
FINANCIAL SUSTAINABILITY REVIEW

DUBBO REGIONAL COUNCIL

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EXECUTIVE SUMMARY

BACKGROUND

The Dubbo Regional Council (Council) is a local government area located in the Central West and Orana regions of New South Wales. The Council was formed on 12 May 2016 through a merger of the City of Dubbo and Wellington Council.

The amalgamated Dubbo Regional Council area now consists of the city of Dubbo, the township of Wellington and the villages of Geurie, Wongarbron, Ballimore, Eumungerie, Mumbil, Euchareena, Stuart Town, Mogriguy, Elong Elong, Brocklehurst, Gollan and Goolma.

In recent financial years Council has reported consolidated net operating deficits for three prior financial years (2019/20, 2020/21 and 2021/22) and adopted a budget for 2022/23 with a net operating deficit. Underlying the consolidated net operating deficits were significant operating deficits in the General Fund – which includes all services other than those funded by the Water Fund and Sewer Fund.

To address these concerns, the Council commissioned AEC Group Ltd (AEC) to undertake an urgent and 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.

PURPOSE & APPROACH

Council has commissioned the Financial Sustainability Review (FSR) with the purpose to assess the sustainability of the current policy settings, adopted strategies, service levels and asset portfolios and develop strategies for the Council to address the key drivers for concerns that may be raised with the financial sustainability of the Council.

In response to the defined purpose of the review, this report addresses the following:

- A review of the Council's past financial performance and the current financial position, including identifying trends, drivers and other impacts upon the future financial position.
- Undertake a review of the costs of services and in liaison with respective service managers quantify current service activity
- 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.
- 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.
- Identify strategic options for Council to improve the forecast position and future sustainability.

KEY FINDINGS

Historical Financial Performance

- Council has produced a net operating deficit (excluding capital grant revenue) in the last three years of the five past financial years, with an adopted budget for 2022/23 that included a net operating result of a \$7.8 million deficit.
- The consolidated net operating deficit is predominantly due to the General Fund, which has produced operating deficits of approximately \$15 million on average.
- AEC concludes that Council has a structure deficit in the General Fund of approximately \$15 million that must be addressed through a permanent and recurrent correction.

- The Water Fund and Sewer Fund have produced surpluses over the historical assessment period.
- Total cash, cash equivalents and investments decreased in the first four years from 2017/18 to 2020/21 and then had a slight increase in 2021/22.
- At the end of 2021/22, Council had total cash, cash equivalents and investments of \$236.4 million, of which \$167.6 million is externally restricted, \$69.0 million is internally restricted and there is no restrictions for commitments in reported liabilities (mostly contracted grant liabilities). The residual amount is a negative \$187,000 – which is considered the unrestricted cash. A negative unrestricted cash indicates Council has insufficient cash to fulfill the reserve commitments.
- It is also notable that Council has not restricted the financial assistance grant (FAG) advance payment or any incomplete capital works from prior years
- Council has an accumulated as at the end of the 2021/22 financial year a \$29.0 million balance internally restricted for the purpose of future asset renewals. AEC understands historically Council has transferred any residual cash surplus or deficit into this reserve.
- Dubbo Regional Council has spent in total \$334.9 million over five years on capital expenditure, an average of \$67.0 million annually. Council had budgeted to spend another \$74.6 million in 2022/23 and \$75.9 million in 2023/24.
- The building and infrastructure renewal ratio indicates that Council has invested sufficiently in building and infrastructure asset renewals compared to depreciation on building and infrastructure assets from 2017/18 until 2019/20. For the next two years, this ratio has deteriorated to as low as 44.78% in 2021/22.
- The infrastructure backlog ratio reported for 2021/22 was calculated in error (an estimated backlog of \$569 million was reported) which AEC understands, based on Council approach to calculating, should have been significantly lower at \$140 million. However, at 4.4% of total gross replacement cost of assets, is still significantly above the Office of Local Government target of less than 2%.

Forecast of Council's Financial Performance

- AEC developed a forecast scenario (called the Base Scenario) to assess the sustainability of current policy settings, adopted strategies, service levels and investment in assets.
- AEC's forecast indicates that, under the Base Case Scenario (continuation of current practices) Council is forecast to deliver a consolidated operating deficit of approximately \$29.8m over the 10-year forecast period (excluding capital grants and contributions), with individual annual results ranging from approx. \$5.9m deficit to \$1.0m
- The Council is forecast to continue to produce significant operating deficits in the General Fund contributing to insufficient cash being generated from operations to avoid the unrestricted cash from deteriorating into a negative balance.
- While Council has a healthy balance (approximately \$48 million) expected in the Future Asset Renewal reserve at the end of 2022/23, this is a short term mitigation only.
- The current investment in asset renewals is insufficient to maintain the current infrastructure capital.
- The lack in the maturity of the asset management planning, in particular the ability to project forward the asset renewal demand and the backlog in the renewals, is a significant limiting factor in reporting on the adequacy of the current investment in renewal of assets and constrains the confidence in long term financial planning.
- An additional \$239.1 million is required to be invested in asset renewals over the next 10 years to maintain infrastructure capital.
- Without additional generation of cash, the enhanced asset renewals can only be funded to 2024/25 from existing cash held by Council.

Vision of a Sustainable Scenario for Council

- The vision for a sustainable Dubbo Regional Council is that the 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 is access to cash) and the infrastructure capital (that is assets that the Council owns).
- The Enhanced Asset Renewal and Enhanced Cash scenario was developed by AEC to assess the increase in cash required to general sufficient cash to maintain fiscal capital, while also increasing the investment in asset renewals and maintenance to maintain the infrastructure capital.
- Based on the above analysis AEC concludes that an improvement in the cash generated from operations is required to an aggregate amount equivalent to a cumulative increase over four years of 37.1% in ordinary rates, above what would otherwise be projected through the annual rate peg (increase in rates) and growth.
- Whilst the correction has been expressed in a change in net revenue assumed in the form of the percentage increase in ordinary rates, this may be achieved through a combination of initiatives, including:
 - Identification of operational efficiencies and productivity improvements.
 - Reduction in service provision – levels and/or range of services.
 - Reduction in debt through sale of surplus assets.
 - Increase in revenue from operations through increase in service fees, rates and/or charges.

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

- Within the 10-year forecast, Dubbo Regional Council would like to achieve and maintain a net operating surplus greater than 0 percent (%). As a growing council, Dubbo Regional Council needs to produce above the benchmark to support the growth in services and infrastructure required.
- Council should have at least \$5 million in the unrestricted cash balance.
- Council should achieve an average of 95% for the asset renewal ratio over a ten year period. This will likely need reviewing for the next ten years 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 should 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.

RECOMMENDATIONS

Implement Efficiencies Savings and Productivity Improvements

- To plan for improvements in the efficiency and productivity of the council's operations Council should introduce productivity measures and targets 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.
- 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.
- Investing in employee training and development is critical to provide staff with the skills and knowledge they need to perform their jobs more effectively. This may include training on new technologies, process improvement methodologies, or management and leadership skills.
- 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.

- Establishing a self-funding innovation reserve whereby gains from the initiatives implemented are put back into the reserve for future initiatives.

Review of User Charges and Fees

- A comprehensive review of Council's Fees and Charges is recommended to ensure appropriate targets are set and achieved for revenue generating activities.

Increase in General Rate Through a Special Rate Variation

- 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 urgency of implementing the correction.
- A decision to increase the general rate through a SRV should begin in the 2024/25 financial year with a 7.5% increase beyond the expected rate peg and population growth, with an additional 7.5% above rate peg and population growth for three consecutive years. This will have the cumulative impact of increasing the general rate by a cumulative 37.1% above what would be expected through rate peg and population growth.

Revise Current Range and Levels of Service (including previously endorsed/approved decisions)

- Council should enhance the 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 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.

Establish Governance & Enhanced Capital Works Program Framework

- 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.
- 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.

Asset Management

- Develop a roadmap for improving asset management maturity. Council should measure the current asset management maturity, set target maturity level and develop improvement initiatives.
- 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 custodians.
- 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 current 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.

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1. INTRODUCTION

1.1 BACKGROUND

The Dubbo Regional Council (Council) is a local government area located in the Central West and Orana regions of New South Wales. The Council was formed on 12 May 2016 through a merger of the City of Dubbo and Wellington Council.

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1.2 PURPOSE OF THIS REPORT

Council has commissioned the Financial Sustainability Review (FSR) with the purpose to assess the sustainability of the current policy settings, adopted strategies, service levels and asset portfolios and develop strategies for the Council to address the key drivers for concerns that may be raised with the financial sustainability of the Council.

In response to the defined purpose of the review, this report addresses the following:

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- 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.
- Identify strategic options for Council to improve the forecast position and future sustainability.

1.3 CONSTRAINTS AND LIMITATIONS

The review and this report has been constrained by a tight timeframe in which the Council required the review to be completed. A ten (10) week deadline was set to complete the review. Given the time available, AEC prioritised the engagement with service managers and asset custodians.

AEC was constrained by the information and data made available by Council – including the maturity of the asset management plans and capital works plan.

Despite the constraints on the review, it is the view of AEC that all material key considerations have been included in the report and the Council is able to make decision on the recommendations with confidence.

1.4 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. Both capabilities need to be proven to conclude that a local government authority is financially sustainable.

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** - Can Council demonstrate capacity to access cash as required for current and future needs of services and infrastructure?
- **Test 2 - Maintaining Infrastructure Capital** - Can Council demonstrate capacity to provide infrastructure at an acceptable level of performance as required by current and future services?

With a vision for the future state, AEC facilitates the development of strategic options to bridge the gap between the current state and the desired future state. Working with key stakeholders within Council, we will apply our knowledge, experience, and insights to develop the Financial Sustainability Review to achieve the desired financial position and long-term sustainability.

1.5 STAKEHOLDER ENGAGEMENT

Significant engagement was undertaken with Councillors, the Executive Leadership Team and key Council personnel, to gain a shared understanding of Council's historical financial performance, the desired financial performance, the gaps in performance and to discuss opportunities for improvement and strategies to address the identified performance gaps.

The workshops and discussions were used as the basis of establishing Council's desired future financial position, informed through vision, strategic planning, service demand projections and projected asset demands. Strategic options were identified as well as operational improvements to support the implementation of strategies to improve financial sustainability.

2. SOCIO ECONOMIC PROFILE

An understanding of the socio economic profile of a local government is important consideration in the assessment of financial sustainability. The profile informs assumptions of growth in population and the local economy, which in turn determine assumptions of demand on services and infrastructure, as well as determining growth in the Councils revenue streams (particularly the general rate revenue and annual access charges for water, sewerage and waste services).

The following discussion provides an overview of the current socio-economic environment of the Dubbo Regional Local Government Area (LGA) (hereafter referred to as Dubbo), with comparisons to other LGA's across New South Wales where relevant.

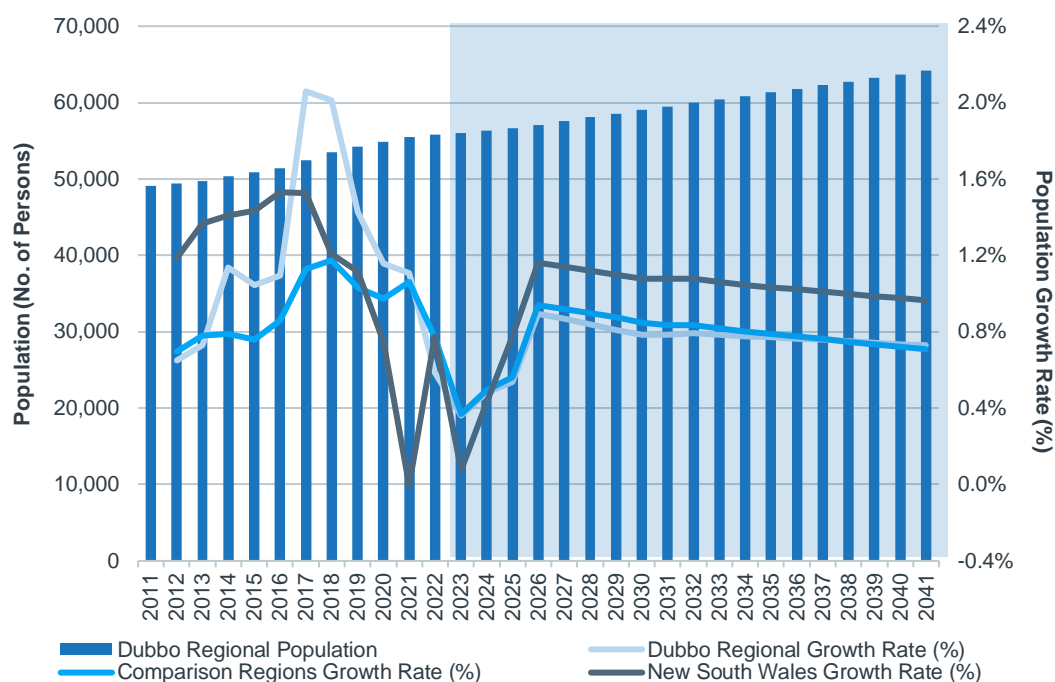
The comparison regions include the following LGA's:

- | | | |
|---------------------|------------------------|--------------------------------|
| • Albury | • Eurobodalla | • Queanbeyan-Palerang Regional |
| • Armidale Regional | • Goulburn Mulwaree | • Richmond Valley |
| • Ballinda | • Griffith | • Singleton |
| • Bathurst Regional | • Kempsey | • Snowy Monaro Regional |
| • Bega Valley | • Kiama | • Tamworth Regional |
| • Broken Hill | • Lismore | • Wagga Wagga |
| • Byron | • Lithgow | • Wingecarribee. |
| • Cessnock | • Mid-Western Regional | |
| • Clarence Valley | • Orange | |

Dubbo recorded a population of approximately 55,800 residents in 2022, which has historically grown at a faster rate than New South Wales. The population in Dubbo has grown by an average annual rate of 1.2% from 2011 to reach 55,843 residents in 2022. This average annual growth was higher than New South Wales and the comparison regions, which experienced a population growth of 1.1% and 0.9% per annum respectively.

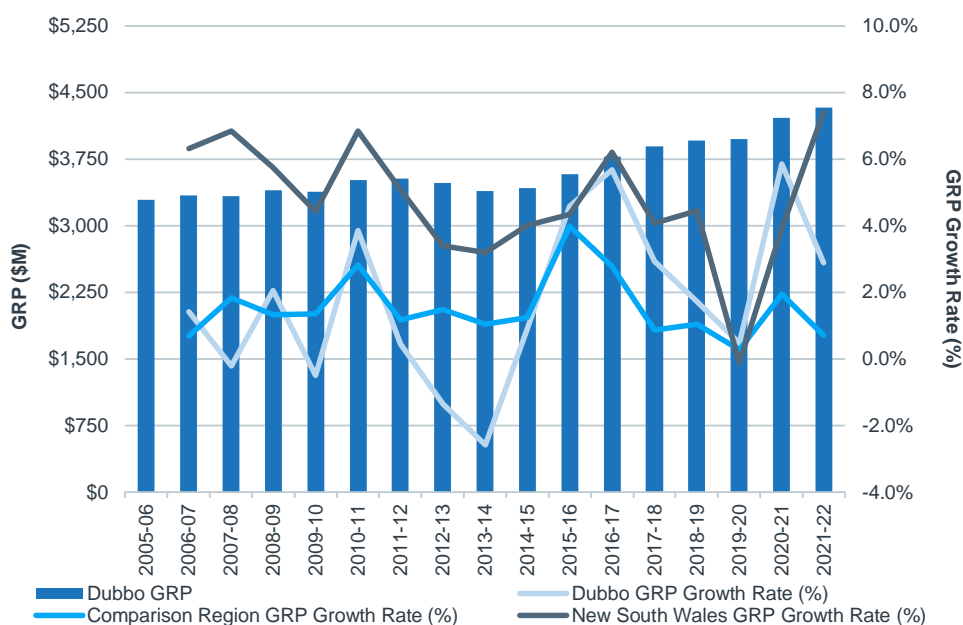
According to NSW Department of Planning and Environment (2022) the population in Dubbo is projected to grow by an average annual rate of 0.7% from 2022 to 2041, reaching over 64,100 residents in 2041. This growth rate is lower than New South Wales and the comparison regions projections which are projected to grow at an average annual rate of 1.0% and 0.8% respectively (NSW Department of Planning and Environment, 2022).

However, AEC has been advised by the Council that the growth rate predicted by NSW Department of Planning and Environment is conservative and the Council is predicting the average annual rate in excess of 1.0%, similar to the total growth rate for New South Wales.

Figure 2.1. Historical and Projected Population, Dubbo Regional LGA, 2011 to 2041

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

Dubbo's economy experienced stronger growth than the comparison regions, reaching a Gross Regional Product of over \$4.3 billion in 2021-22: Dubbo's Gross Regional Product (GRP) increased from \$3.5 billion in 2011-12 to \$4.3 billion in 2021-22, equating to an average annual rate of 2.1% (AEC, unpublished a). Dubbo's average annual growth has been higher than the comparison regions (average of 1.5% per annum), however, substantially lower compared to the average annual growth rate of New South Wales (4.1% from 2011-12 to 2021-22).

Figure 2.2. Gross Regional Product (\$M), Dubbo, 2005-06 to 2021-22

Source: AEC (unpublished a).

Dubbo's economy is predominantly underpinned by population servicing industries. Health care and social assistance was the largest contributing sector to Dubbo's Industry Value Add (IVA) in 2021-22, contributing \$490.5 million (13.2%) to Dubbo's total IVA. This was followed by construction at \$411.4 million (11.1%) and agriculture, forestry and fishing at \$392.8 million (10.6%). Mining contributions to IVA (2.8%) in Dubbo are significantly lower

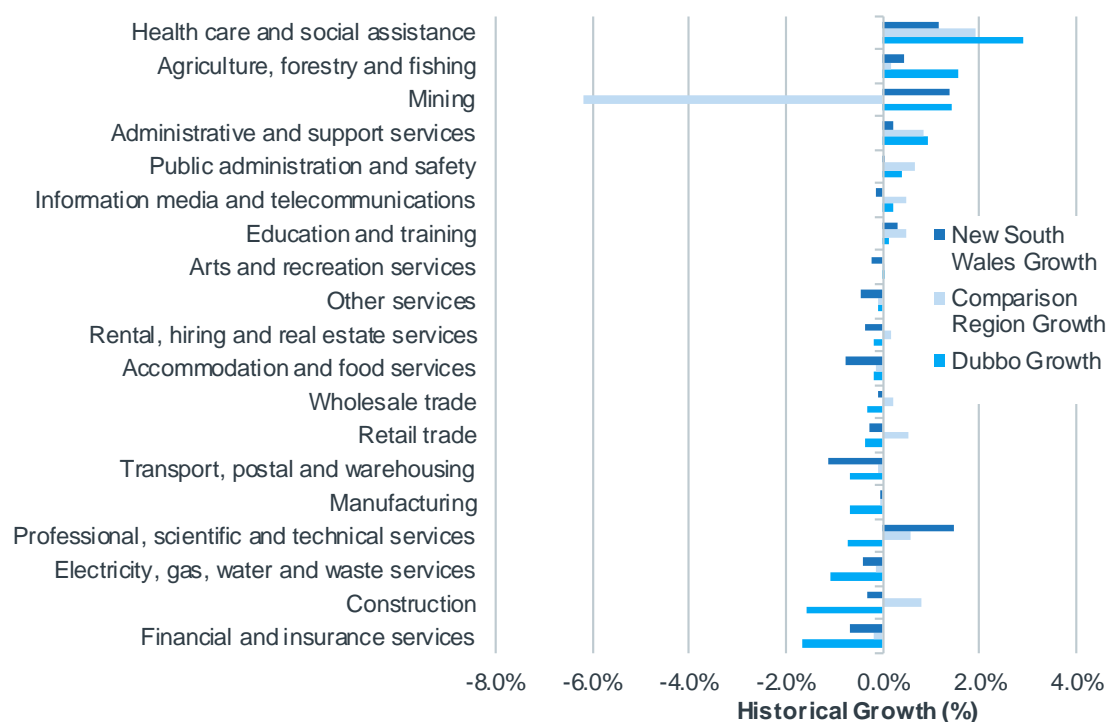
compared to the comparison regions (16.4%) in 2021-22 due to the lower amount and variety of mineral resources within the Dubbo region compared to the comparison regions.

Table 2.1. Industry Value Add (IVA) Contribution (%), 2016-17 & 2021-22

Industry	Dubbo		Comparison Regions		New South Wales	
	2016-17	2021-22	2016-17	2021-22	2016-17	2021-22
Health care and social assistance	10.3%	13.2%	8.2%	10.1%	7.5%	8.7%
Construction	12.6%	11.1%	8.4%	9.2%	8.7%	8.4%
Agriculture, forestry and fishing	9.0%	10.6%	5.6%	5.7%	2.4%	2.9%
Public administration and safety	7.6%	8.0%	6.2%	6.9%	5.3%	5.3%
Education and training	6.1%	6.2%	5.8%	6.3%	5.5%	5.8%
Retail trade	6.3%	5.9%	5.1%	5.6%	5.1%	4.9%
Manufacturing	6.3%	5.6%	6.6%	6.6%	6.4%	6.3%
Wholesale trade	5.8%	5.5%	3.5%	3.7%	5.2%	5.1%
Professional, scientific and technical services	5.5%	4.8%	4.5%	5.1%	9.6%	11.0%
Administrative and support services	3.5%	4.5%	4.0%	4.8%	4.5%	4.7%
Transport, postal and warehousing	4.7%	4.0%	3.4%	3.3%	6.3%	5.1%
Financial and insurance services	5.5%	3.8%	3.5%	3.4%	12.9%	12.2%
Electricity, gas, water and waste services	4.5%	3.4%	2.5%	2.4%	2.4%	2.0%
Rental, hiring and real estate services	3.4%	3.3%	3.1%	3.2%	4.6%	4.2%
Accommodation and food services	3.1%	2.9%	3.4%	3.3%	3.1%	2.3%
Mining	1.3%	2.8%	22.6%	16.4%	3.6%	5.0%
Other services	2.1%	2.0%	2.0%	1.9%	2.1%	1.6%
Information media and telecommunications	1.4%	1.6%	1.0%	1.4%	3.9%	3.8%
Arts and recreation services	0.8%	0.8%	0.7%	0.7%	0.9%	0.7%
IVA (\$M)	\$3,218.9	\$3,713.8	\$62,183.3	\$65,287.9	\$474,056.0	\$582,335.1

Source: AEC (unpublished a).

Largest growth predominately experienced in primary industries. Growth in the Dubbo's Industry Value Add (IVA) between 2016-17 and 2021-22 was attributable to the health care and social services (2.9% increase), higher compared to the comparison regions and New South Wales (1.9% increase and 1.2% increase respectively). Dubbo's primary industries of agriculture, forestry and fishing (1.5% increase) and mining (1.4% increase) also experienced large growth, higher compared to the comparison regions (0.2% increase and 6.2% decrease) and New South Wales (0.5% decrease and 1.4% increase).

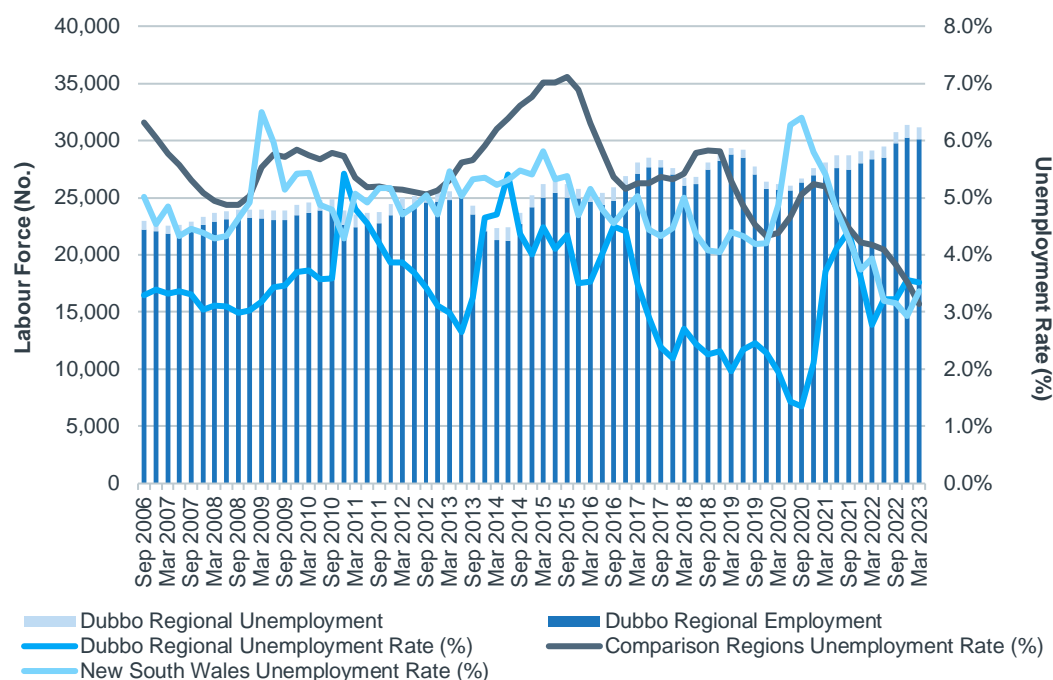
Figure 2.3. Historical Growth (IVA), 2016-17 to 2021-22

Source: AEC.

Dubbo has grown its employment base to over 26,900 jobs in 2021-22. Dubbo experienced an increase of 4,252 jobs between 2011-12 and 2021-22 to 26,920 jobs, equating to an average annual growth rate of 1.7% over the period (AEC, unpublished b). This rate was on par with the comparison region, but lower than the growth experienced in New South Wales (1.8% per annum) (AEC, unpublished b). Health care and social assistance was the largest employing industry in Dubbo in 2021-22, representing 20.7% of jobs (or 5,576 persons). Retail trade was the second largest employing industry representing 10.3% of all jobs, followed by construction representing 10.0% of jobs (AEC, unpublished b).

Health care and social assistance recorded the largest increases in the number of jobs in Dubbo from 2011-12 to 2021-22, growing by 1,999 jobs (AEC, unpublished b). Construction experienced the second largest increase of 901 jobs over the same period of time, followed by retail trade at 634 jobs (AEC, unpublished b).

Dubbo has historically recorded lower unemployment rates lower than the comparison regions and New South Wales. Dubbo has historically recorded lower unemployment rates than the comparison regions and New South Wales. Dubbo's unemployment rate was resilient during the peak of the pandemic where its rate ranged from 1.4% in June 2020 to 4.4% in September 2021. During the same time, the comparison regions unemployment rate ranged from 4.7% to 5.2% and New South Wales unemployment rate ranged from 4.3% to 6.3%. In recent times, Dubbo's unemployment rate reached 3.5% as of March 2023, which is higher than the comparison regions and New South Wales (3.1% and 3.4% respectively) (Jobs and Skills Australia, 2023).

Figure 2.4. Labour Market, Dubbo Regional LGA, June 2006 to March 2023

Source: Jobs and Skills Australia (2023).

Weekly household incomes in Dubbo average approximately \$50 more than the comparison regions. Weekly household incomes averaged approximately \$1,941 per week in 2021, \$51 higher than the comparison regions average of \$1,889 per week (ABS, 2022a). Despite this, the average weekly household income in Dubbo 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 Dubbo (20.7%) were employed in health care and social assistance in 2021-22 which has a lower wage (\$1,106 per week) compared to New South Wales (\$1,372 per week) (ABS, 2022a). Dubbo recorded lower average weekly wages for all industries compared to New South Wales.

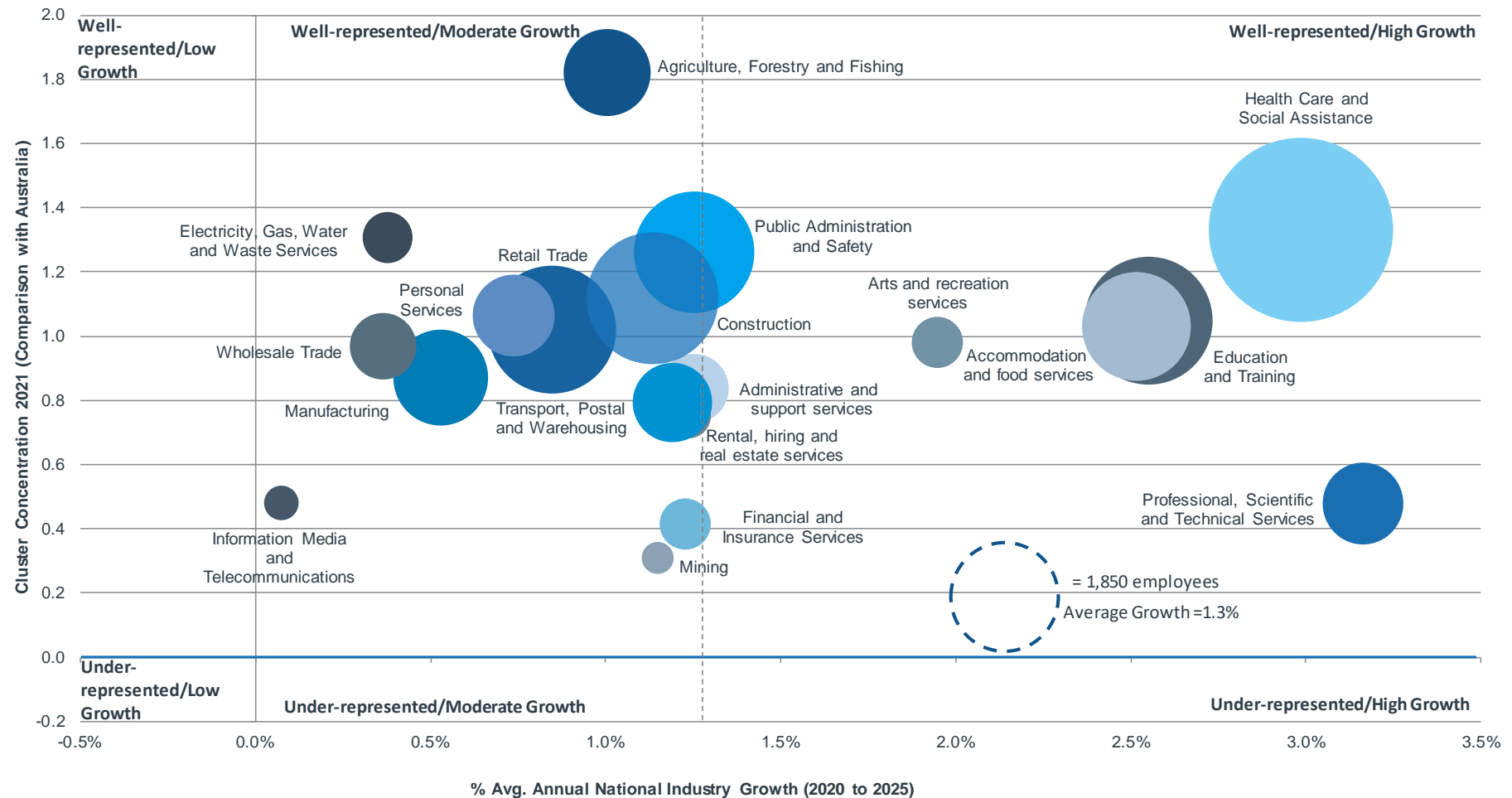
Dubbo's vacancy rate was 7.2% in 2021, which was lower than the comparison regions and New South Wales more broadly. From 2011 to 2021, the vacancy rate in Dubbo has declined, reducing from 9.5% in 2011 to 7.2% in 2021 (ABS, 2022a). In 2021, Dubbo had a lower vacancy rate than the comparison regions (11.0%) and New South Wales (8.9%) (ABS, 2022a).

Dubbo has experienced an increase in the number of building approvals in recent years. Residential building approvals in Dubbo have experienced fluctuation, with a six year low of 76 approvals in 2017-18 and a peak of 138 approvals in 2021-22 (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).

Despite this increase in the number of building approvals, the value of residential buildings approvals have decreased from \$549.5 million recorded in 2018-19 to \$127.6 million in 2021-22 (ABS, 2023).

Dubbo's is projected to experience an increase in employment between 2020 and 2025. Dubbo's industries are projected to experience an increase between 2020 and 2025. Professional, scientific and technical services is projected to experience the largest increase (3.2%) followed by health care and social assistance and education and training (3.0% and 2.5% respectively).

Figure 2.5. Employment Cluster Map, Dubbo, 2021-22



Source: AEC.

3. BENCHMARKING

Benchmarking of the financial performance of the Council and other relevant statistical information was undertaken for comparison purposes. Benchmarking was based on time series data published by the NSW Office of Local Government (OLG) - Your Council Report, 2020/21, completing a comparison across the Group 4 Councils (26 councils including Dubbo), as detailed below.

Table 3.1 List of selected councils

Council	Est Population (2021)	Total Residential Rate Assessments
Albury	56,036	23,772
Armidale Regional	29,332	10,793
Ballina	46,172	17,357
Bathurst Regional	43,653	17,404
Bega Valley	35,761	18,631
Broken Hill	17,661	9,468
Byron	36,077	14,102
Cessnock	64,082	26,167
Clarence Valley	54,180	23,343
Dubbo Regional	55,518	20,402
Eurobodalla	40,453	24,433
Goulburn Mulwaree	32,138	14,230
Griffith	27,182	8,838
Kempsey	30,816	12,963
Kiama*	22,961	Not provided*
Lismore	44,344	16,064
Lithgow	20,854	9,717
Mid-Western Regional	25,704	11,648
Orange	43,736	17,717
Queanbeyan-Palerang Regional	63,364	25,801
Richmond Valley	23,589	8,526
Singleton	24,719	9,453
Snowy Monaro Regional	21,659	10,598
Tamworth Regional	63,652	23,710
Wagga Wagga	67,860	25,847
Wingecarribee	52,456	22,709

Note that data was not available for Kiama Council for many of the data relevant to this report. Where information was not available, Kiama has been excluded from graphs and from our analysis.

