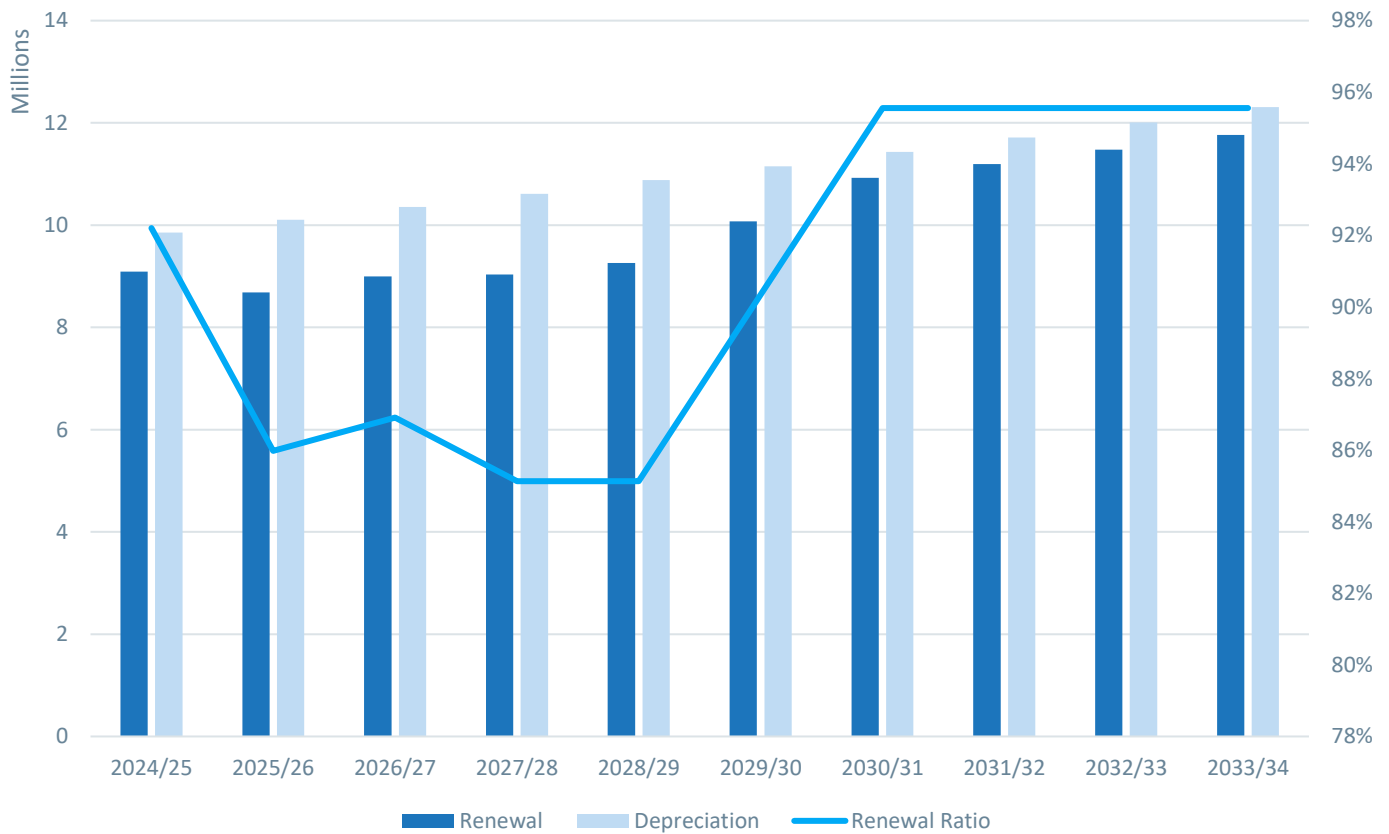
7. FORECAST – ENHANCED ASSET RENEWALS SCENARIO

7.1 ASSUMPTIONS AND QUALIFICATIONS

The Enhanced Asset Renewals scenario has been compiled based on the Base Case Scenario, with equivalent assumptions, but with the following modifications:

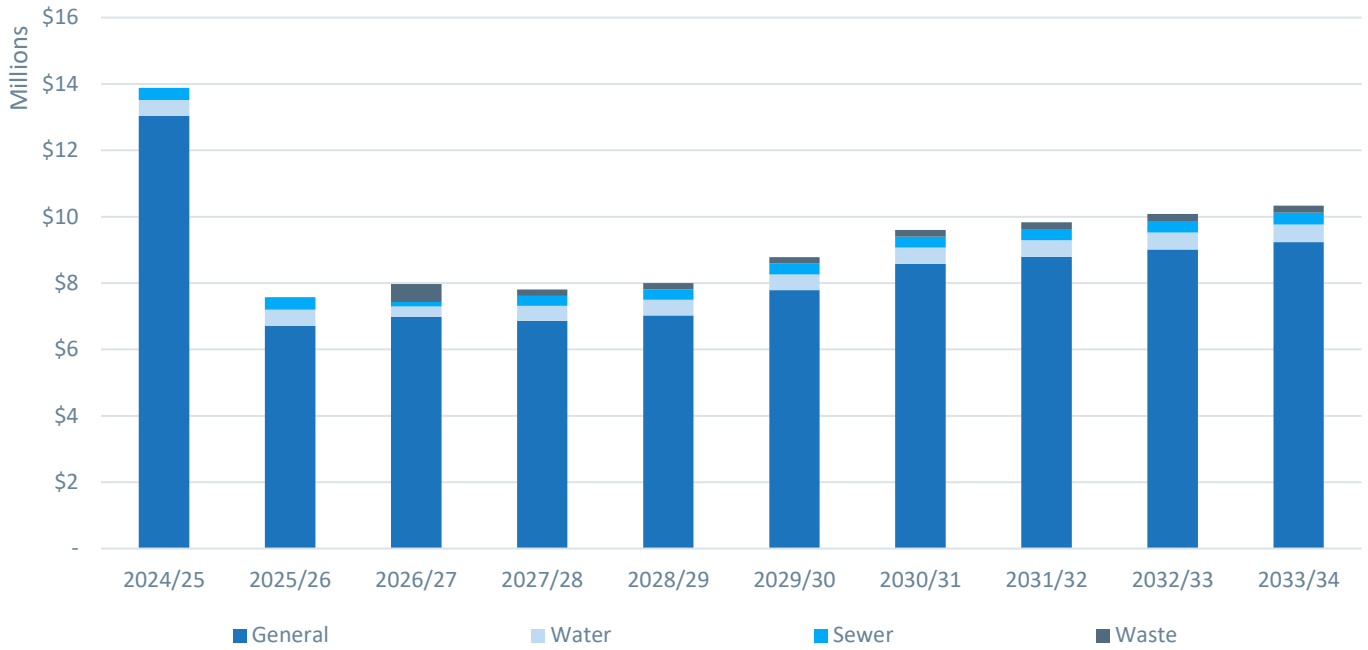
- We have increased the value of the forecast renewals program based on our assessment of the minimum level necessary to prevent a decline in asset condition.
- The level of renewals assumed raises the Capital Renewal Ratio to an average of 91% over the forecast period, which is just below the Office of Local Government recommended target of 100%.
- Total Capital Works Program increases from \$94.5 million to \$115.2 million, an increase of \$20.7 million.

Figure 7.1 Capital Works Program – Depreciation versus Renewal (Enhanced Asset Renewal Scenario)



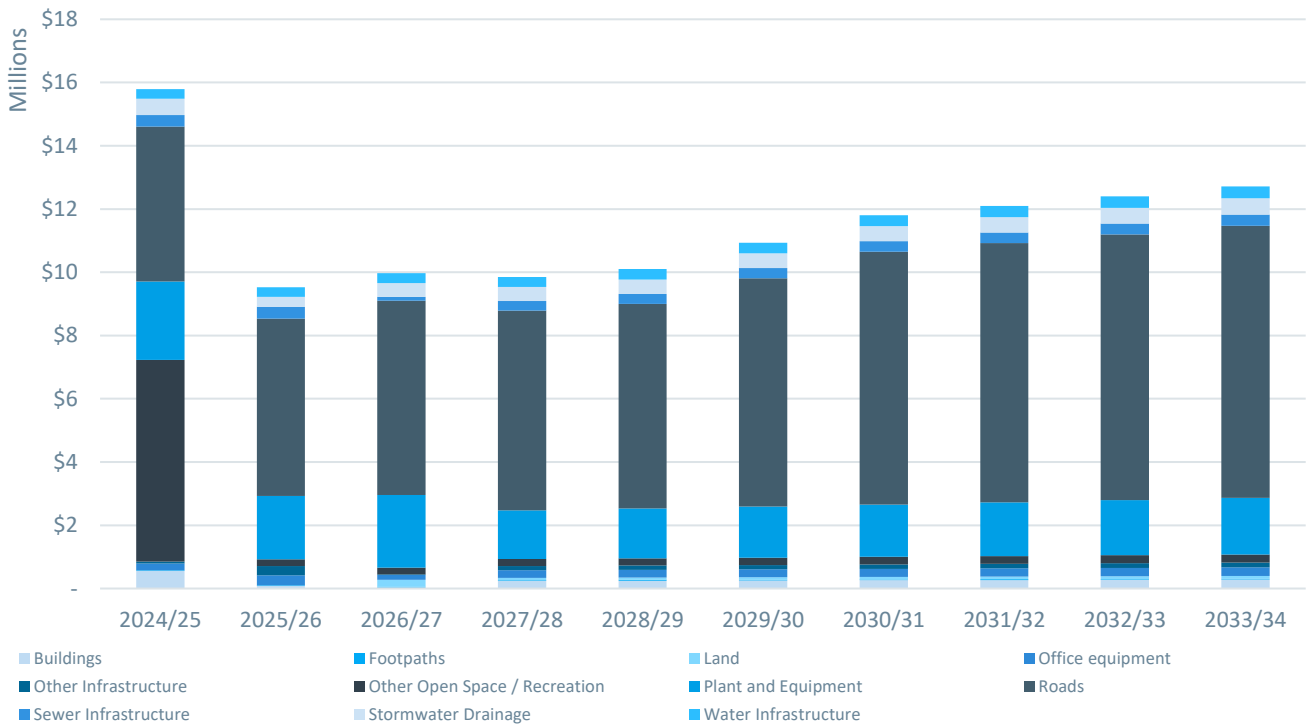
Source – AEC (unpublished)

Figure 7.2 Capital Works Program by Fund (Enhanced Asset Renewal Scenario)



Source – AEC (unpublished)

Figure 7.3 Capital Program Spend – by Asset Class (Enhanced Asset Renewal Scenario)



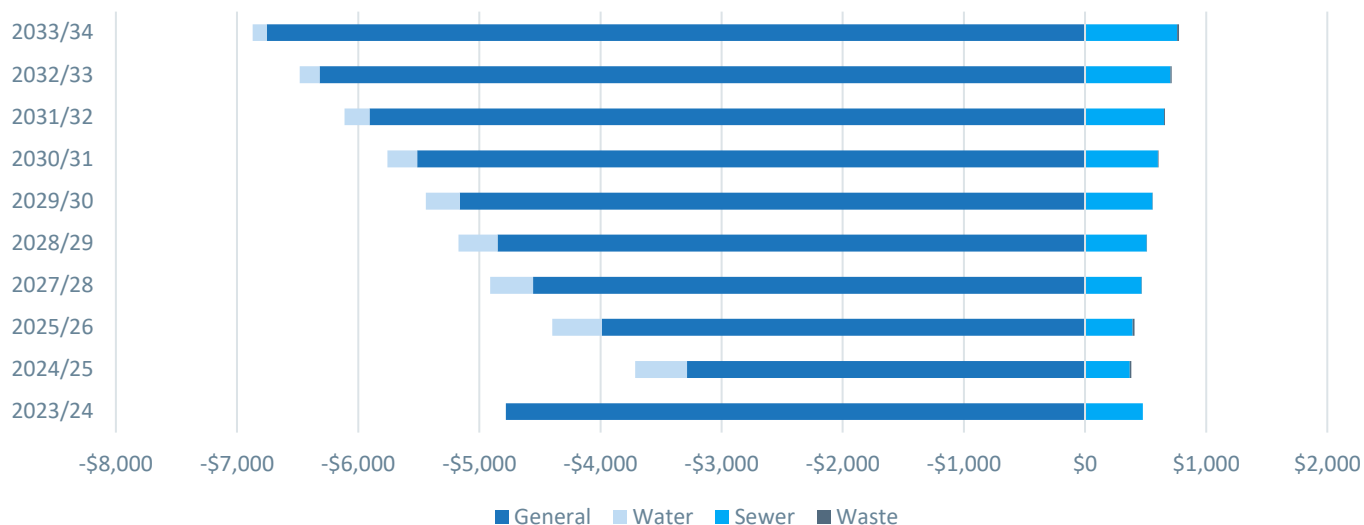
Source – AEC (unpublished)