Whilst the benchmarking is useful for assessing how Council compares with other similar councils, caution should be exercised when drawing any conclusions based on the observations alone without further investigation. Whilst the councils used for the benchmarking are within the same NSW Office of Local Government Group, it should be noted there are significant variations regarding population, demographics, geographical area and size, range and level of service provided, as well as the service delivery model, which impact on comparative analysis.

AEC will be undertaking more rigorous assessment of Council's financial position to understand the outcomes/results as produced by this benchmarking exercise.

3.1 BENCHMARKING RATES & CHARGES

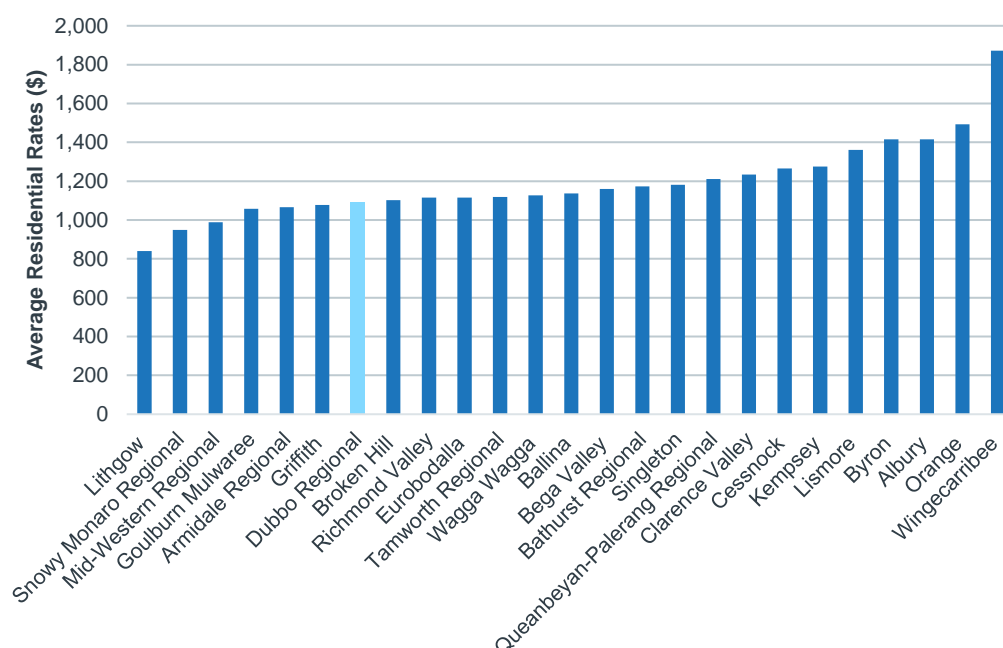
The table below relies on the average rating information as provided to OLG. Caution should be used in interpreting average rates as distributions may be skewed by outliers - small groups of either high or low value properties. At a later stage in the financial sustainability review, AEC will present data based on quartile, median and average rates which will provide a more representative indication of rating effort and impact of any changes.

Key findings from the following graphs identify that Dubbo Regional Council maintains residential rates below average, whilst business and farming rates are above average. This may be related to the observation in our parallel Socio-Economic Profile report which has found that Dubbo LGA supports relatively higher economic 'value-add' within the agriculture sector compared to similar peers, perhaps indicating a higher capacity to pay rates compared to comparator regions.

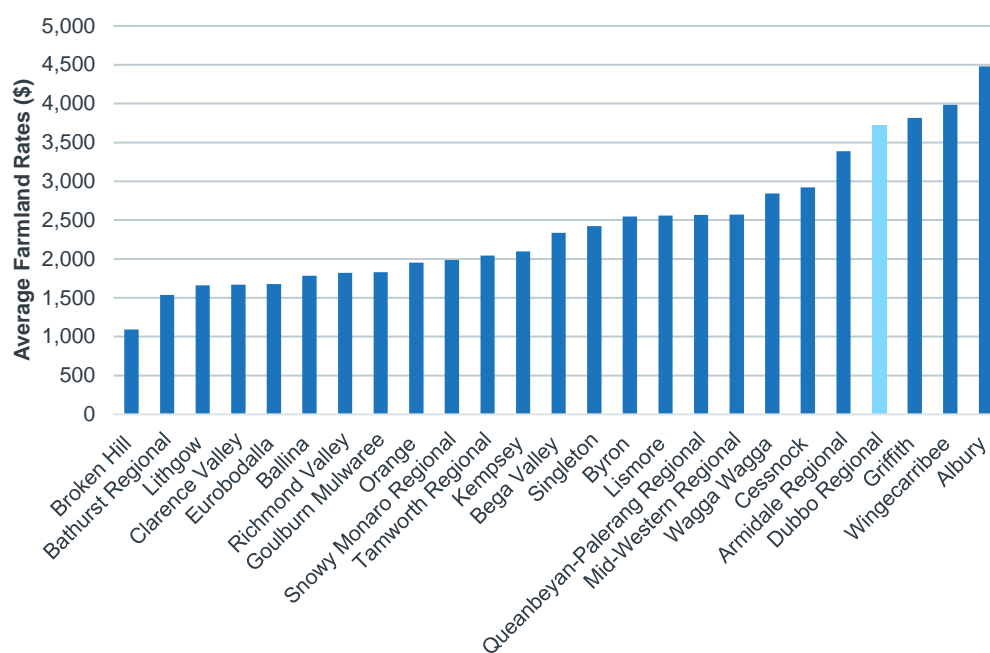
The rating effort is based on the land value divided by the total rate income. By this measure, Dubbo Regional Council has rating effort slightly below average for the comparator group. The average Domestic Waste Annual Charge is also close to the average or median for the group.

For the outstanding rates and charges ratio, Council is ranked just below average for the Group.

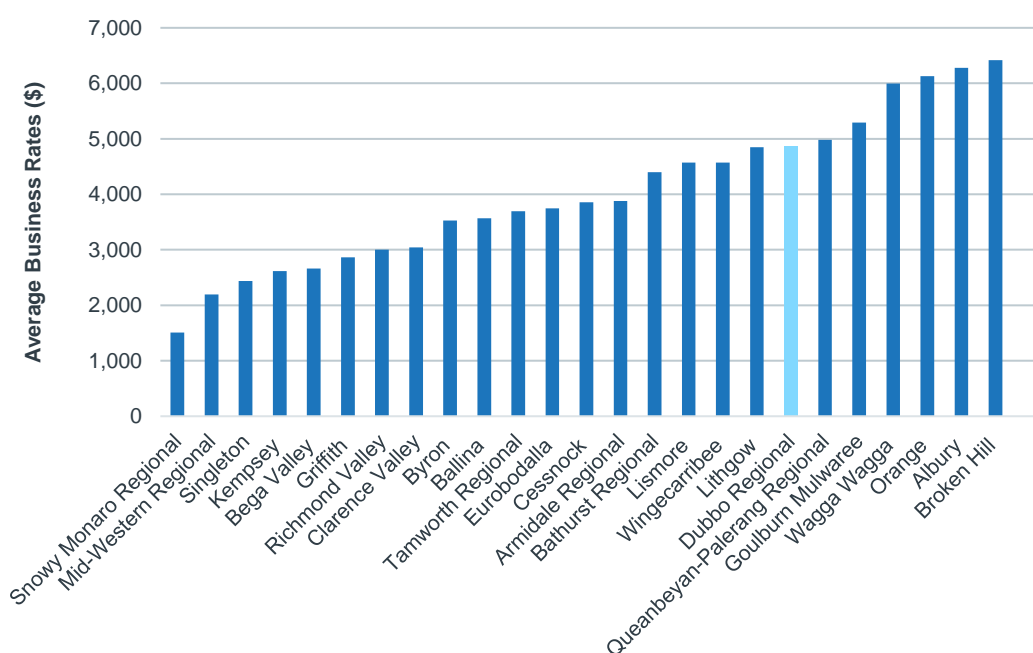
Figure 3.1 Average Residential Rate across Selected Group of Councils



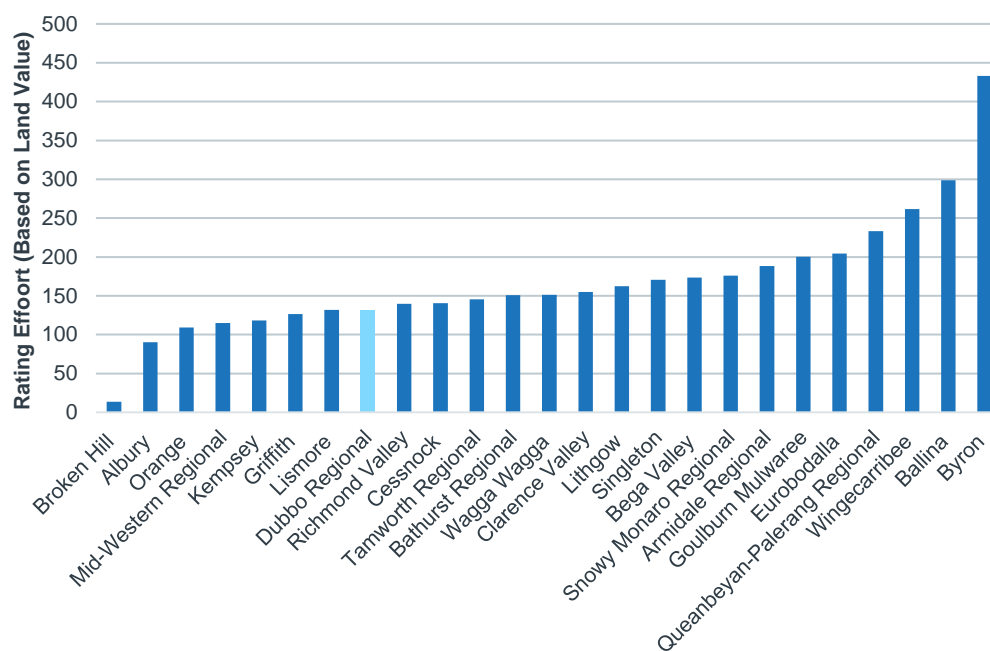
Source: OLG Time Series Data (2020/21)

Figure 3.2 Average Farmland Rate across Selected Group of Councils

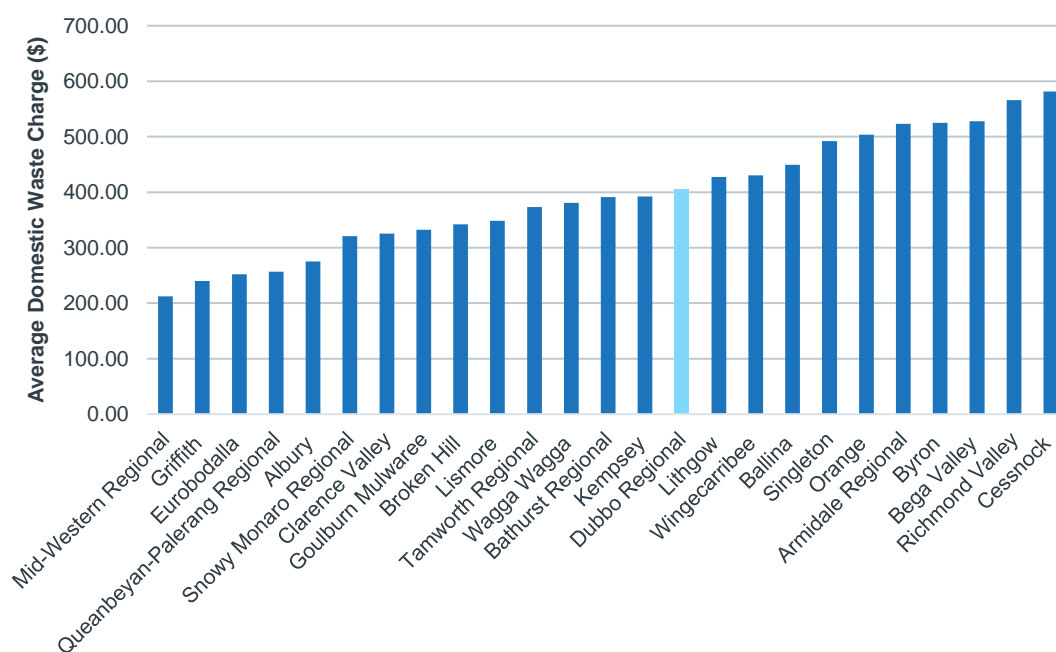
Source: OLG Time Series Data (2020/21)

Figure 3.3 Average Business Rate across Selected Group of Councils

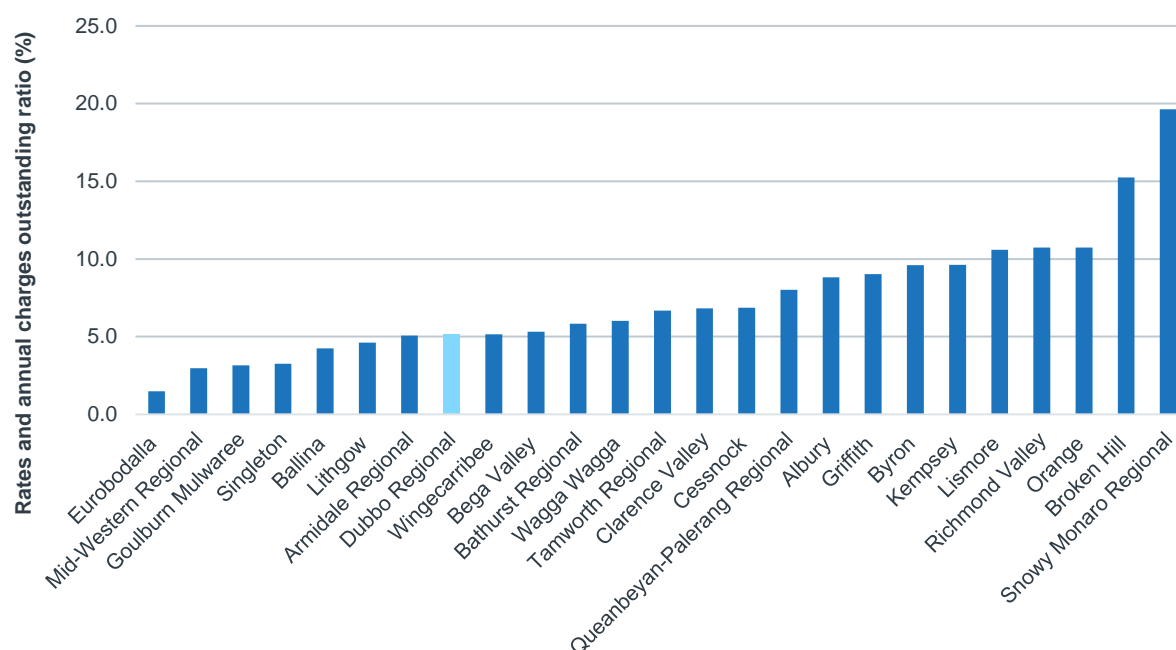
Source: OLG Time Series Data (2020/21)

Figure 3.4 Rating Effort (Based on land value) across Selected Group of Councils

Source: OLG Time Series Data (2020/21)

Figure 3.5 Average Domestic Waste Annual charge across Selected Group of Councils

Source: OLG Time Series Data (2020/21)

Figure 3.6 Outstanding Rates and Charges Ratio across Selected Group of Councils

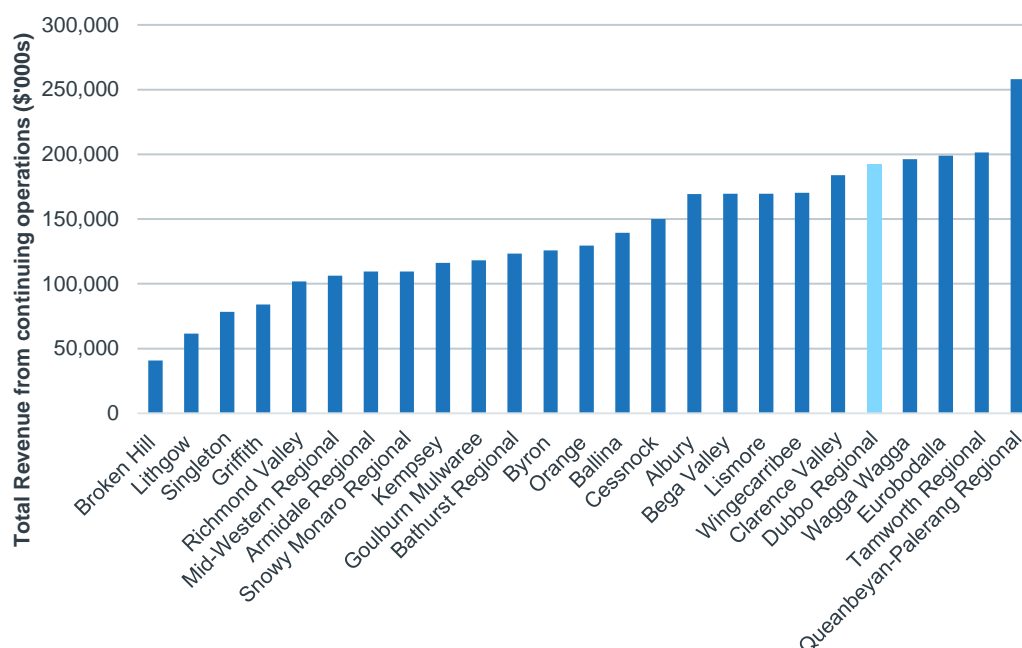
Source: OLG Time Series Data (2020/21)

3.2 BENCHMARKING OPERATIONAL REVENUE, EXPENSES & NET OPERATING POSITION

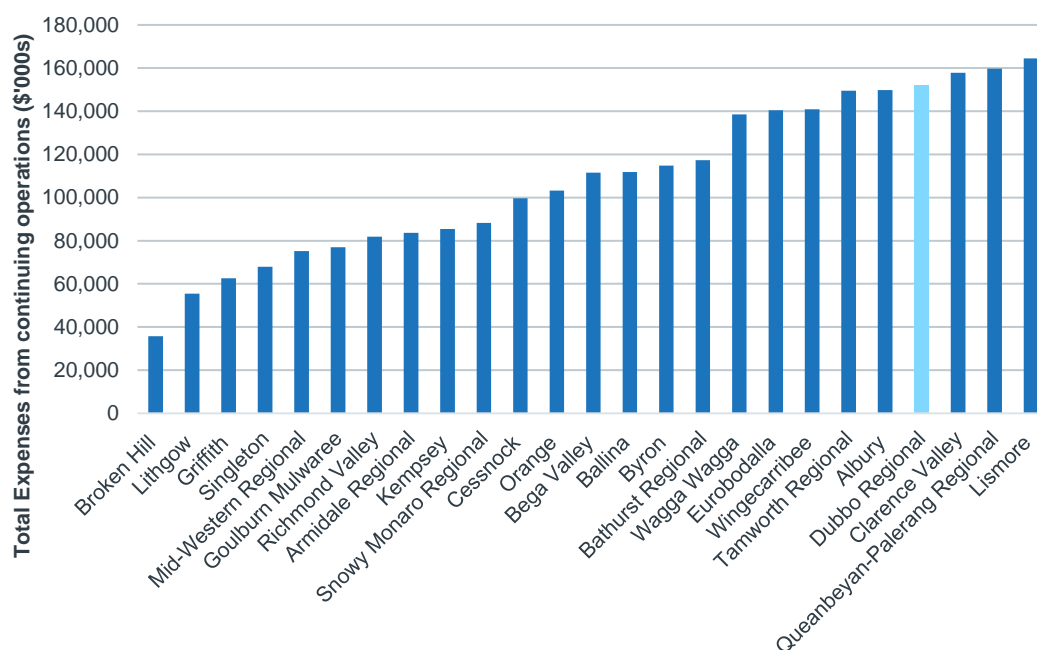
Key findings from the following graphs identify that Dubbo Regional Council is fifth highest in the group for revenue generated from operations, and fourth highest for expenses incurred from continuing operations within the group, indicating that DRC is one of the larger Councils within the comparator group.

Council's net operating result before capital is in the lowest quartile for the group, and Dubbo Regional Council is one of 13 councils that reported a deficit for 2020-21. Seven councils reported surpluses, and five reported net balanced position.

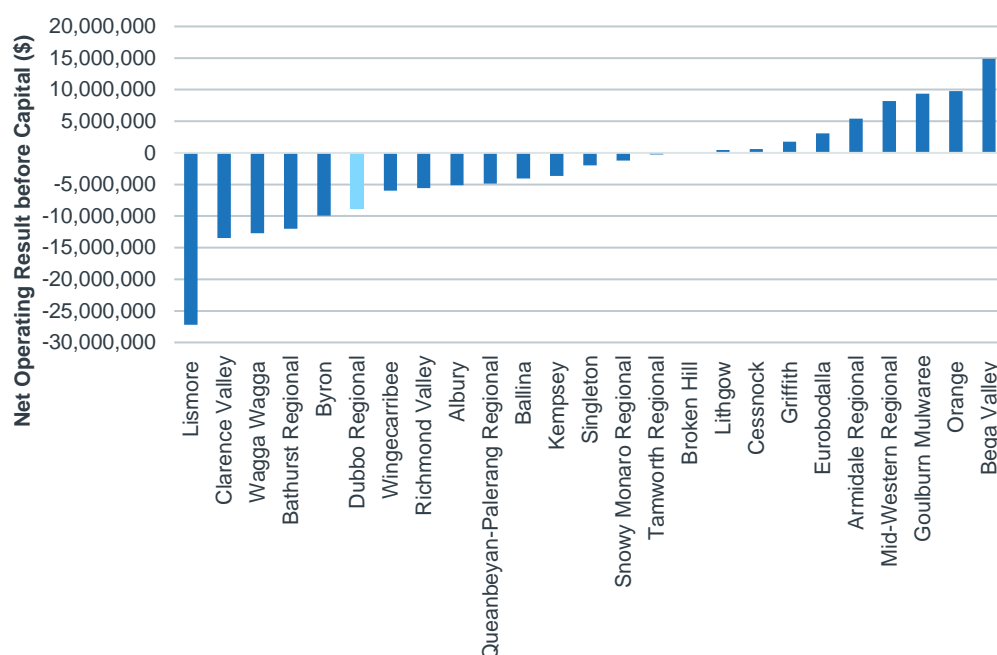
Note – caution should be applied in interpreting the operating result of a Council for one year in isolation due to impact of non-recurrent expenses/revenues for the year and other accounting treatments that may impacted the 2020-21 result.

Figure 3.7 Revenue Generated from Operations across Selected Group of Councils

Source: OLG Time Series Data (2020/21)

Figure 3.8 Expenses from Continuing Operations across Selected Group of Councils

Source: OLG Time Series Data (2020/21)

Figure 3.9 Net Operating Position (before Capital grants) across Selected Group of Councils

Source: OLG Time Series Data (2020/21)

3.3 BENCHMARKING OTHER RELATED INFORMATION

AEC Group have used the OLG benchmarking information for the Group 4 Councils and extended the analysis to compare different variables. In doing this the correlation coefficient was also used as a tool for understanding the strength of the relationship between two variables to assess whether the variables are an important contributing factor in the financial performance. However, it is important to note that just because two variables are correlated does not indicate the cause and effect relationship.

The following graphs visualise the relationship between variables, when benchmarking Dubbo Regional Council with other councils within the group made of OLG Group 4 and other selected councils. A positive correlation coefficient means that the two variables move in the same direction; as one increases, so does the other. A negative correlation coefficient means that the two variables move in opposite directions; as one variable increases, the other variable decreases. Again, caution should be applied in making a causal relationship – ie that one causes the other.

Based on the measurement, we can also indicate the strength of the data relationship between the two variables, and the following table identifies this relevant to the graphs.

Table 3.2 Evaluating the Strength of Association between Variables

Comparison	Correlation Coefficient	Strength of Relationship
Population vs FTEs	0.79	Strong Positive
Total Operating Revenue vs FTEs	0.86	Strong Positive
Population vs Total Operating Revenue	0.85	Strong Positive
Population vs Total Operating Expenses	0.82	Strong Positive
Net operating result vs Total Road Length	-0.03	No strong relationship
Road length vs FTEs	0.42	Moderate Positive
Socio-Economic Index Rating vs Rates Outstanding %	-0.10	Weak Negative
Asset Maintenance Expenditure vs Road Length	0.46	Moderate Positive

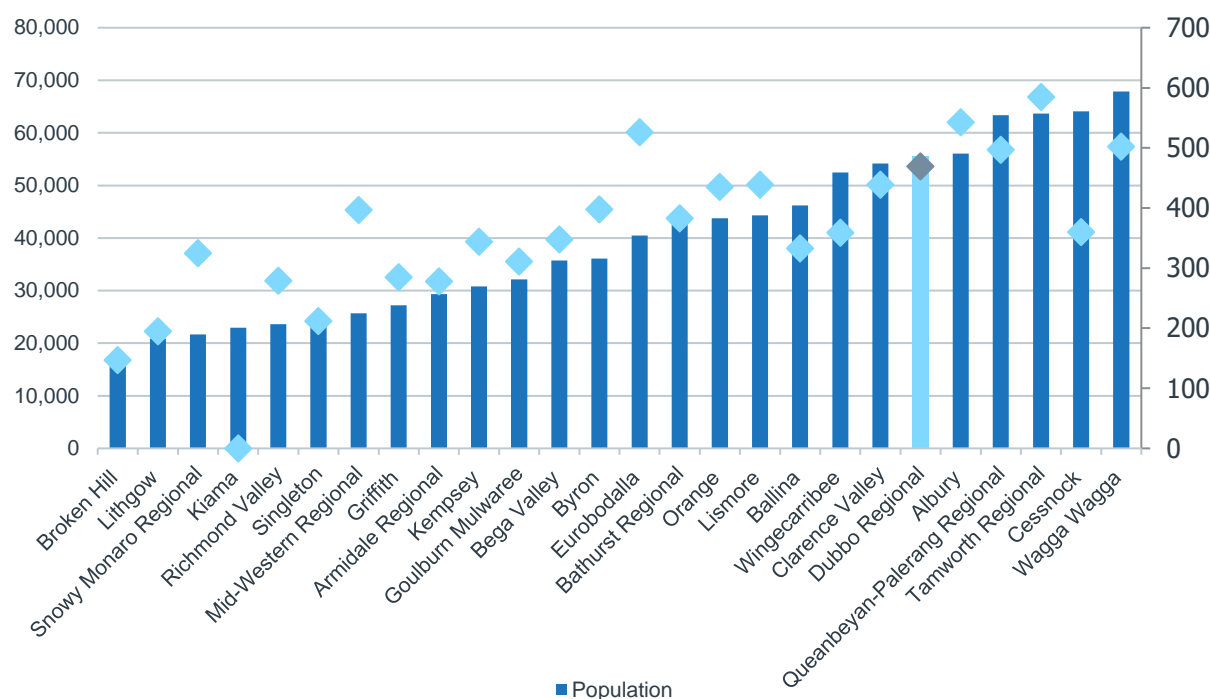
Source: AEC (unpublished).

3.3.1 Population & FTE (Full-time equivalent) Employee Comparison

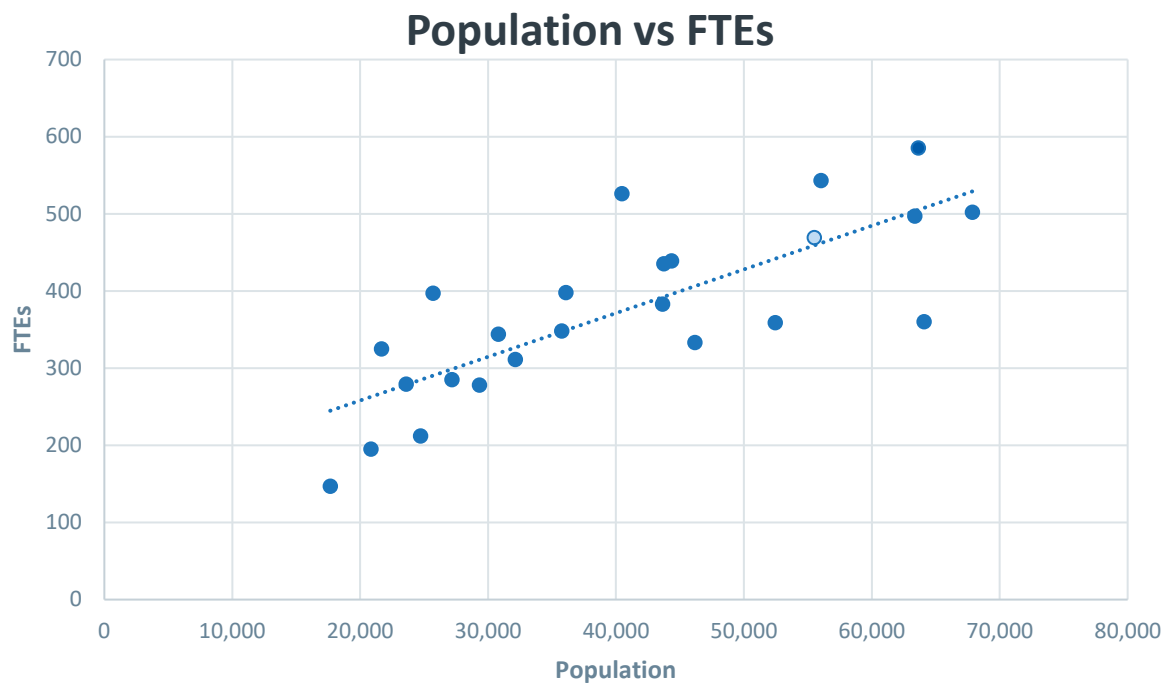
Dubbo Regional Council has the sixth largest population within the Group with a full-time equivalent (FTE) count broadly proportionate to the population. The following graphs depict a strong correlation (high correlation coefficient) between population and FTE count, as evidenced by the strong visible trend or pattern in the scatter graph depicted in the figure below, despite a few outliers.

Size of the workforce (measures by FTE) is influenced by the mix of services and businesses provided by Council, the level of service provided, geographical density of the service provision, the use of external contractors to provide services and the productivity of the workforce.

Figure 3.10 Population versus FTEs across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

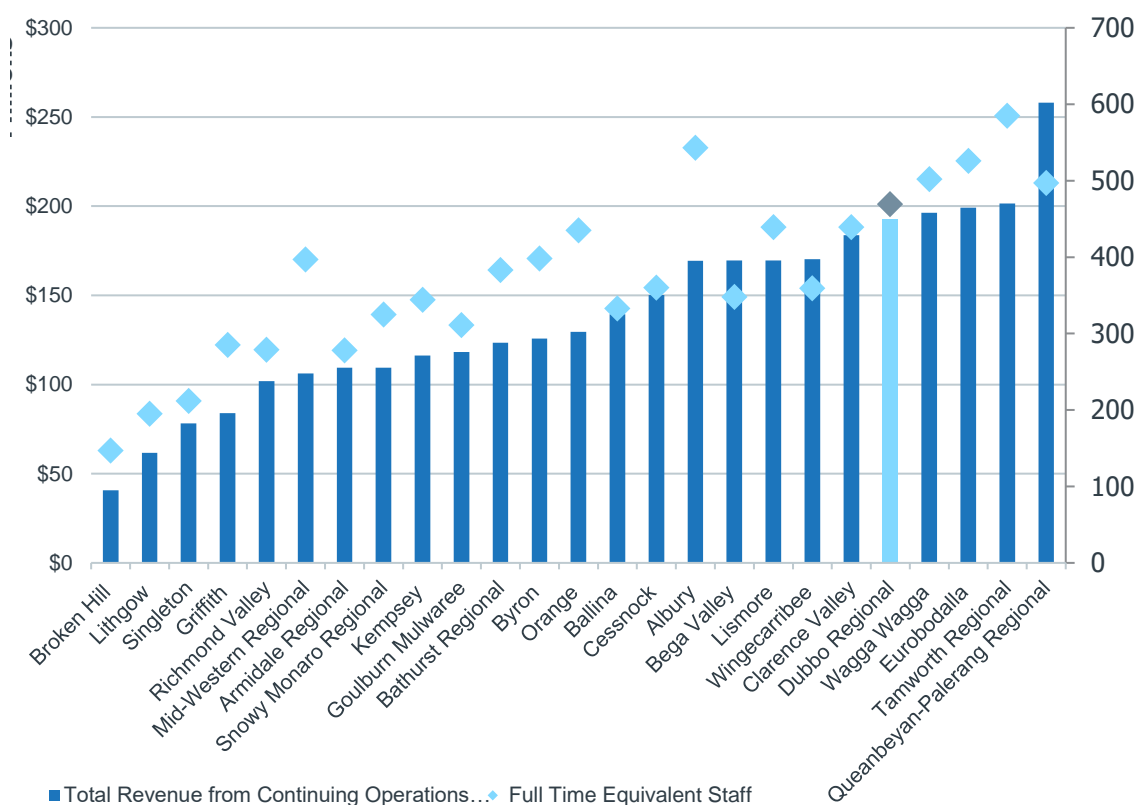
Figure 3.11 **Population versus FTEs across Selected Group of Councils**

Source: OLG Time Series Data (2020/21)

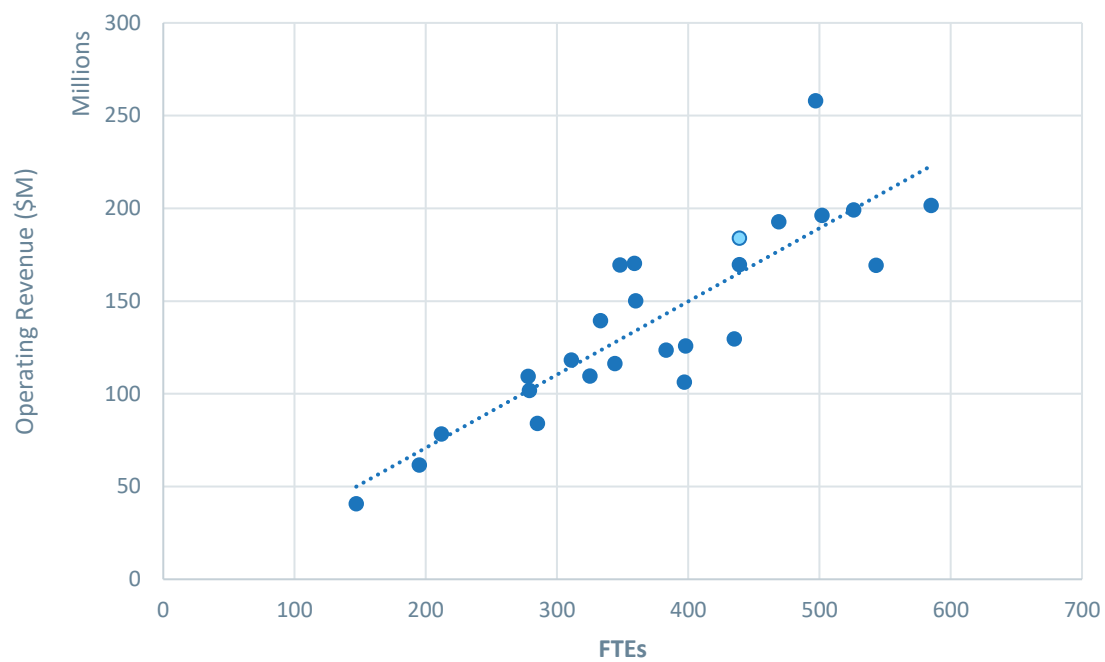
3.3.2 Operating Revenue & FTE Comparison

Dubbo Regional Council ranks fifth in the group for operating revenue and sixth highest FTE count. A strong positive correlation between operating revenue and FTE exists, indicating that an increase in operating revenue is associated with a tendency for FTEs to rise across the group. This relationship is very strong, as evidenced by the clear upward trend in the scatter graph depicted in the Figure below.

Figure 3.12 Operating Revenue (\$M) versus FTE across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

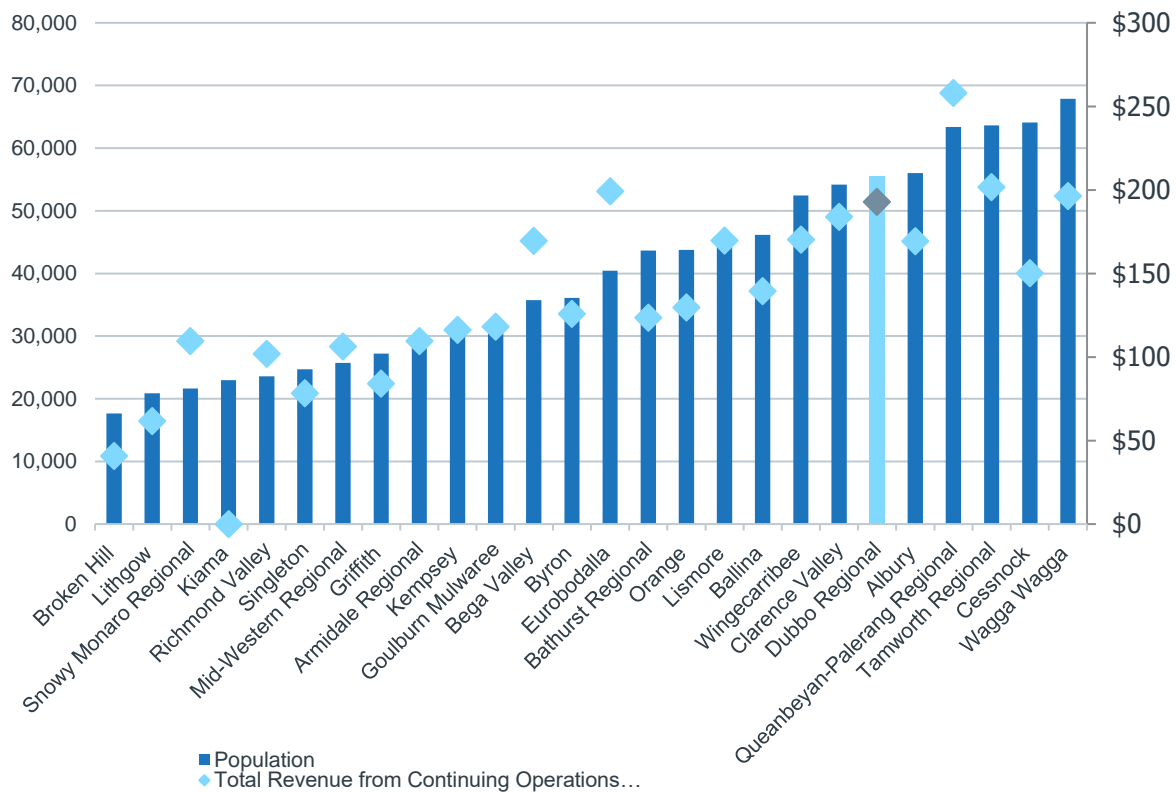
Figure 3.13 **Operating Revenue (\$M) versus FTE across Selected Group of Councils**

Source: OLG Time Series Data (2020/21)

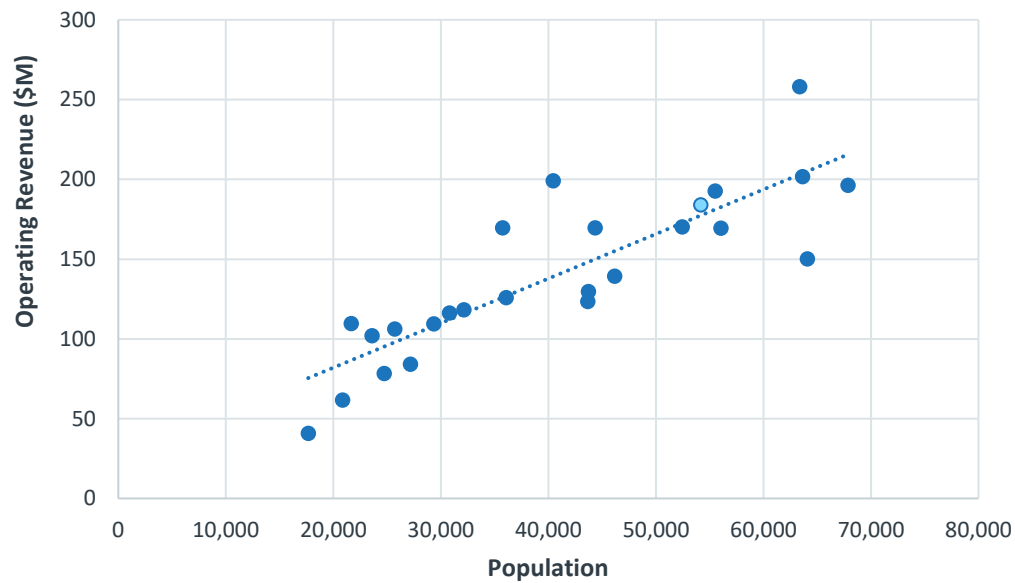
3.3.3 Population vs Total Operating Revenue

There is another strong positive correlation shown for Dubbo Regional Council being fifth highest population within the group, and sixth highest in regard to total operating revenue. A positive correlation exists between population and total revenue, indicating that the relationship between population and total revenue is very strong, as evidenced by the scatter graph in the figure below which shows obvious trend.

Figure 3.14 Population versus Operating Revenue (\$M) across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

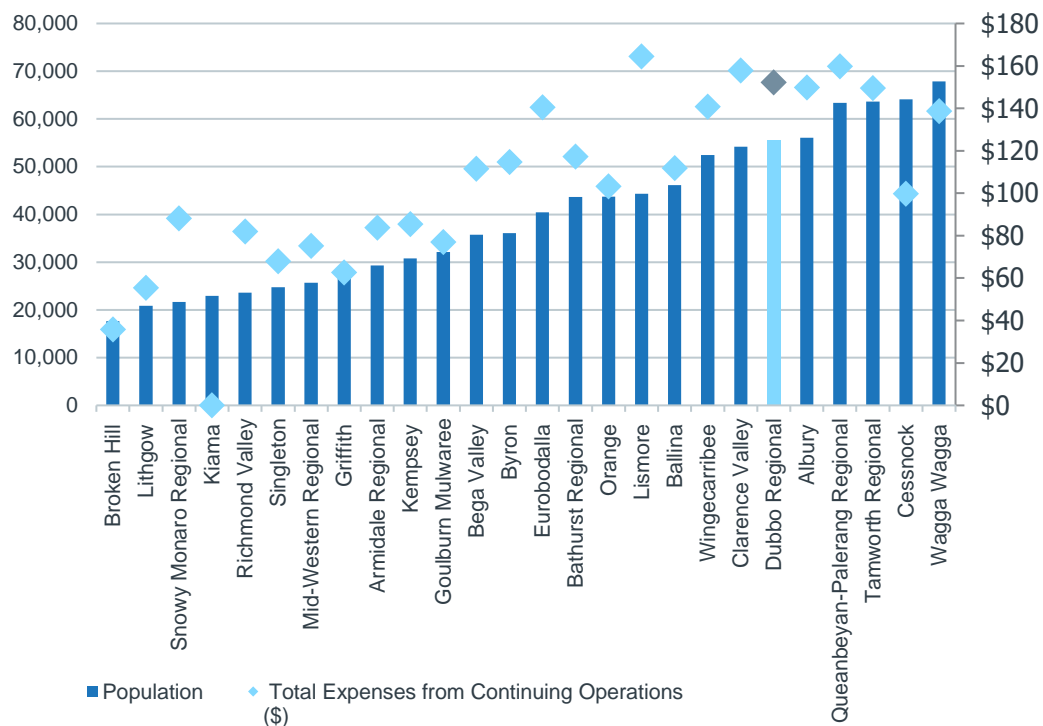
Figure 3.15 Population versus Operating Revenue (\$M) across Selected Group of Councils

Source: OLG Time Series Data (2020/21)

3.3.4 Population & Total Operating Expenses Comparison

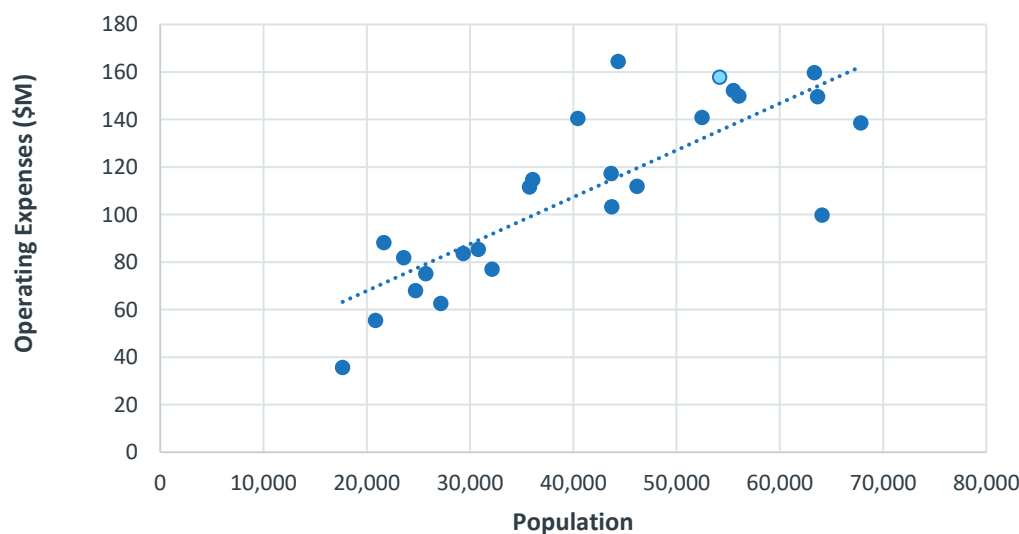
Both Dubbo Regional Council's population and operating expenses is ranked at fourth within the group. A positive correlation (correlation coefficient of 0.75) exists between population and operating expenses, indicating that an increase in population is associated with a tendency for operating expenses to rise. This relationship is relatively strong, as evidenced by the slight upward trend in the scatter graph in the figure below.

Figure 3.16 Population versus Operating expenses (\$M) across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

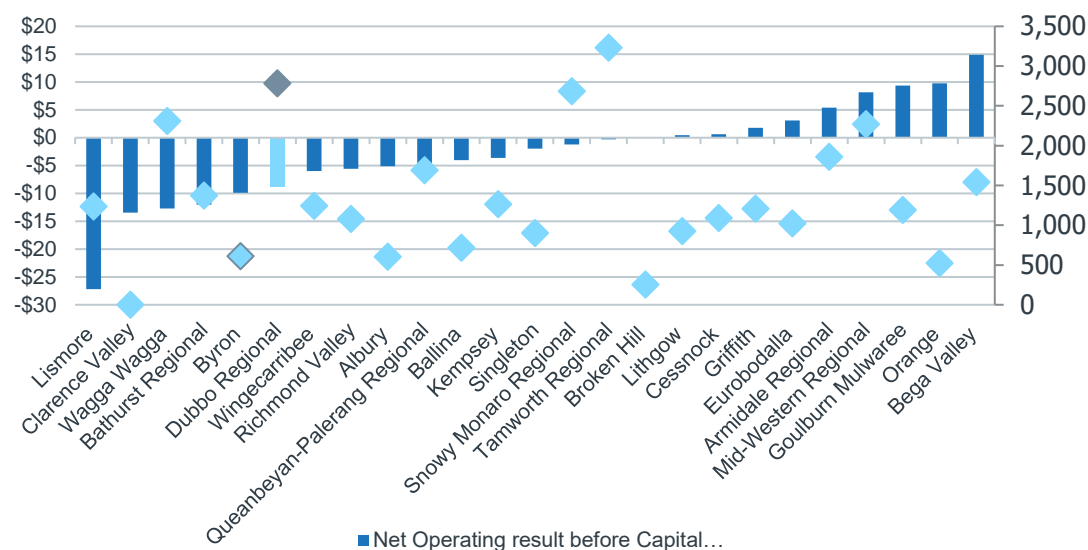
Figure 3.17 Population versus Operating expenses (\$M) across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

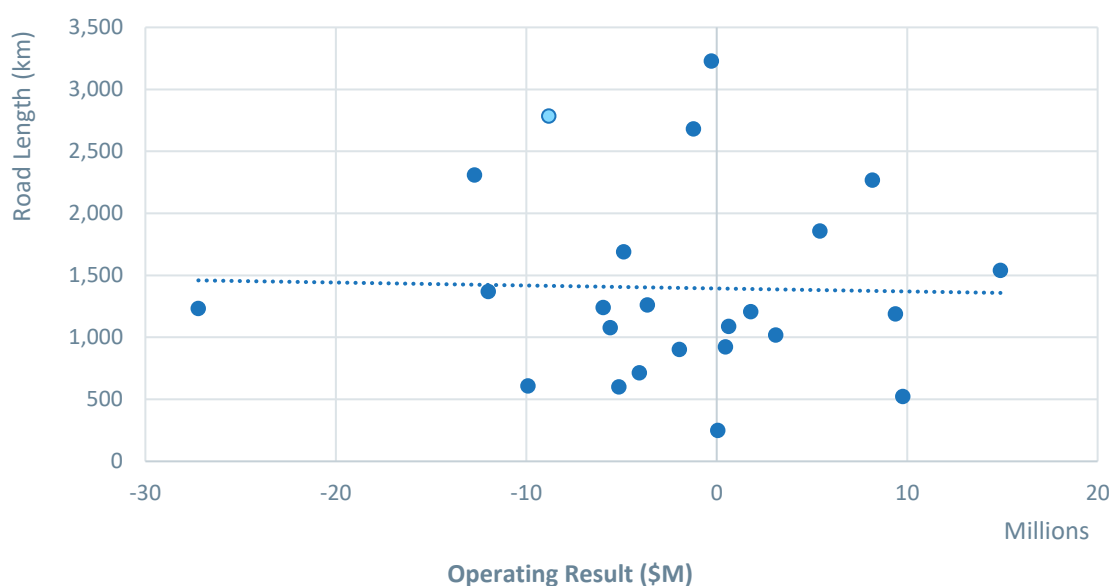
3.3.5 Net operating result vs Total Road Length

Figure 3.18 Net Operating Result versus Road Length across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

Figure 3.19 **Net Operating Result versus Road Length across Selected Group of Councils**

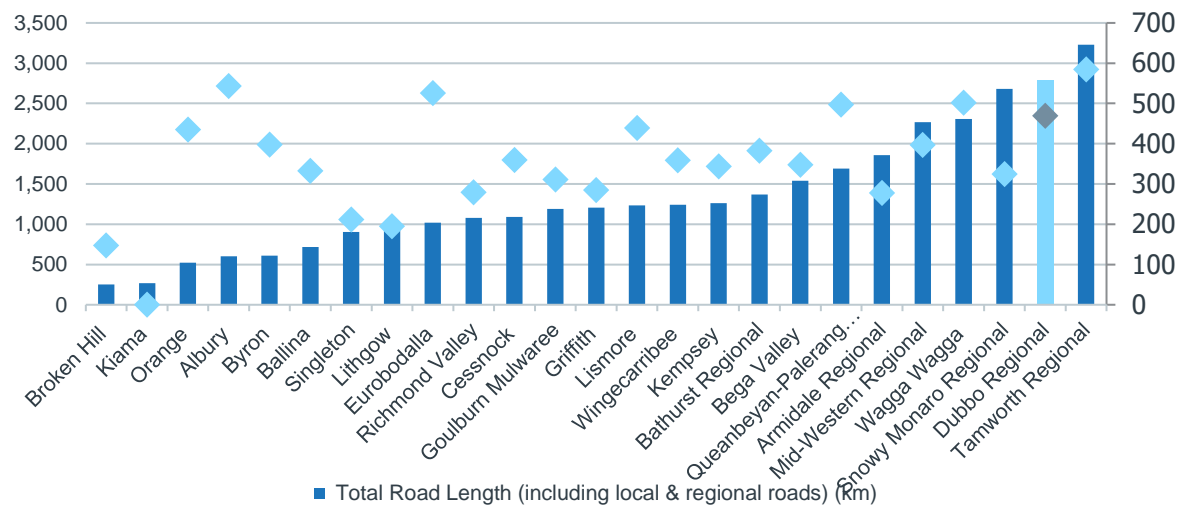


Source: OLG Time Series Data (2020/21)

3.3.6 Total Road Length vs FTE

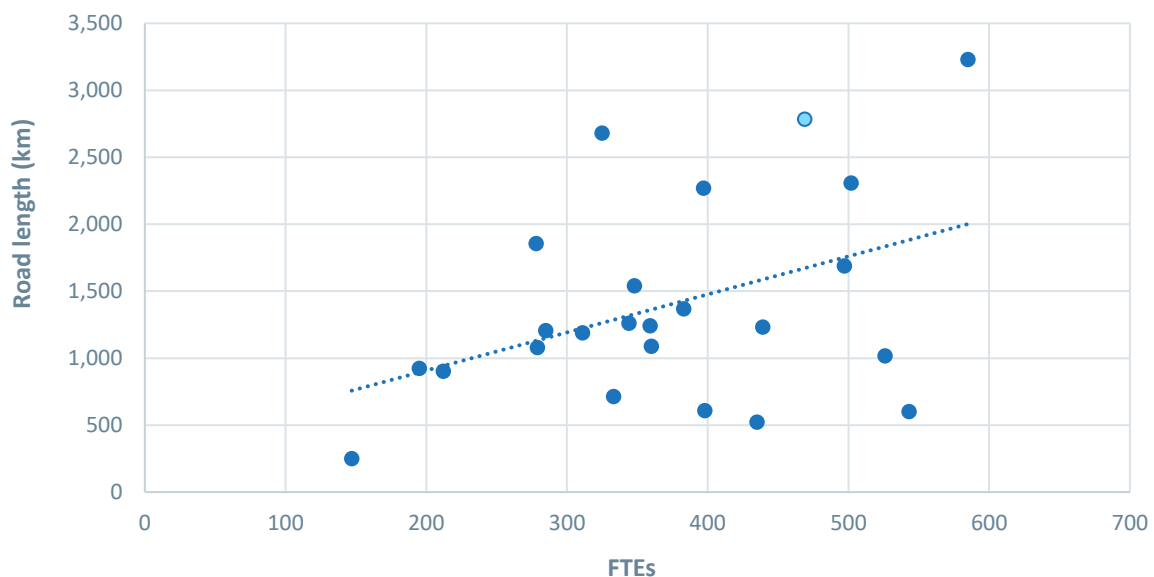
Dubbo Regional Council is positioned second in the group based on road length; however, it is positioned sixth in terms of FTEs. Whilst there is some correlation between road length and staffing required, clearly there are other significant determinants of staffing such as other key services provided, population served, etc.

Figure 3.20 Total Road Length versus FTE across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

Figure 3.21 Total Road Length versus FTE across Selected Group of Councils

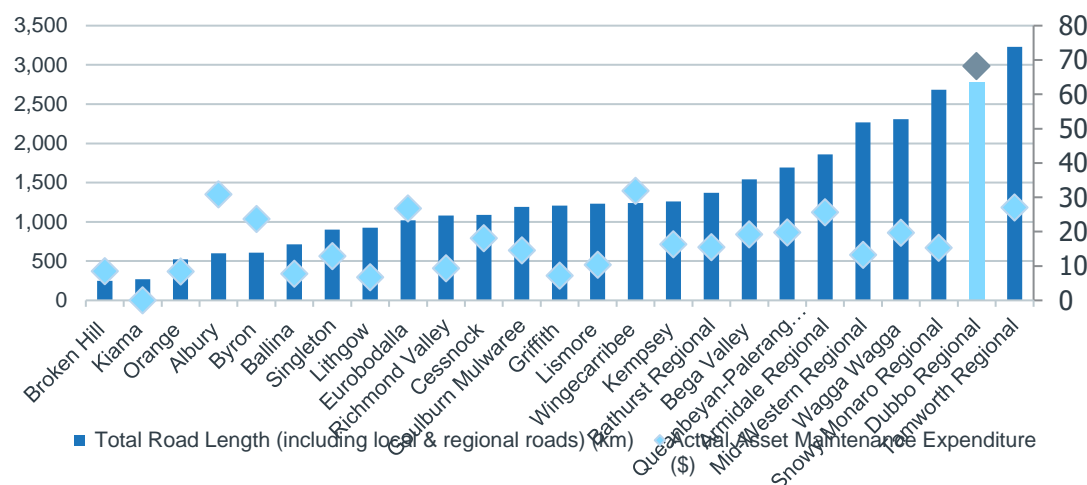


Source: OLG Time Series Data (2020/21)

3.3.7 Asset Maintenance Expenditure vs Road Length

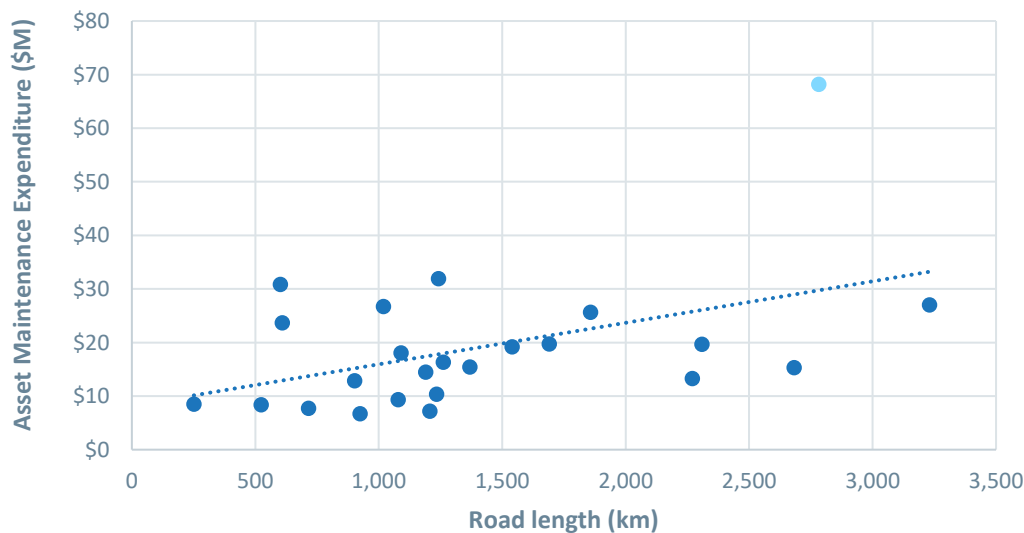
Dubbo Regional Council is an outlier in terms of asset maintenance expenditure in the subject year. This may indicate that DRC experienced unusual asset maintenance costs that year, such as recovery from natural disaster or similar. This is worthy of further investigation during future phases of the financial sustainability review, which will examine Council financial performance over a period of years.

Figure 3.22 Asset Maintenance Expenditure versus Road Length across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

Figure 3.23 Asset Maintenance Expenditure versus Road Length across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

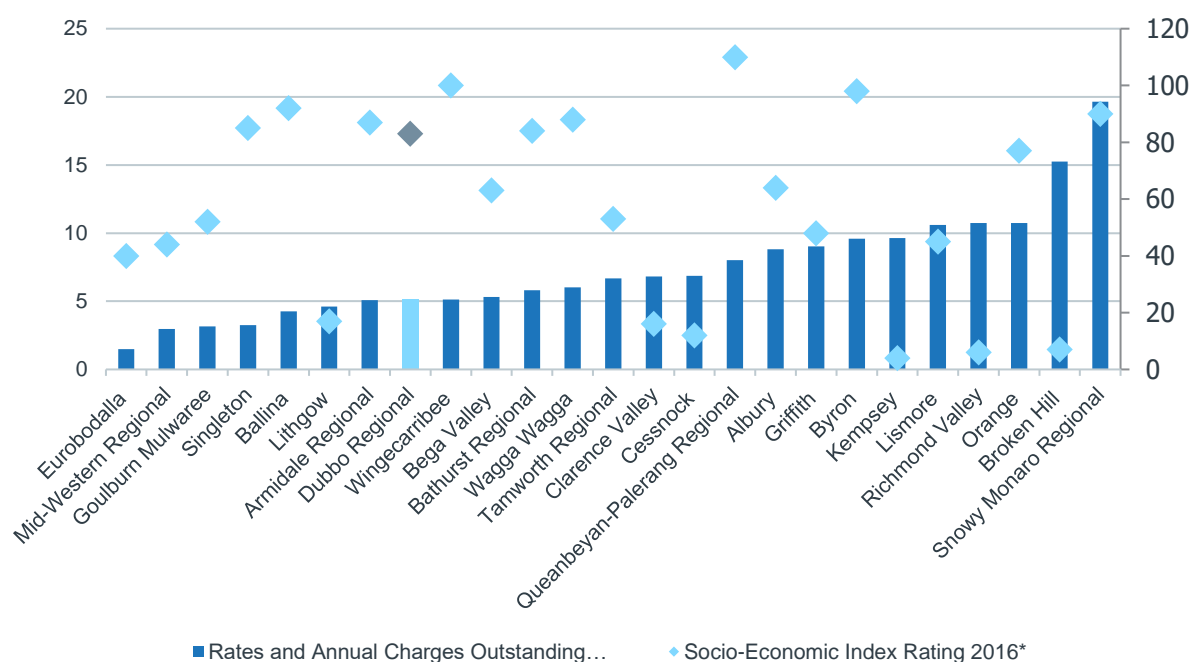
3.4 SOCIO-ECONOMIC INDEX RATING VS RATES OUTSTANDING

The Socio-Economic Index (SEI) rating is based on census data, and is a measure used to classify geographical areas based on their socio-economic characteristics, including a range of demographic, social and economic factors such as income, education, employment, and occupation. The SEI rating assigns a numerical value to each area, with higher values indicating higher levels of socio-economic advantage and lower values indicating lower levels of advantage. With an SEI rating of 83, Council has a ranking that indicates moderate advantage within the group.

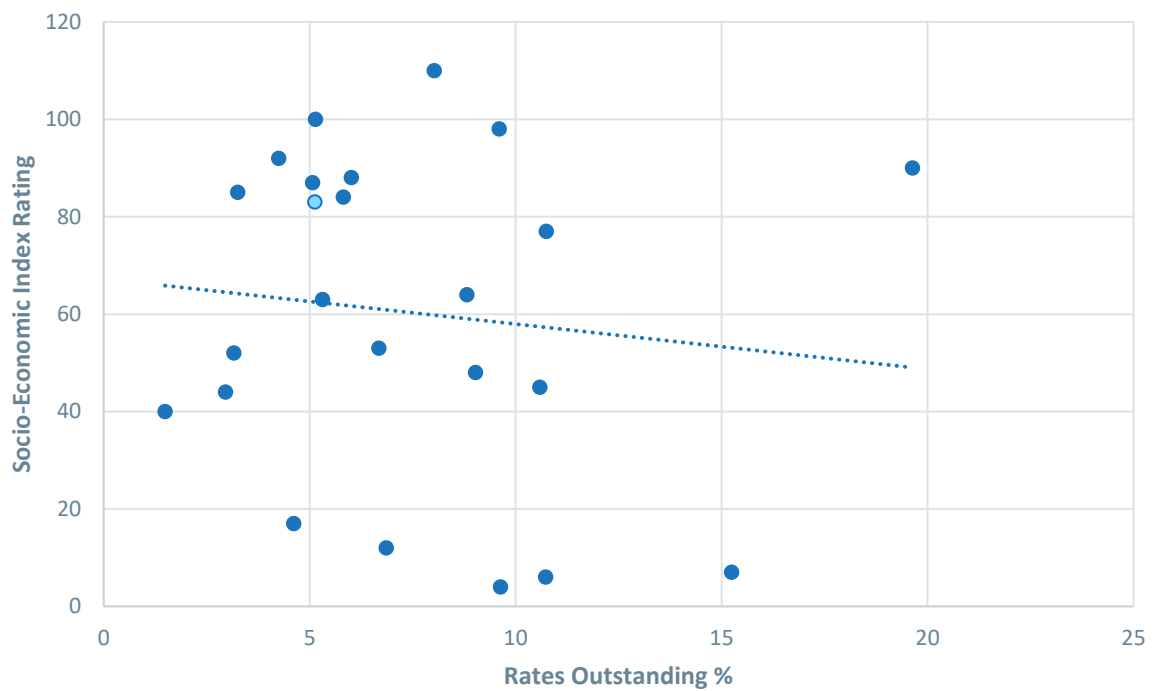
Dubbo has quite low to moderate outstanding rates percentage at 5%, indicating relatively low problems with recovery of rates.

There is a negative correlation (correlation coefficient of -0.10) between SEI and Rates Outstanding, which means that within the group, areas with lower SEI ratings tend to have higher rates outstanding percentages, while areas with higher SEI ratings tend to have lower rates outstanding percentages. This suggests that the socio-economic index provides a reasonable measure of a community's ability and willingness to pay rates on time. This relationship is however quite weak, suggesting that other factors beyond the SEI metric may also influence rates outstanding percentages.

Figure 3.24 SEI Rating versus Rates Outstanding across Selected Group of Councils



Source: OLG Time Series Data (2020/21)

Figure 3.25 SEI Rating versus Rates Outstanding across Selected Group of Councils

Source: OLG Time Series Data (2020/21)

4. HISTORICAL FINANCIAL PERFORMANCE

AEC's analysis of the historical financial performance of Council, and the underlying drivers of financial performance, is based on the review of evidence in the form of audited financial statements for the financial years 2017/18 to 2021/22 and adopted budgeted performance for the 2022/23 and 2023/24 financial years. Note, budget for 2022/23 is used as financial statements for 2022/23 were not published during the period of this review.

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.

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.

4.1 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.

4.1.1 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 budgeted position – note, the 2023/24 budget has been adjusted by AEC after consulting with Council where there were inconsistencies or other adjustments required to the 2023/24 budget e.g. depreciation expense. The consolidated position is determined by the aggregate net operating result of the three fund types.