Table 7.1 Capital Program Spend – by Asset Class (Enhanced Asset Renewal Scenario)

Planned Capital Works by Asset Class	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Buildings	3,271,535	557,933	86,361	35,624	242,694	248,762	254,981	261,355	267,889	274,586	281,451
Footpaths	130,000	20,550	21,064	21,590	22,130	22,683	23,250	23,832	24,427	25,038	25,664
Land	0	0	0	215,903	73,767	75,612	77,502	79,439	81,425	83,461	85,548
Office equipment	575,788	217,962	307,778	151,132	237,664	243,606	249,696	255,938	262,337	268,895	275,617
Other Infrastructure	117,000	59,441	300,940	21,244	133,987	137,336	140,770	144,289	147,896	151,594	155,383
Other Open Space / Recreation	4,377,668	6,370,500	210,638	215,903	221,301	226,834	232,504	238,317	244,275	250,382	256,641
Plant and Equipment	1,135,000	2,486,550	1,996,844	2,296,673	1,537,673	1,576,114	1,615,517	1,655,905	1,697,303	1,739,735	1,783,229
Roads	11,174,527	4,898,140	5,610,378	6,139,264	6,316,351	6,474,259	7,217,377	7,993,604	8,193,444	8,398,280	8,608,237
Sewer Infrastructure	1,225,000	364,763	373,882	129,542	306,133	313,787	321,631	329,672	337,914	346,362	355,021
Stormwater Drainage	220,000	513,750	315,956	431,807	442,602	453,667	465,009	476,634	488,550	500,764	513,283
Water Infrastructure	1,104,300	297,975	305,424	313,060	320,886	328,909	337,131	345,560	354,199	363,054	372,130
TOTAL EXPENSES	23,330,818	15,787,562	9,529,265	9,971,744	9,855,189	10,101,568	10,935,368	11,804,545	12,099,659	12,402,150	12,712,204
New	8,082,203	6,699,300	842,550	971,565	818,814	839,284	860,266	881,773	903,817	926,413	949,573
Upgrade	0	0	0	0	0	0	0	0	0	0	0
Renewal	15,248,615	9,088,262	8,686,715	9,000,178	9,036,375	9,262,284	10,075,102	10,922,772	11,195,842	11,475,738	11,762,631
TOTAL EXPENSES	23,330,818	15,787,562	9,529,265	9,971,744	9,855,189	10,101,568	10,935,368	11,804,545	12,099,659	12,402,150	12,712,204
Depreciation	9,592,841	9,856,644	10,103,060	10,355,637	10,614,528	10,879,891	11,151,888	11,430,686	11,716,453	12,009,364	12,309,598
Renewal Ratio	159%	92%	86%	87%	85%	85%	90%	96%	96%	96%	96%

Source – AEC (unpublished)

Figure 7.4 Operating Result before capital (Enhanced Asset Renewal Scenario)



Source – AEC (unpublished)

7.2 CONSOLIDATED OPERATING POSITION

- Under the Enhanced Asset Renewal Scenario, the net average consolidated operating position over the forecast period reflects a deficit of \$4.8 million. This indicates the level of deficit spending that would be required to maintain assets in their current condition.

7.3 AVAILABILITY OF CASH

- Under the Enhanced Asset Renewals Scenario, Total cash, cash equivalents and investments are forecast to decline from \$34.1 million reported in 2022/23 to \$5.7 million in 2033/34. This reflects a consumption of \$28.4 million of Council’s cash reserves.
- There is significant change to the internal reserves from \$9.7 million in 2022/23 to \$13.6 million in 2033/34. The major change been in employee leave entitlement (\$0.9 million), building and infrastructure improvement (\$1.0 million) and plant & vehicle replacement (\$1.3 million). Council maintains the same level of internal restriction for financial assistance grant (FAG) received in advance. This is reflected in all three scenarios. Both external and internal cash restrictions are increasing and putting pressure on the unrestricted cash portion of total cash, cash equivalents and investments.

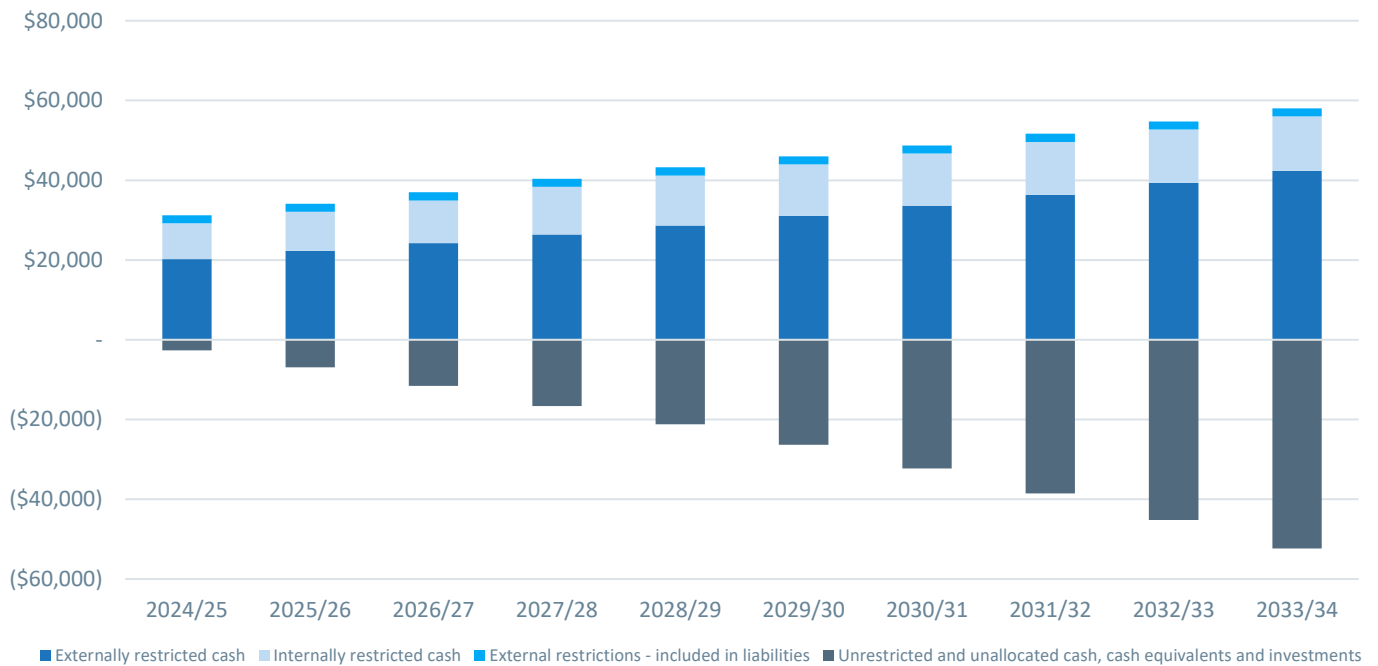
Table 7.2 Reserve Summary (Enhanced Asset Renewal Scenario)

RESERVES - CONSOLIDATED	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL	BUDGET	FORWARD PLAN									
Externally Restricted - Liabilities												
Specific Purpose Unexpended Grants - General Fund	2,792	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477
Wind Farms Community Fund	354	354	354	354	354	354	354	354	354	354	354	354
Trust Fund	2	2	2	2	2	2	2	2	2	2	2	2
Deposits, retentions and bonds	205	205	205	205	205	205	205	205	205	205	205	205
External restrictions included in liabilities	3,353	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038
Externally Restricted - Other												
Developer Contributions - General	4,901	4,974	5,543	6,145	6,781	7,451	8,158	8,904	9,691	10,519	11,392	12,310
Developer Contributions - Water Fund	525	588	676	769	868	972	1,082	1,198	1,321	1,450	1,587	1,731
Developer Contributions - Sewer Fund	670	711	782	856	935	1,018	1,105	1,197	1,294	1,396	1,503	1,616
Specific Purpose Unexpended Grants	3,862	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688
Water fund	3,057	3,269	4,035	4,852	5,909	6,899	7,950	9,088	10,274	11,531	12,864	14,276
Sewer fund	5,634	5,400	5,941	6,510	7,361	8,093	8,872	9,704	10,582	11,515	12,505	13,554
Stormwater Management	282	111	58	110	(53)	(220)	(391)	(566)	(745)	(928)	(1,115)	(1,307)
Domestic Waste Management	1,943	1,566	1,484	1,397	761	466	162	(151)	(472)	(802)	(1,141)	(1,489)
Externally Restricted - Other	20,874	18,306	20,207	22,328	24,248	26,366	28,626	31,062	33,632	36,369	39,282	42,379
Internally Restricted												
Council Houses Capital Works	67	67	67	67	67	67	67	67	67	67	67	67
Carry over works	1,257	977	977	977	977	977	977	977	977	977	977	977
Employees Leave Entitlement	1,572	1,635	1,700	1,768	1,839	1,913	1,989	2,069	2,151	2,237	2,327	2,420
Buildings and Infrastructure Improvements	-	-	-	250	500	750	1,000	1,000	1,000	1,000	1,000	1,000
Financial Assistance Grant	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068	6,068
Garbage/Waste Disposal	-	-	-	160	320	480	640	800	800	800	800	800
Gravel Pit Restoration	-	-	-	39	78	117	156	194	233	272	311	350
Information Technology and Equipment	273	92	92	92	92	92	92	92	92	92	92	92
Library Cooperative	58	58	58	58	58	58	58	58	58	58	58	58
State Road Works Contingencies	-	-	-	56	111	167	222	278	333	389	444	500
Plant & Vehicle Replacement	-	-	-	230	565	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Upper Lachlan Tourist Association	-	-	-	-	-	-	-	-	-	-	-	-

RESERVES - CONSOLIDATED	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL	BUDGET					FORWARD PLAN					
Multipurpose Aquatic & Activity Centre Crookwell	452	-	-	-	-	-	-	-	-	-	-	-
Unexpended Loans/Borrowings	-	-	-	-	-	-	-	-	-	-	-	-
Internally Restricted	9,747	8,897	8,963	9,765	10,676	11,988	12,569	12,903	13,080	13,261	13,445	13,632
Total internal and external restrictions	33,889	29,241	31,208	34,131	36,962	40,392	43,233	46,004	48,751	51,668	54,765	58,049
Total cash, cash equivalents and investments	34,092	29,492	28,588	27,228	25,368	23,765	22,010	19,653	16,469	13,140	9,543	5,726
Externally restricted cash	20,874	18,306	20,207	22,328	24,248	26,366	28,626	31,062	33,632	36,369	39,282	42,379
Internally restricted cash	9,747	8,897	8,963	9,765	10,676	11,988	12,569	12,903	13,080	13,261	13,445	13,632
External restrictions - included in liabilities	3,353	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038
Unrestricted and unallocated cash, cash equivalents and investments	117	203	(2,620)	(6,903)	(11,595)	(16,627)	(21,224)	(26,351)	(32,282)	(38,528)	(45,221)	(52,324)

Source – AEC (unpublished)

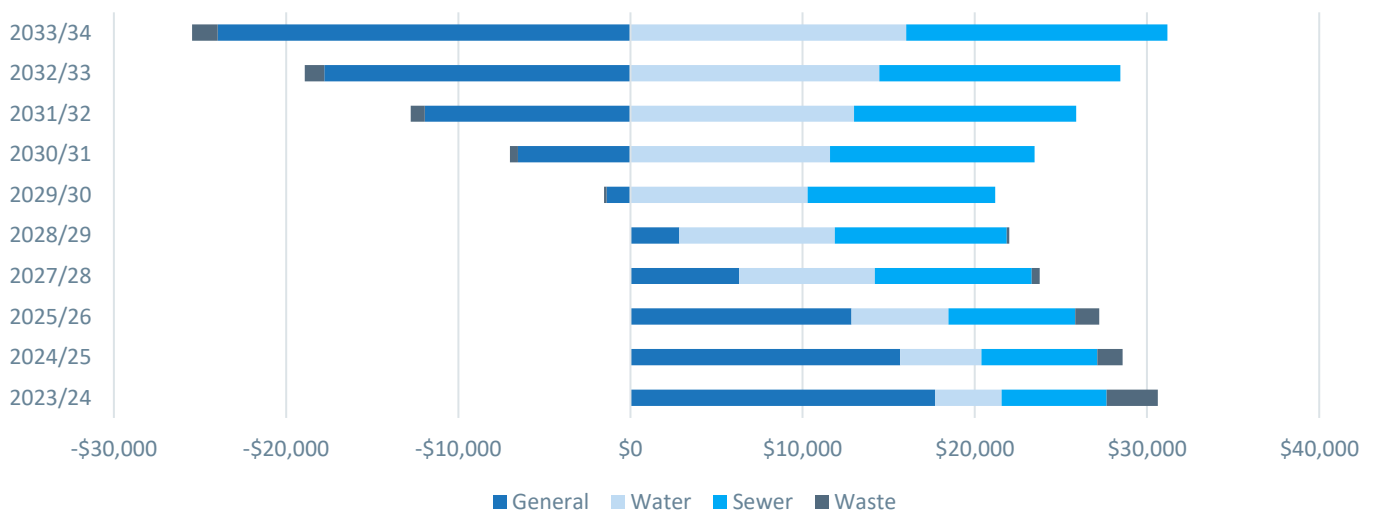
Figure 7.5 Restricted and Unrestricted Cash (Enhanced Asset Renewal Scenario)



Source – AEC (unpublished)

- This results in a forecast decline in Unrestricted Cash, Cash Equivalents, and Investments.
- This indicates that Council most likely has insufficient cash to fund the increased level of renewals within the Enhanced Asset Renewals Scenario without further actions to increase revenue or drive efficiencies. However, doing so results in an unsustainable decline in Council cash reserves, so should not be permitted to persist for more than a few years.
- The quantum of cash required to maintain a sustainable renewal program would not be achieved from operational efficiencies or one-off cash injections. Council needs to access all possible avenues, but a special rate variation (SRV) would be required to correct both the operating and cash position.