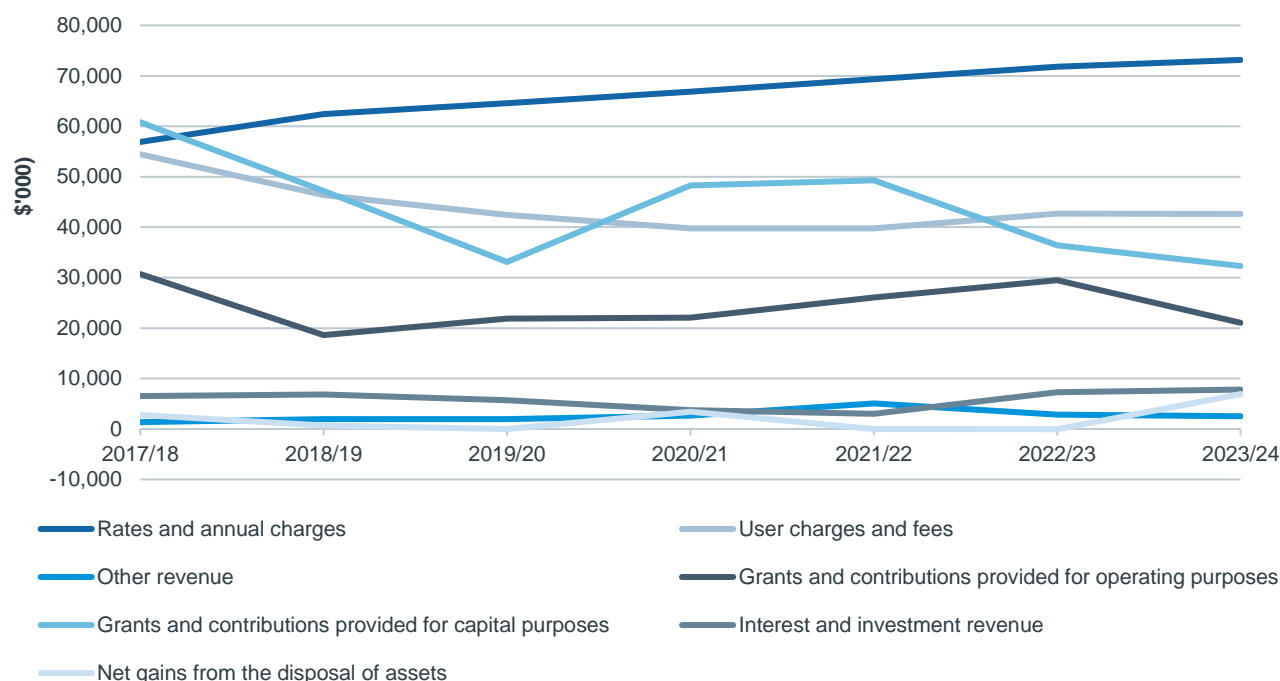
Table 4.1 Income Statement – Consolidated

INCOME STATEMENT - CONSOLIDATED	2017/18 \$'000	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	56,909	62,438	64,587	66,845	69,356	71,837	73,156
User charges and fees	54,445	46,393	42,455	39,776	39,771	42,668	42,599
Other revenue	1,359	1,934	1,986	2,628	5,062	2,863	2,545
Grants and contributions provided for operating purposes	30,703	18,610	21,858	22,054	26,053	29,479	21,075
Grants and contributions provided for capital purposes	60,804	47,179	33,077	48,265	49,260	36,395	32,306
Interest and investment revenue	6,494	6,834	5,716	3,703	3,006	7,272	7,815
Other income	151	49	149	37	158	-	-
Net gains from the disposal of assets	2,762	703	-	3,446	-	(44)	6,916
Internal Revenue	-	-	-	-	-	-	(1,656)
Total income from continuing operations	213,627	184,140	169,828	186,754	192,666	190,470	184,756
Expenses from continuing operations							
Employee benefits and on-costs	37,187	40,104	45,200	44,932	44,485	50,470	52,138
Materials and services	32,936	35,017	36,364	53,696	46,710	42,413	32,334
Borrowing costs	5,682	4,435	3,691	3,095	2,981	2,795	2,455
Depreciation, amortisation and impairment of non-financial assets	30,407	39,902	42,261	45,551	48,457	49,601	50,133
Other expenses	16,069	16,900	15,075	2,356	2,438	16,576	17,022
Internal expenditure	-	-	-	-	-	-	(1,678)
Net losses from the disposal of assets	-	-	2,493	-	7,149	-	-
Total expenses from continuing operations	122,281	136,358	145,084	149,630	152,220	161,855	152,404
Operating result from continuing operations	91,346	47,782	24,744	37,124	40,446	28,615	32,352
Net operating result for the year before grants and contributions provided for capital purposes	30,542	603	(8,333)	(11,141)	(8,814)	(7,780)	46

Source – Council Published Financial Statements

Council has produced a net operating deficit in the last three years of the five past financial years. The deficits are due to a significant increase in material and services, reduced investment and interest income and user charges and fees, and considerable depreciation cost increases over the five year period. The significant increase in materials and services was due to accounting changes in the treatment of some expenses previously stated as other expenses (approximately \$12.7 million)

Figure 4.1 Operating Revenue Trend - Consolidated

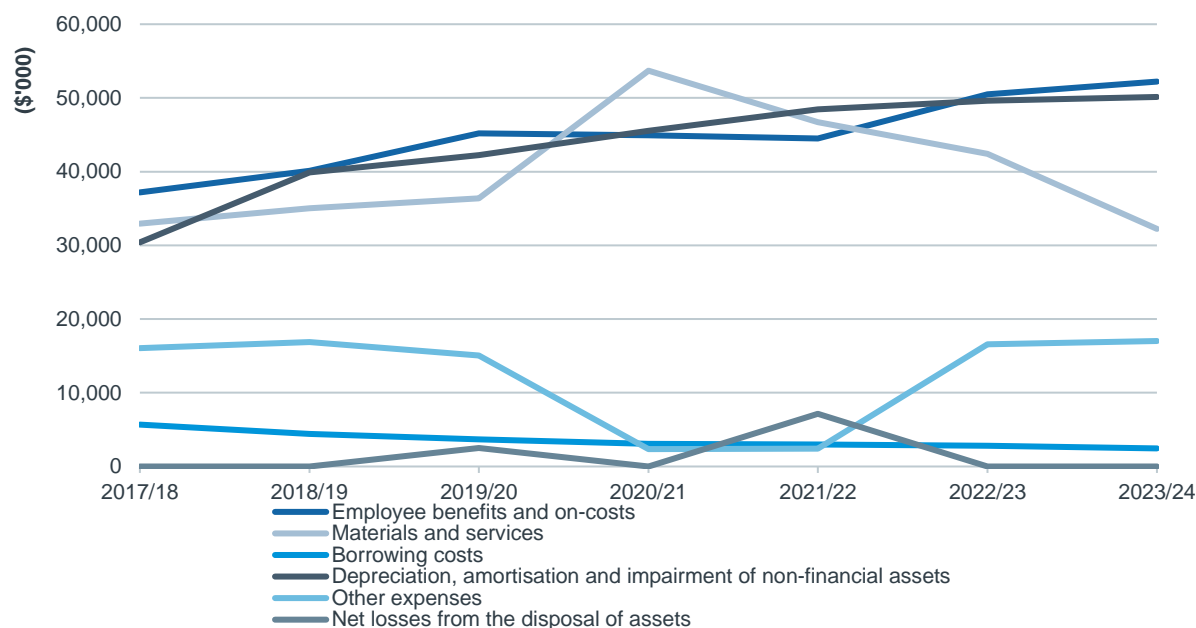


Source – Council Published Financial Statements

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	9.7%	3.4%	3.5%	3.8%	3.6%	1.8%
User charges and fees	-14.8%	-8.5%	-6.3%	0.0%	7.3%	-0.2%
Other revenue	42.3%	2.7%	32.3%	92.6%	-43.4%	-11.1%
Grants and contributions provided for operating purposes	-39.4%	17.5%	0.9%	18.1%	13.2%	-28.5%
Grants and contributions provided for capital purposes	-22.4%	-29.9%	45.9%	2.1%	-26.1%	-11.2%
Interest and investment revenue	5.2%	-16.4%	-35.2%	-18.8%	141.9%	7.5%
Net gains from the disposal of assets	-67.5%	204.1%		327.0%	-100.0%	

Source – Council Published Financial Statements

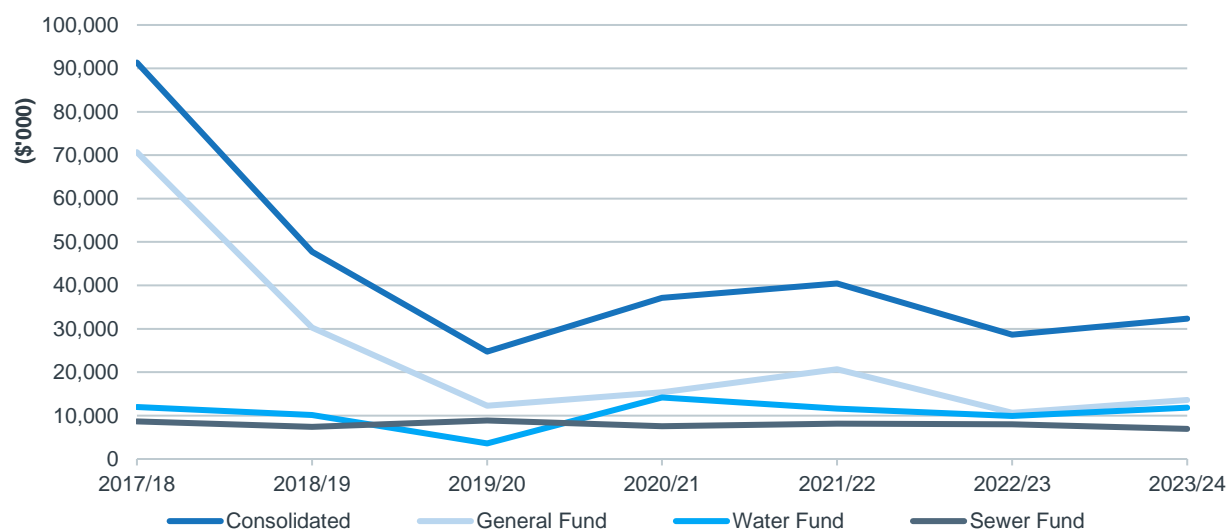
Figure 4.2 Operating Expense Trend - Consolidated

Source – Council Published Financial Statements

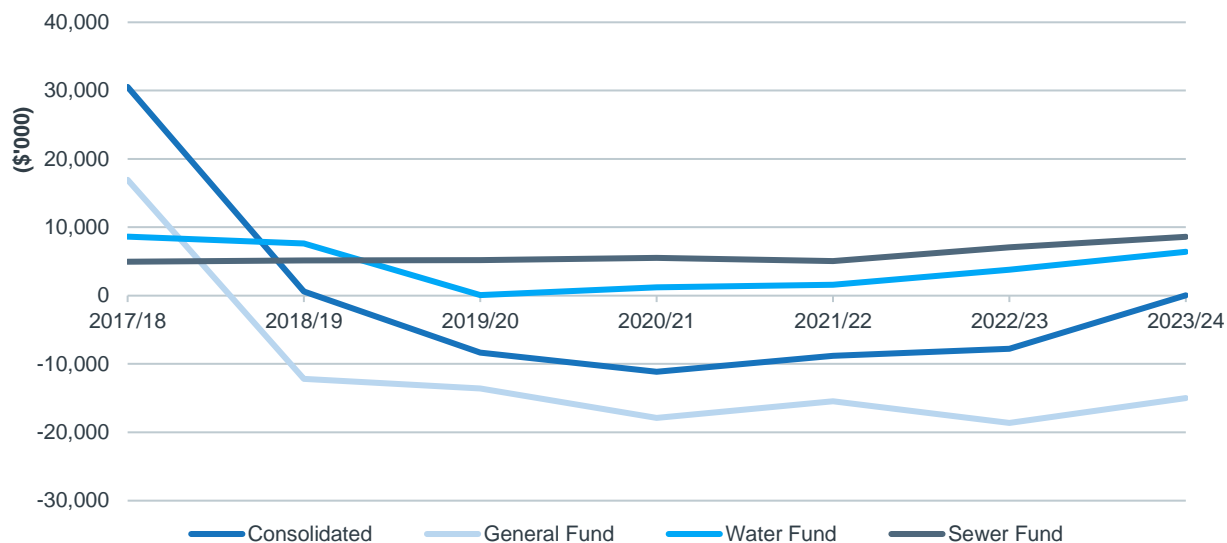
Table 4.3 Expense Percentage (%) Changes over 7-year period - Consolidated

P&L Items	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Employee benefits and on-costs	7.8%	12.7%	-0.6%	-1.0%	13.5%	3.3%
Materials and services	6.3%	3.8%	47.7%	-13.0%	2.4%	1.1%
Borrowing costs	-21.9%	-16.8%	-16.1%	-3.7%	-6.2%	-12.2%
Depreciation, amortisation and impairment of non-financial assets	31.2%	5.9%	7.8%	6.4%	2.4%	1.1%
Other expenses	5.2%	-10.8%	-84.4%	3.5%	579.9%	2.7%
Net losses from the disposal of assets						

Source – Council Published Financial Statements

4.1.2 Operating Result by Fund Type**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

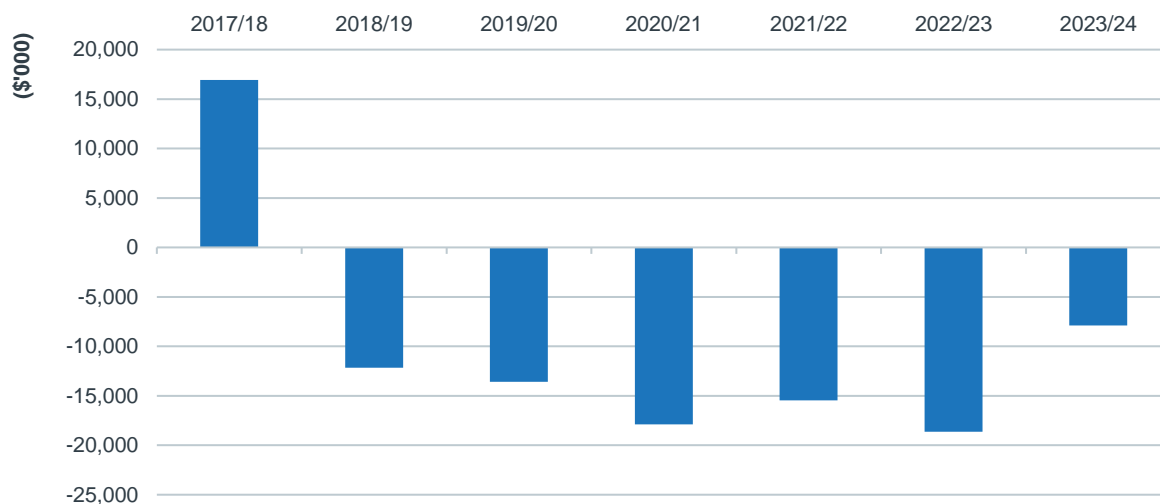
4.1.3 General Fund

The following Tables and Figures 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 \$'000	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	38,083	42,830	44,078	45,458	46,903	48,708	50,564
User charges and fees	29,592	23,268	24,606	21,914	22,048	23,743	24,290
Other revenue	1,263	1,808	1,870	2,518	4,902	2,669	2,343
Grants and contributions provided for operating purposes	30,461	18,364	21,616	22,048	26,053	29,230	20,829
Grants and contributions provided for capital purposes	53,748	42,417	25,867	33,243	36,154	29,281	21,478
Interest and investment revenue	4,164	4,158	3,683	2,240	1,716	4,150	4,064
Other income	151	49	149	(3)	158	-	-
Net gains from the disposal of assets	2,762	703	-	3,446	-	(44)	6,916
Internal Revenue	-	-	-	-	-	-	(1,656)
Total income from continuing operations	160,224	133,597	121,869	130,864	137,934	137,737	128,828
Expenses from continuing operations							
Employee benefits and on-costs	28,721	31,092	34,836	34,515	35,285	45,275	45,097
Materials and services	26,538	28,642	28,495	42,278	35,129	27,939	26,058
Borrowing costs	3,037	1,985	1,343	907	964	931	775
Depreciation, amortisation and impairment of non-financial assets	20,113	29,269	31,534	35,443	38,868	39,953	38,290
Other expenses	11,946	12,347	11,605	2,356	2,438	12,984	13,786
Internal expenditure	-	-	-	-	-	-	(8,767)
Net losses from the disposal of assets	(824)	19	1,781	-	4,560	-	-
Total expenses from continuing operations	89,531	103,354	109,594	115,499	117,244	127,082	115,239
Operating result from continuing operations	70,693	30,243	12,275	15,365	20,690	10,655	13,589
Net operating result for the year before grants and contributions provided for capital purposes	16,945	(12,174)	(13,592)	(17,878)	(15,464)	(18,626)	(7,889)

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 four years, most notably impacted by increasing depreciation costs and high reliance on grants and contributions proved for capital purposes. Income from this stream has averaged \$38.3 million over the five-year period from 2017/18 to 2021/22.

The next two years (2022/23 & 2023/24) also predict significant deficits in the General Fund of \$18.6 million and \$7.9 million, respectively. This is not a sustainable position for the general fund.

4.1.4 Water Fund

Table 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 below depicts the actual operating result of the fund before capital grants and contributions over the seven years.

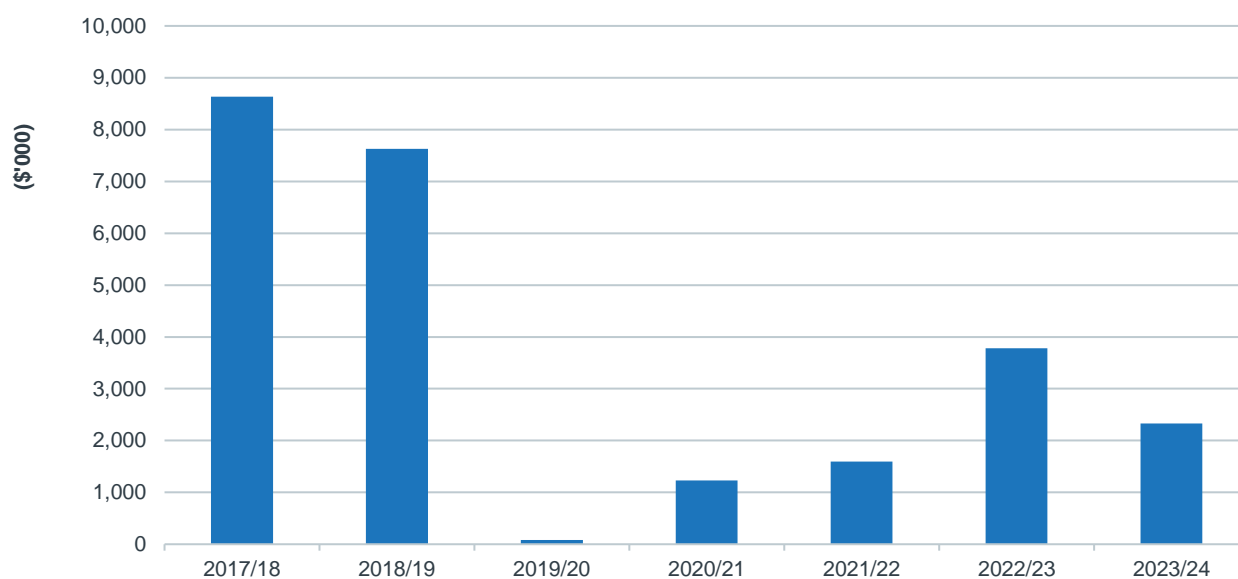
The Water Fund has provided operating surpluses for the assessment period. The subsequent budgets for 2022/23 and 2023/24 are planned to produce further surpluses of \$3.8 million and \$2.3 million.

The 2019/20 financial year was notably the lowest surplus of \$82,000 where the Water Fund generated a much lower income from user charges and fees, reduction in investment and interest income and increase in employee costs and depreciation costs.

Table 4.5 Income Statement – Water Fund

INCOME STATEMENT - WATER	2017/18 \$'000	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	7,043	7,283	7,646	8,022	8,438	8,676	8,242
User charges and fees	19,460	18,235	13,231	13,340	12,990	14,094	13,423
Other revenue	41	63	56	57	86	61	42
Grants and contributions provided for operating purposes	121	127	124	6	-	133	130
Grants and contributions provided for capital purposes	3,369	2,480	3,511	12,944	10,036	6,144	9,494
Interest and investment revenue	969	1,193	976	678	687	1,406	1,911
Other income	-	-	-	27	-	-	-
Net gains from the disposal of assets	-	-	-	-	-	-	-
Internal Revenue	-	-	-	-	-	-	-
Total income from continuing operations	31,003	29,381	25,544	35,074	32,237	30,514	33,242
Expenses from continuing operations							
Employee benefits and on-costs	4,878	5,014	6,109	5,974	5,285	2,609	3,425
Materials and services	4,381	4,154	5,834	7,975	7,753	9,245	4,294
Borrowing costs	1,633	1,534	1,515	1,449	1,379	1,317	1,241
Depreciation, amortisation and impairment of non-financial assets	5,280	5,560	6,005	5,499	5,248	5,165	6,295
Other expenses	2,778	3,012	2,350	-	-	2,252	2,076
Internal expenditure	-	-	-	-	-	-	4,087
Net losses from the disposal of assets	50	(2)	138	-	944	-	-
Total expenses from continuing operations	19,000	19,272	21,951	20,897	20,609	20,588	21,418
Operating result from continuing operations	12,003	10,109	3,593	14,177	11,628	9,926	11,824
Net operating result for the year before grants and contributions provided for capital purposes	8,634	7,629	82	1,233	1,592	3,782	2,330

Source – Council Published Financial Statements

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

Source – Council Published Financial Statements

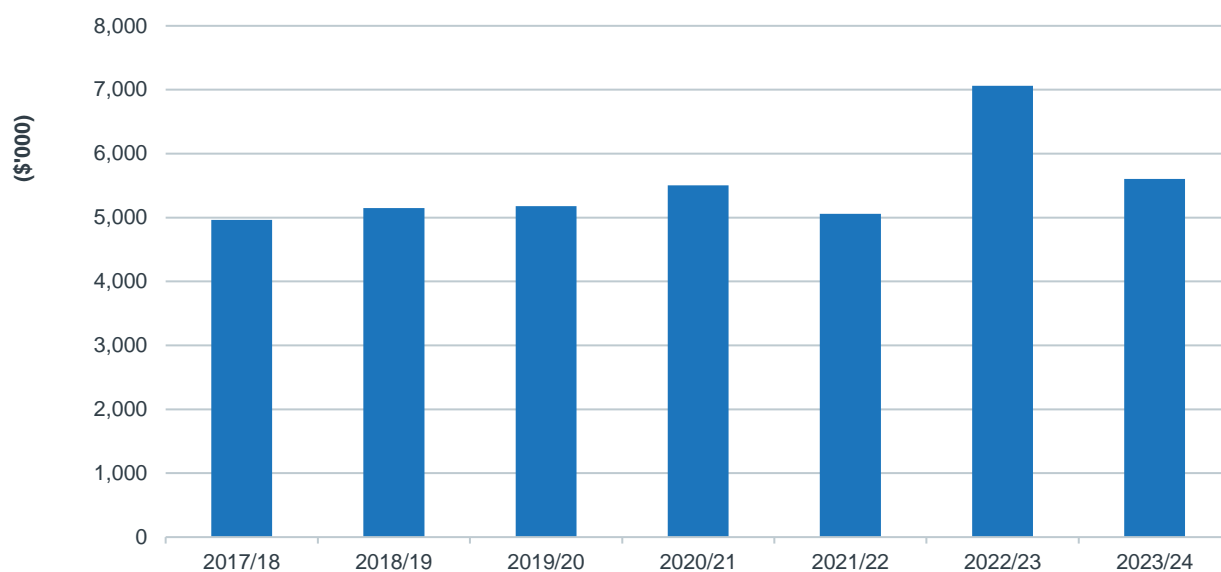
4.1.5 Sewerage Fund

Table 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 below depicts the actual and budgeted operating result of the fund before capital grants and contributions over the seven years.

Table 4.6 Income Statement – Sewerage Fund

INCOME STATEMENT - SEWER	2017/18 \$'000	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000
	ACTUAL					BUDGET	
Income from continuing operations							
Rates and annual charges	11,783	12,325	12,863	13,365	14,015	14,453	14,350
User charges and fees	5,393	4,890	4,618	4,522	4,733	4,831	4,886
Other revenue	55	63	60	53	74	133	160
Grants and contributions provided for operating purposes	121	119	118	-	-	116	116
Grants and contributions provided for capital purposes	3,687	2,282	3,699	2,078	3,070	970	1,334
Interest and investment revenue	1,361	1,483	1,057	785	603	1,716	1,840
Other income	-	-	-	13	-	-	-
Net gains from the disposal of assets	-	-	-	-	-	-	-
Internal Revenue	-	-	-	-	-	-	-
Total income from continuing operations	22,400	21,162	22,415	20,816	22,495	22,219	22,686
Expenses from continuing operations							
Employee benefits and on-costs	3,588	3,998	4,255	4,443	3,915	2,586	3,616
Materials and services	2,017	2,221	2,035	3,443	3,828	5,229	1,981
Borrowing costs	1,012	916	833	739	638	547	439
Depreciation, amortisation and impairment of non-financial assets	5,014	5,073	4,722	4,609	4,341	4,483	5,548
Other expenses	1,345	1,541	1,120	-	-	1,340	1,160
Internal expenditure	-	-	-	-	-	-	3,002
Net losses from the disposal of assets	774	(17)	574	-	1,645	-	-
Total expenses from continuing operations	13,750	13,732	13,539	13,234	14,367	14,185	15,746
Operating result from continuing operations	8,650	7,430	8,876	7,582	8,128	8,034	6,940
Net operating result for the year before grants and contributions provided for capital purposes	4,963	5,148	5,177	5,504	5,058	7,064	5,606

Source – Council Published Financial Statements

Figure 4.7 Net Operating Result (before grants and contributions for capital) – Sewerage Fund

Source – Council Published Financial Statements

The reported net operating result for the Sewerage Fund is surplus averaging \$5.2 million over the five years with an additional \$7.1 million and \$5.6 million projected, respectively for 2022/23 and 2023/24.

4.2 FINANCIAL PERFORMANCE MEASURES

Table 4.7 Financial Performance Indicators – Historical Performance

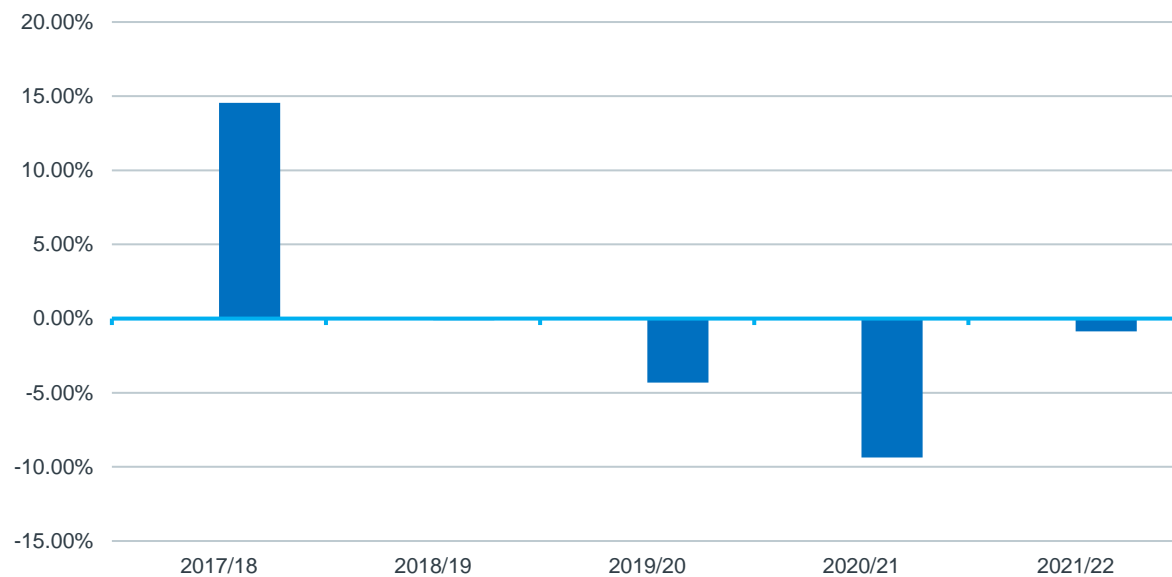
Indicator	Target	Fund	2017/18	2018/19	2019/20	2020/21	2021/22
Local Government Industry Indicators							
Operating Performance Ratio	Greater than 0%	TARGET	0.00%	0.00%	0.00%	0.00%	0.00%
		Consolidated	14.54%	-0.11%	-4.32%	-9.36%	-0.86%
		General	9.78%	-14.29%	-11.65%	-20.58%	-7.76%
		Water	28.65%	28.36%	0.37%	5.57%	7.17%
		Sewer	19.80%	27.27%	27.66%	29.37%	26.04%
Own Source Operating Revenue Ratio	Greater than 60%	TARGET	60.00%	60.00%	60.00%	60.00%	60.00%
		Consolidated	57.00%	63.77%	67.62%	61.63%	60.88%
		General	46.71%	53.76%	60.79%	56.59%	54.85%
		Water	89.07%	91.13%	86.26%	63.08%	68.87%
		Sewer	84.17%	88.65%	83.50%	90.02%	86.35%
Unrestricted Current Ratio	Greater than 1.5	TARGET	1.50	1.50	1.50	1.50	1.50
		Consolidated	5.52	4.35	4.11	2.93	4.33
		General	5.52	4.35	4.11	2.93	4.33
		Water	9.22	14.61	16.17	13.60	15.22
		Sewer	14.07	12.42	21.00	8.94	4.59
Debt Service Cover Ratio	Greater than 2.0	TARGET	2.00	2.00	2.00	2.00	2.00
		Consolidated	6.17	4.70	4.50	3.96	5.64
		General	4.87	2.69	3.37	2.40	4.67
		Water	9.39	9.51	4.93	5.54	5.85
		Sewer	10.81	11.90	12.61	14.35	15.40
Rates and Annual Charges Outstanding	Less than 10%	TARGET	10.00%	10.00%	10.00%	10.00%	10.00%
		Consolidated	4.88%	5.48%	5.63%	5.35%	5.13%
		General	1.63%	2.22%	8.08%	7.66%	7.40%
		Water	4.39%	5.25%	0.00%	0.00%	0.00%
		Sewer	16.35%	17.59%	0.00%	0.00%	0.00%
Cash Expense Cover Ratio	Greater than 3 months	TARGET	3.00	3.00	3.00	3.00	3.00
		Consolidated	25.79	26.13	22.86	20.25	20.20
		General	19.63	17.81	17.51	19.12	18.74
		Water	34.38	44.60			
		Sewer	71.82	71.85			

4.2.1 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%.

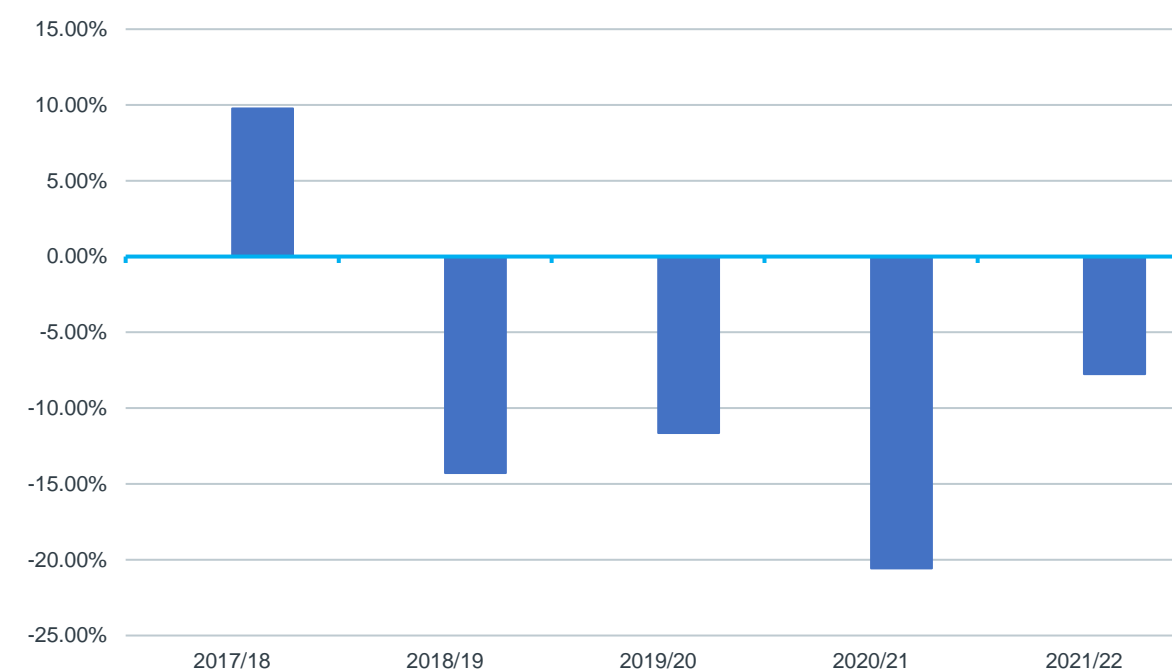
Council's operating performance ratio has deteriorated as a consolidated position and for the general fund. The water and sewer operations has met the industry performance measures over the five years of assessment. However, it is still important to note that the performance ratio for water fund has diminished over the last three years. As a consolidated and general fund last met this performance indicator in 2017/18. The worst performance outcome was in 2020/21 whereby the general fund had an operating performance ratio of -20.58%.

Figure 4.8 Operating Performance Ratio – Consolidated

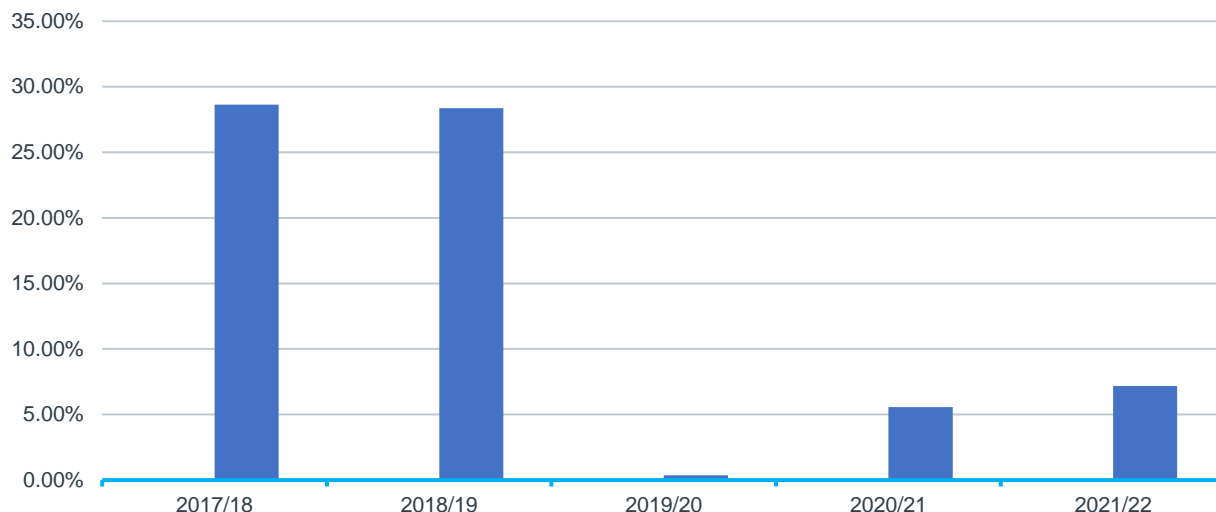


Source – Council Published Financial Statements

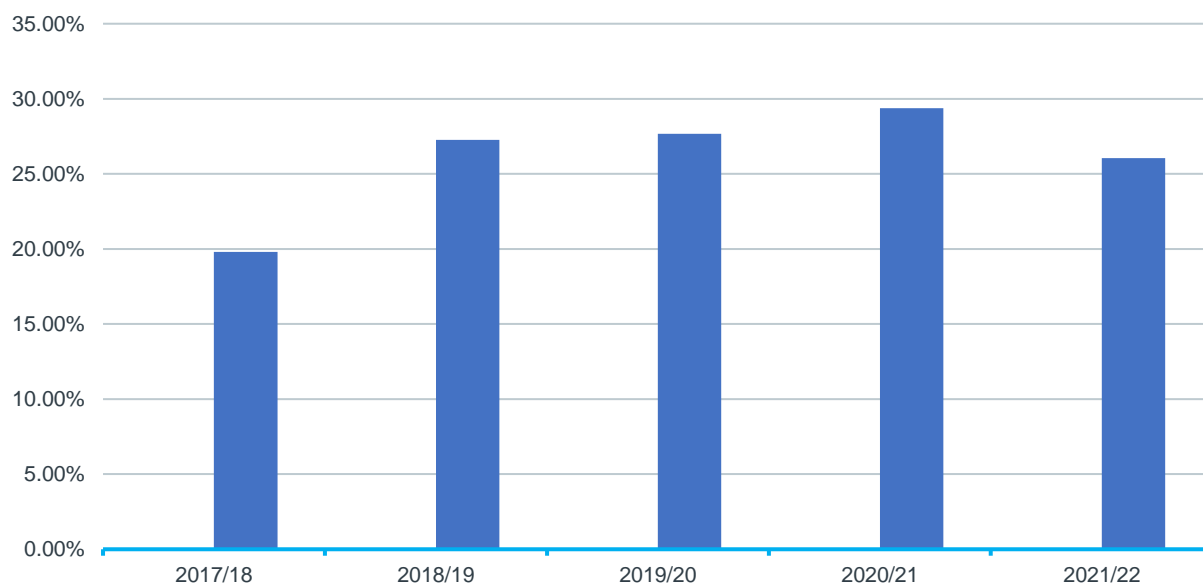
Figure 4.9 Operating Performance Ratio – General Fund



Source – Council Published Financial Statements

Figure 4.10 Operating Performance Ratio – Water Fund

Source – Council Published Financial Statements

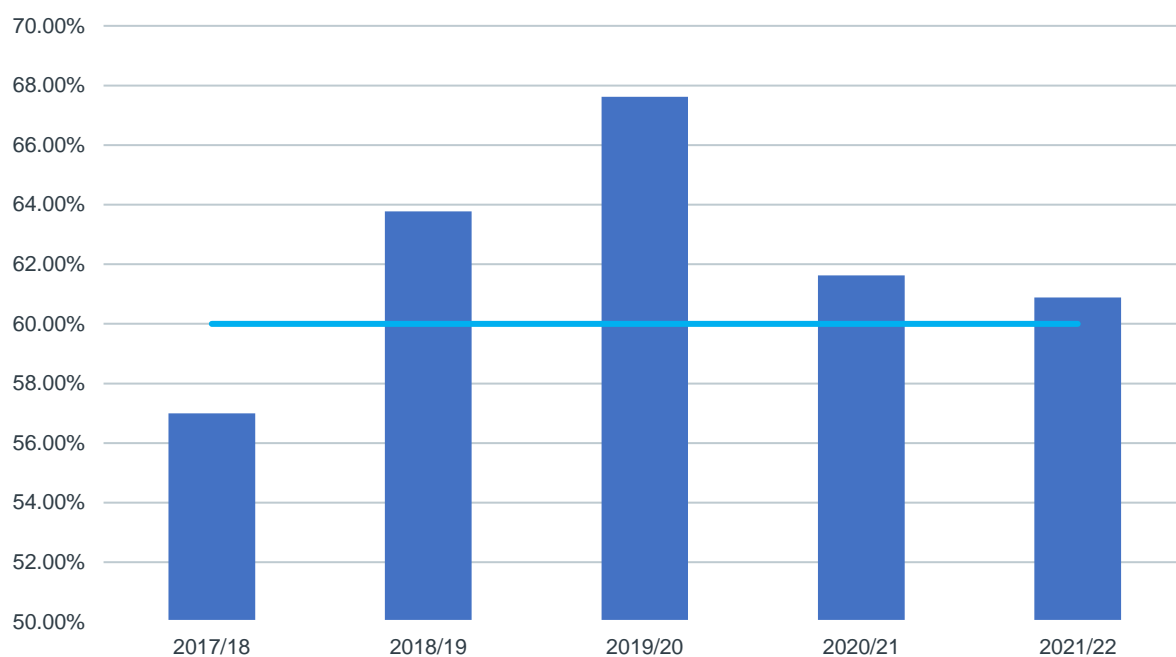
Figure 4.11 Operating Performance Ratio – Sewer Fund

Source – Council Published Financial Statements

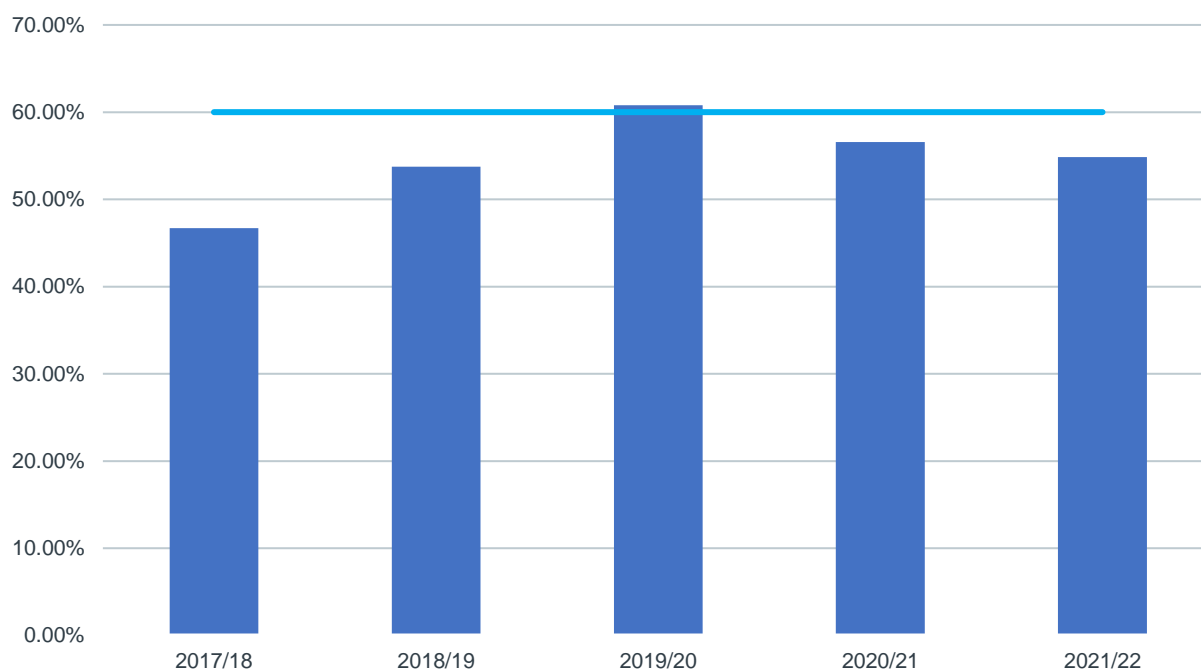
4.2.2 Own Source Operating Revenue Ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. The benchmark is set at greater than 60%. Council has not met this performance measure on several occasions over the five years. The general fund has not met this performance measure four out of the five years except for 2019/20 which was just over the benchmark at 60.79%. This non-compliance is mainly due to Council's high reliance on grants and contributions.

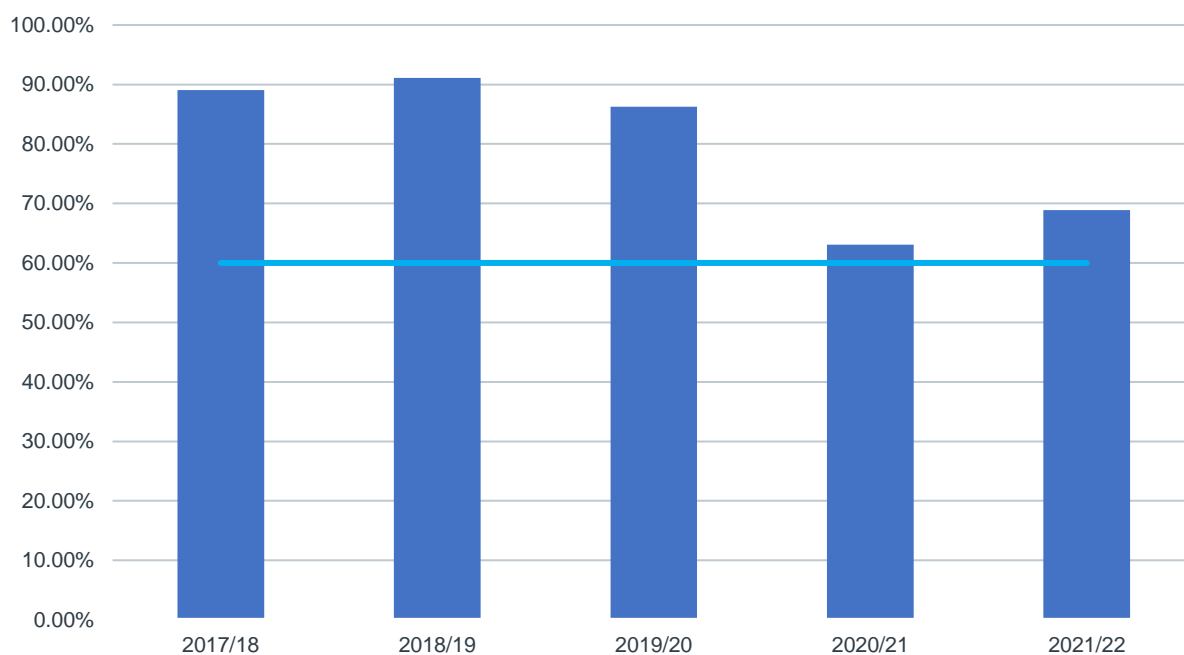
The water and sewer funds have met this measure over all of the five years.

Figure 4.12 Own Source Operating Revenue Ratio – Consolidated

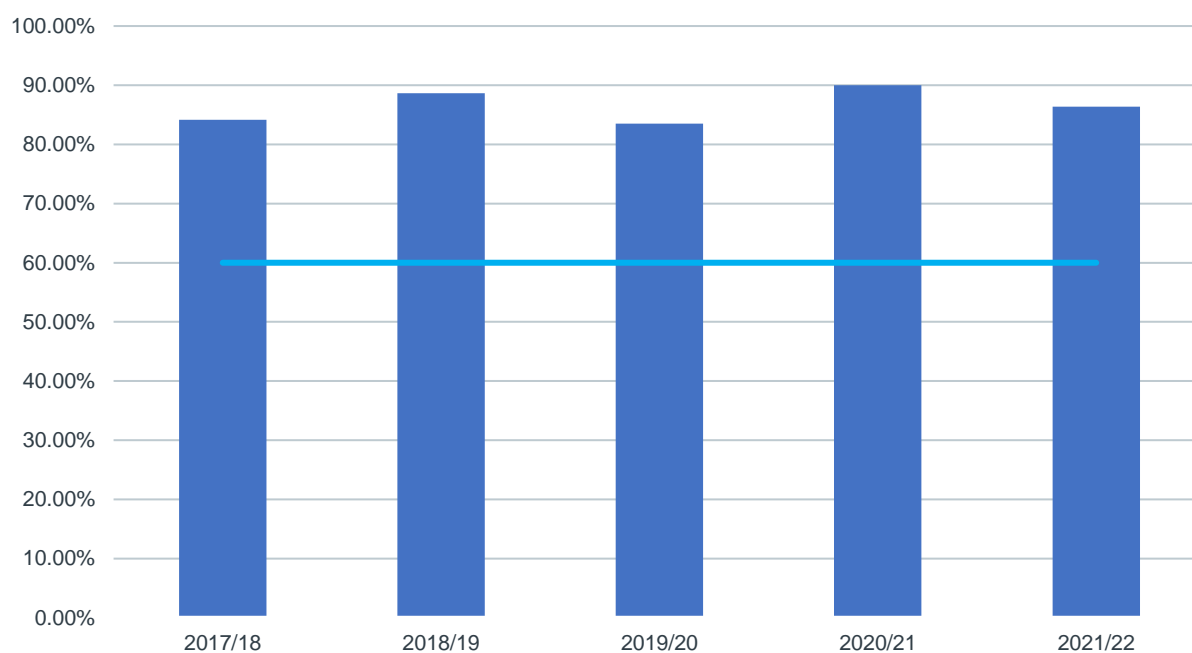
Source – Council Published Financial Statements

Figure 4.13 Own Source Operating Revenue – General Fund

Source – Council Published Financial Statements

Figure 4.14 Own Source Operating Revenue – Water Fund

Source – Council Published Financial Statements

Figure 4.15 Own Source Operating Revenue – Sewer Fund

Source – Council Published Financial Statements

4.2.3 Unrestricted Current Ratio

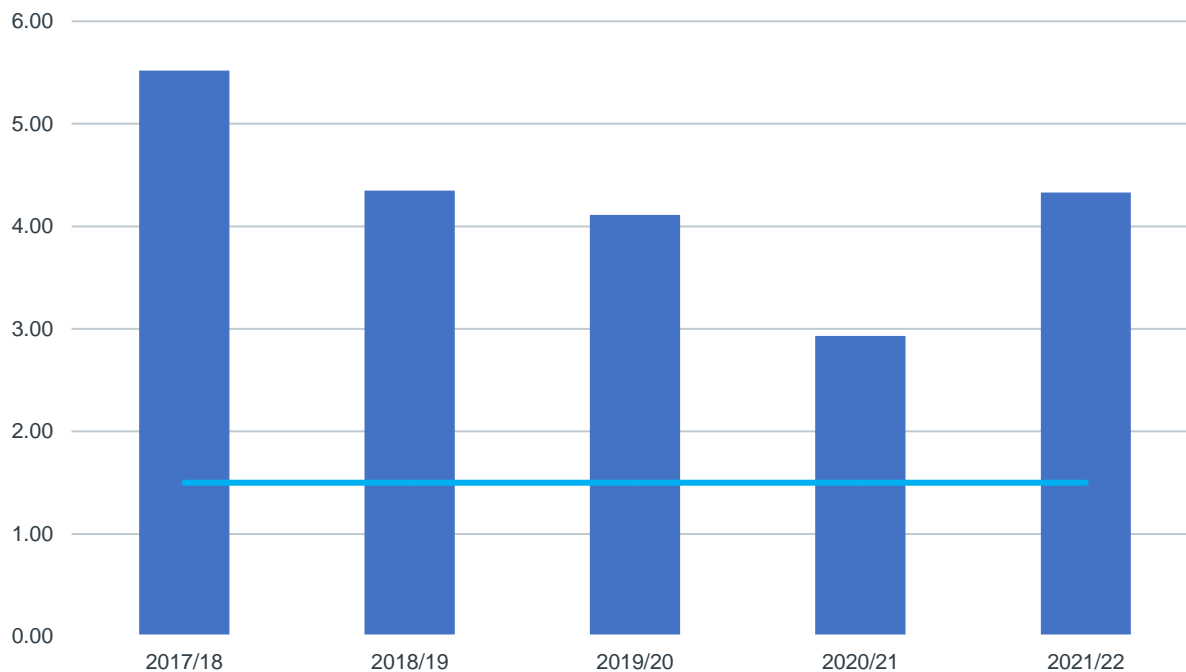
The purpose of this ratio is to assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council. Benchmark been greater than 1.5.

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.

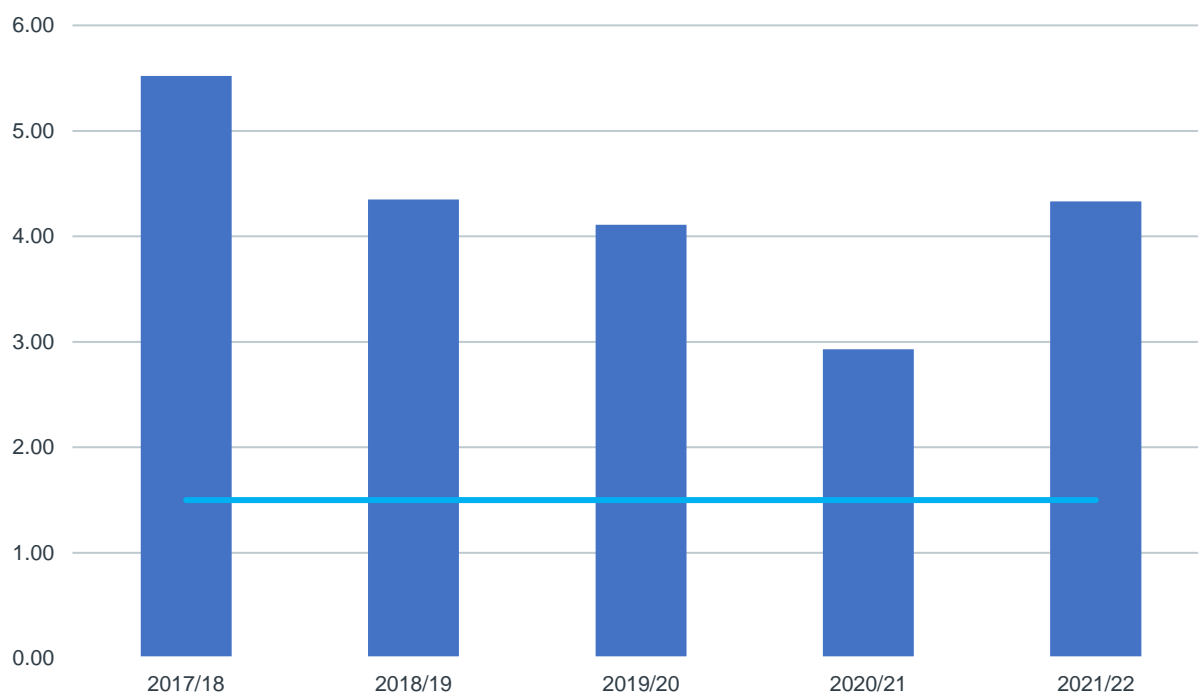
It should also be further noted that the adequacy of internal and external reserves will be further assessed as to whether the reserves are sufficient to address the infrastructure investments required for both asset renewals and investment in new assets to meet growth requirements.

Figure 4.16 Unrestricted Current Ratio – Consolidated

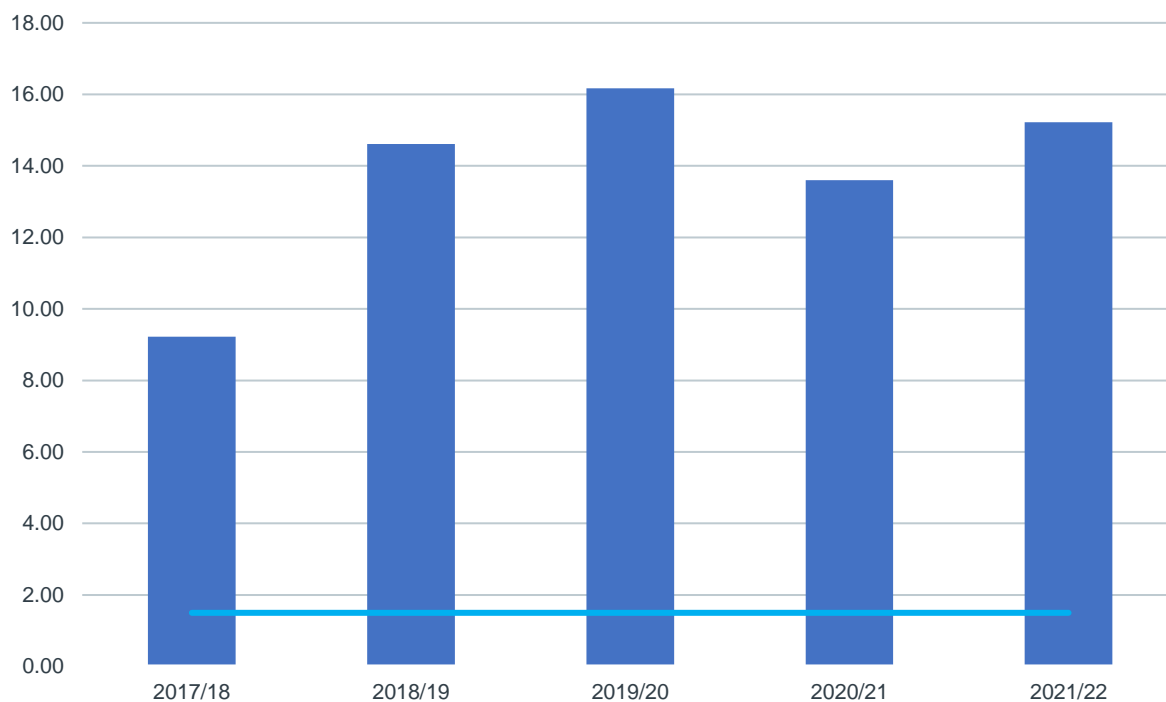


Source – Council Published Financial Statements

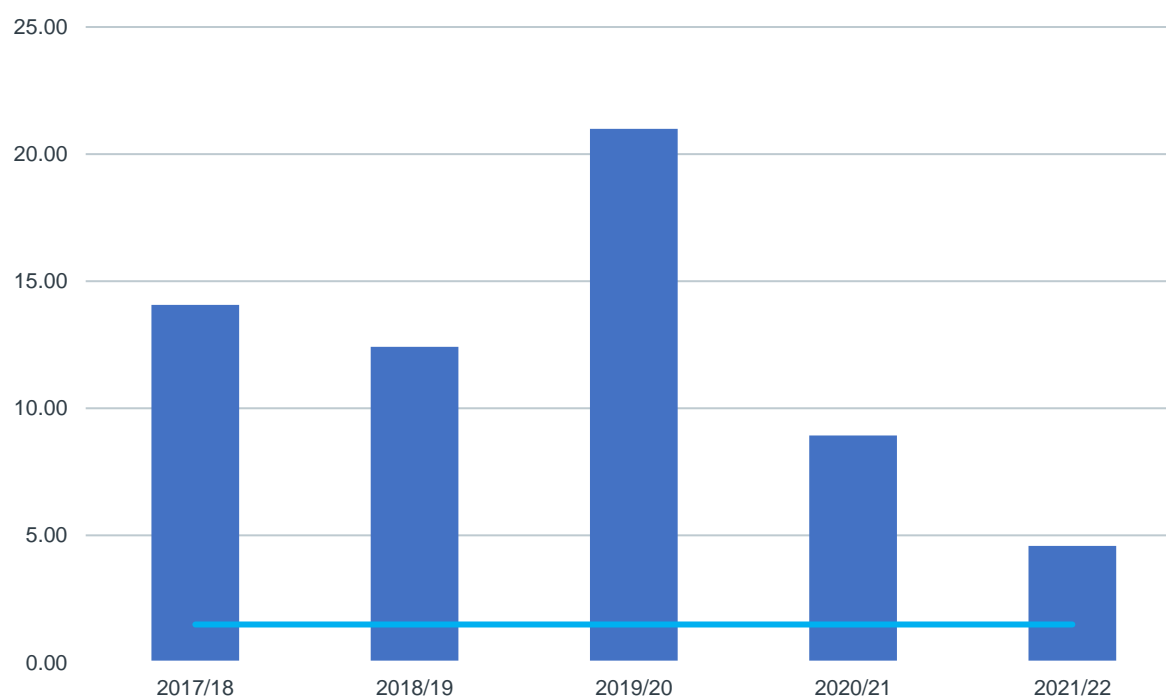
Figure 4.17 Unrestricted Current Ratio – General Fund



Source – Council Published Financial Statements

Figure 4.18 **Unrestricted Current Ratio – Water Fund**

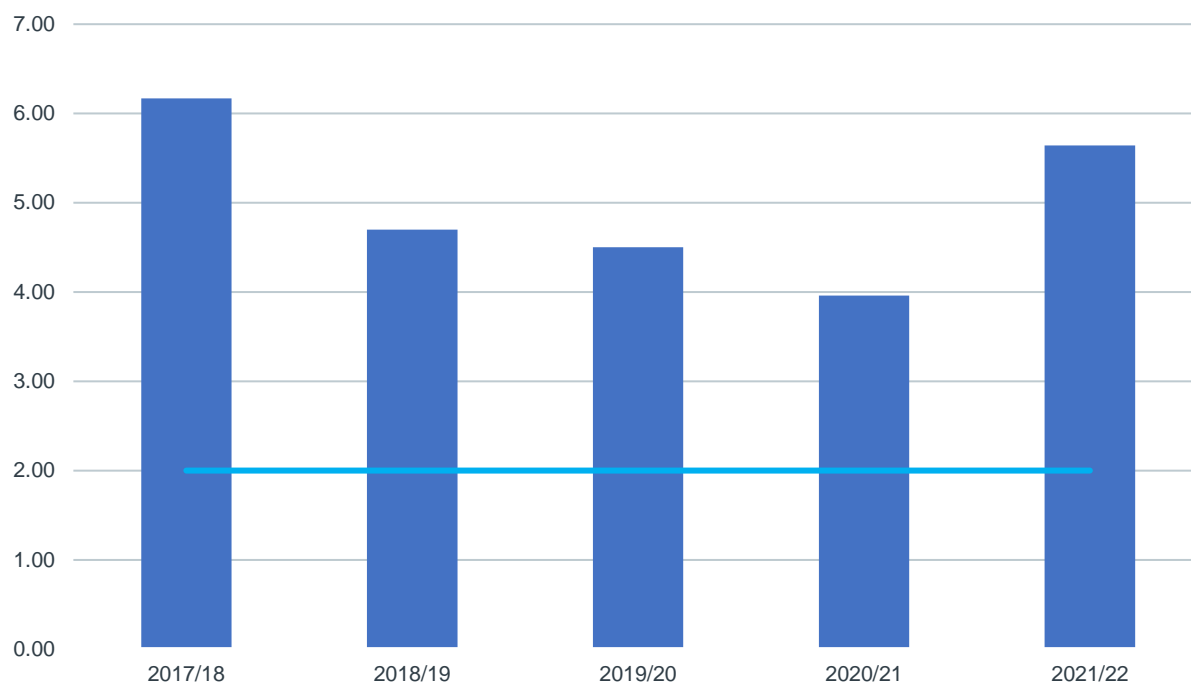
Source – Council Published Financial Statements

Figure 4.19 **Unrestricted Current Ratio – Sewer Fund**

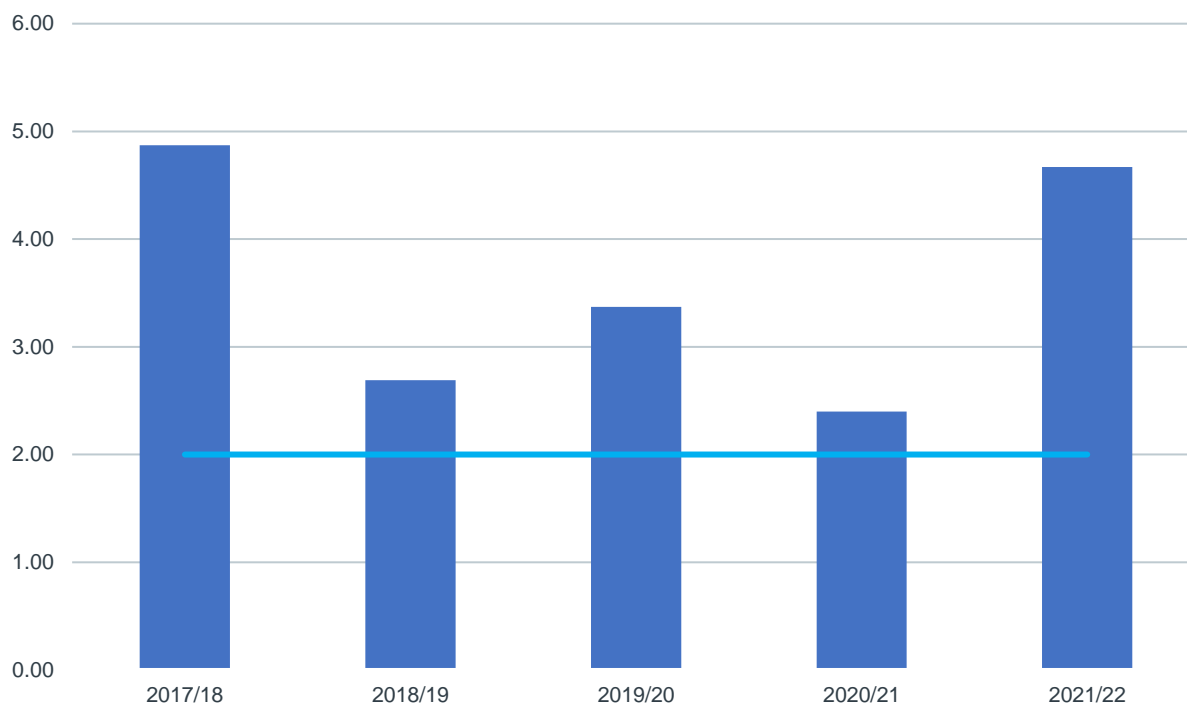
Source – Council Published Financial Statements

4.2.4 Debt Service Cover Ratio

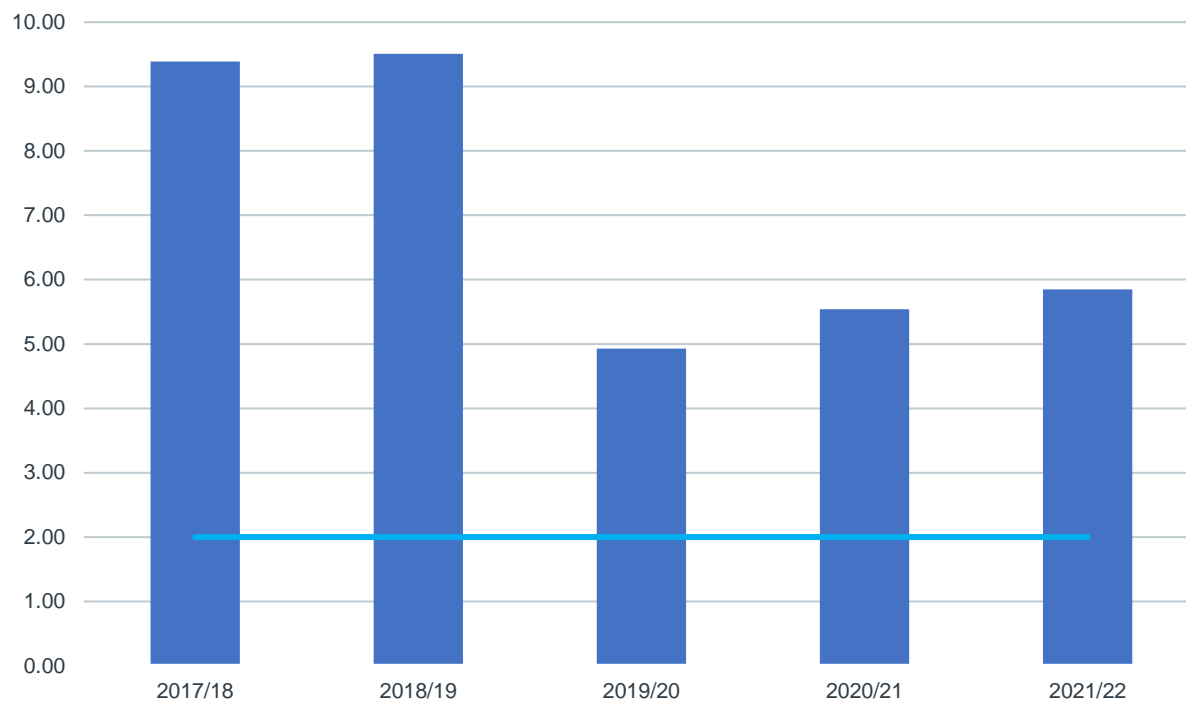
The rationale of the debt service cover ratio measures the availability of operating cash to service debt including interest, principal, and lease payments. Council has at a consolidated level met the benchmark of 2.00. The lowest ratio was in 2020/21 at 3.96, which was due to the impact of COVID 19 during the year which impacted Council's operating cash. However, Council was still able to generate sufficient cash to cover its debt in 2021/22 with a ratio of 4.33 higher than the benchmark of 2.00.

Figure 4.20 Debt Service Cover Ratio – Consolidated

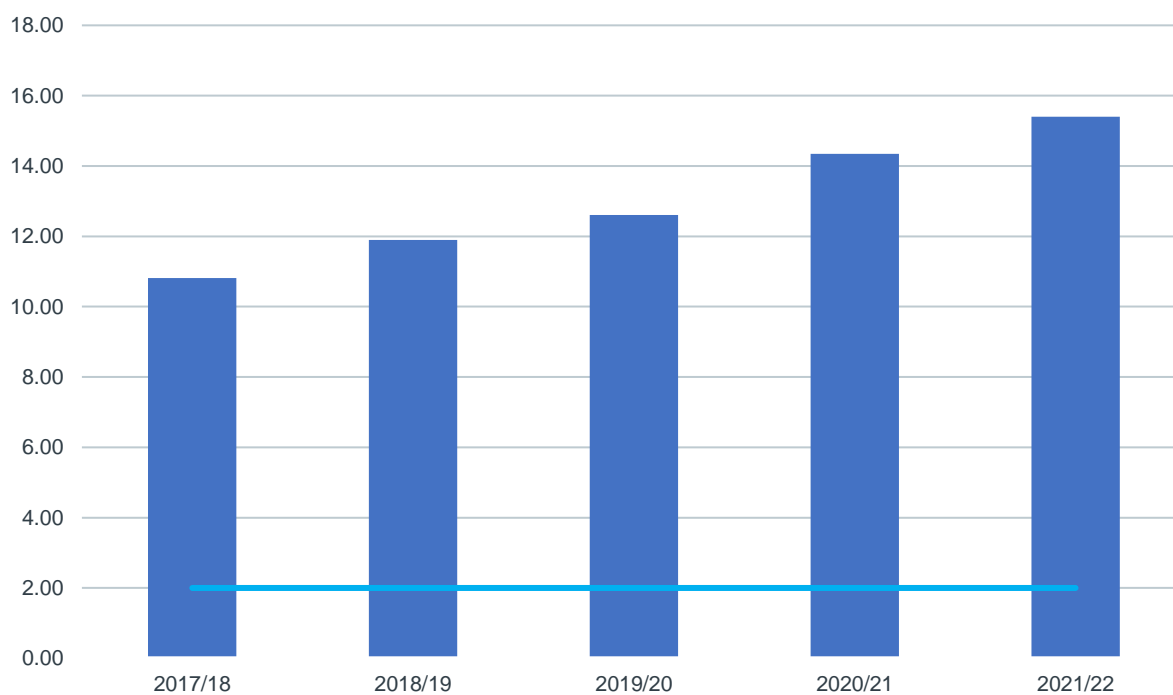
Source – Council Published Financial Statements

Figure 4.21 Debt Service Cover Ratio – General

Source – Council Published Financial Statements

Figure 4.22 Debt Service Cover Ratio – Water

Source – Council Published Financial Statements

Figure 4.23 Debt Service Cover Ratio – Sewer

Source – Council Published Financial Statements

4.3 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.