Figure 7.6 Cash availability by Fund (Enhanced Asset Renewals Scenario)



Source – AEC (unpublished)

7.4 INVESTMENT IN ASSETS

- We have included in the Enhanced Asset Renewal Scenario, for an increased total spend on asset renewals during the forecast period. The assumed increase in total renewals expenditure is summarised as follows:

Table 7.3 Increase in Renewal Expenditure (Enhanced Asset Renewal Scenario)

Year	Total Renewal Program - Base Case Scenario (\$m)	Total Renewal Program - Enhanced Asset Renewal Scenario (\$m)	Increase in Asset Renewal Program Assumed (\$m)
2024/25	7.9	9.1	1.2
2025/26	7.4	8.7	1.3
2026/27	7.2	9.0	1.8
2027/28	7.8	9.0	1.2
2028/29	8.0	9.3	1.3
2029/30	8.2	10.1	1.9
2030/31	8.4	10.9	2.5
2031/32	8.6	11.2	2.6
2032/33	8.8	11.5	2.6
2033/34	9.0	11.8	2.7

Source – AEC (unpublished)

- We have not included, in the Enhanced Asset Renewal Scenario, for a specific program of backlog replacements to increase asset condition from its current state. One of the major asset management recommendations would be for Council to invest in getting quality asset condition data that could be used to determine the correct infrastructure backlog.
- The average increase in asset renewal over the 10-year period is \$1.9 million annually.

8. FORECAST– ENHANCED ASSET RENEWALS AND ENHANCED CASH SCENARIO

8.1 ASSUMPTIONS AND QUALIFICATIONS

The Enhanced Asset Renewals and Cash Scenario has been compiled based on the Enhanced Assets Renewals Scenario, with equivalent assumptions, but with the following modifications:

- We have assumed actions taken by Council that have the effect of improving the operating result by an aggregate amount equivalent to an increase in revenue of 55.0% of Ordinary Rates including rate peg, implemented over a period of 3 years from 2024/25 to 2026/27, as follows:

Table 15 Enhanced Cash Requirements – Enhanced Cash Scenario

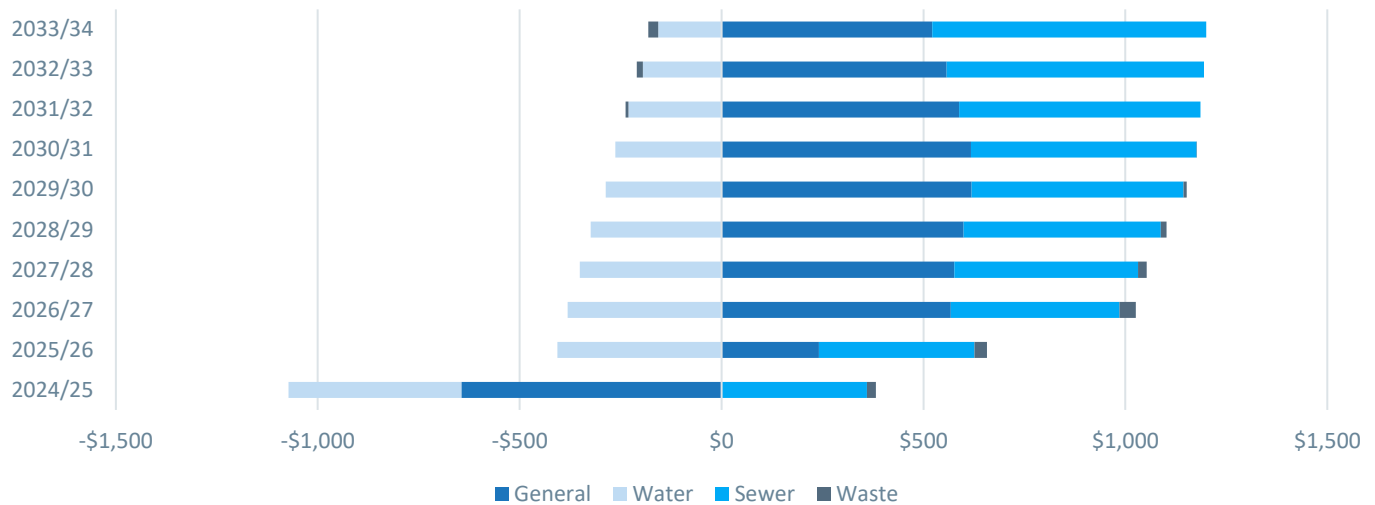
	2024/25	2025/26	2026/27	Cumulative
Rate Peg (determined by IPART)	3.50%	2.50%	2.50%	8.74%
% Adjustment to Ordinary Rates (or equivalent initiatives) – includes Rate Peg as stated above	35.00%	15.00%	5.00%	63.01%

- AEC would encourage that this action to apply for a general rates variation is undertaken in 2024/25. If the Council does not resolve to apply for a SRV in 2024/25, the operating and cash position may slightly worsen. This would then require a higher SRV in future years to compensate for the delay.
- Whilst we have expressed the change in net revenue assumed in the form of the percentage equivalent increase in Ordinary Rates, this may be achieved through a combination of initiatives, including:
 - Identification of operational efficiencies.
 - Reduction in service provision.
 - Sale of surplus assets (especially to pay down loan and/or fund one-off projects).
 - Increase in revenue from operations through increase in service fees, rates and or charges, such as through the application for and adoption of a Special Rates Variation.
- Council Executive and Councillors have a list of initiatives provided by AEC through consultation with Council's senior management. The leadership group now must identify a priority list of initiatives capable of achieving the required improvement in operating result.

8.2 CONSOLIDATED OPERATING POSITION

- Under the Enhanced Asset Renewal and Enhanced Cash Scenario, the net average consolidated operating position over the forecast period reflects a surplus of \$0.64 million annually.

Figure 8.1 Net Operating Result before Capital – By Fund (Enhanced Asset Renewal and Cash Scenario)



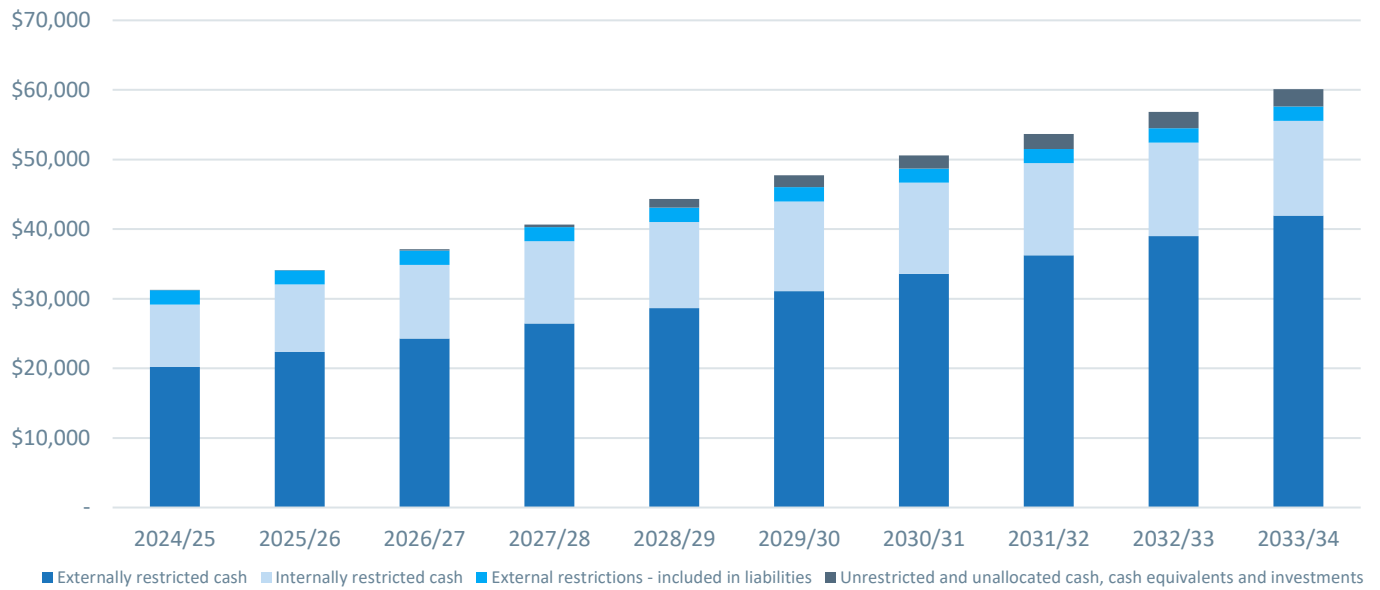
Source – AEC (unpublished)

- Council's water and waste fund will need further investigation as they do not generate the sufficient surplus or cash to sustain the operation.
- Water fund reports an average \$0.3 million in deficit annually across the forecast period. Council would need to access the water pricing to ensure that this is producing enough cash for its operations, asset renewals and any future development.
- Waste fund also starts producing operating deficits from 2031/32 onwards and drives the waste reserve into a negative balance. In order to undertake the capital works required, Council will firstly need to undertake a waste pricing review and may need to borrow to fund major capital projects.

8.3 AVAILABILITY OF CASH

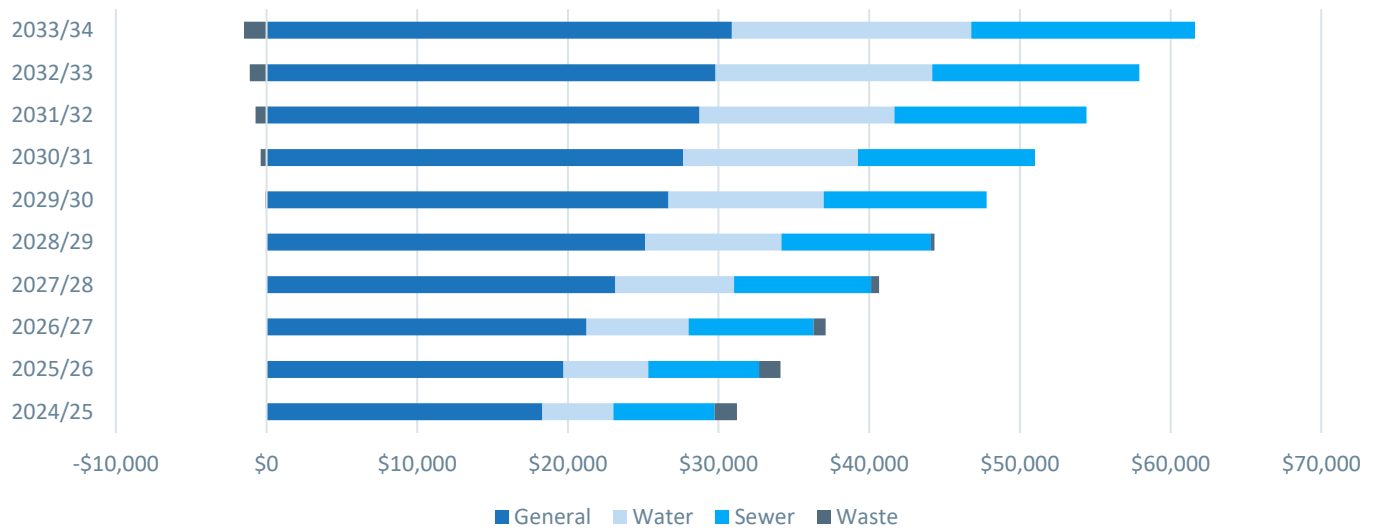
- Under the Enhanced Asset Renewals & Cash Scenario, Total cash, cash equivalents and investments are forecast to increase, commencing at \$34.1 million in 2022/23 and increasing to \$60.1 million in 2033/34.
- Under this scenario, internally restricted reserves remain relatively the same as in the previous two scenarios from \$9.7 million (2023/24) to \$13.6 million (2033/34).
- Under this scenario, unrestricted cash is forecast to increase over the forecast period, from \$0.1 million in 2022/23 to \$2.5 million in 2033/34. Council takes a while to build its unrestricted cash, but cash management strategies are in place through this scenario to build or maintain several internal reserves, like employee leave entitlement, plant and vehicle replacement, building and infrastructure improvements, garbage/waste disposal, gravel pit restorations and FAG in advance. Council will have to reduce renewals in the first few years to maintain a reasonable unrestricted cash balance.