4.3.1 Cashflow

Table 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 and Council's capital expenditure spend. 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 decreased in the first four years from 2017/18 to 2020/21 and then had a slight increase in 2021/22. This was mainly due to a lower capital expenditure compared to the rest of 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 below 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 below 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 decreased from \$197.73 million at the end of 2017/18 to \$180.87 million at the end of 2021/22.

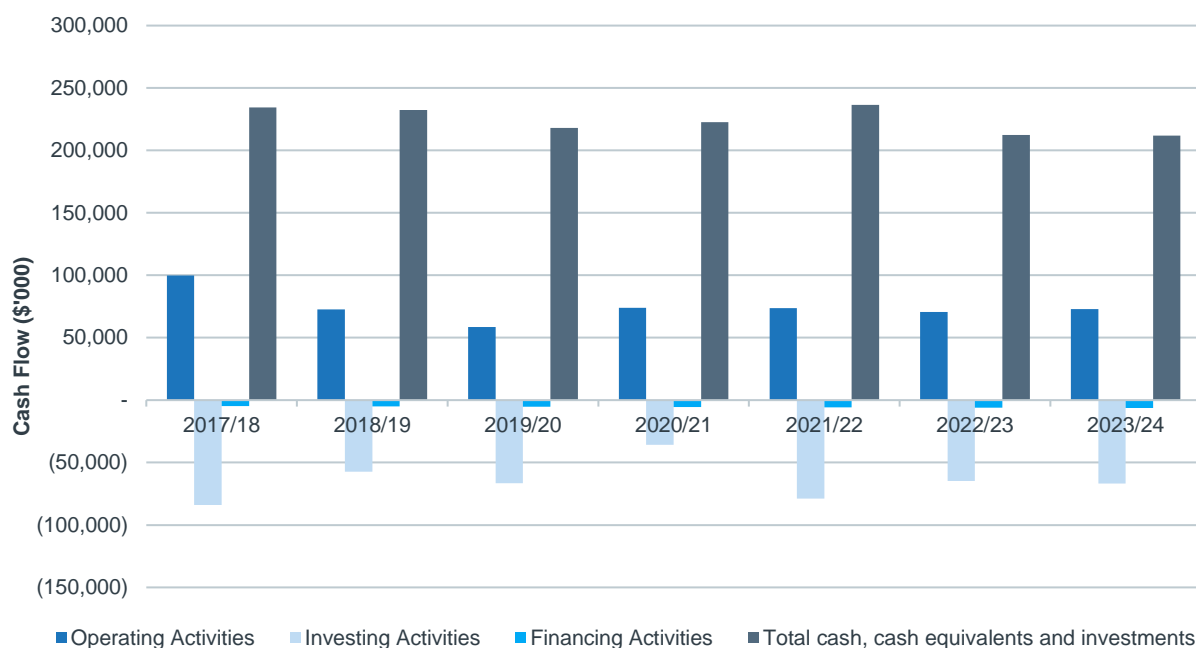
Total cash, cash equivalent and investment have a slight increase in the same period from \$234.49 million to \$236.41 million. Council is budgeting a reduction of this to \$212.00 million by end of 2023/24 financial year.

Table 4.8 Statement of Cash Flows - Consolidated

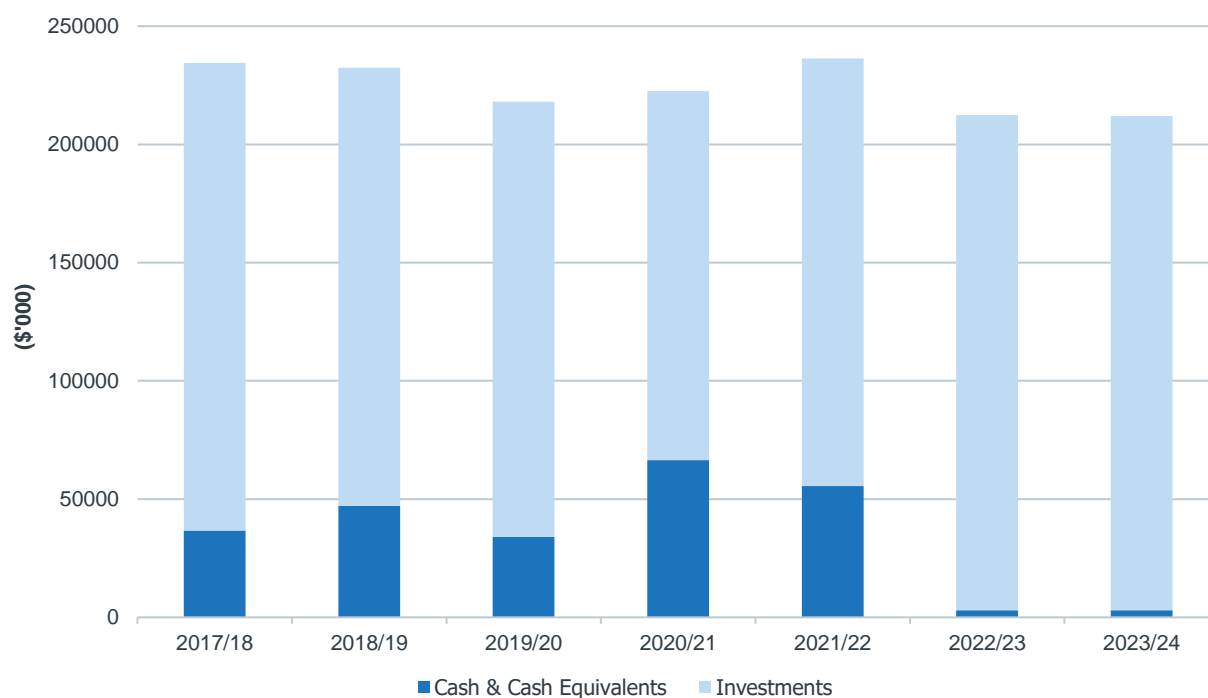
STATEMENT OF CASH FLOWS - CONSOLIDATED	2017/18 \$'000	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000
	ACTUAL					BUDGET	
Cash Flows from operating activities							
<i>Receipts:</i>							
Rates and annual charges	56,224	61,777	64,792	67,503	69,774	70,691	73,299
User charges and fees	58,031	47,063	44,968	39,335	39,741	43,592	43,061
Investment and interest revenue received	6,404	6,837	5,907	4,754	3,281	1,517	7,855
Grants and contributions	69,391	51,515	46,230	56,859	60,100	48,343	49,678
Bonds, deposits and retention amounts received	216	67	-	602	-	-	-
Other operating	5,929	771	472	5,086	1,064	4,292	2,729
<i>Payments:</i>							
Employee benefits and on-costs	(38,646)	(40,548)	(45,026)	(45,021)	(44,317)	(48,929)	(51,787)
Materials and services	(36,109)	(34,386)	(39,308)	(49,666)	(50,299)	(30,312)	(32,207)
Borrowing costs	(3,865)	(3,809)	(3,733)	(3,144)	(2,949)	(2,973)	(2,640)
Bonds, deposits and retention amounts refunded	-	-	(99)	-	(323)	-	-
Other operating	(17,825)	(16,628)	(15,565)	(2,481)	(2,359)	(15,587)	(17,022)
Net cash provided (or used in) operating activities	99,750	72,659	58,638	73,827	73,713	70,634	72,966
Cash Flows from investing activities							
<i>Receipts:</i>							
Sale of investments	220,916	103,568	136,078	162,914	92,022	2,901	-
Sale of infrastructure, property, plant and equipment	1,672	2,645	3,200	10,803	1,779	1,421	2,447
Deferred Debtors Receipts	864	461	470	34	79	-	-
Other investing	4,460	2,678	760	8,777	6,695	11,558	14,550
<i>Payments:</i>							
Purchase of investment securities	(256,275)	(91,167)	(134,820)	(135,018)	(117,049)	-	(171)
Purchase of infrastructure, property, plant and equipment	(54,312)	(71,850)	(70,238)	(80,229)	(58,310)	(74,553)	(75,926)
Purchase of intangible assets	-	-	-	-	-	-	-
Purchase of real estate assets	(1,210)	(3,515)	(2,089)	(3,109)	(4,062)	(5,977)	(7,634)
Deferred debtors and advances made	(210)	(86)	-	18	20	-	-
Other investing	-	-	-	-	-	-	-
Net cash provided (or used in) investing activities	(84,095)	(57,266)	(66,639)	(35,810)	(78,826)	(64,650)	(66,734)
Cash Flows from financing activities							

STATEMENT OF CASH FLOWS - CONSOLIDATED	2017/18 \$'000	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000
	ACTUAL					BUDGET	
Receipts:							
New Residential Accommodation Bonds	-	-	-	-	-	-	-
Proceeds from borrowings	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-
Payments:							
Repayment of borrowings and advances	(4,652)	(4,969)	(5,206)	(5,502)	(5,829)	(5,984)	(6,230)
Principal component of lease payments	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-
Net cash provided (or used in) financing activities	(4,652)	(4,969)	(5,206)	(5,502)	(5,829)	(5,984)	(6,230)
Net increase/(decrease) in cash and cash equivalents	11,003	10,424	(13,207)	32,515	(10,942)	-	2
Cash and cash equivalents - beginning of year	25,752	36,755	47,179	33,972	66,487	3,000	3,000
Cash and cash equivalents - end of the year	36,755	47,179	33,972	66,487	55,545	3,000	3,002
Investments on hand - end of year	197,732	185,331	184,073	156,136	180,865	209,445	208,999
Total cash, cash equivalents and investments	234,487	232,510	218,045	222,623	236,410	212,445	212,001

Source – Council Published Financial Statements

Figure 4.24 Cash Flows for Operating, Investing and Financing Activities - Consolidated

Source – Council Published Financial Statements

Figure 4.25 Total Cash and Investments at end of financial year - Consolidated

Source – Council Published Financial Statements

4.3.2 Cash restrictions

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

Table 4.9 Cash Reserves – Consolidated – as at 30 June 2022

	Fund	2018 \$'000	2019 \$'000	2020 \$'000	2021 \$'000	2022 \$'000
External Restrictions - Included in Liabilities						
Specific Purpose Unexpended Grants - General Fund	General				0	
External Restrictions - Included in Liabilities		0	0	0	0	0
External Restrictions - Other						
Developer Contributions - General	General	13,622	14,237	11,958	13,356	11,698
Developer Contributions - Water Fund	Water					
Developer Contributions - Sewer Fund	Sewer					
Specific Purpose Unexpended Grants	General	38,481	41,179	24,336	23,471	25,476
Water fund	Water	39,548	50,958	56,681	53,881	59,502
Sewer fund	Sewer	48,036	51,849	58,284	60,861	62,761
Stormwater Management	General	2,830	2,997	4,156	5,002	4,047
Domestic Waste Management	General	2,429	1,347	1,632	3,670	4,149
External Restrictions - Other		144,946	162,567	157,047	160,241	167,633
Total External Restrictions		144,946	162,567	157,047	160,241	167,633
Internal Restrictions						
Deposits, retentions and bonds	General					
Employees Leave Entitlement	General	3,931	2,397	3,200	4,028	3,446
Governance	General	2,300				
Financial Assistance Grants	General	5,769				
Dubbo City Holiday Park	General	673	748	423		
Property Development	General	5,394	6,600	2,960	6,551	1,577
Dubbo City Regional Airport	General	20	410	3,297	2,129	2,827
Livestock Markets	General	3,973	4,210	3,102	3,127	2,771
Other Waste Management Services	General	3,737	8,696	12,528	14,711	17,904
Road Network - State Road	General	2,756	2,145	1,246	378	1,431
Fleet Management Services	General	10,781	7,519	9,833	8,960	9,991
Future Asset Renewals	General	47,207	34,218	24,409	22,498	29,017
Unexpended Loans/Borrowings	General					
Total Internal Restrictions		86,541	66,943	60,998	62,382	68,964
TOTAL RESTRICTIONS		231,487	229,510	218,045	222,623	236,597
Total cash, cash equivalents and investments		234,487	232,510	218,045	222,623	236,410
Externally restricted cash		144,946	162,567	157,047	160,241	167,633
Internally restricted cash		86,541	66,943	60,998	62,382	68,964
Externally restricted - included in liabilities		0	0	0	0	0
Unrestricted and unallocated cash, cash equivalent and investments		3,000	3,000	0	0	-187

Source – Council Published Financial Statements

At the end of 2021/22, Council had total cash, cash equivalents and investments of \$236.4 million, of which \$167.6 million is externally restricted, \$69.0 million is internally restricted and there is no restrictions for commitments in reported liabilities (mostly contracted grant liabilities). The residual amount of negative \$187,000 is considered unrestricted. Council has no unrestricted cash that can be used as a contingency for unforeseen and unbudgeted events.

It is also notable that Council has not restricted the financial assistance grant (FAG) advance payment or any incomplete capital works from prior years. Over the years, Council has wiped out several internal reserves as this could be seen as a way to create a positive unrestricted cash balance.

On a positive note, Council seems to have a reasonable amount of \$29.0 million internally restricted for the purpose of future asset renewals.

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

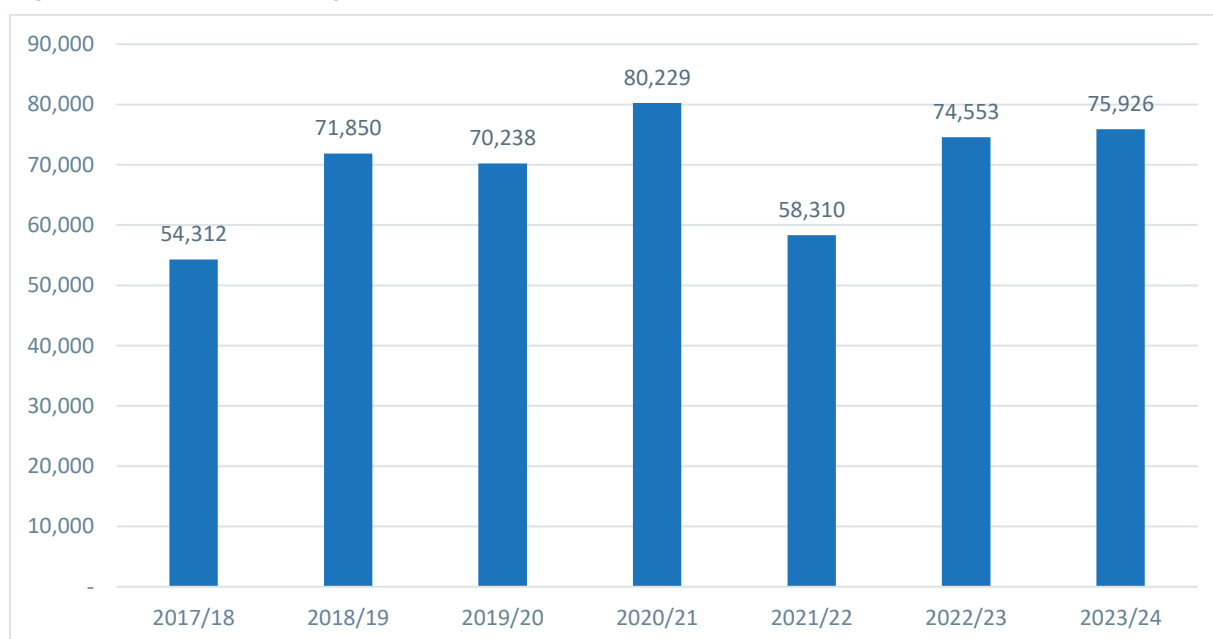
4.4 INVESTMENT IN ASSETS

The following sections outline Council's historical approach to investing in assets and performance measures achieved. Asset management component of the project will be revaluated in more detail throughout the course of the project. 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.

4.4.1 Capital Works Spend

Dubbo Regional Council has spent in total \$334.9 million over five years on capital expenditure, an average of \$67.0 million annually. Council had budgeted to spend another \$74.6 million in 2022/23 and \$75.9 million in 2023/24.

Figure 4.26 Capital Program Spend - Consolidated



Source – Annual Financial Statements

4.4.2 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 below is an extract from the 2021/22 Annual Financial Statements.

Figure 4.27 Report on Infrastructure Assets – Extract

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	5
Buildings	Other	91,903	91,903	8,509	8,509	165,735	266,305	41.5%	26.2%	24.3%	5.1%	3.0%
	Sub-total	91,903	91,903	8,509	8,509	165,735	266,305	41.5%	26.2%	24.3%	5.1%	3.0%
Other structures	Other structures	52,616	52,616	4,863	4,863	114,921	180,552	48.8%	23.1%	20.0%	8.2%	0.0%
	Sub-total	52,616	52,616	4,863	4,863	114,921	180,552	48.8%	23.1%	20.0%	8.2%	0.0%
Roads	Other	199,624	199,624	19,550	19,550	979,375	1,339,129	55.9%	29.6%	12.8%	1.7%	0.0%
	Bulk earth works	—	—	—	—	445,930	445,930	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	199,624	199,624	19,550	19,550	1,425,305	1,785,059	66.9%	22.2%	9.6%	1.2%	0.0%
Water supply network	Other	94,806	94,806	20,791	20,791	315,417	448,894	67.9%	10.9%	12.7%	4.7%	3.8%
	Sub-total	94,806	94,806	20,791	20,791	315,417	448,894	67.9%	10.9%	12.7%	4.7%	3.8%
Sewerage network	Other	106,333	106,333	12,491	12,941	237,387	314,161	41.0%	31.4%	16.9%	6.3%	4.4%
	Sub-total	106,333	106,333	12,491	12,941	237,387	314,161	41.0%	31.4%	16.9%	6.3%	4.4%
Stormwater drainage	Other	22,270	22,270	1,305	1,305	133,861	181,394	50.9%	36.8%	7.0%	4.6%	0.6%
	Sub-total	22,270	22,270	1,305	1,305	133,861	181,394	50.9%	36.8%	7.0%	4.6%	0.6%
Open space / recreational assets	Swimming pools	1,079	1,079	186	186	5,763	9,003	78.8%	8.4%	12.8%	5.2%	(5.2%)
	Sub-total	1,079	1,079	186	186	5,763	9,003	78.8%	8.4%	12.8%	5.2%	(5.2%)
Total – all assets		568,631	568,631	67,695	68,145	2,398,389	3,185,368	60.5%	22.7%	12.4%	3.2%	1.2%

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

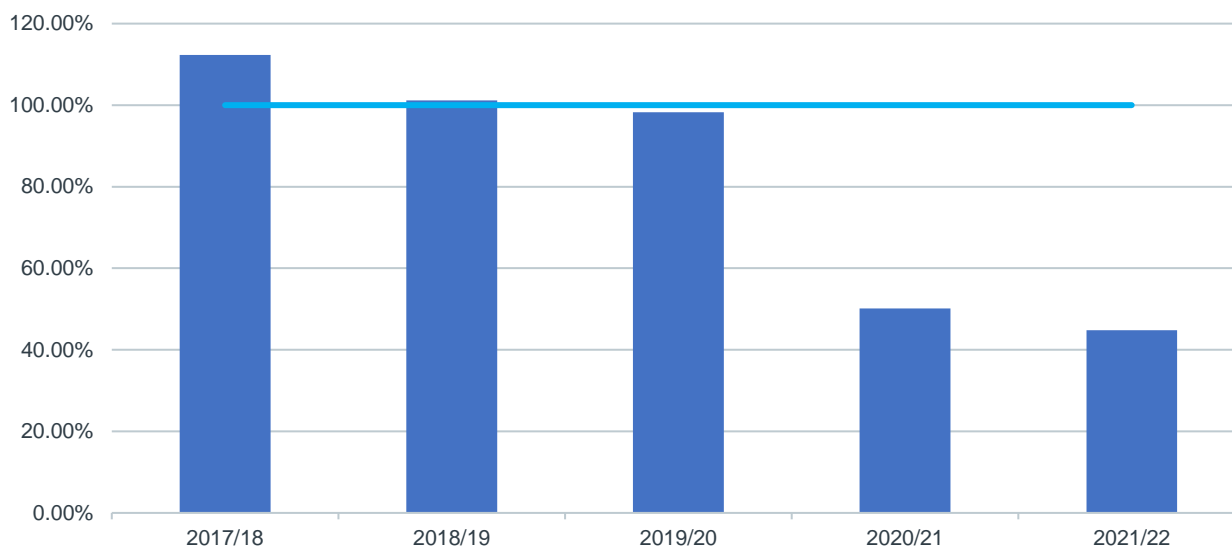
Source – Annual Financial Statements 2021/22

The following are standard observations of the Report on Infrastructure Assets:

- Reported condition of the assets is 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.

4.4.3 Performance Measure – Building and Infrastructure Renewals Ratio

Figure 4.28 Building and Infrastructure Renewals Ratio – Consolidated



Source – Annual Financial Statements

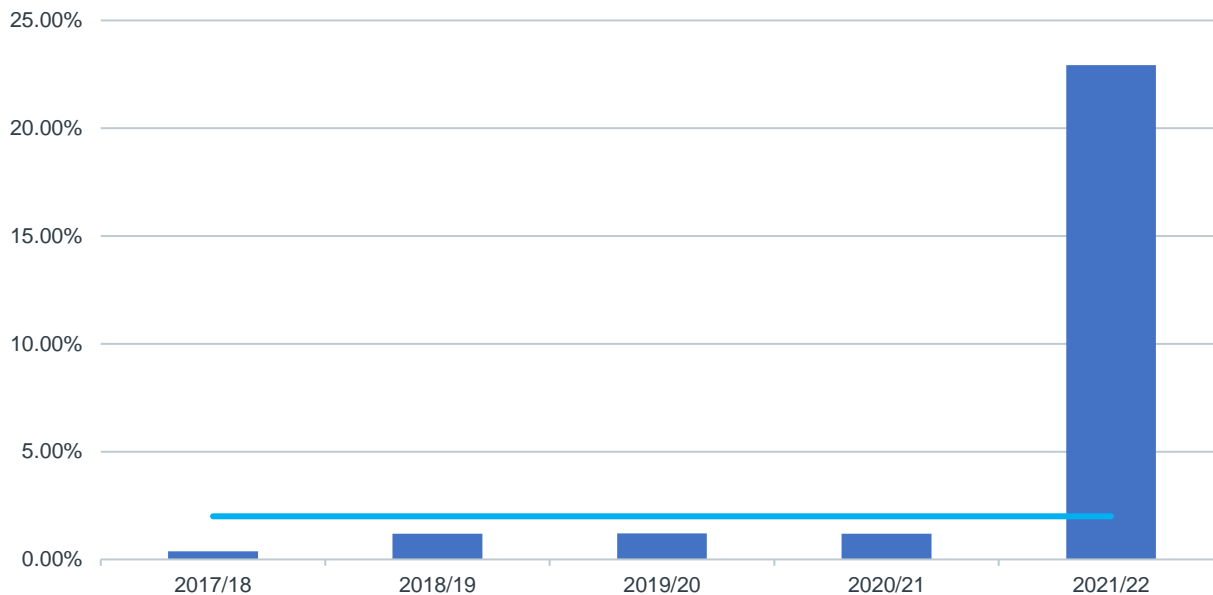
Figure above outlines the Council's consolidated historical performance based on the building and infrastructure renewals ratio. The ratio is calculated by the value of asset renewals on buildings and infrastructure divided by the depreciation of buildings and infrastructure. If the ratio is above 100%, 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.

The building and infrastructure renewals ratio indicated that Council had invested sufficiently in building and infrastructure asset renewals compared to depreciation on building and infrastructure assets until 2019/20. For the next two years, this ratio has majorly deteriorated to as low as 44.78% in 2021/22.

Dubbo Regional Council has met this ratio three of the past five years whereby indicating that the renewal of building and infrastructure assets are more than the depreciation (or consumption) of assets.

4.4.4 Performance Measure – Infrastructure Backlog Ratio

Figure 4.29 Infrastructure Backlog Ratio – Consolidated



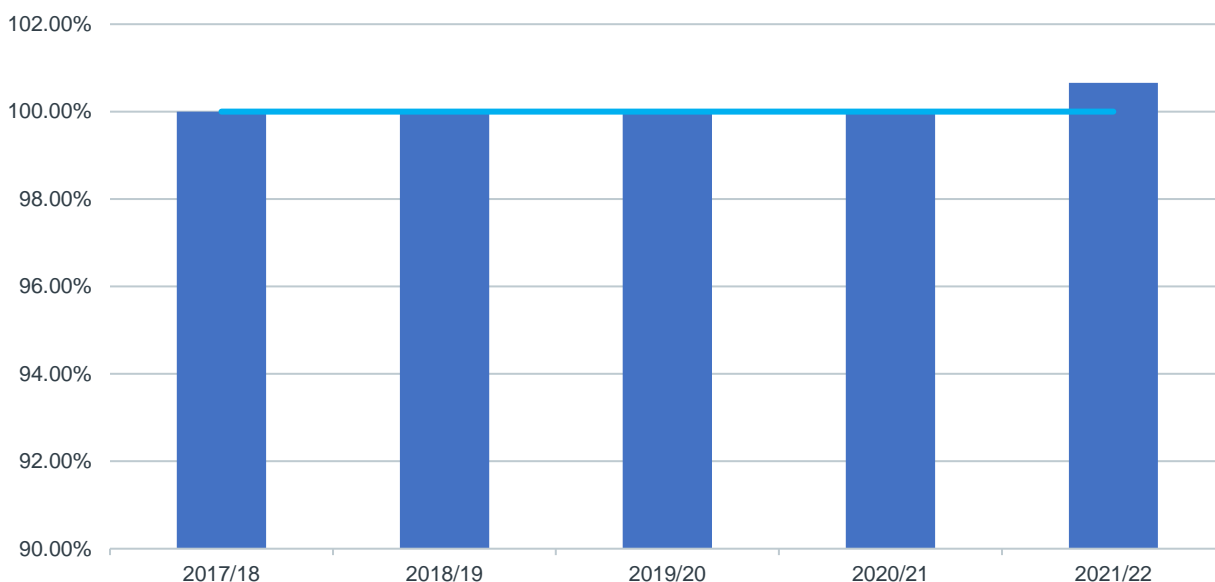
Source – Annual Financial Statements

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 was reported stable for the four years and then sees a massive increase in backlog. This indicates inconsistency in reporting as the backlog cannot possibly increase over 20 times from one year to another.

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

4.4.5 Performance Measure – Asset Maintenance Ratio

Figure 4.30 Asset Maintenance Ratio – Consolidated



Source – Annual Financial Statements

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.

The reporting again seems questionable as the ratio is perfectly proportional to the target at 100% for all the funds over the five years except for the sewer fund reporting 103.6% in 2021/22.

5. SCENARIO PLANNING

A key component of the Financial Sustainability Review is the development of a forecast of Council's financial position based on current setting – that being the operating budget for 2023/24 (adjusted in forward years for known nonrecurrent budget items), current service levels, adopted strategies and plans and the current investment in assets. With an established forecast of current settings, AEC has then been able to develop alternative scenarios to assess corrections required to improve the financial sustainability concerns raised in the base forecast scenario.

5.1 METHODOLOGY

To enable the assessment of Council's financial sustainability, AEC has developed a number of 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 – AEC has separated out the waste management functions from the General Fund to enable a separate assessment of the sustainability of the waste services.

The scenarios are as follows:

- Base scenario – a forecast of the continuation of current financing and investment practices.
- Enhanced asset renewal and maintenance scenario – an increase in the expenditure to maintain the infrastructure capital
- Enhanced asset renewal, maintenance and cash scenario – an increase in expenditure and generation of cash to maintain both fiscal capital and infrastructure capital.

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 in 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's most recent draft financial statements for the 2022/23 financial year. We understand that these results have not yet completed the audited, but nonetheless reflect a reasonable forecast of the financial position likely to be reported for this period.
 - The 2023/24 budget advised by Council reflecting the current financial operating performance of Council services.
- 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.
- AEC has included forecasts for new operating costs related to new and upgraded assets, such as depreciation, operating costs 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 4-year capital works program (new and renewals). The Base Case assumes that the current investment in renewals included in the 4-year capital works program will continue for the remainder of the assessment period. AEC has also included likely continuation of investment in new assets for water and sewer, roads and footpaths – particularly where related to ongoing property development activities that are assumed to continue.

The two scenarios with enhanced asset renewals and maintenance have been developed by AEC informed by our analysis of Council asset register, including remaining useful life and replacement costs, Council's records of asset conditions and interviews with asset custodians in relation to the accuracy and reliability of asset data held in Council's asset register. 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. In the absence of renewals plans, Councils often use depreciation to reflect the asset renewals required. It should be noted that AEC has not used depreciation as the basis for planned renewals but rather a more realistic forecast for demand based on the current asset information provided by Council. The result is that Council does not meet the asset renewal ratio across the assessment period due to asset classes where evidence suggests the renewals are not required. Asset renewals may not be required because the assets are in good condition and not planned to be renewed in the 10 year assessment period, or Council does not intend to renew the asset, or the Council is not responsible for the renewal of the asset (for example, the emergency services assets – the “red fleet”).

5.2 GUIDE TO INTERPRETATION FOR THE BASE SCENARIO

5.2.1.1 Reporting Format

AEC has sought to provide forecasted financial 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.

5.2.1.2 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.

6. FINANCIAL PERFORMANCE FOR THE 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) during the first 4 years of the forecast period. Council's forward planning for capital works has not been prepared beyond the 4th forecast year. Beyond that time, AEC has:
 - Included an ongoing renewals program at approximately the average of the forecast during years 2 to year 4.
 - Continued the investment in new assets where it is highly likely the demand will continue – such as continuation of the property development function and investment in new water and sewer assets.
- Our calculation of the forecast position of internal and external reserves include 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 4-year capital works program (which we have extended over the forecast period)
- AEC has included growth in the ordinary rates base of approximately 1% per annum, which has been based on advice from Council on anticipated growth in properties and a continuation of the recent historical trend growth. We have also included an assumed 2.5% per annum rate peg in line with IPART recommendations.
- AEC has included escalation in Council staffing costs in line with the relevant award (3.5% in 2023/24, followed by 3% per annum thereafter). We have also assumed 0.5% growth in staff numbers (FTE basis) in the Base Scenario per annum.
- AEC has also assumed CPI cost indexation based on Australian Government Budget 2023/24 indexation forecasts (where available) and continuation of trend increases thereafter.
- AEC has included Council's currently forecast program for property development and sales, which AEC understands reflects an optimistic or aggressive target program which will produce sufficient cash surpluses to return a \$500,000 cash dividend payment to the General Fund each year throughout the assessment period (this is after all capital investments including land development costs and construction of infrastructure assets such as roads, pathways etc).

6.2 NET OPERATING POSITION OF BASE CASE

Council has produced a net operating deficit in the last three years in terms of Net Operating Result before grants and contributions. This deficit position is also forecast to continue through the 2022/23 and 2023/24 financial years (based on our forecast for 2023/24).

AEC's forecast indicates that, under the Base Case Scenario (continuation of current practices) Council is forecast to deliver a consolidated operating deficit of approximately \$29.8 million over the forecast period (excluding capital grants and contributions), with individual annual results ranging from approx. \$5.9 million deficit to \$1.0 million surplus.

Table 5.1 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 5.2 outlined the same information but only for the General Fund.

As outlined in Table 5.1 Council is forecast to produce net operating deficits across the forward financial years. Table 5.2 indicates that the operating deficits in the consolidated report is due to a significant operating deficit forecast for the General Fund that deteriorates to a \$22.6 million deficit in the 2033/34 financial year.

Figure 5.1 and Figure 5.2 below outlines how each of the different funds contribute to the forecasted consolidated operating result.

6.3 OPERATING PERFORMANCE BY SERVICE

Table 5.6 below reports the net operating result for each service. This may be interpreted broadly as the cost to Council of providing each Service. While the table reports the budgeted operating result for each service for 2023/24 only, the forecast for across the assessment period assumed continuation of the operating result in 2023/24 with indexation and growth component applied (where relevant).