Figure 8.2 Restricted and Unrestricted Cash (Enhanced Asset Renewal and Cash Scenario)



Source – AEC (unpublished)

Figure 8.3 Cash and cash equivalents by Fund (Enhanced Asset Renewal and Cash Scenario)

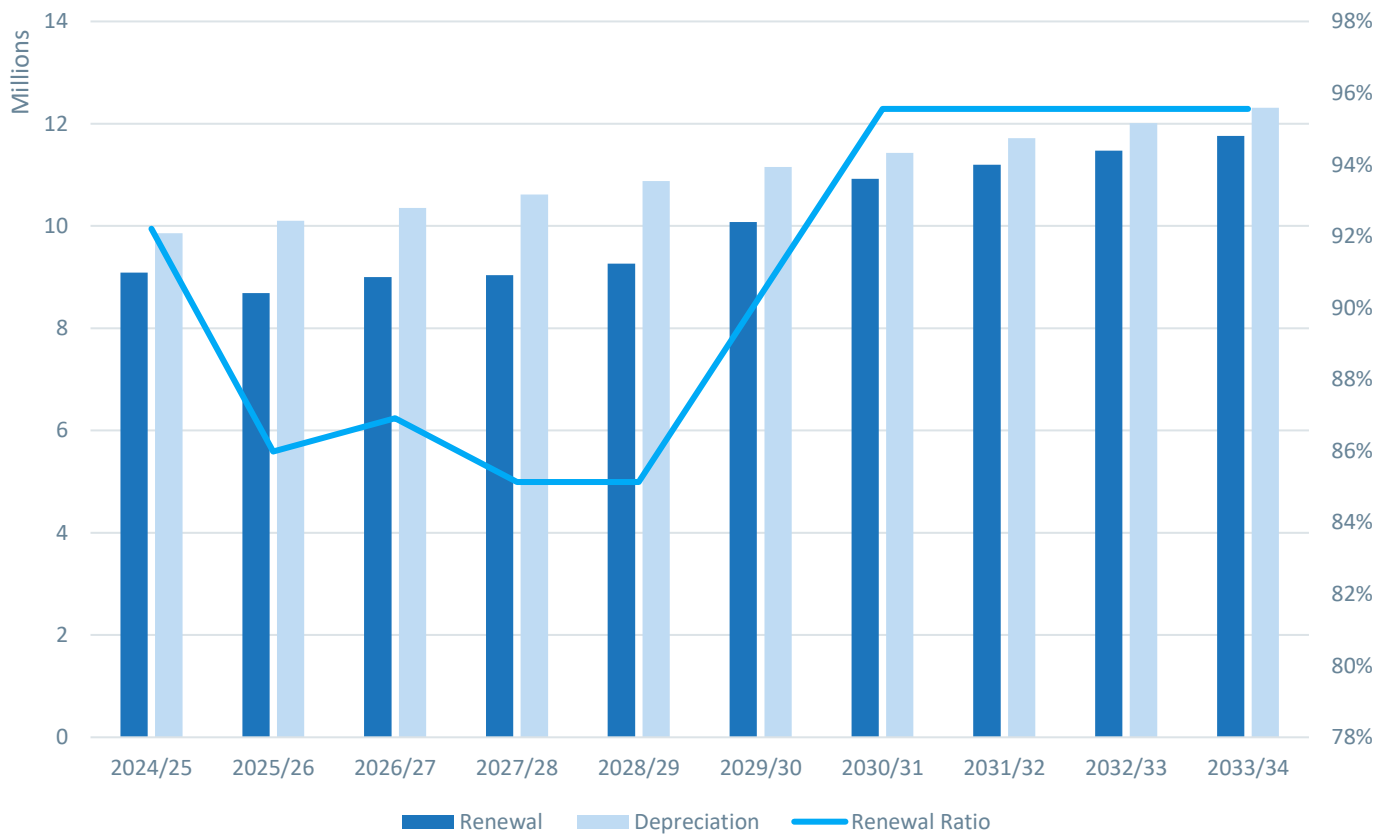


Source – AEC (unpublished)

8.4 INVESTMENT IN ASSETS

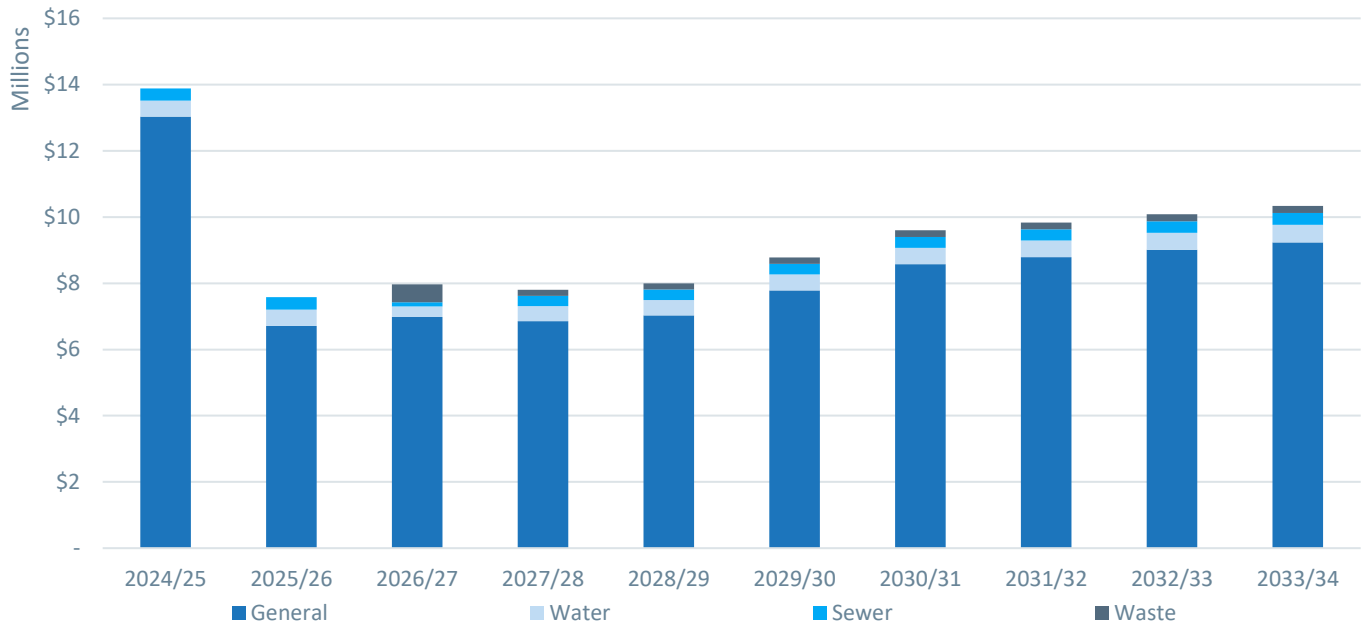
- The asset investment assumptions in this scenario are equivalent to the assumptions in the Enhanced Asset Renewal scenario.
- We have not included, in this scenario for a specific program of backlog replacements to increase asset condition from its current state. Council needs to undertake further asset condition work to assist in informing the correct quantum of the infrastructure backlog.

Figure 8.4 Depreciation versus Renewal Capital Program (Enhanced Asset Renewal and Cash Scenario)



Source – AEC (unpublished)

Figure 8.5 Capital Works Plan by Fund (Enhanced Asset Renewal and Cash Scenario)



Source – AEC (unpublished)

9. VISION FOR A FINANCIALLY SUSTAINABLE COUNCIL

The Council will be financially sustainable if it can deliver the Community Strategic Plan and Delivery Program whilst demonstrating capacity to maintain financial capital and infrastructure capital over the short (1-4 years), medium (4-10 years) and long term (10-25 years).

The Council can demonstrate capacity to delivery financial sustainability through the following:

- **Operating position** – the ability to generate sufficient revenue and control the cost of services and infrastructure to produce sufficient cash from operations to meet investment and financing requirements.
- **Availability of Cash** – the ability to maintain sufficient cash (or access to cash) to meet the needs of operations, investments, and financing (borrowings).
- **Investment in Assets** – the ability to renew or replace assets to maintain the desired level of service and the provision of new assets to meet demand for growth in services.

A financially sustainable Council can invest in developing and growing the local economy, and can withstand, react, and adapt to unplanned shocks. Good governance, effective decision-making frameworks and robust financial management practices are required to support the implementation of a financial sustainability strategy.

This section outlines the criteria that the Council needs to meet to achieve a financially sustainable position.

9.1 FOCUS AREAS TO IMPROVE FINANCIAL SUSTAINABILITY

Following the analysis of the current state and the forecast of the financial performance of Upper Lachlan Shire Council and establishing the desired sustainable position, AEC recommends four (4) focus areas to implement improvement strategies:

1. Improved Operating Position to Generate Additional Cash from Operations
[Note: dependent upon a SRV option being implemented in conjunction with other efficiency strategies]
2. Responsible Investment in Assets
3. Improved Availability of Cash
4. Enhancements to Governance, Prioritisation and Decision Making

9.1.1 Improved Operating Position to Generate Additional Cash from Operations

The Council has produced underlying operating deficits that have deteriorated since 2020/21, with annual operating deficits of \$3.9 million and \$1.2 million on a consolidated basis, and operating deficits of \$3.6 million (2020/21) and \$1.1 million (2021/22) for the General Fund. The revised sustainable forecast prepared by AEC projects ongoing annual General Fund deficits averaging \$4.4 million from 2024/25 onwards.

To address the structural operating deficit Council needs to improve the historical operating position in the General Fund by in the order of an estimated \$4.0 to \$5.0 million each year. In addition to addressing the historical structure deficit, Council will need to address the further deterioration in the operating position due to increased depreciation and other costs and impact of Council funded new assets and asset upgrades within the current capital works program.

It should be noted that AEC has included the additional net operating costs for the new Crookwell indoor heated pool which has significantly deteriorated the historical operating position by net \$350,000 per year within the General Fund.

The identified required improvements do not contemplate the capacity to address the existing infrastructure backlog or any improvement in the current service levels. To be financially sustainable Council must produce operating surpluses to deliver services at an acceptable service level and at an acceptable risk exposure for the assets and infrastructure. Demand management is essential

for long term sustainability – in particular the management of community expectations, legislative requirements, and other community service obligations. The recommended improvement in the operating position of the Council needs to support increased financial capacity accordingly.

AEC facilitated the identification of efficiencies and improvements that the services had implemented over the last ten (10) years and provided a list of efficiencies and improvements that could result in future increased revenue and/or reduced costs. The list of efficiencies was put in a technical report (Appendix B) and presented to the Executive for consideration.

Improving the operating position is not an outcome in itself. Council needs to correct the operation position to ensure sufficient cash is generated from operations to fund other cash activities – that is investing activities (i.e., assets) and financing activities (i.e., borrowings). Therefore, the following focus areas will ultimately determine how much the improvement in the cash generated from operations needs to be for the Council to maintain fiscal capital (cash) and be sustainable over the long term. SRV is integral to financial sustainability improvement.

9.1.2 Improved Availability of Cash

Council is required to manage and report on the reconciliation of the cash at bank to a register of restricted (internal and external) reserves and unrestricted cash. Control over the restricted reserves is necessary to ensure the funds are used for appropriate purposes, including quarantining the cash, and releasing the cash to be expended upon suitable approvals.

To be financially sustainable Council must be able to generate sufficient cash from operations to fund operations and asset maintenance and renewal requirements. Cash levels must be sufficient to fund grant funded, reserve funded, and General Fund funded operations and projects.

Upper Lachlan Shire Council's current and forecast future state (Base Scenario and Enhanced Asset Renewal Scenario) indicate that Council is not making enough cash from its operating activities to fund its capital works program (investing activities) and to pay off debt (financing activities).

The unrestricted cash balance has deteriorated heavily and as at 30 June 2023, there was \$0.1 million.

In the current financial year (2023/24) the Council's management are addressing the challenge of avoiding a negative unrestricted cash position by monitoring the cash position closely and delaying projects to avoid the negative balance.

While the total cash position of Council may appear to be generous, there is an underlying concern with availability of cash outside of the restricted reserves.

Council needs to improve generation of cash from operations and maintain target maintaining an unrestricted cash balance of at least \$2–3 million.

There is an urgent need to improve the financial control of cash being generated and used across operating, investing and financing activities.

9.1.3 Responsible Investment in Assets

Given the significantly large value of assets owned by Council, most of which are essential in the provision of public services and critical infrastructure, good asset management is one of the key determinants of sustainability for all local governments. Councils with poor asset management have little foresight of sustainability and lack control over sustainability. The planning and management of assets across the lifecycle of the assets is an important component of financial sustainability for local government.

Integration of the asset management planning with the Long-Term Financial Plan (LTFP) enables Council to plan for adequate funding to address the asset demands, and where insufficient funding is available, enabling Council to make decisions and prioritisations as appropriate to manage the impacts on long term sustainability of the assets (and the organisation more broadly).

To be financially sustainable Council must be able to hold and fund an asset portfolio to an acceptable standard and risk based on the services and service level requirements established with the community and informed by technical expertise and data.

The major issues that Upper Lachlan Shire Council faces within the asset management scope is:

- Council's current backlog in infrastructure asset renewals is unknown and therefore unable to effectively plan mitigation for the risks that backlog presents.
- In the past few financial years there has been some investment in new assets and upgraded assets – and insufficient investment in the renewal of existing assets.
- Asset management plans (AMPs) are out of date and not integrated with the adopted Long-Term Financial Plan.
- Council decisions on capital investments and service planning have of recent years been made in a lack of consideration as to the impact on the long-term financial plan and long-term sustainability of the Council.

9.1.4 Enhancement to Governance, Prioritisation and Decision Making

Good governance and decision making is central to sustainability. The role of management is to sufficiently inform Council to enable good decision making. Planning for success is essential to sustainability. A performance reporting framework is necessary to ensure good governance and to ensure that what was planned is implemented as intended.

To support financial sustainability, a Financial Strategy must support the effective delivery of the Community Strategic Plan through documentation of financial leadership and direction from the Council and by setting standards for management performance. The Financial Strategy should be supported by other organisational frameworks including, but not limited to, a robust Project Management Framework to guide and support the initiation, selection, and prioritisation of investments in capital works projects.

Council has several critical issues relating to governance, reporting and decision making that needs to be given immediate attention:

- There is insufficient governance of projects – a project management framework including a Project Management Office (or similar function) is necessary to improve the management of projects across the lifecycle (including initiation, selection, prioritisation, execution, and completion).
- Maintaining an accurate forecast of the Council's financial position is essential, particularly throughout the adoption and implementation of strategies to correct the financial sustainability of the Council. Maintaining an accurate forecast, including adjusting for material decision by Council, will be essential to informing the Executive and Council of the progress to improving the financial position.
- Development of a business case and/or capital expenditure reviews prior to making material decisions on new or upgraded assets, including the impact on the financial position of the Council.
- Implementing a strategic service planning framework that documents the approved range and levels of service that are integrated with the asset management planning and the Long-Term Financial Plan in line with the SRV adoption.

9.2 DEFINING A SUSTAINABLE FUTURE

AEC facilitated a workshop to define with Council staff and Councillors a vision for a financially sustainable Upper Lachlan Shire Council.

The vision for a sustainable Upper Lachlan Shire Council is that Council will be able to achieve the vision outlined in the Community Strategic Plan while maintaining over the medium to long term both fiscal capital (that there is access to cash) and the infrastructure capital (that is assets that the Council owns).

The following performance indicators were determined to measure whether the Council is likely to be maintaining fiscal capital and infrastructure capital:

- Within the 10-year forecast, Upper Lachlan Shire Council would like to achieve and maintain an operating surplus that meets the industry benchmark of at least a net balanced operating result for all fund types and a balanced net operating position for the consolidated position overall.

- Upper Lachlan Shire Council would like to have at least \$2-3 million in unrestricted cash balance.
- The Council aims to achieve an average 100% asset renewal ratio over the next 10 financial years. This will likely need reviewing once Council has improved the asset register and has a more fully understood quantum of the infrastructure backlog and the renewal investment required.
- The Council would like to keep the infrastructure backlog below the industry benchmark of 2%. It was noted that further actions are required to better determine the backlog, including comprehensive asset condition assessments.

9.3 STRATEGIC RECOMMENDATIONS

9.3.1 Improving the Operating Position of the General Fund (through SRV Application)

In AEC view, the Council will need to consider a permanent Special Rate Variation (SRV) to fix the structural operating deficit position and to generate sufficient cash from operations. This is an unavoidable option, with the only variable being the amount that is required – which is the residual amount after target improvements through other options.

As estimated by AEC, the current deficit sits around the \$4 - \$5 million but this does not consider any new or upgraded assets that Council is planning to build. This will have a further impact on the operating position through increased depreciation, operations, and maintenance costs for these assets. If all the proposed capital works projects were to be completed, this will have an additional \$0.5 – \$1 million negative impact thus pushing the structural deficit to around \$6 million. The Crookwell indoor heated pool capital project approval was a good example whereby the operational cost including depreciation and borrowing costs would increase by approximately \$0.4 million whilst only adding \$50,000 in revenue from the pool.

AEC has estimated that through the SRV Application process, the Council will need to achieve an increase in the 2024/25 general rate by 55.0% or staged over a 3-year period.

The recommendation to increase the general rate is not unprecedented – the Council has considered previous recommendations to apply for a SRV. AEC notes that in December 2008 Council resolved not to implement a SRV for the 2009/2010 financial year. Furthermore, in 2015 as part of the Fit for the Future Action Plan, Council principally agreed to consider a SRV in 2019, however this was not implemented.

9.3.2 Efficiency Saving and Productivity Improvement

A strategic option to improve the efficiency and productivity of the council's operations is to introduce productivity measures into the Operational Plan and Annual Budget. These measures could include metrics such as the cost per kilometre of grading, the cost per kilometre of resealing, or other relevant measures that can provide insights into the efficiency of Council's operations. By including these measures in the annual budget, Council can set specific targets for improving productivity and can monitor progress towards those targets. Council and Management can discuss the impact of resourcing decisions on levels of service by informed consideration of the activity costs of programs and the community can be informed about the activity the Council has funded (e.g., 65kms of resheeting of gravel roads, 55kms of reseal urban sealed roads, operating hours of customer services centres, libraries, visitor information centre etc).

To implement this strategy, the council should start by conducting a thorough review of the range of services provided and the current cost of operations (levels of service) to identify areas where productivity measures could be implemented and are most likely to achieve material improvements in the operating position – through a strategic service planning framework. This might involve analysing data on the cost and duration of various tasks, such as road maintenance or park upkeep, and identifying specific areas where improvements could be made and identifying the optimal (lowest cost) approach to delivery of the level of service. Once these areas have been identified, the council can work to develop specific productivity measures and set targets for improvement.

Investing in employee training and development is also critical for achieving productivity savings. By providing staff with the skills and knowledge they need to perform their jobs more effectively, Council can improve productivity, reduce errors, and increase employee engagement. This may include training on new technologies, process improvement methodologies, or management and leadership

skills. In addition, investing in employee development can help retain top talent and attract new talent, which can bring long-term benefits to the organisation. Asset management needs to be a high priority for staff development, both in terms of asset management systems and the development of optimal technical levels of services (the lowest whole of life cost approach to maintaining assets).

Collaboration and partnerships with other organisations or neighbouring councils can also be explored to achieve productivity savings. By sharing resources and expertise, Council can achieve economies of scale, reduce costs, and improve service delivery. This may include joint procurement initiatives, shared services arrangements, or collaborative capital projects. Regular review and monitoring of these initiatives is crucial to ensure that the desired outcomes are being achieved and that resources are being used efficiently.

Through consultation with directors, AEC was able to generate a listing of past efficiencies and productivity improvements for the service over the past ten (10) years and estimate the increased revenue and costs savings associated with their initiatives. This is provided in Appendix B as a technical report provided to the Executive.

Within the same service profiling consultation, directors were also asked to list any initiatives that present an opportunity for efficiencies dividends or productivity improvement. Whilst doing this, they were requested to provide an estimate of the potential increased revenue or reduction in cost. This is also included in the Technical Report – Service Profiling (Appendix B).

9.3.3 Enhancing Governance and Financial Controls

To enhance the governance and financial controls, integrating the Project Management Framework, Asset Management Planning, and LTFP is a strategic option that ensures effective management of assets through their lifecycle. The LTFP should be a living resource plan that is adjusted as required to ensure that Council decisions are informed by the impact upon long-term financial sustainability. To implement this option, the best practice provided by the NSW Office of Local Government in the IP&R Guidelines should be followed, which recommends making the projected income and expenditure spreadsheet of the LTFP available at council meetings to inform resourcing decisions.

By aligning project management and asset management activities, organisations can optimise resource allocation and improve efficiencies, resulting in reduced costs and improved outcomes. Operations involved during the project planning and design stages should focus on risk identification, contingency planning, stakeholder management, scope management, design reviews, and quality management to mitigate potential risks and ensure successful project delivery.

The integration of the Project Management Framework, Asset Management Planning, and LTFP would also provide a holistic view of the Council's financial position, ensuring that all decisions are made in consideration of long-term financial sustainability. By implementing this strategic option, councillors can make fully informed decisions, and understand the importance of the Resourcing Strategy documents to that decision-making. This approach will ensure that Councils can mitigate potential risks and manage assets effectively, resulting in long-term financial sustainability.

9.3.4 Introduce a Service Planning Approach

To implement a service planning approach, Council should enhance their Integrated Planning and Reporting Framework (IP&R), to include a Service Catalogue and Service Review Program. The Service Catalogue should define the range of services provided by Council and the associated service levels, costs, and performance indicators. This can provide a clear understanding of the services Council provides and ensure that service delivery is aligned with community needs and expectations.

The Service Review Program involves regularly reviewing each service in the Service Catalogue to evaluate its performance and identify areas for improvement. Council can also engage stakeholders in the service planning process by consulting with the community and other stakeholders to identify service priorities and gather feedback on service performance.

By adopting a service planning approach, Council can improve transparency and accountability in service delivery, better understand service performance, enhance stakeholder engagement, and increase efficiency and effectiveness in service delivery. It is important for Council to regularly review and update its service planning approach to ensure it remains aligned with community needs and strategic objectives. This can include investing in staff training and development, infrastructure and technology, and other resources needed to support service delivery.

Council should develop a comprehensive Service Catalogue that defines the range of services provided and performance expectations, including activities that can be achieved with current funding. The service catalogue should cover all services provided by Council, such as library services, road maintenance, swimming pool operations, waste management, and community services.

The Services Catalogue would not include technical levels of services, which are more suitable for inclusion in the asset management plans for other internal-facing operational planning documents.

Council should also regularly review and update the service catalogue to ensure it remains current and reflects changes in service needs and funding levels. This will help Council to continuously improve its service delivery and ensure that it is meeting the needs of the community.

9.3.5 Improve Asset Management Maturity

To ensure the efficient and effective delivery of services to the community, Council should pursue a path of improving its asset management maturity, as outlined in the Asset Management Strategy, particularly focusing on improved asset management leadership and governance (including culture), asset condition assessments, improved accuracy, and use of asset registers, whole of life planning and determining the optimal timing for renewal treatments.

To achieve this goal, the following strategic options should be considered:

- Develop a roadmap for improving asset management maturity. Council measures the current asset management maturity, set target maturity level, and develop the strategic improvements initiated in the Asset Management Strategy.
- The maturity of asset management will need begin with improved leadership and governance, including addressing decision making frameworks, performance management, planning and prioritisation and change the culture of the organisation.
- Asset management systems will need to be enhanced to support the asset portfolio.
- The Council should be provided with an annual “State of Assets Report” which is prepared by management to outline the Report on Infrastructure Assets (a Schedule to the Annual Financial Statements). The State of Assets Report should be provided to Council before the Draft Financial Statements. The State of Assets Report is an ideal opportunity for the Councillors to obtain a deeper understanding of the Council’s infrastructure assets, the quantum of the backlog in renewals and the current condition of the assets.
- Adopt a risk-based approach to asset management. Council should adopt a risk-based approach to asset management to ensure that resources are allocated to the assets that require the most attention – that being critical assets with the risk of failure being unacceptable. Conducting risk assessments of assets to identify their criticality and likelihood of failure, and prioritising maintenance and renewal activities based on the level of risk posed by each asset will assist with ensuring long-term sustainability.

10. CHALLENGES, OPPORTUNITIES AND RISKS

10.1 CHALLENGES AND OPPORTUNITIES

As Council implements the financial sustainability strategies outlined in the previous section, it is likely to confront the following list of challenges and opportunities.