Table 6.1 Income Statement – Consolidated

INCOME STATEMENT - CONSOLIDATED	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000	2024/25 \$'000	2025/26 \$'000	2026/27 \$'000	2027/28 \$'000	2028/29 \$'000	2029/30 \$'000	2030/31 \$'000	2031/32 \$'000	2032/33 \$'000	2033/34 \$'000
	ACTUAL				DRAFT ACTUAL	FORECAST	FORWARD PLAN									
Income from continuing operations																
Rates and annual charges	62,438	64,587	66,845	69,356	72,492	73,156	75,717	78,367	81,110	83,949	86,887	89,928	93,075	96,333	99,705	103,194
User charges and fees	46,393	42,455	39,776	39,771	44,916	42,909	44,089	45,191	46,321	47,479	48,666	49,882	51,129	52,408	53,718	55,061
Other revenue	1,934	1,986	2,628	5,062	3,405	2,235	2,296	2,354	2,412	2,473	2,535	2,598	2,663	2,729	2,798	2,868
Grants and contributions provided for operating purposes	18,610	21,858	22,054	26,053	28,542	19,945	20,031	20,531	21,045	21,571	22,110	22,663	23,229	23,810	24,405	25,016
Grants and contributions provided for capital purposes	47,179	33,077	48,265	49,260	56,552	48,036	9,625	11,668	9,882	68,113	12,932	13,082	13,236	13,395	13,559	13,728
Interest and investment revenue	6,834	5,716	3,703	3,006	7,662	9,833	10,003	10,048	11,017	12,053	12,288	13,082	13,336	14,085	15,020	15,989
Other income	49	149	37	158	-	-	-	-	-	-	-	-	-	-	-	-
Net gains from the disposal of assets	703	-	3,446	-	71	8,997	14,564	11,182	6,818	11,094	11,371	11,656	11,947	12,246	12,552	12,866
Internal Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total income from continuing operations	184,140	169,828	186,754	192,666	213,640	205,111	176,325	179,341	178,605	246,730	196,789	202,891	208,616	215,006	221,757	228,722
Expenses from continuing operations																
Employee benefits and on-costs	40,104	45,200	44,932	44,485	47,319	51,306	53,373	55,253	57,199	59,214	61,299	63,458	65,693	68,006	70,401	72,880
Materials and services	35,017	36,364	53,696	46,710	50,321	46,511	47,504	48,343	49,737	51,963	54,195	55,186	56,858	58,571	61,035	62,128
Borrowing costs	4,435	3,691	3,095	2,981	2,995	2,450	2,096	1,808	1,589	1,360	1,156	1,007	860	727	518	390
Depreciation, amortisation and impairment of non-financial assets	39,902	42,261	45,551	48,457	54,323	55,953	58,143	59,812	61,506	64,235	66,137	68,086	70,083	72,131	74,230	76,381
Other expenses	16,900	15,075	2,356	2,438	4,690	4,443	4,493	4,540	4,589	4,638	4,689	4,741	4,794	4,849	4,905	4,963
Internal expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	2,493	-	7,149	3,276	-	-	-	-	-	-	-	-	-	-	-
Total expenses from continuing operations	136,358	145,084	149,630	152,220	162,924	160,663	165,609	169,756	174,620	181,410	187,476	192,477	198,288	204,285	211,088	216,742
Operating result from continuing operations	47,782	24,744	37,124	40,446	50,716	44,448	10,716	9,585	3,985	65,320	9,313	10,414	10,328	10,722	10,668	11,980
Net operating result for the year before grants and contributions provided for capital purposes	603	(8,333)	(11,141)	(8,814)	(5,836)	(3,588)	1,091	(2,083)	(5,897)	(2,792)	(3,620)	(2,668)	(2,908)	(2,673)	(2,891)	(1,749)

Source – AEC (unpublished)

Table 6.2 Income Statement – General Fund

INCOME STATEMENT - GENERAL	2018/19	2019/20	2020/21	2021/22	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	\$'000	\$'000	\$'000	\$'000
	ACTUAL				DRAFT ACTUAL	FORECAST	FORWARD PLAN									
Income from continuing operations																
Rates and annual charges	42,830	44,078	45,458	46,903	49,296	40,839	42,268	43,747	45,278	46,863	48,503	50,201	51,958	53,777	55,659	57,607
User charges and fees	23,268	24,606	21,914	22,048	24,643	20,760	21,331	21,864	22,411	22,971	23,546	24,134	24,738	25,356	25,990	26,640
Other revenue	1,808	1,870	2,518	4,902	3,180	1,823	1,873	1,920	1,968	2,017	2,067	2,119	2,172	2,226	2,282	2,339
Grants and contributions provided for operating purposes	18,364	21,616	22,048	26,053	28,292	19,575	19,651	20,142	20,646	21,162	21,691	22,233	22,789	23,359	23,943	24,541
Grants and contributions provided for capital purposes	42,417	25,867	33,243	36,154	45,930	37,209	6,018	8,079	6,310	64,558	9,395	9,562	9,733	9,909	10,089	10,275
Interest and investment revenue	4,158	3,683	2,240	1,716	4,248	3,325	3,232	3,145	3,495	3,682	3,291	3,423	2,977	2,986	3,138	3,272
Other income	49	149	(3)	158	-	-	-	-	-	-	-	-	-	-	-	-
Net gains from the disposal of assets	703	-	3,446	-	(1,966)	8,997	14,564	11,182	6,818	11,094	11,371	11,656	11,947	12,246	12,552	12,866
Internal Revenue	-	-	-	-	-	38,583	39,644	40,635	41,651	42,692	43,759	44,853	45,974	47,124	48,302	49,509
Total income from continuing operations	133,597	121,869	130,864	137,934	153,623	171,110	148,581	150,714	148,576	215,039	163,624	168,181	172,288	176,982	181,954	187,048
Expenses from continuing operations																
Employee benefits and on-costs	31,092	34,836	34,515	35,285	37,240	43,184	44,911	46,483	48,110	49,794	51,537	53,341	55,208	57,140	59,140	61,210
Materials and services	28,642	28,495	42,278	35,129	36,977	31,657	31,990	32,341	33,269	34,941	36,605	37,014	38,090	39,192	41,028	41,479
Borrowing costs	1,985	1,343	907	964	1,155	765	595	430	306	176	77	40	12	5	-	-
Depreciation, amortisation and impairment of non-financial assets	29,269	31,534	35,443	38,868	41,646	42,327	43,855	45,052	46,311	48,501	49,849	51,231	52,648	54,100	55,588	57,114
Other expenses	12,347	11,605	2,356	2,438	4,690	4,443	4,493	4,540	4,589	4,638	4,689	4,741	4,794	4,849	4,905	4,963
Internal expenditure	-	-	-	-	-	26,975	27,717	28,410	29,120	29,848	30,594	31,359	32,143	32,947	33,770	34,615
Net losses from the disposal of assets	19	1,781	-	4,560	2,873	-	-	-	-	-	-	-	-	-	-	-
Total expenses from continuing operations	103,354	109,594	115,499	117,244	124,581	149,352	153,562	157,258	161,706	167,899	173,352	177,726	182,894	188,232	194,432	199,380
Operating result from continuing operations	30,243	12,275	15,365	20,690	29,042	21,758	(4,981)	(6,544)	(13,130)	47,140	(9,728)	(9,545)	(10,607)	(11,250)	(12,478)	(12,332)
Net operating result for the year before grants and contributions provided for capital purposes	(12,174)	(13,592)	(17,878)	(15,464)	(16,888)	(15,451)	(10,999)	(14,622)	(19,440)	(17,418)	(19,123)	(19,107)	(20,340)	(21,159)	(22,567)	(22,607)

Table 6.3 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
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income from continuing operations										
Rates and annual charges	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
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	0.4%	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	-80.0%	21.2%	-15.3%	589.3%	-81.0%	1.2%	1.2%	1.2%	1.2%	1.2%
Interest and investment revenue	1.7%	0.4%	9.7%	9.4%	2.0%	6.5%	1.9%	5.6%	6.6%	6.5%
Other income										
Net gains from the disposal of assets	61.9%	-23.2%	-39.0%	62.7%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Internal Revenue										
Total income from continuing operations	-14.0%	1.7%	-0.4%	38.1%	-20.2%	3.1%	2.8%	3.1%	3.1%	3.1%

Source – AEC (unpublished)

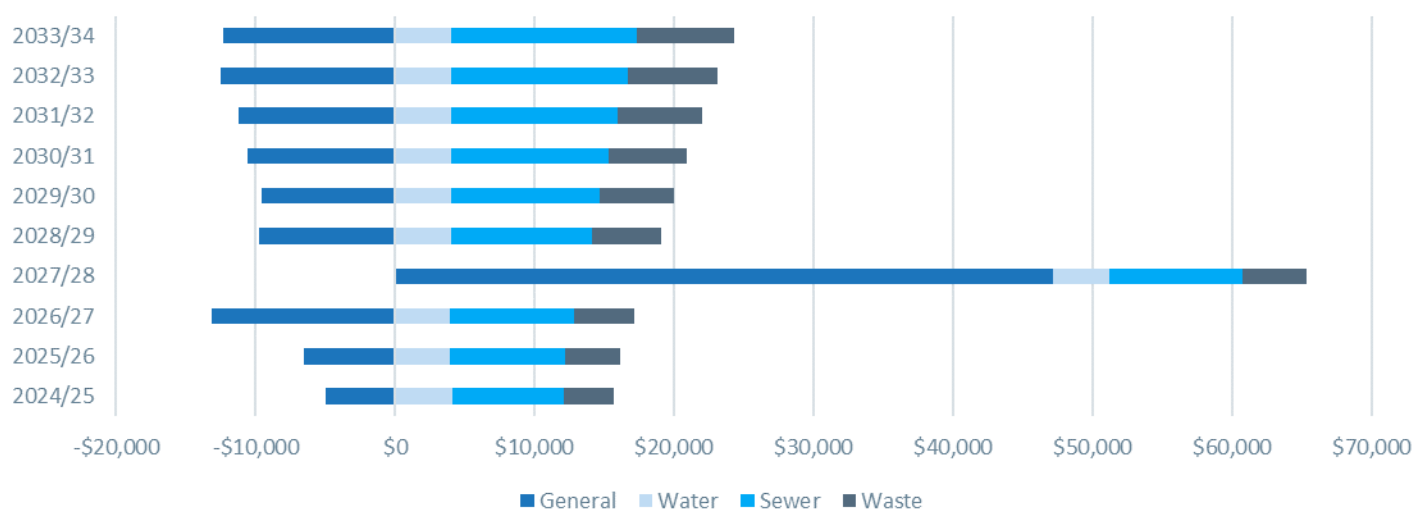
Table 6.4 Expense Percentage (%) Forecast Trend – Consolidated

	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
Expenses from continuing operations										
Estimated total staff costs	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Staff costs capitalised	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Employee benefits and on-costs	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Materials and services	2.1%	1.8%	2.9%	4.5%	4.3%	1.8%	3.0%	3.0%	4.2%	1.8%
Borrowing costs	-14.5%	-13.7%	-12.1%	-14.4%	-15.0%	-13.0%	-14.6%	-15.5%	-28.8%	-24.6%
Depreciation, amortisation and impairment of non-financial assets	3.9%	2.9%	2.8%	4.4%	3.0%	2.9%	2.9%	2.9%	2.9%	2.9%
Other expenses	1.1%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.2%	1.2%
Internal expenditure										
Net losses from the disposal of assets										
Total expenses from continuing operations	3.1%	2.5%	2.9%	3.9%	3.3%	2.7%	3.0%	3.0%	3.3%	2.7%

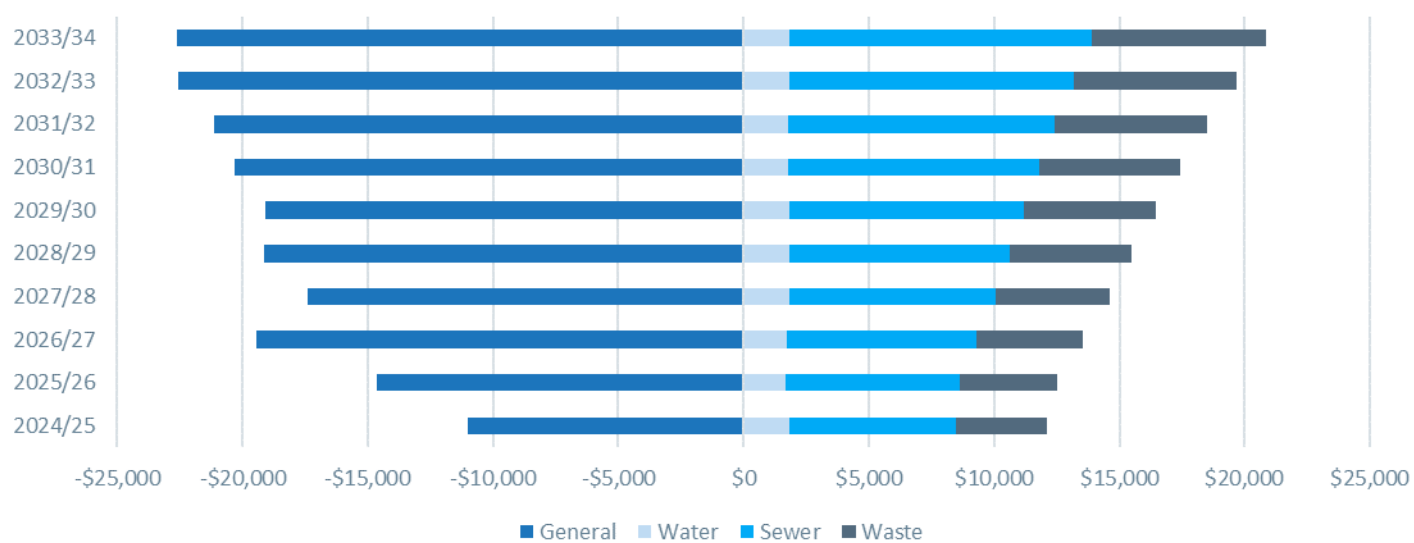
Source – AEC (unpublished)

6.3.1.1 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)

Table 6.5 Service Catalogue – Net Operating Result by Service (based on 2023/24 Budget)

SERVICE	Rates and annual charges	User charges and fees	Other revenue	Grants and contributions provided for operating purposes	Grants and contributions provided for capital purposes	Interest and investment revenue	Other income	Net gains from the disposal of assets	Internal Revenue	Total income from continuing operations	Employee benefits and on-costs	Materials and services	Borrowing costs	Depreciation, amortisation and impairment of non-financial assets	Other expenses	Internal expenditure	Net losses from the disposal of assets	Total expenses from continuing operations	Net Operating Result (Excl. Capital Grants)	Net Operating Result (less capital revenue)	Cash generated from operations
Community Culture and Places																					
Aquatic Leisure Centres	0	1,056,007	0	0	0	0	0	0	0	1,056,007	-1,404,315	-837,655	-5,611	-679,465	0	-68,529	0	-2,995,575	-1,939,568	-1,939,568	-1,260,103
Cemeteries	0	460,259	0	0	0	0	0	0	0	460,259	-21,278	-89,013	0	-64,585	0	-507,969	0	-682,845	-222,586	-222,586	-158,001
Community Services	0	4,214	84,534	181,630	60,622	0	0	0	0	331,000	-721,768	-328,812	0	-779,471	-210,622	-42,754	0	-2,083,427	-1,752,427	-1,813,049	-972,956
Family Day Care	0	298,479	0	978,000	0	0	0	0	0	1,276,479	-425,025	-1,025,995	0	-972	0	-1,023	0	-1,453,015	-176,536	-176,536	-175,564
Library Services	0	0	8,348	212,977	0	0	0	0	0	221,325	0	-143,310	0	-274,813	-2,350,913	-109,036	0	-2,878,072	-2,656,747	-2,656,747	-2,381,934
Old Dubbo Gaol	0	771,834	0	200,000	0	0	0	0	0	971,834	-527,462	-211,946	0	-155,206	0	-16,023	0	-910,637	61,197	61,197	216,403
Open Space	0	2,622	62,087	0	845,697	0	0	0	0	910,406	-475,847	-1,154,119	0	-1,967,703	0	-3,369,024	0	-6,966,693	-6,056,287	-6,901,984	-4,088,584
Rainbow Cottage	0	552,869	0	762,571	0	0	0	0	0	1,315,440	-1,307,597	-158,745	0	-69,220	0	-217,314	0	-1,752,876	-437,436	-437,436	-368,216
Recreation and Sporting	0	219,578	107,844	0	0	0	0	0	0	327,422	-283,338	-337,019	-24,158	-3,855,515	0	-2,100,392	0	-6,600,422	-6,273,000	-6,273,000	-2,417,485
Regional Events	0	0	120,000	30,000	0	0	0	0	0	150,000	-487,491	-343,500	0	0	0	0	0	-840,799	-690,799	-690,799	-690,799
Regional Experiences	0	27,620	0	94,500	0	0	0	0	1,188,049	1,310,169	-1,161,880	-377,048	0	0	0	-10,367	0	-1,549,295	-239,126	-239,126	-239,126
Regional Theatre and Convention Centre	0	1,604,127	0	0	0	0	0	0	0	1,604,127	-991,303	-1,581,181	-356,462	-1,162,808	0	-10,044	0	-4,101,799	-2,497,672	-2,497,672	-1,334,863
Showgrounds	0	264,651	82,622	0	0	0	0	0	0	347,273	-270,402	-192,669	0	-887,238	0	-48,408	0	-1,398,717	-1,051,444	-1,051,444	-164,206
Strategic Community Culture and Places	0	0	0	0	0	0	0	0	0	0	-715,217	-89,770	0	0	0	-12,096	0	-817,083	-817,083	-817,083	-817,083
Wellington Caves Complex	0	998,633	0	0	0	0	0	0	0	998,633	-830,822	-469,487	0	-171,737	0	-25,683	0	-1,497,729	-499,096	-499,096	-327,359
Western Plains Cultural Centre	0	107,461	65,910	0	0	0	0	0	0	173,371	-473,557	-491,791	-45,731	-594,933	0	-1,189,972	0	-2,795,985	-2,622,614	-2,622,614	-2,027,680
Wiradjuri Tourism Centre	0	0	0	0	0	0	0	0	0	0	-106,407	-143,593	0	0	0	0	0	-250,000	-250,000	-250,000	-250,000
Development and Environment																					
Building and Development Services	0	2,307,125	6,750	11,500	0	0	0	0	566,818	2,892,193	-1,925,731	-58,500	0	-3,343	0	-104,864	0	-2,092,438	799,755	799,755	803,098
Compliance	0	117,305	336,490	0	0	0	0	0	0	453,795	-1,177,654	-252,556	0	-41,310	0	-108,991	0	-1,580,511	-1,126,716	-1,126,716	-1,085,406
Environment and Health	0	143,195	0	0	0	0	0	0	1,896	145,091	-509,447	-10,731	0	-3,010	0	-37,809	0	-560,997	-415,906	-415,906	-412,896
Growth Planning	0	73,000	0	250,000	40,000	0	0	0	0	363,000	-795,159	-317,250	0	-669	0	-10,624	0	-1,123,702	-760,702	-800,702	-760,033
Resource Recovery and Efficiency	0	0	0	0	0	0	0	0	0	0	-137,237	-55,000	0	0	0	-1,160	0	-193,397	-193,397	-193,397	-193,397
Strategic Development and Environment	0	0	0	0	0	0	0	0	627,924	627,924	-997,322	-3,300	0	0	0	-16,103	0	-1,016,725	-388,801	-388,801	-388,801
Waste Management - Domestic	9,092,519	0	190,035	123,658	0	1,033,280	0	0	338,348	10,777,840	-917,634	-4,364,667	0	-28,771	0	-3,551,284	0	-8,862,356	1,915,484	1,915,484	1,944,255
Waste Management - Other	633,014	3,839,225	20,187	0	0	0	0	0	1,584,977	6,077,403	-1,337,388	-1,480,601	-4,917	-539,353	0	-1,212,593	0	-4,574,852	1,502,551	1,502,551	2,041,904
Infrastructure																					
BILT	0	0	0	0	439,176	0	0	0	389,570	828,746	-429,978	-35,000	0	0	0	-21,984	0	-486,962	341,784	-97,392	341,784
Depot Services	0	0	17,059	0	0	0	0	0	919,494	936,553	-434,077	-303,372	0	-428,925	0	-162,237	0	-1,328,611	-392,058	-392,058	36,867
Fleet Services	0	330,164	0	0	0	0	0	8,245,179	0	8,575,343	-1,638,351	-2,820,851	0	-3,666,464	0	-544,099	0	-8,669,765	-94,422	-94,422	3,572,042
Greenspace Operations	0	0	0	106,910	0	0	0	0	5,914,818	6,021,728	-4,246,158	-2,236,104	0	-5,106	0	-1,573,992	0	-8,061,360	-2,039,632	-2,039,632	-2,034,526
Infrastructure Strategy and Design	0	250,000	0	0	0	0	0	0	1,639,472	1,889,472	-2,072,836	-81,065	0	-22,455	0	-92,097	0	-2,268,453	-378,981	-378,981	-356,526
Roads Network	0	92,521	20,592	3,522,000	31,968,152	0	0	0	7,568,696	43,171,961	-3,608,390	-1,951,905	-27,195	-17,558,187	-45,000	-9,886,863	0	-33,077,540	10,094,421	-21,873,731	27,652,608
Roads State Network	0	1,235,116	0	0	0	0	0	0	0	1,235,116	0	0	0	0	0	-1,235,116	0	-1,235,116	0	0	0
Sewerage Services	14,350,240	4,885,869	159,848	116,000	1,333,444	2,946,400	0	0	0	23,791,801	-3,616,486	-3,141,684	-437,434	-5,727,830	0	-3,002,160	0	-15,925,594	7,866,207	6,532,763	13,594,037
Stormwater	1,725,789	0	0	0	300,000	0	0	0	0	2,025,789	-77,370	-131,788	-123,426	-2,457,756	0	-397,546	0	-3,187,886	-1,162,097	-1,462,097	1,295,659
Strategic Infrastructure	0	0	0	0	0	0	0	0	366,893	366,893	-521,578	-26,540	0	0	0	-12,493	0	-560,611	-193,718	-193,718	-193,718
Street Lighting	0	0	0	203,000	0	0	0	0	0	203,000	0	-1,042,714	0	0	0	0	0	-1,042,714	-839,714	-839,714	-839,714
Traffic Management	0	0	0	0	1,659,251	0	0	0	0	1,659,251	-312,065	-49,803	-133,012	-61,695	0	-188,223	0	-744,798	914,453	-744,798	976,148
Water for the Future	0	0	0	0	7,246,471	0	0	0	0	7,246,471	-34,930	0	0	0	0	0	0	-34,930	7,211,541	-34,930	7,211,541
Water Supply	8,242,079	13,423,427	42,059	130,000	2,247,611	2,528,760	0	0	1,779,582	28,393,518	-3,390,033	-6,370,353	-1,242,397	-7,329,480	0	-5,866,445	0	-24,198,708	4,194,810	1,947,199	11,524,290
Organisational Performance																					
Building Assets	0	0	366,486	0	0	0	0	0	481,652	848,138	-1,552,570	-650,027	-49,785	-1,000,730	0	-48,370	0	-3,301,481	-2,453,343	-2,453,343	-1,452,614
Corporate Governance	0	1,000	0	0	0	0	0	0	0	1,000	-1,603,192	-2,885,680	0	-76	0	-43,297	0	-4,532,245	-4,531,245	-4,531,245	-4,531,169
Corporate Overheads	0	0	0	0	0	0	0	7,110,583	0	7,110,583	0	0	0	0	0	0	0	0	7,110,583	7,110,583	7,110,583
Dubbo Regional Airport	0	5,669,000	376,666	60,000	782,500	0	0	0	83,382	6,971,548	-764,722	-2,152,307	0	-2,476,223	0	-713,851	0	-6,107,103	864,445	81,945	3,340,668
Dubbo Regional Livestock Markets	0	3,487,742	42,961	0	0	0	0	0	0	3,530,703	-894,540	-936,716	0	-1,853,163	0	-853,009	0	-4,537,428	-1,006,725	-1,006,725	846,438
Employment Overheads	0	0	0	0	0	0	0	0	100,000	100,000	2,967,142	0	0	0	0	-2,678,765	0	388,377	388,377	388,377	388,377
Financial Operations	0	243,807	0	0	10,892	3,324,840	0	0	0	3,579,539	-3,019,703	-578,200	0	0	0	0	0	-3,597,903	-18,364	-29,256	-18,364
Fire and Emergency Services	0	0	2,918	437,940	1,102,588	0	0	0	0	1,543,446	0	-354,139	0	-1,271,113	-1,836,094	-174,369	0	-3,635,715	-2,092,269	-3,194,857	-821,156
People Culture and Safety	0	100,000	0	0	0	0	0	0	2,976,405	3,076,405	-2,682,296	-385,005	0	-5,158	0	-19,104	0	-3,091,563	-15,158	-15,158	-10,000
Procurement	0	0	5,000	0	0	0	0	0	0	5,000	-261,030	-165,700	0	0	0	-9,552	0	-436,282	-431,282	-431,282	-431,282
Property and Land Development	0	0	1,827	0	0	0	0	8,997,000	0	8,998,827	-558,600	-2,717,642	0	0	0	-117,818	0	-3,394,060	5,604,767	5,604,767	5,604,767
Rates and General Revenue	39,112,744	-20,992	12,531	12,493,924	0	0	0	0	106,437	51,704,644	1,060,109	-11,275	0	0	0	0	0	1,048,834	52,753,478	52,753,478	52,753,478
Strategic Organisational Performance	0	0	0	0	0	0	0	0	212,292	212,292	-437,458	-1,960	0	0	0	-14,324	0	-453,742	-241,450	-241,450	-241,450
Strategy Partnerships and Engagement																					
Customer Experience	0	18,637	0	0	0	0	0	0	0	18,637	-1,418,051	-175,680	0	0	0	-10,752	0	-1,604,483	-1,585,846	-1,585,846	-1,585,846
Information Services	0	44,871	2,000	0	0	0	0	0	20,000	66,871	-2,263,024	-2,379,712	0	-680,832	0	-45,248	0	-5,368,816	-5,301,945	-5,301,945	-4,621,113
Strategic Partnerships and Investment	0	299,361	100,000	30,000	0	0	0	0	63,000	492,361	-2,037,230	-858,382	0	-127,376	0	-99,644	0	-3,122,632	-2,630,271	-2,630,271	-2,502,895
Strategic Strategy Partnerships and Engagement	0	0	0	0	0	0	0	0	0	0	-631,905	-52,800	0	0	0	-14,335	0	-699,040	-699,040	-699,040	-699,040
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GRAND TOTAL	73,156,385	42,908,727	2,234,754	19,944,610	48,036,404	9,833,280	0	8,997,000	42,285,467	247,396,627	-52,480,603	-47,014,662	-2,450,129	-55,952,690	-4,442,629	-40,607,563	0	-202,9			

Source – AEC (unpublished)

Note: This table contains some minor differences related to internal charges compared to the Operating Statement – this is due to consolidation and elimination of internal charges, impacting Employee benefits & oncosts, and Materials & Services.

We have also shown internal revenue here, whereas such internal revenue is eliminated in the Operating Statement reports

6.4 AVAILABILITY OF CASH

Table 6.7 indicates the forecast cashflow throughout the forecast period under the Base Case Scenario for the Consolidated entities, and Table 6.8 shows the forecast cashflow for the General Fund.

The Cashflow forecast for the Base Case Scenario currently indicates a substantial growth in cash across the assessment period, from total cash, cash equivalents and investments of \$188 million at the start of the 2023/24 financial year to \$378 million by the end of the 2033/34 financial year. However, the cash accumulates most significantly in externally restricted cash reserves (mainly for sewer fund, developer contributions, domestic waste) and internally restricted cash reserves (mainly in the Other Waste Management Services reserve).

The accumulation in the externally restricted cash reserves is primarily due to lack of planned use of the funding in the Capital Works Plan – given that AEC was only provided with planned capital expenditure for the current financial year plus three forward years.

However, while total cash is increasing (due to lack of planning for capital expenditure), the unrestricted cash – the balance of cash available after cash is quarantined for reserve purposes – deteriorates into a negative balance of (\$44 million). Council must avoid a negative unrestricted cash position, as it would indicate the Council does not have sufficient cash to back the reserves and therefore the Council has expended cash that should have been quarantined for purposes other than that which the reserve was established for. This should be a significant concern for the Council as Ministerial Approval is required to access cash from a number of the external reserves.

There is a mitigating factor has to avoid a negative unrestricted cash balance in the short term – that is the Future Asset Renewal reserve. AEC understands that this reserve has historically been used effectively as the “residual or balancing reserve” in which either a cash surplus or cash deficit that is generated in any one year was adjusted against the Future Asset Renewal reserve. Given that the Future Asset Renewal reserve is expected to have a balance of approximately \$44.8 million at the end of the 2022/23 financial year, there is substantial capacity to mitigate the risk of a negative unrestricted cash balance in the short term – but this will not be adequate in the medium to long term.

While it is not possible within the scope of this review for AEC to definitively determine the historical reason for a significant amount of cash to accumulate in the Future Asset Renewal reserve, anecdotally the lower than planned completion rate for capital works programs has contributed significantly to the accumulation of cash in previous years.

Furthermore, as outlined later in this paper, the deterioration into a negative balance occurs despite Council investing significantly less than what is necessary in asset renewals to maintain the condition and performance of assets – the shortfall in asset renewal investments compared to depreciation expense is estimated by AEC to be \$28.1 million per year.

Therefore, AEC concludes that in the Base Scenario, Council does not maintain fiscal capital adequately to be sustainable, most significantly due to insufficient cash being generated in the General Fund (related to the operating deficit in the General Fund).