10.1.1 Challenges

- **Volatility in the economic environment** – During the preparation of this Financial Sustainability Strategy, the Australian economy was experiencing high volatility, with high inflation and supply chain issues, the continuation of which is likely to increase the cost of services and the cost of construction/acquisition of assets, as well as potentially delay the delivery of capital works, increase borrowing costs and potentially limit the availability of funding from external sources (e.g., grants).
- **Balancing demands for capital expenditure** – Council will need to balance the demands for new or upgraded assets to address population and economic growth, to comply with changes in regulatory requirements and/or to address changing community demands with the need to appropriately fund the renewal and replacement of deteriorating assets and infrastructure.
- **Productivity improvements limited by legislation** – For example, constraints on staff reduction in regional areas.
- **Natural disasters** – Council should expect that natural disasters will continue to occur, like recent bushfires and COVID pandemic. Council needs to build resilience and planned mitigation strategies, including the business continuity planning, to be able to manage the impact disaster are likely to have upon the financial position of the Council.
- **Policy changes from other levels of Government** – changes to policies and strategies set by the State and Federal Governments are likely to impact upon Council's financial sustainability, therefore requiring strong advocacy and engagement with key stakeholders to protect the interests of the Council and its community.
- **Capacity of the Council** – Council faces challenges in attracting and retaining skilled resources due to the geographical location of the council as well as significant competition by main employers in the area. Council will need to invest in its ability attract, develop, and retain skilled resourcing.

10.1.2 Opportunities

- **Innovation and Technological Advancement** – Council can improve long term sustainability through enhanced productivity and efficiencies achieved through adopting innovation and technological advancements, which will require Council to maintain effective relationships and professional networks with industry leaders.
- **Regional Economic Development** – Economic development opportunities are outlined in the Regional Economic Development Strategy. Council can maximise the realised benefit through advocating and pursuing the Council's interests, as well as more broadly the community's economic and socio-demographic interests.
- **Enhancements to Project Management** – considering the large annual investment in the capital works program and other projects, significant improvements in Council sustainability may be achieved through implementation of the project management framework, including better decision making in the selection, prioritisation and initiation of projects, consideration, and comparison of whole-of-life costs, as well as in the more efficient delivery of projects.
- **Development of a Service Catalogue and Service Review Program** – through the development of a service catalogue, integrated with resource planning, and the engagement of Council and the community in strategic service planning, Council sustainability is likely to be improved through the continued review, prioritisation and rationalisation of the range and levels of services and infrastructure provided to meet community demands and community affordability.

- **Asset Recycling and Rationalisation** – through the process of developing the Asset Management Plans, Council is likely to be presented with opportunities to recycle under-utilised assets (e.g., buildings and land) to obtain better utilisation and improve overall sustainability by reducing the cost of under-utilised assets and achieving commercial returns through asset recycling.

10.2 SIGNIFICANT RISKS

The risks outlined below present a significant threat to the successful achievement of the Financial Sustainability Strategy.

- **Political Decision or Community Dissent toward SRV** – Council decision not to apply for a SRV will affect Council's capacity to deliver a sustainable asset renewal program and improve its operating and cash position.
- **Economic Conditions** - Council is impacted by the volatility of economic conditions. This has been experienced most significantly during the recent COVID-19 outbreak, where the income earned by Council for a range of services was significantly reduced. As such, any further impacts leading to significant change from the market assumptions adopted (will require further revision by Council of planned investments and service expenditure).
- **Funding Development** -The NSW Government regulates a cap on the per lot contributions paid and limits the types of infrastructure that a council can levy for development. This limitation has required Council to use other funding sources (including funding set aside for a sset renewal) to provide infrastructure Council is responsible to provide for new development. This is particularly important for areas of greenfield development, which impact on the demands for Council infrastructure such as community centres, libraries, and recreational facilities.
- **Certainty of Revenue Streams** - Uncertainty in the projection of revenue streams is a significant concern for Council sustainability. While Council controls most of its annual operating revenue, Council has historically relied upon grants and contributions.
- **Expenditure Estimates** - A key risk to the accuracy of the long-term forecast of operating and capital expenditure is the accuracy of cost estimates and actual inflation in future years being above assumptions used in the forecast.
- **Impairment and Early Deterioration of Assets** - While renewals are planned through the asset management planning process, the actual deterioration and performance of assets may deteriorate faster than projected or be impacted through natural disasters or other unforeseen events, bringing forward the need to renew and replace assets. This will require either re-prioritisation across the capital works plan, or additional cash investment.

11. IMPLEMENTATION ACTION PLAN

The following table outlines the task required to implement financial sustainability strategies, responsibility for each task and the required timeframe for the task to be completed.

Strategy	Task	Responsibility	2023/24				2024/25				2025/26				Future Years			
			1	2	3	4	1	2	3	4	1	2	3	4				
Improve the operating position of the general fund	1. Increase generation of revenue through:																	
	Submit a Special Rate Variation (SRV) Application based on increasing General Fund rates revenue by \$58.1 million over the next 10 years. This can be achieved through 55.0% (including rate peg) increase over three years starting 2024/25 (which is a 35% (2024/25), 15% (2025/26) and 5% (2026/27) and the anticipated rate peg of 3.5% (2024/25), 2.5% (2025/26) and 2.5% (2026/27)).	CFO/AEC																
	Review the pricing for fees and charges and ensure they reflect full cost price for services, as far as it is practical to do so, without impacting significantly on access to services by the community.	CFO/AEC																
	2. Decrease operating costs through:																	
	Review and prioritisation of efficiencies and productivity improvements cost savings as provided to EMT via AEC's consultation with the senior management team.	EMT																
	Establish a productivity and efficiency target of to be achieved through implementing the strategies outlined below in the focus area of Enhanced Productivity and Efficiency of Services.	EMT																
	Conduct a strategic review of services to assess the range and levels of service provided.	EMT/Council																
	Improve the strategic and technical asset management capability and practices to manage assets at the most optimal whole of life cost.	EMT																
3. Develop the demand management approach in service planning to minimise the growth in service costs and avoid increased cost of assets, including:																		

Strategy	Task	Responsibility	2023/24				2024/25				2025/26				Future Years	
			1	2	3	4	1	2	3	4	1	2	3	4		
	Continue to undertake service reviews, particularly for discretionary services and community service obligations (services that would not be provided if based on a commercial decision)	EMT/SMT														
	Implement a framework for grant applications and acceptance to consider the impact of the grant on the Long-Term Financial Plan and financial sustainability.	EMT/CFO														
	Implement requirement for a Business Case and/or Capital Expenditure Review prior to approving to proceed with material new or upgraded services and assets (mandatory for proposed capital works for new or upgraded assets over \$1million).															
	Implement a framework for grant applications and acceptance to consider the impact of the grant on the Long-Term Financial Plan and financial sustainability.															
	4. Improve governance and financial controls:															
	Maintain integration of the Annual Budget and Long-Term Financial Plan with the Delivery Program, Operational Plan, Asset Management Plans, Workforce Strategy, and other adopted plans – each plan should be updated when material decisions are made that impact on the respective plans.	EMT/CFO														
	Implement effective budget and other financial controls – including budget accountability, a project management framework with gateway controls, workforce plan outlining the funded staff establishment, contract management framework.	EMT/CFO														
	Develop an annual budget development process that is activity based rather than largely historical.	EMT/CFO														
To improve the availability of cash	5. Council should budget for and maintain, at least in the short term, an unconstrained cash reserve of at least \$2-3 million as a contingency for unplanned asset renewals/replacements due to asset failure or other unknown asset risks.	EMT														
	6. Review internally restricted cash to ensure alignment with intended purpose of the reserves and that the reserves are adequate for the purpose.	EMT/Council														
	7. Implement a quarterly reconciliation and reporting process for all external restrictions.	CFO														

Strategy	Task	Responsibility	2023/24				2024/25				2025/26				Future Years		
			1	2	3	4	1	2	3	4	1	2	3	4			
To improve investment in assets	8. Enhance the capability and effectiveness of asset management, including:																
	Prepare an asset management strategy that provides guidance and direction to improve Council's asset management approach, improve resource allocation, increase the awareness of current asset performance/risk, establish asset management strategies, and integrate the Asset Management Plans and the Long-Term Financial Plan.	EMT/Asset Managers															
	In the short term, develop the strategic asset management capability to better predict, prioritise and plan for asset renewal programs based on known risks, criticality, condition, and performance of each asset class.	EMT/Asset Managers															
	Review and update the asset management plans for each asset class to determine and direct the optimal life cycle approach for each asset class.	EMT/Asset Managers															
	Establish systems and practices that enhances and realises the value of asset management across the organisation.	EMT/Asset Managers															
	Improve processes for asset data collection, standardisation, and componentisation.	EMT/Asset Managers															
	Implement a condition inspection program with an initial focus on all critical assets, or assets with high risk, and sample condition assessment for less critical assets (or asset assessed with less risk).	EMT/Asset Managers															
	Prepare a pavement management system with a detailed whole of life approach designed specifically for Council's sealed and unsealed road network, including optimised approach to maintenance and renewal of assets and estimated costing to inform the Long-Term Financial Plan.	EMT/Asset Managers															
	9. Improve the integration of asset planning with the strategic service planning to better understand, manage and avoid where possible the demand for growth in assets.	EMT/Asset Managers															

Strategy	Task	Responsibility	2023/24				2024/25				2025/26				Future Years	
			1	2	3	4	1	2	3	4	1	2	3	4		
	10. Explore opportunities to rationalise the land and facilitates assets that are used to deliver Council's services, including the rationalisation of the number of locations services are provided and considering a regional approach to service delivery rather than service in each location.	EMT/Asset Managers														
	11. Require the development of a "State of Assets Report" to be prepared and presented to Council to ensure the Councillors understand the preparation of the Draft Report on Infrastructure Assets (schedule to the Annual Financial Statements) and enable discussion between Councillors and Management on progressing improvement in asset management and asset renewal planning.															
	12. Council should consider reviewing its developer contributions plans, before undertaking any substantial asset programs to ensure that the current contribution levels are able to support the future development costs.	EMT/Planning														
To enhance the strategic service planning	13. Develop a strategic service planning framework to guide and inform the development of the Delivery Program and Resourcing Strategies. A framework that includes an annual review of service performance and alignment to priorities will enable Council to better inform the development of the Annual Budget and review priorities in the allocation of constrained resources.	EMT/CFO														
To enhance productivity and efficiency of services	14. Review the efficiency and effectiveness of current corporate overhead functions, particularly the service with large operating expenditure and potential to support improvements in productivity and efficiencies such as ICT, fleet and plant operations, finance, and asset management.	EMT/SMT														
	15. Develop measures of productivity and efficiency when developing the Annual Budget and reporting to assist trend analysis and benchmarking with partner councils – for example \$/km of unsealed road graded, \$/km of road reseal, \$/hectare of mowing, cost/library member, median time taken to resolve customer requests, plant utilisation rates, median time taken to fill a vacancy.	EMT/SMT														
	16. Implement and fund productivity and efficiency improvement initiatives previously identified, including the recommendations from the Works Management, Field Operations and Contract Delivery Service Review.	EMT/SMT														

Strategy	Task	Responsibility	2023/24				2024/25				2025/26				Future Years	
			1	2	3	4	1	2	3	4	1	2	3	4		
	17. Council should embark on an initiative to target service efficiencies and increase productivity to contribute to the improvement in the operating position of Council. The initiatives should include corporate initiatives (such as improvement in procurement, salary benchmarking etc.) as well as focused review on the delivery of targeted services.	EMT/SMT														
	18. 18. Services with higher net costs hold the greatest potential for efficiencies – including service areas within Infrastructure directorate, Tourism Promotion and Business, and Governance and Real Estate Development.	EMT/SMT														
	19. Report to Council on a quarterly basis the progress in achieving efficiency and implement process to track the achievement of the productivity and efficiencies target.	EMT														
To enhanced governance, prioritisation and decision-making	20. Revise the Resourcing Strategy including the Long-Term Financial Plan informed by funding requirements from strategic asset management, workforce planning and strategic service planning.	EMT/CFO														
	21. Implement a comprehensive and robust budget development process with oversight by the Chief Financial Officer and the Executive Team.	EMT/CFO														
	22. Implement oversight and control of the funded organisation chart by the Manager Human Resources (Workforce Officer).	EMT/HR														
	23. Implement a Project Management Framework, including appropriate gateways for project selection, planning, execution, and closure, and enforce the project management governance for all potential projects (including approval to proceed with grant applications).	EMT														
	24. Develop the organisational financial management governance and financial acumen of management to improve financial management at all levels of management.	EMT														

Strategy	Task	Responsibility	2023/24				2024/25				2025/26				Future Years	
			1	2	3	4	1	2	3	4	1	2	3	4		
Review Range and Levels of Service	25. Council may wish to consider undertaking a review of the range of non-core services provided, to determine whether they continue to deliver value to the community and whether there remains a public policy rationale for Council delivery of such services.	EMT/Council														
	26. Council may also wish to consider the levels of service provided within services that are not regulatory required services to reduce the cost of the services provided.	EMT/Council														
	27. Council should implement the use of formal business cases to consider and determine undertaking new projects or service, or a change in current service levels. The financial implications should be a major determinant of the decision making.	EMT														

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APPENDIX A: STAKEHOLDER ENGAGEMENT

STAKEHOLDER IDENTIFICATION

Stakeholder identification was completed to ensure those who have an interest in, or may be impacted by any changes proposed, were sufficiently engaged. Stakeholder groups included Councillors, Executive Management Team, Leadership Team, and key Council staff.

Project Steering Committee and Project Sponsor

The steering committee and project sponsor play a crucial role in the project. The steering committee is responsible for overseeing the project, providing guidance and support, and ensuring that the project aligns with the organisation's objectives. The project sponsor is responsible for providing leadership and support to the project, being the primary decision-makers with accountability for the project's success.

The steering committee includes Council's Executive Management Team, with the additional roles of Project Sponsor being Council's Chief Executive Officer (CEO) and Project Lead being Council's Director Finance and Administration (Acting CEO).

Council's Elected Members

Upper Lachlan Shire Council governing body is made up of a Mayor and 8 Councillors – Councillors representing the whole local government area. The Councillors set the long-term direction of Council and ensure that money and other resources are used effectively, to enable long term financial sustainability.

Council's Executive Management

Upper Lachlan Shire Council is led by a CEO, and comprises of three individual directorates, Finance and Administration, Environment and Planning and Infrastructure. The Executive Management Team was also the Project Steering Committee.

Key Council Staff

Council's Executive Management identified the Leadership Team as other key Council stakeholders to be engaged as part of the project.

Stakeholders External to Council

There were no external stakeholders included as part of the financial sustainability review. The steering committee took the decision that Management would keep the Audit, Risk, and Improvement Committee (ARIC) informed.

ENGAGEMENT FRAMEWORK

The method of engagement included a combination of face-to-face meetings and online meetings via MS Teams. Prior to engaging with stakeholders, AEC reviewed previous plans and/or strategies to help inform engagement.

The information gathered during the engagement was used to verify the desktop analysis and inform the Preliminary Findings & Work-in-progress report.

Council is committed to engagement practices of delivering communication, and the framework AEC followed for engagement with external stakeholders was aligned to the International Association of Public Participation (IAP2) principles of the Public Participation Spectrum.

The table below outlines the different levels of input and influence external stakeholders and the community (not applicable to this plan) may have over a particular project.

Refer to Council's Community Engagement Plan.

Figure A.11.1 IAP2’s Spectrum of Public Participation

Increasing impact on the decision ----->					
	Inform	Consult	Involve	Collaborate	Empower
Public Participation Goal	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives opportunities and/ or solutions	To obtain public feedback on analysis, alternatives and/or decisions	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution	To place final decision making in the hands of the public
Promise to the Public	We will keep you informed	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced decision	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible	We will implement what you decide

STAKEHOLDER ENGAGEMENT PLAN

This section outlines the stakeholder groups, their interest, influence, level, and method of engagement within the project, as well as the date for the engagement.

Stakeholder group	Interest	Influence	Level of Engagement	Engagement Method	Date
Project Steering Committee	Advisors to Project team (including AEC)	Advice	Collaborate	<ul style="list-style-type: none"> Online Inception Meeting Fortnightly Project meetings 	
Councillors	Owner of Financial Sustainability Review Provide approval of the Strategies and recommendation	Decision Making	Empower	<ul style="list-style-type: none"> Onsite Councillor Briefing – Project startup Online Councillor Briefing to seek feedback on preliminary findings and work-in-progress report. Onsite & online Councillor Briefing to present Draft Report (may become online meeting, and the final report be an onsite meeting) Online Councillor Briefing to present Final Report 	
Audit, risk and improvement committee (ARIC)	To provide independent advice to Council regarding compliance, risk management, financial management, governance, implementation of the strategic plan, delivery program and strategies, service reviews, collection of performance measurement data by the Council, and internal audit.	Advice	Collaborate	Management responsibility to keep ARIC informed	
Executive Management Team	Responsible to implement the Strategies and recommendations	Advice	Collaborate	<ul style="list-style-type: none"> Online Inception Meeting Onsite Executive Management Briefing – Project startup Online Councillor Briefing to seek feedback on preliminary findings and work-in-progress. Onsite & online presentation of Key Findings, LTFP & AMS (with Steering Committee) Onsite & online Councillor Briefing to present Key Findings Onsite Councillor Briefing to present Final Report 	
Staff in Identified Key Roles	Input into understanding current sustainability. Identification of options Implementing the outcomes	Advice	Collaborate	<ul style="list-style-type: none"> Meetings on site (see schedule) Ongoing meetings, discussions, emails etc as required 	

APPENDIX B: SERVICE PROFILE

AEC consulted with Upper Lachlan Shire Council management to understand the council services. The purpose of this technical report is to provide Council's executive team with the response for further discussion and review.

Strategic Alignment and Resourcing

Management was to consider whether adequate resourcing is included in the supporting resourcing strategy; Asset Management Strategy (AMS), Long-Term Financial Plan (LTFP) and Workforce Plan (WFP) to deliver on the service requirements as outlined in the Delivery and Operational Plan (DPOP) and other plans and strategies.

Management was asked to list the relevant strategies and plans and outline concerns with resourcing the implementation of the strategies and plans.

Appendix One provides the list of 28 strategies and plans identified with supporting resourcing requirement to ensure successful delivery of the services.

Efficiency Initiatives Achieved

Management was asked to list any initiatives implemented over the past 10 years that have delivered efficiencies or productivity savings to Council. They were also requested to estimate either the increased revenue or decreased costs that were achieved for each initiative.

Appendix Two provides the list of 36 efficiency initiatives achieved by the service managers in the past.

Efficiency and Productivity Improvement Opportunities

Within the same service profile, managers were also asked to list any initiatives that present an opportunity to improve efficiency or productivity. Whilst doing this, they were requested to provide an estimate of the potential increased revenue or reduction in costs.

Appendix Three provides a full list of these 31 efficiency and productivity improvement opportunities as identified by Council management.

Strategic Risks

Management was asked to consider the current resources made available to the service and explain if the current investment in the service exposed Council to strategic risks. If so, then to state these risks and describe the impact the threat is likely to have and provide any suggested mitigation actions to address the risk. They were advised that additional resources may be mitigation, but they were to also consider mitigation actions that do not require additional resources.

A strategic risk was defined by AEC as a threat (or missed opportunity) that has the potential to significantly impact on the continuity of the planned service delivery or a significant threat to the greater organisation (for example reputation, and financial sustainability) without any intervention.

Appendix Four provides the list of 24 risk identified by the service managers.

Appendix One – Strategies and plans and supporting resourcing

	Current Plans & Strategies	Impact on Resourcing to Implement Strategy/Plan	Responsible Directorate
1	Local Environment Plan (LEP)	Existing 2010 requires review - outsource to Strategic Planner	Environment & Planning
2	Development Control Plan (DCP)	Existing 2010 requires review - outsource to Strategic Planner	Environment & Planning
3	Section 7.11 Development Contributions Plan	Existing 2007 requires review - outsource to Strategic Planner	Environment & Planning
4	Housing Strategy	Draft existing requires total review - outsource to Strategic Planner	Environment & Planning
5	Disability Inclusion Action Plan (DIAP)	Will require staff to development and implement programs, which there is no dedicated resource	Environment & Planning
6	Heritage Study	Minimal impact, consultant services required	Environment & Planning
7	Plans of Management Community and Crown Land	Allocated to existing planning staff - significant impact	Environment & Planning
8	Landfill management plans	Waste strategy requires updating - outsource development, however require staff resource to manage and implement	Environment & Planning
9	IWCM	Able to implement on current staffing levels	Environment & Planning
10	Section 64 contributions plan	Existing requires review - outsource as no dedicated person	Environment & Planning
11	SE Regional Weeds Plan	5 year review input only (2027) suggest at this stage no impact on resources	Environment & Planning
12	CRJO - Drought Management Plan	Able to implement on current staffing levels	Environment & Planning
13	Liquid Trade Waste Policy	Require dedicated resource for inspections and follow up. Could potentially be outsourced.	Environment & Planning
14	IT Implementation Plan 2019	Plan requires review - additional resource required to review. Based on current commitments and required service delivery additional resource required.	Environment & Planning
15	Companion Animals Management Plan	Requires additional resources	Environment & Planning
16	Plant Replacement strategy	Financial constraints to allocating funds to annual plant replacement program & reconsideration of hiring of contractors plant – this requires service review analysis and involves large capital funding outlay	Infrastructure
17	Road Maintenance Policy	Intervals set for renewal is too high – i.e. assets deteriorate much quicker. Financial constraints of low rates base to adequately fund annual road maintenance and asset renewal programs. Maintenance	Infrastructure

	Current Plans & Strategies	Impact on Resourcing to Implement Strategy/Plan	Responsible Directorate
		grading schedule unattainable due to lack of funding & resources (i.e. with grant funding)	
18	Disaster Recovery	Lack of staff resources to implement disaster recovery program - in-house as well as project management using external contractors is necessary (i.e. with grant funding)	Council wide
19	Business Continuity Plan (BCP)	Lack of staff resources to implement BCP and test Council BCP.	Council wide
20	Internal Audit & Risk Management Policy	CRJO joint shared service for Manager Internal Audit, use consultant service provider to do 2 internal audits of Council each year.	Finance & Administration
21	OLG Code of Accounting Practice & Financial Statements	Existing staff combined with consultant services required to complete audit financial reporting and condition reporting for infrastructure asset classes in Financial Statements	Finance & Administration
22	Procurement Policy	Existing staff combined with standardised contract and RFQ templates and use LGP and other procurement panels	Finance & Administration
23	Governance & Legislative Compliance Reporting	Existing staff, additional training required	Finance & Administration
24	Work Health & Safety Policy and Management System	Council staff work with Statecover Mutual and may require additional resources for specialised system components/ Return to Work	Finance & Administration
25	Staff Recruitment and Selection Policy	Council has utilised electronic systems to maximise recruitment processing and had contractor assist council staff	Finance & Administration
26	Regional Economic Development Plan (REDS)	Council work with other government agencies, government funding	CEO
27	Tablelands Destination Development Plan	Council work with Destination Southern NSW, Visit Canberra and RDA, government funding	CEO
28	Town Master Plans	Remain to be development – using consultant & council staff	CEO

Appendix Two – Efficiencies initiatives achieved

	Efficiency or Productivity Initiative	Financial Years Implemented	Estimate of Increased Revenue or Reduced Costs	Responsible Directorate
1	See Fit for the Future Action Program document	2016-2021		Council wide
2	CRJO - Manager of Internal Audit & Risk position shared employment position between 4 Councils	2022/2023	If Upper Lachlan solely employed this position - \$80K annual saving	Finance & Administration
3	CRJO - collaboration of member councils shared services and economies of scale - Regional CRJO Community Strategic Plan (CSP) development shared project	2020 & 2023	Saving each election cycle over \$30K	Finance & Administration
4	Shared procurement contracts with CRJO and Central West JO – CSP, copyright licence, electricity, training platform	2016-2023	\$30K annual savings – joint procurement	Finance & Administration
5	CRJO Audit, Risk and Improvement shared joint committee of Upper Lachlan, Yass Valley & Goulburn Mulwaree Councils	2023	\$25K annual savings using shared committee	Finance & Administration
6	Intergovernmental collaboration cross border with ACT Government, i.e. reduce waste strategy	2016-2023		Council wide
7	Implemented Unified Telecommunications Network - towers with microwaves linking Gunning-Crookwell-Taralga towns - significant productivity improvements for Council staff in remote & satellite administration offices, replaced Telstra WAN link connection	2017-2018	\$50K annual saving	Finance & Administration
8	Unified Telecommunications Solution - telephone digital handsets	2016	One off \$20K saving	Finance & Administration
9	Strategic Internal Audit Plan & audits - Grant Thornton	2014-2020	Achieve process/procedure improvements	Finance & Administration
10	Crookwell water supply filtration and treatment plant construction project \$7 million	2018	\$50K annually savings from new plant technology	Environment & Planning

	Efficiency or Productivity Initiative	Financial Years Implemented	Estimate of Increased Revenue or Reduced Costs	Responsible Directorate
11	Introduction of LED street lighting partner with OEH NSW	2020	\$20K annual saving	Infrastructure
12	Solar panels installation on Crookwell water and sewer treatment plants	2022	\$30K annual saving	Environment & Planning
13	Implementing ElementTime electronic timesheets that require less manual entry and manual payroll processes	2023		Finance & Administration
14	Crookwell Caravan Park facility upgrade, CCTV installed, new electronic booking POS system and increased bookings, increased user fees and eliminate unpaid accommodation	2022-2023	\$20K annual increased profit	CEO
15	Improved procurement procedures and templates for Contracts, Tender and RFQ templates, use LGP panel and standardised purchasing panels established	2023	Estimate \$20K annually	Finance & Administration
16	New Council website - facilitated eServices payments for rates and water use accounts and Customer Request Management services interface for the public	2022	productivity improvements, added service to ratepayers for ease of doing business	Council wide
17	Use of GPS equipment of Council Plant - Garbage Trucks and Caterpillar Motor Graders	2020	productivity improvements at the worksite	Infrastructure
18	Timber Bridge Replacement program has replaced 16 bridges for \$20 million expense with new concrete structures addressing weight load restrictions which hamstrung rural ratepayers in 2018-2020	2017-2023	\$100K reduced annual maintenance expenses	Infrastructure
19	Public Wi-Fi installed at Council libraries, offices & VIC	2019		Council wide
20	Sold Hume Street Gunning council residence for staff	2015	\$350K once off cash	Infrastructure
21	Electronic program for mandatory DA & building inspections	2023	Savings in time of estimated \$5K annually	Environment & Planning

	Efficiency or Productivity Initiative	Financial Years Implemented	Estimate of Increased Revenue or Reduced Costs	Responsible Directorate
22	Wateroutlook Program	2023	Costs \$1,650/month saving in data entry and coordination of data for annual returns, council reports, KPIs, inspection forms, works completed forms	Environment & Planning
23	Casual cleaners	2023/2024	\$30K annually	Environment & Planning
24	IT streamlining – hardware/software operating systems and IT Help Desk	2023	\$20K annually	Environment & Planning
25	Utilising Intra Maps	2023/2024	\$12K annually	Environment & Planning
26	Fees & Charges – Revenue Policy cost recovery and fees review	2023/2024		Council wide
27	Review of Parks and Gardens on-call work schedule	2022/23	\$10K annually	Environment & Planning
28	Savings on oval maintenance	2022/23	\$10K annually	Environment & Planning
29	Additional multipurpose roadside maintenance truck (Flocon) to plant fleet to improve pothole/patching efficiency	2022	Estimate \$100K annually	Infrastructure
30	Fleet management software implementation	2020	\$20K annually	Infrastructure
31	Implement Plant Assessor	2023	Unquantified \$ saving - WHS risk reduction	Infrastructure
32	Purchase additional water cart to reduce hiring cost	2019	\$30K annually	Infrastructure
33	Develop Council System Management Plan (CSMP)	2019		Infrastructure
34	Human Resources well-being survey for council employees and R U OK community sessions in towns	2023		Council wide
35	Lighting upgrades in all community buildings	2019		Infrastructure

	Efficiency or Productivity Initiative	Financial Years Implemented	Estimate of Increased Revenue or Reduced Costs	Responsible Directorate
36	Library subscription to Hoopla digital resource streaming service for members on their own device to utilise free of charge – movie/books/DVD content	2022	\$10K annually	Finance & Administration

Appendix Three – Efficiency and productivity improvement opportunities

	Efficiency or Productivity Initiative	Financial Years it can be Achieved	Estimate of Increased Revenue or Reduced Costs	Responsible Directorate
1	Review buildings, land, plant and equipment assets that may be sold, disposed of or may be repurposed	2024 onwards	One-off cash flow achieved – through rationalisation of unused or low use assets or decommission assets	Council wide
2	Develop new asset management plans (AMP) for each asset class and implement asset strategy	2024 onwards	Define service levels, identify future renewal and operational requirements. Non-optimal renewal and maintenance.	Infrastructure and Environment & Planning
3	Develop a program of service reviews for individual business units – one program per year	2024 onwards	Define benefit derived from each individual service - business case may be required	Council wide
4	Organisation Restructure after Council Election in September 2024	2025	Reduced staff costs for business units that require service level changes	Council wide
5	Consider option to no longer provide Australia Post service at Taralga Community Service Centre. Look at selling or leasing the business and/or sell the building asset	2025	Core staff required to be accommodated and reutilise in other parts of business, estimate - \$78K net cost saving annually	Finance & Administration
6	Update Section 7.11 Contributions Plan and prepare corresponding capex program	2025 onwards	Income from new Plan is yet to be estimated	Environment & Planning
7	Review opportunities for solar panels on council facilities	2024 onwards	see 2020 - 100% Renewables Sustainable Councils and Communities report (is subject to available grant funding)	Infrastructure and Environment & Planning
8	Outsource strategic development of plans	ongoing	Estimate \$20K - where specific strategic projects funded on as required basis	Environment & Planning
9	Complete electronic inspection development	2024/2025	\$10K annually	Environment & Planning

	Efficiency or Productivity Initiative	Financial Years it can be Achieved	Estimate of Increased Revenue or Reduced Costs	Responsible Directorate
10	Dedicated DA pre assessment process	2024	\$2K	Environment & Planning
11	Automate Section 10.7 certificate process	2025/2026	\$10K annually saved in staff time	Environment & Planning
12	Implement Power BI Civica Authority budget and final management reporting tool	2024	Saving made through each Directorate being responsible for own expenditure	Finance & Administration
13	Fees and charges upgrade i.e. septic disposal, water and sewer plans	2023/2024	Receive actual revenue for works completed	Environment & Planning
14	Further investigate purchase of Frontlift garbage truck and bins	2024/2025	Reduction in costs using Cleanaway, offering frontlift services locally, saving in costs and potential revenue for additional services	Environment & Planning
15	Effluent reuse system Taralga STP	2024/2025	Water saving \$45K annually, has initial outlay of \$30K to install	Environment & Planning
16	Water monitoring at Parks and Sportsgrounds	2024	Reduction in water usage, 10-15% annually for water bills	Environment & Planning
17	Stocktake and monitoring of Water and Sewer critical spares	2024	Audit of material, minimum stock levels decided, monthly stocktakes - saving in emergency reactive purchasing and freight	Environment & Planning
18	Investigate biosolids removal	2025	Removal of biosolids from Taralga STP through mechanical system - initial outlay required with saving \$40K annually	Environment & Planning
19	Investigate sludge removal at Water Treatment Plants at Gunning & Crookwell	2025	Removal of sludge from drying beds with mechanical system with outlay costs required with saving \$20-30K each plant annually	Environment & Planning
20	Staff training / on-boarding upgrades and induction system	2024-2026	\$20K annually	Council wide
21	Use Civica Authority to full extent (i.e. CRM, plant, CVR and purchasing modules)	2024 onwards	Productivity of staff	Council wide
22	Investigate operational efficiencies for sports fields seasonal maintenance – turf and water	2024 - 2027	\$30K annually	Environment & Planning

	Efficiency or Productivity Initiative	Financial Years it can be Achieved	Estimate of Increased Revenue or Reduced Costs	Responsible Directorate
23	Digitise records / forms	2024/2025	\$15K annually in staff time / materials (statistics)	Environment & Planning
24	Emulsion tank installation	2024/2025	\$10K annually	Infrastructure
25	Bigger bins for pre-mix	2024/2025	\$20K annually	Infrastructure
26	Investigate installation of fuel management systems	2024/2025	\$20K annually	Infrastructure
27	Investigate implementation of energy master plan	2025	Dependent upon grant funding	Infrastructure
28	Set up Panel contracts for - sealing; minor works; plant hire; building maintenance and trades; Quarry	2024	\$50K annually	Infrastructure
29	EOI to consider selling former Westpac Bank & Bank House building which is being underutilised in main street of Crookwell	2024	Possible sale of building for one-off cash flow and savings on annual maintenance works	Council wide
30	Investigate Garbage Disposal Contract transferring waste, no double handling and no landfill	2024/2025		Environment & Planning
31	Investigate comingled waste (recycle)	2024/2025		Environment & Planning

Appendix Four – Strategic Risks

	Identified Risk (threat or missed opportunity)	Impact of the Threat	Mitigation action/s	Responsible Directorate
1	Development construction and operational running expenses for the MAAC Crookwell swimming pool complex	Preliminary estimates only for annual operating expenses, unsecured capex funding to do heated pool component and VIC centre building fit out	Consider if heated pool is unaffordable and loan borrowing debt service capacity required for capex	Environment & Planning
2	Dependent on government grants (low own source operating revenue)	Risk of grants being reduced in future years	Lobby of other levels of government for greater share of Financial Assistance Grants for those councils with greater need and limited income streams	Council wide
3	Waste Centres x 6 locations and remediation/capping/closing rubbish tips & EPA requirements	Currently high operating costs and unquantified remediation work costs/scope	Consider change in service level	Environment & Planning
4	Gravel Pits various sites remediation/capping/closing & EPA requirements	Unquantified remediation work costs/scope	Consider reduction in sites	Infrastructure
5	Servicing of large road network	Insufficient funds to get life cycle down to the required intervention period	Review Road Hierarchy & alter service standard. Changed funding model from other levels of government	Infrastructure
6	Low \$ unrestricted cash & internal restricted reserve funds to fund budget programs and any over expenditure	No funds available to take advantage of investment opportunities and no cash to meet short term low liquidity to fund matching grants and fund natural disaster works upfront	SRV, productivity and accumulated savings by reduction in operating expenses	Council wide

	Identified Risk (threat or missed opportunity)	Impact of the Threat	Mitigation action/s	Responsible Directorate
7	Inadequate stormwater infrastructure which has no funding source available to address flooding areas within the shire towns	Reputation and flooding impacts to residents	Required a funding source the stormwater levy of \$25 per Assessment is inadequate to address this purpose	Infrastructure
8	Cost shifting from other levels of government	Over 5% of operating costs impact annually (or \$2 million annually)	Stop cost shift - ESL, pension rates concession, library and noxious weeds, development application portal	Council wide
9	Crookwell Waste Centre	Large expense in remediating the site and meeting EPA licence requirements	Closing, remediation and capping of the centre	Environment & Planning
10	Condition of Water mains Crookwell, Gunning and some in Taralga (asbestos pipes)	Frequency of breaks and disruption to service	replacement of mains program	Environment & Planning
11	IT Disaster Recovery Plan inadequate	Limited directions	Develop plan as priority action	Environment & Planning
12	Development approvals (>40 days)	Customer service level, reputation damage, litigation and public image	Resources / structure of Department	Environment & Planning
13	Outdated strategic documents	Cost to rectify essential services	Review and update documents	Environment & Planning
14	Inadequate financial capacity to allocate sufficient budget for optimum plant replacement in accordance with industry best practice	Delays the inevitable increase in replacement cost as well as increase maintenance requirements. Also increases risk of plant breakdowns which may result in additional cost of hiring plant and effect of other plant not utilised.	Require suitable funding to budget annually to replace plant at optimum industry best practice time	Infrastructure
15	Inadequate budget for adopted service levels	Cannot achieve service levels. Reputational risk. Premature asset deterioration.	Insufficient rate base to allocate sufficient funds without a SRV	Infrastructure

	Identified Risk (threat or missed opportunity)	Impact of the Threat	Mitigation action/s	Responsible Directorate
16	Staff turnover and competitive labour market (exasperated by Covid effect)	Low morale. Impact on culture. Additional training required. Inefficiencies.	More internal training and upskilling, use of Apprenticeships. Culture and Development pathway. Provide career progression options. Workplace of choice.	Council wide
17	Finding adequate staff and skilled staff shortage	Inefficiencies. Excessive over time and burnout. Additional supervision required. Require more expensive contract outsourcing.	Develop recruitment plan	Council wide
18	Buildings not meeting service levels	Cannot use portions of buildings. Premature deterioration. WHS risk.	Building AMP and adequate resourcing in staff and funds.	Infrastructure
19	Current stormwater levy only sufficient for upgrade of kerb and gutter and not adequate for overall stormwater upgrades	Cannot address stormwater upgrades	Increase rates and/or wait for grant funding	Infrastructure
20	Lack of Asset Management Plans for Roads, Plant, Bridges, Stormwater, Footpaths and Cycleways and other infrastructure asset classes	Unknown future renewal and operational requirements. Non-optimal renewal and maintenance. Risk of once-off funding shocks	Develop AMP	Infrastructure
21	Both works depots are very old and will require replacement in future	Future once-off capital investment with no capacity to fund	Forward planning and AMP (dependent on grant and borrowings)	Infrastructure
22	Council buildings including council administration offices are very old and will require replacement in future	Future once-off capital investment with no capacity to fund	Forward planning and AMP (dependent on grant and borrowings)	Council wide
23	Fuel tanks and fuel systems at both depots are old and is a risk of failure	Plant and works may be adversely impacted	Investigate options	Infrastructure

Identified Risk (threat or missed opportunity)	Impact of the Threat	Mitigation action/s	Responsible Directorate
24 Strategies creation and plans review are overdue for review lack of resources for Cyber security plans/IT policies and review not completed	Data security and data breaches, personal information risks	Utilise Cyber NSW and other digital security resources to tighten council systems penetration	Council wide