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

SERVICE	Rates and annual charges	User charges and fees	Other revenue	Grants and contributions provided for operating purposes	Grants and contributions provided for capital purposes	Interest and investment revenue	Other income	Net gains from the disposal of assets	Internal Revenue	Total income from continuing operations	Employee benefits and on-costs	Materials and services	Borrowing costs	Depreciation, amortisation and impairment of non-financial assets	Other expenses	Internal expenditure	Net losses from the disposal of assets	Total expenses from continuing operations	Net Operating Result (Excl. Capital Grants)	Net Operating Result (less capital revenue)	Cash generated from operations
Community Culture and Places																					
Aquatic Leisure Centres	0	1,056,007	0	0	0	0	0	0	0	1,056,007	-1,404,315	-837,655	-5,611	-679,465	0	-68,529	0	-2,995,575	-1,939,568	-1,939,568	-1,260,103
Cemeteries	0	460,259	0	0	0	0	0	0	0	460,259	-21,278	-89,013	0	-64,585	0	-507,969	0	-682,845	-222,586	-222,586	-158,001
Community Services	0	4,214	84,534	181,630	60,622	0	0	0	0	331,000	-721,768	-328,812	0	-779,471	-210,622	-42,754	0	-2,083,427	-1,752,427	-1,813,049	-972,956
Family Day Care	0	298,479	0	978,000	0	0	0	0	0	1,276,479	-425,025	-1,025,995	0	-972	0	-1,023	0	-1,453,015	-176,536	-176,536	-175,564
Library Services	0	0	8,348	212,977	0	0	0	0	0	221,325	0	-143,310	0	-274,813	-2,350,913	-109,036	0	-2,878,072	-2,656,747	-2,656,747	-2,381,934
Old Dubbo Gaol	0	771,834	0	200,000	0	0	0	0	0	971,834	-527,462	-211,946	0	-155,206	0	-16,023	0	-910,637	61,197	61,197	216,403
Open Space	0	2,622	62,087	0	845,697	0	0	0	0	910,406	-475,847	-1,154,119	0	-1,967,703	0	-3,369,024	0	-6,966,693	-6,056,287	-6,901,984	-4,088,584
Rainbow Cottage	0	552,869	0	762,571	0	0	0	0	0	1,315,440	-1,307,597	-158,745	0	-69,220	0	-217,314	0	-1,752,876	-437,436	-437,436	-368,216
Recreation and Sporting	0	219,578	107,844	0	0	0	0	0	0	327,422	-283,338	-337,019	-24,158	-3,855,515	0	-2,100,392	0	-6,600,422	-6,273,000	-6,273,000	-2,417,485
Regional Events	0	0	120,000	30,000	0	0	0	0	0	150,000	-487,491	-343,500	0	0	0	0	0	-840,799	-690,799	-690,799	-690,799
Regional Experiences	0	27,620	0	94,500	0	0	0	0	1,188,049	1,310,169	-1,161,880	-377,048	0	0	0	-10,367	0	-1,549,295	-239,126	-239,126	-239,126
Regional Theatre and Convention Centre	0	1,604,127	0	0	0	0	0	0	0	1,604,127	-991,303	-1,581,181	-356,462	-1,162,808	0	-10,044	0	-4,101,799	-2,497,672	-2,497,672	-1,334,863
Showgrounds	0	264,651	82,622	0	0	0	0	0	0	347,273	-270,402	-192,669	0	-887,238	0	-48,408	0	-1,398,717	-1,051,444	-1,051,444	-164,206
Strategic Community Culture and Places	0	0	0	0	0	0	0	0	0	0	-715,217	-89,770	0	0	0	-12,096	0	-817,083	-817,083	-817,083	-817,083
Wellington Caves Complex	0	998,633	0	0	0	0	0	0	0	998,633	-830,822	-469,487	0	-171,737	0	-25,683	0	-1,497,729	-499,096	-499,096	-327,359
Western Plains Cultural Centre	0	107,461	65,910	0	0	0	0	0	0	173,371	-473,557	-491,791	-45,731	-594,933	0	-1,189,972	0	-2,795,985	-2,622,614	-2,622,614	-2,027,680
Wiradjuri Tourism Centre	0	0	0	0	0	0	0	0	0	0	-106,407	-143,593	0	0	0	0	0	-250,000	-250,000	-250,000	-250,000
Development and Environment																					
Building and Development Services	0	2,307,125	6,750	11,500	0	0	0	0	566,818	2,892,193	-1,925,731	-58,500	0	-3,343	0	-104,864	0	-2,092,438	799,755	799,755	803,098
Compliance	0	117,305	336,490	0	0	0	0	0	0	453,795	-1,177,654	-252,556	0	-41,310	0	-108,991	0	-1,580,511	-1,126,716	-1,126,716	-1,085,406
Environment and Health	0	143,195	0	0	0	0	0	0	1,896	145,091	-509,447	-10,731	0	-3,010	0	-37,809	0	-560,997	-415,906	-415,906	-412,896
Growth Planning	0	73,000	0	250,000	40,000	0	0	0	0	363,000	-795,159	-317,250	0	-669	0	-10,624	0	-1,123,702	-760,702	-800,702	-760,033
Resource Recovery and Efficiency	0	0	0	0	0	0	0	0	0	0	-137,237	-55,000	0	0	0	-1,160	0	-193,397	-193,397	-193,397	-193,397
Strategic Development and Environment	0	0	0	0	0	0	0	0	627,924	627,924	-997,322	-3,300	0	0	0	-16,103	0	-1,016,725	-388,801	-388,801	-388,801
Waste Management - Domestic	9,092,519	0	190,035	123,658	0	1,033,280	0	0	338,348	10,777,840	-917,634	-4,364,667	0	-28,771	0	-3,551,284	0	-8,862,356	1,915,484	1,915,484	1,944,255
Waste Management - Other	633,014	3,839,225	20,187	0	0	0	0	0	1,584,977	6,077,403	-1,337,388	-1,480,601	-4,917	-539,353	0	-1,212,593	0	-4,574,852	1,502,551	1,502,551	2,041,904
Infrastructure																					
BILT	0	0	0	0	439,176	0	0	0	389,570	828,746	-429,978	-35,000	0	0	0	-21,984	0	-486,962	341,784	-97,392	341,784
Depot Services	0	0	17,059	0	0	0	0	0	919,494	936,553	-434,077	-303,372	0	-428,925	0	-162,237	0	-1,328,611	-392,058	-392,058	36,867
Fleet Services	0	330,164	0	0	0	0	0	8,245,179	0	8,575,343	-1,638,351	-2,820,851	0	-3,666,464	0	-544,099	0	-8,669,765	-94,422	-94,422	3,572,042
Greenspace Operations	0	0	0	106,910	0	0	0	0	5,914,818	6,021,728	-4,246,158	-2,236,104	0	-5,106	0	-1,573,992	0	-8,061,360	-2,039,632	-2,039,632	-2,034,526
Infrastructure Strategy and Design	0	250,000	0	0	0	0	0	0	1,639,472	1,889,472	-2,072,836	-81,065	0	-22,455	0	-92,097	0	-2,268,453	-378,981	-378,981	-356,526
Roads Network	0	92,521	20,592	3,522,000	31,968,152	0	0	0	7,568,696	43,171,961	-3,608,390	-1,951,905	-27,195	-17,558,187	-45,000	-9,886,863	0	-33,077,540	10,094,421	-21,873,731	27,652,608
Roads State Network	0	1,235,116	0	0	0	0	0	0	0	1,235,116	0	0	0	0	0	-1,235,116	0	-1,235,116	0	0	0
Sewerage Services	14,350,240	4,885,869	159,848	116,000	1,333,444	2,946,400	0	0	0	23,791,801	-3,616,486	-3,141,684	-437,434	-5,727,830	0	-3,002,160	0	-15,925,594	7,866,207	6,532,763	13,594,037
Stormwater	1,725,789	0	0	0	300,000	0	0	0	0	2,025,789	-77,370	-131,788	-123,426	-2,457,756	0	-397,546	0	-3,187,886	-1,162,097	-1,462,097	1,295,659
Strategic Infrastructure	0	0	0	0	0	0	0	0	366,893	366,893	-521,578	-26,540	0	0	0	-12,493	0	-560,611	-193,718	-193,718	-193,718
Street Lighting	0	0	0	203,000	0	0	0	0	0	203,000	0	-1,042,714	0	0	0	0	0	-1,042,714	-839,714	-839,714	-839,714
Traffic Management	0	0	0	0	1,659,251	0	0	0	0	1,659,251	-312,065	-49,803	-133,012	-61,695	0	-188,223	0	-744,798	914,453	-744,798	976,148
Water for the Future	0	0	0	0	7,246,471	0	0	0	0	7,246,471	-34,930	0	0	0	0	0	0	-34,930	7,211,541	-34,930	7,211,541
Water Supply	8,242,079	13,423,427	42,059	130,000	2,247,611	2,528,760	0	0	1,779,582	28,393,518	-3,390,033	-6,370,353	-1,242,397	-7,329,480	0	-5,866,445	0	-24,198,708	4,194,810	1,947,199	11,524,290
Organisational Performance																					
Building Assets	0	0	366,486	0	0	0	0	0	481,652	848,138	-1,552,570	-650,027	-49,785	-1,000,730	0	-48,370	0	-3,301,481	-2,453,343	-2,453,343	-1,452,614
Corporate Governance	0	1,000	0	0	0	0	0	0	0	1,000	-1,603,192	-2,885,680	0	-76	0	-43,297	0	-4,532,245	-4,531,245	-4,531,245	-4,531,169
Corporate Overheads	0	0	0	0	0	0	0	7,110,583	0	7,110,583	0	0	0	0	0	0	0	0	7,110,583	7,110,583	7,110,583
Dubbo Regional Airport	0	5,669,000	376,666	60,000	782,500	0	0	0	83,382	6,971,548	-764,722	-2,152,307	0	-2,476,223	0	-713,851	0	-6,107,103	864,445	81,945	3,340,668
Dubbo Regional Livestock Markets	0	3,487,742	42,961	0	0	0	0	0	0	3,530,703	-894,540	-936,716	0	-1,853,163	0	-853,009	0	-4,537,428	-1,006,725	-1,006,725	846,438
Employment Overheads	0	0	0	0	0	0	0	0	100,000	100,000	2,967,142	0	0	0	0	-2,678,765	0	388,377	388,377	388,377	388,377
Financial Operations	0	243,807	0	0	10,892	3,324,840	0	0	0	3,579,539	-3,019,703	-578,200	0	0	0	0	0	-3,597,903	-18,364	-29,256	-18,364
Fire and Emergency Services	0	0	2,918	437,940	1,102,588	0	0	0	0	1,543,446	0	-354,139	0	-1,271,113	-1,836,094	-174,369	0	-3,635,715	-2,092,269	-3,194,857	-821,156
People Culture and Safety	0	100,000	0	0	0	0	0	0	2,976,405	3,076,405	-2,682,296	-385,005	0	-5,158	0	-19,104	0	-3,091,563	-15,158	-15,158	-10,000
Procurement	0	0	5,000	0	0	0	0	0	0	5,000	-261,030	-165,700	0	0	0	-9,552	0	-436,282	-431,282	-431,282	-431,282
Property and Land Development	0	0	1,827	0	0	0	0	8,997,000	0	8,998,827	-558,600	-2,717,642	0	0	0	-117,818	0	-3,394,060	5,604,767	5,604,767	5,604,767
Rates and General Revenue	39,112,744	-20,992	12,531	12,493,924	0	0	0	0	106,437	51,704,644	1,060,109	-11,275	0	0	0	0	0	1,048,834	52,753,478	52,753,478	52,753,478
Strategic Organisational Performance	0	0	0	0	0	0	0	0	212,292	212,292	-437,458	-1,960	0	0	0	-14,324	0	-453,742	-241,450	-241,450	-241,450
Strategy Partnerships and Engagement																					
Customer Experience	0	18,637	0	0	0	0	0	0	0	18,637	-1,418,051	-175,680	0	0	0	-10,752	0	-1,604,483	-1,585,846	-1,585,846	-1,585,846
Information Services	0	44,871	2,000	0	0	0	0	0	20,000	66,871	-2,263,024	-2,379,712	0	-680,832	0	-45,248	0	-5,368,816	-5,301,945	-5,301,945	-4,621,113
Strategic Partnerships and Investment	0	299,361	100,000	30,000	0	0	0	0	63,000	492,361	-2,037,230	-858,382	0	-127,376	0	-99,644	0	-3,122,632	-2,630,271	-2,630,271	-2,502,895
Strategic Strategy Partnerships and Engagement	0	0	0	0	0	0	0	0	0	0	-631,905	-52,800	0	0	0	-14,335	0	-699,040	-699,040	-699,040	-699,040
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GRAND TOTAL	73,156,385	42,908,727	2,234,754	19,944,610	48,036,404	9,833,280	0	8,997,000	42,285,467	247,396,627	-52,480,603	-47,014,662	-2,450,129	-55,952,690	-4,442,629	-40,607,563	0	-202,9			

Source – AEC (unpublished)

Note: This table contains some minor differences related to internal charges compared to the Operating Statement – this is due to consolidation and elimination of internal charges, impacting Employee benefits & oncosts, and Materials & Services.

We have also shown internal revenue here, whereas such internal revenue is eliminated in the Operating Statement reports

Table 6.7 Statement of Cash Flows – Consolidated

STATEMENT OF CASH FLOWS - CONSOLIDATED	2017/18	2018/19	2019/20	2020/21	2021/22	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	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL					DRAFT ACTUAL	FORECAST	FORWARD PLAN									
Cash Flows from operating activities																	
Receipts:																	
Rates and annual charges	56,224	61,777	64,792	67,503	69,774	72,787	73,156	75,717	78,367	81,110	83,949	86,887	89,928	93,075	96,333	99,705	103,194
User charges and fees	58,031	47,063	44,968	39,335	39,741	41,431	42,909	44,089	45,191	46,321	47,479	48,666	49,882	51,129	52,408	53,718	55,061
Investment and interest revenue received	6,404	6,837	5,907	4,754	3,281	6,082	9,833	10,003	10,048	11,017	12,053	12,288	13,082	13,336	14,085	15,020	15,989
Grants and contributions	69,391	51,515	46,230	56,859	60,100	71,011	67,981	29,656	32,200	30,927	89,683	35,042	35,745	36,466	37,205	37,965	38,744
Bonds, deposits and retention amounts received	216	67	-	602	-	59	-	-	-	-	-	-	-	-	-	-	-
Other operating	5,929	771	472	5,086	1,064	7,005	2,235	2,296	2,354	2,412	2,473	2,535	2,598	2,663	2,729	2,798	2,868
Payments:																	
Employee benefits and on-costs	(38,646)	(40,548)	(45,026)	(45,021)	(44,317)	(47,668)	(50,964)	(53,017)	(54,884)	(56,818)	(58,819)	(60,891)	(63,035)	(65,255)	(67,553)	(69,932)	(72,394)
Materials and services	(36,109)	(34,386)	(39,308)	(49,666)	(50,299)	(53,447)	(46,511)	(47,504)	(48,343)	(49,737)	(51,963)	(54,195)	(55,186)	(56,858)	(58,571)	(61,035)	(62,128)
Borrowing costs	(3,865)	(3,809)	(3,733)	(3,144)	(2,949)	(3,358)	(2,450)	(2,096)	(1,808)	(1,589)	(1,360)	(1,156)	(1,007)	(860)	(727)	(518)	(390)
Bonds, deposits and retention amounts refunded	-	-	(99)	-	(323)	-	-	-	-	-	-	-	-	-	-	-	-
Other operating	(17,825)	(16,628)	(15,565)	(2,481)	(2,359)	(2,567)	(4,443)	(4,493)	(4,540)	(4,589)	(4,638)	(4,689)	(4,741)	(4,794)	(4,849)	(4,905)	(4,963)
Net cash provided (or used in) operating activities	99,750	72,659	58,638	73,827	73,713	91,335	91,747	54,651	58,583	59,055	118,857	64,487	67,267	68,902	71,061	72,816	75,981
Cash Flows from investing activities																	
Receipts:																	
Sale of investments	220,916	103,568	136,078	162,914	92,022	150,575	87,750	95,500	95,500	85,500	80,500	80,500	90,500	100,500	100,500	100,500	100,500
Sale of infrastructure, property, plant and equipment	1,672	2,645	3,200	10,803	1,779	1,943	2,830	3,563	3,395	3,625	3,551	3,640	3,731	3,825	3,920	4,018	4,119
Sale of real estate assets	4,460	2,678	760	8,777	6,695	-	14,995	24,274	18,637	11,363	15,015	15,391	15,776	16,170	16,574	16,989	17,413
Deferred Debtors Receipts	864	461	470	34	79	75	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments:																	
Purchase of investment securities	(256,275)	(91,167)	(134,820)	(135,018)	(117,049)	(179,079)	(65,000)	(75,500)	(85,500)	(95,500)	(95,500)	(105,500)	(105,500)	(133,500)	(128,500)	(128,500)	(128,500)
Purchase of infrastructure, property, plant and equipment	(54,312)	(71,850)	(70,238)	(80,229)	(58,310)	(50,656)	(117,299)	(90,142)	(50,165)	(42,693)	(122,551)	(55,751)	(72,257)	(62,148)	(59,919)	(61,328)	(62,861)
Purchase of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of real estate assets	(1,210)	(3,515)	(2,089)	(3,109)	(4,062)	(3,121)	(7,634)	(5,990)	(5,803)	(5,028)	(8,427)	(8,613)	(8,819)	(9,030)	(9,245)	(9,466)	(9,692)
Deferred debtors and advances made	(210)	(86)	-	18	20	19	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) investing activities	(84,095)	(57,266)	(66,639)	(35,810)	(78,826)	(80,244)	(84,358)	(48,296)	(23,936)	(42,733)	(127,411)	(70,333)	(76,569)	(84,183)	(76,670)	(77,787)	(79,021)

STATEMENT OF CASH FLOWS - CONSOLIDATED	2017/18	2018/19	2019/20	2020/21	2021/22	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	\$'000	\$'000	\$'000	\$'000	\$'000
	ACTUAL					DRAFT ACTUAL	FORECAST	FORWARD PLAN									
Cash Flows from financing activities																	
Receipts:																	
New Residential Accommodation Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments:																	
Repayment of borrowings and advances	(4,652)	(4,969)	(5,206)	(5,502)	(5,829)	(5,984)	(6,230)	(5,463)	(3,065)	(3,184)	(3,385)	(2,212)	(2,362)	(2,090)	(2,221)	(2,092)	(2,220)
Principal component of lease payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) financing activities	(4,652)	(4,969)	(5,206)	(5,502)	(5,829)	(5,984)	(6,230)	(5,463)	(3,065)	(3,184)	(3,385)	(2,212)	(2,362)	(2,090)	(2,221)	(2,092)	(2,220)
Net increase/(decrease) in cash and cash equivalents	11,003	10,424	(13,207)	32,515	(10,942)	5,107	1,158	892	31,582	13,138	(11,939)	(8,058)	(11,664)	(17,370)	(7,831)	(7,064)	(5,260)
Cash and cash equivalents - beginning of year	25,752	36,755	47,179	33,972	66,487	55,545	60,652	61,810	62,702	94,283	107,422	95,482	87,425	75,761	58,390	50,560	43,496
Cash and cash equivalents - end of the year	36,755	47,179	33,972	66,487	55,545	60,652	61,810	62,702	94,283	107,422	95,482	87,425	75,761	58,390	50,560	43,496	38,236
Investments on hand - end of year	197,732	185,331	184,073	156,136	182,742	211,012	188,262	168,262	158,262	168,262	183,262	208,262	223,262	256,262	284,262	312,262	340,262
Total cash, cash equivalents and investments	234,487	232,510	218,045	222,623	238,287	271,664	250,072	230,964	252,545	275,684	278,744	295,687	299,023	314,652	334,822	355,758	378,498

Source – AEC (unpublished)

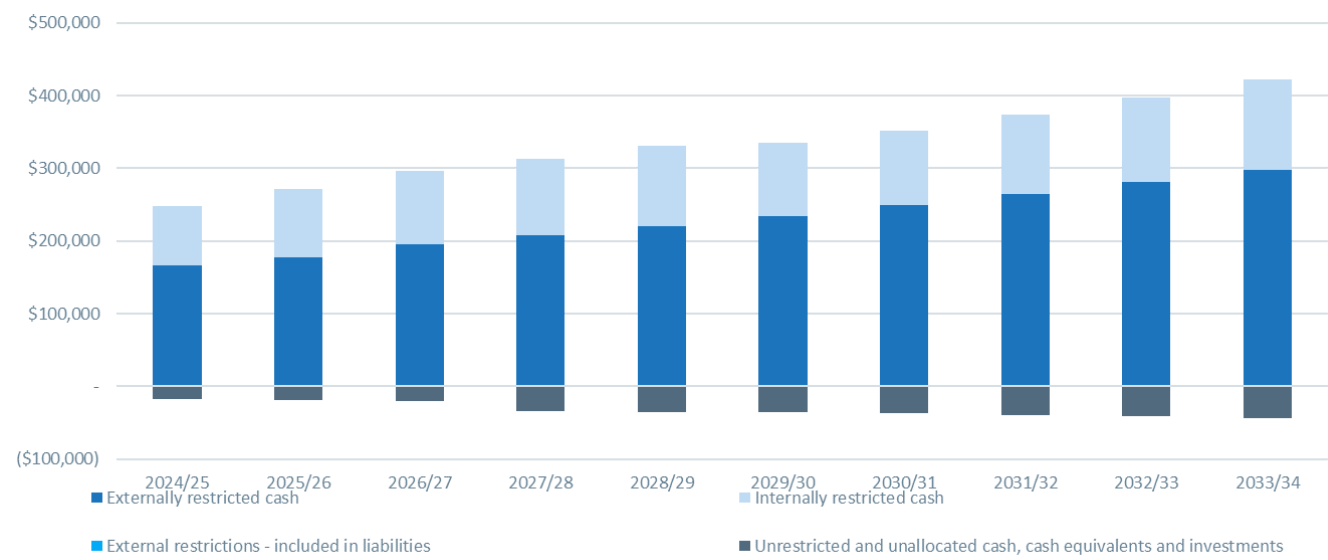
Table 6.8 Statement of Cash Flows – General Fund

STATEMENT OF CASH FLOWS - GENERAL	2017/18	2018/19	2019/20	2020/21	2021/22	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	\$'000	\$'000	\$'000	\$'000
	ACTUAL					BUDGET	FORECAST	FORWARD PLAN									
Cash Flows from operating activities																	
Receipts:																	
Rates and annual charges	-	-	-	-	-	40,839	40,839	42,268	43,747	45,278	46,863	48,503	50,201	51,958	53,777	55,659	57,607
User charges and fees	-	-	-	-	-	20,450	20,760	21,331	21,864	22,411	22,971	23,546	24,134	24,738	25,356	25,990	26,640
Investment and interest revenue received	-	-	-	-	-	4,064	3,325	3,232	3,145	3,495	3,682	3,291	3,423	2,977	2,986	3,138	3,272
Grants and contributions	-	-	-	-	-	42,184	56,784	25,669	28,221	26,956	85,720	31,086	31,795	32,522	33,267	34,032	34,816
Bonds, deposits and retention amounts received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating	-	-	-	-	-	56,660	40,405	41,516	42,554	43,618	44,709	45,826	46,972	48,146	49,350	50,584	51,848
Payments:																	
Employee benefits and on-costs	-	-	-	-	-	(42,842)	(42,842)	(44,555)	(46,115)	(47,729)	(49,399)	(51,128)	(52,918)	(54,770)	(56,687)	(58,671)	(60,724)
Materials and services	-	-	-	-	-	(20,300)	(31,657)	(31,990)	(32,341)	(33,269)	(34,941)	(36,605)	(37,014)	(38,090)	(39,192)	(41,028)	(41,479)
Borrowing costs	-	-	-	-	-	(770)	(765)	(595)	(430)	(306)	(176)	(77)	(40)	(12)	(5)	-	-
Bonds, deposits and retention amounts refunded	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating	-	-	-	-	-	(58,275)	(31,418)	(32,210)	(32,950)	(33,709)	(34,486)	(35,283)	(36,100)	(36,937)	(37,796)	(38,676)	(39,577)
Net cash provided (or used in) operating activities	-	-	-	-	-	42,009	55,431	24,666	27,695	26,745	84,942	29,159	30,454	30,532	31,057	31,028	32,402
Cash Flows from investing activities																	
Receipts:																	
Sale of investments	-	-	-	-	-	-	42,750	50,000	40,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Sale of infrastructure, property, plant and equipment	-	-	-	-	-	1,824	2,167	3,322	3,017	2,823	3,010	3,085	3,162	3,241	3,322	3,405	3,490
Sale of real estate assets	-	-	-	-	-	14,550	14,995	24,274	18,637	11,363	15,015	15,391	15,776	16,170	16,574	16,989	17,413
Deferred Debtors Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments:																	
Purchase of investment securities	-	-	-	-	-	-	(30,000)	(30,000)	(30,000)	(30,000)	(20,000)	(30,000)	(30,000)	(38,000)	(38,000)	(38,000)	(38,000)
Purchase of infrastructure, property, plant and equipment	-	-	-	-	-	(66,986)	(90,754)	(66,143)	(35,877)	(32,325)	(105,391)	(38,161)	(54,227)	(43,667)	(40,977)	(41,912)	(42,960)
Purchase of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of real estate assets	-	-	-	-	-	(7,634)	(7,634)	(5,990)	(5,803)	(5,028)	(8,427)	(8,613)	(8,819)	(9,030)	(9,245)	(9,466)	(9,692)
Deferred debtors and advances made	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) investing activities	-	-	-	-	-	(58,245)	(68,476)	(24,538)	(10,026)	(23,166)	(85,792)	(28,298)	(44,109)	(41,286)	(38,326)	(38,984)	(39,748)

STATEMENT OF CASH FLOWS - GENERAL	2017/18	2018/19	2019/20	2020/21	2021/22	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	\$'000	\$'000	\$'000	\$'000
	ACTUAL					BUDGET	FORECAST	FORWARD PLAN									
Cash Flows from financing activities																	
<i>Receipts:</i>																	
New Residential Accommodation Bonds								-	-	-	-	-	-	-	-	-	-
Proceeds from borrowings								-	-	-	-	-	-	-	-	-	-
Other financing								-	-	-	-	-	-	-	-	-	-
<i>Payments:</i>																	
Repayment of borrowings and advances							(2,359)	(2,529)	(1,584)	(1,643)	(1,748)	(471)	(508)	(117)	(123)	-	-
Principal component of lease payments							-	-	-	-	-	-	-	-	-	-	-
Other financing							-	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) financing activities							(2,359)	(2,529)	(1,584)	(1,643)	(1,748)	(471)	(508)	(117)	(123)	-	-
Net increase/(decrease) in cash and cash equivalents							(15,404)	(2,402)	16,086	1,936	(2,597)	390	(14,163)	(10,871)	(7,392)	(7,957)	(7,347)
Cash and cash equivalents - beginning of year							23,737	8,333	5,931	22,017	23,953	21,356	21,746	7,583	(3,289)	(10,680)	(18,637)
Cash and cash equivalents - end of the year							8,333	5,931	22,017	23,953	21,356	21,746	7,583	(3,289)	(10,680)	(18,637)	(25,983)
Investments on hand - end of year							72,466	52,466	42,466	42,466	32,466	32,466	32,466	40,466	48,466	56,466	64,466
Total cash, cash equivalents and investments							80,799	58,397	64,483	66,419	53,822	54,212	40,049	37,177	37,786	37,829	38,483

Source – AEC (unpublished)

Figure 6.3 **Restricted and Unrestricted Cash – Base Case Scenario**



Source – AEC (unpublished)

Table 6.9 Reserves Summary – Consolidated

RESERVES - CONSOLIDATED	2022/23 \$'000	2023/24 \$'000	2024/25 \$'000	2025/26 \$'000	2026/27 \$'000	2027/28 \$'000	2028/29 \$'000	2029/30 \$'000	2030/31 \$'000	2031/32 \$'000	2032/33 \$'000	2033/34 \$'000
Externally Restricted - Other												
Developer contributions – general	15,621	17,644	20,227	22,889	25,632	28,460	31,374	34,379	37,478	40,673	43,969	47,368
Unexpended grants	29,897	12,725	2,480	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587
Water fund	63,219	63,592	57,734	57,518	60,841	60,018	59,122	58,151	57,100	55,967	54,958	53,867
Sewer fund	73,660	74,665	77,090	85,739	97,368	106,523	116,309	126,760	137,913	149,806	162,478	175,973
Stormwater Management	4,357	3,358	3,031	3,031	3,031	3,031	3,031	3,031	3,031	3,031	3,031	3,031
Domestic Waste Management	4,220	5,050	6,043	7,100	7,244	8,182	9,236	10,415	11,723	13,167	14,756	16,495
Developer contributions – water fund	-	-	-	-	-	-	-	-	-	-	-	-
Developer contributions – sewer fund	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
Externally Restricted - Other	190,974	177,035	166,605	177,863	195,703	207,800	220,659	234,322	248,831	264,231	280,779	298,322
Internally Restricted												
Employees Leave Entitlement	3,401	3,789	3,853	3,743	3,328	3,328	3,328	3,328	3,328	3,328	3,328	3,328
Property development	(7,612)	(13,261)	(3,796)	3,217	2,853	2,853	2,853	2,853	2,853	2,853	2,853	2,853
Dubbo Regional Airport	2,027	2,873	4,872	6,834	9,182	10,655	13,064	410	(653)	1,911	4,530	7,203
Livestock markets	3,298	3,549	3,547	3,866	4,244	4,477	4,705	4,928	5,145	5,357	5,562	5,760
Other waste management services	21,612	23,295	26,367	29,728	33,201	36,974	40,980	45,236	49,755	54,555	59,654	65,070
Road network - state roads	1,401	1,401	1,401	870	870	684	493	298	98	10	10	10
Fleet management services	9,828	9,090	6,758	6,824	7,443	6,601	5,718	4,794	3,827	2,815	1,755	647
Future asset renewal	44,887	43,088	38,971	38,971	38,971	38,971	38,971	38,971	38,971	38,971	38,971	38,971
Dubbo city holiday park	-	-	-	-	-	-	-	-	-	-	-	-
Federal financial assistance grant (advance receipt)	-	-	-	-	-	-	-	-	-	-	-	-
Governance	-	-	-	-	-	-	-	-	-	-	-	-
Other historic reserves	-	-	-	-	-	-	-	-	-	-	-	-
Carry over projects	-	-	-	-	-	-	-	-	-	-	-	-
Internally Restricted	78,842	73,823	81,974	94,053	100,093	104,543	110,113	100,818	103,324	109,800	116,663	123,842
Total internal and external restrictions	269,816	250,857	248,579	271,916	295,796	312,343	330,772	335,140	352,155	374,031	397,442	422,164
Total cash, cash equivalents and investments	271,664	250,072	230,964	252,545	275,684	278,744	295,687	299,023	314,652	334,822	355,758	378,498
Externally restricted cash	190,974	177,035	166,605	177,863	195,703	207,800	220,659	234,322	248,831	264,231	280,779	298,322
Internally restricted cash	78,842	73,823	81,974	94,053	100,093	104,543	110,113	100,818	103,324	109,800	116,663	123,842
External restrictions - included in liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted and unallocated cash, cash equivalents ar	1,848	(785)	(17,615)	(19,371)	(20,113)	(33,599)	(35,086)	(36,118)	(37,503)	(39,210)	(41,684)	(43,666)

Source – AEC (unpublished)

6.5 INVESTMENT IN ASSETS TO MAINTAIN INFRASTRUCTURE CAPITAL

Council has provided AEC with a prepared capital works program (new assets 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 the four-year program provided in order to provide a 10-year program. In the Base Case Scenario, we have assumed that the average spend during the initial 4 year capital works plan provided by Council will continue throughout the forecast period.

The Base Case Scenario includes a total of \$884.9 million over the next ten years on capital expenditure, comprising \$418.6 million of new assets and \$466.3 million of asset renewals over the forecast period.

6.5.1 Focus Asset Groups

To assess the adequacy of Council's renewals investment, AEC engaged with asset custodians for selected 'focus' asset classes as agreed with Council senior staff, reviewed and analysed asset data held by Council to form an assessment of the adequacy of Council's investment in asset renewals and maintenance and whether the investment is likely to maintain the infrastructure capital or not.

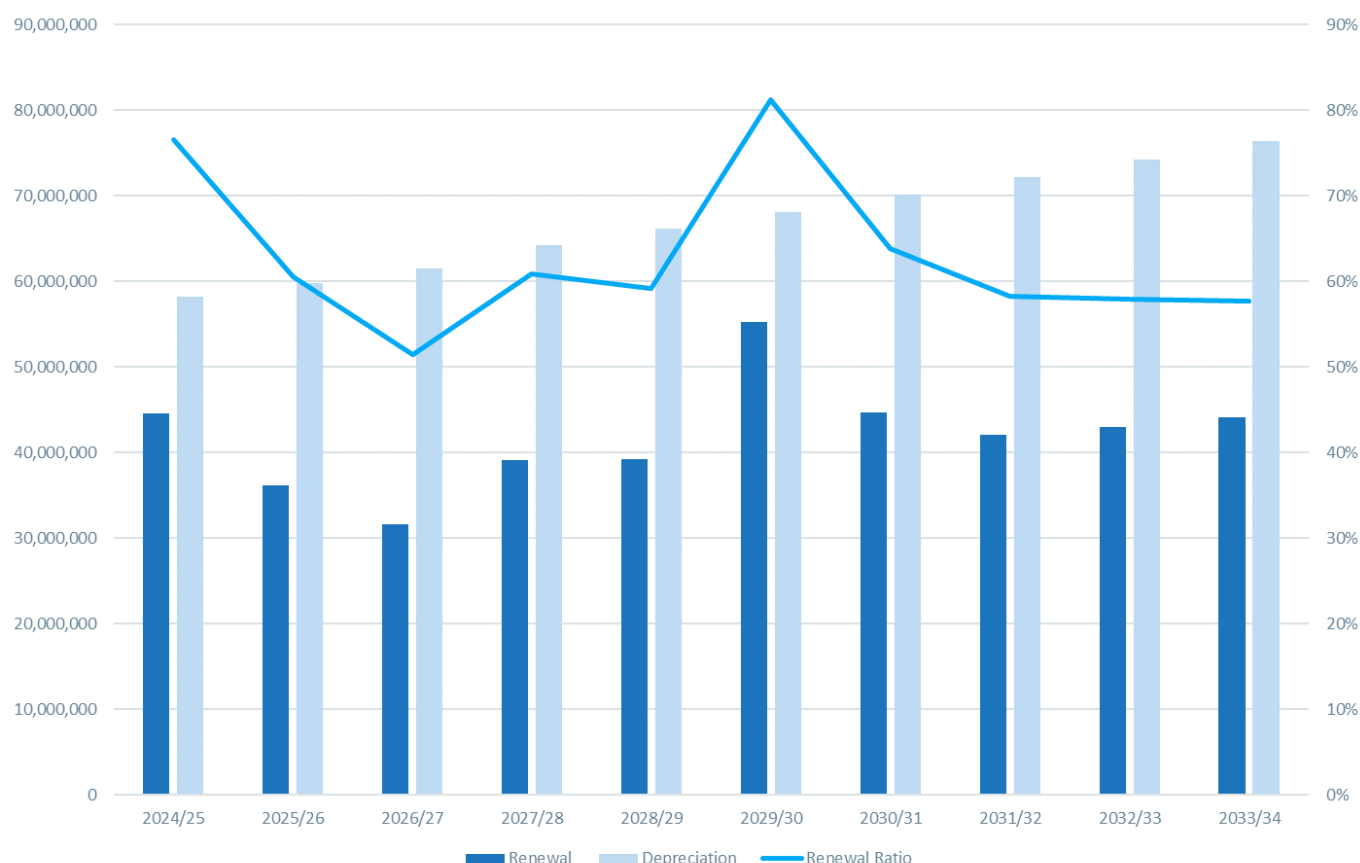
The following is a summary of AEC observations:

- The focus asset classes that were the subject of specific asset custodian engagement included Waste, Buildings, Fleet, Transport, Stormwater, IT and Open Space and Recreation.
- During engagement with asset custodians, AEC identified a shortfall in Council's current annual expenditure on asset renewals across the 4-years of Council's Budget period. Our assessment of the annualised average sustainable renewal expenditure in the specific focus asset classes was \$39.3m. This compared to Council's programmed works of \$41.9m, \$38.8 million, \$30.8 million and \$25.9 million across respective financial years – an average of \$34.3 million (or \$5 million per annum shortfall compared to our calculation of the sustainable investment level).
- AEC also identified a backlog of asset renewals totalling \$79.0 million across the focus asset classes.
- If Council were to address both the backlog renewals over a period of 10 years, as well as increasing the asset renewal program to a sustainable level, this would require an increase in renewals expenditure in the focus asset classes of \$12.9 million.

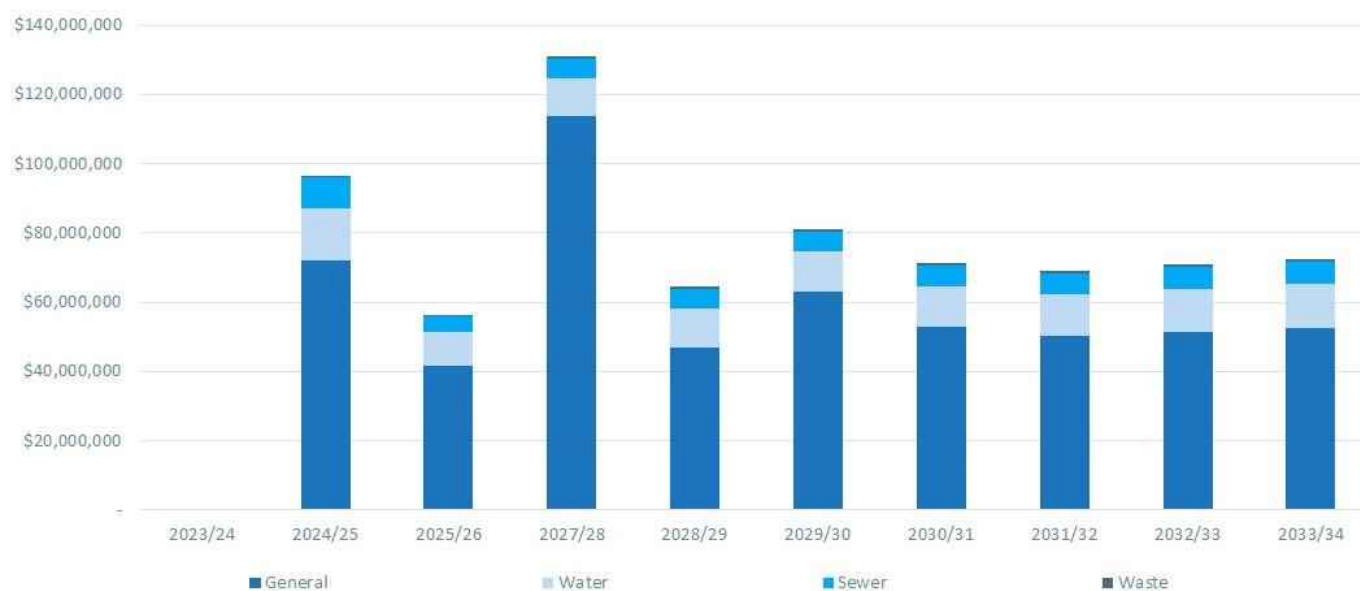
6.5.2 All Asset Groups

AEC extrapolated the findings for the focused asset classes across the remaining asset classes. AEC analysed the annual depreciation and compared to the current planned investment in renewal of the asset classes. Our review indicates that depreciation on all assets controlled by Council is an average during the forecast period of \$66.5 million. By comparison, Council's annual programmed expenditure on asset renewals during the forecast period is \$46.7 million, \$43.3 million, \$34.4 million and \$29.3 million across respective financial years – an annual average of \$38.4 million. This reflects a shortfall compared to depreciation expense of \$28.1 million per year.

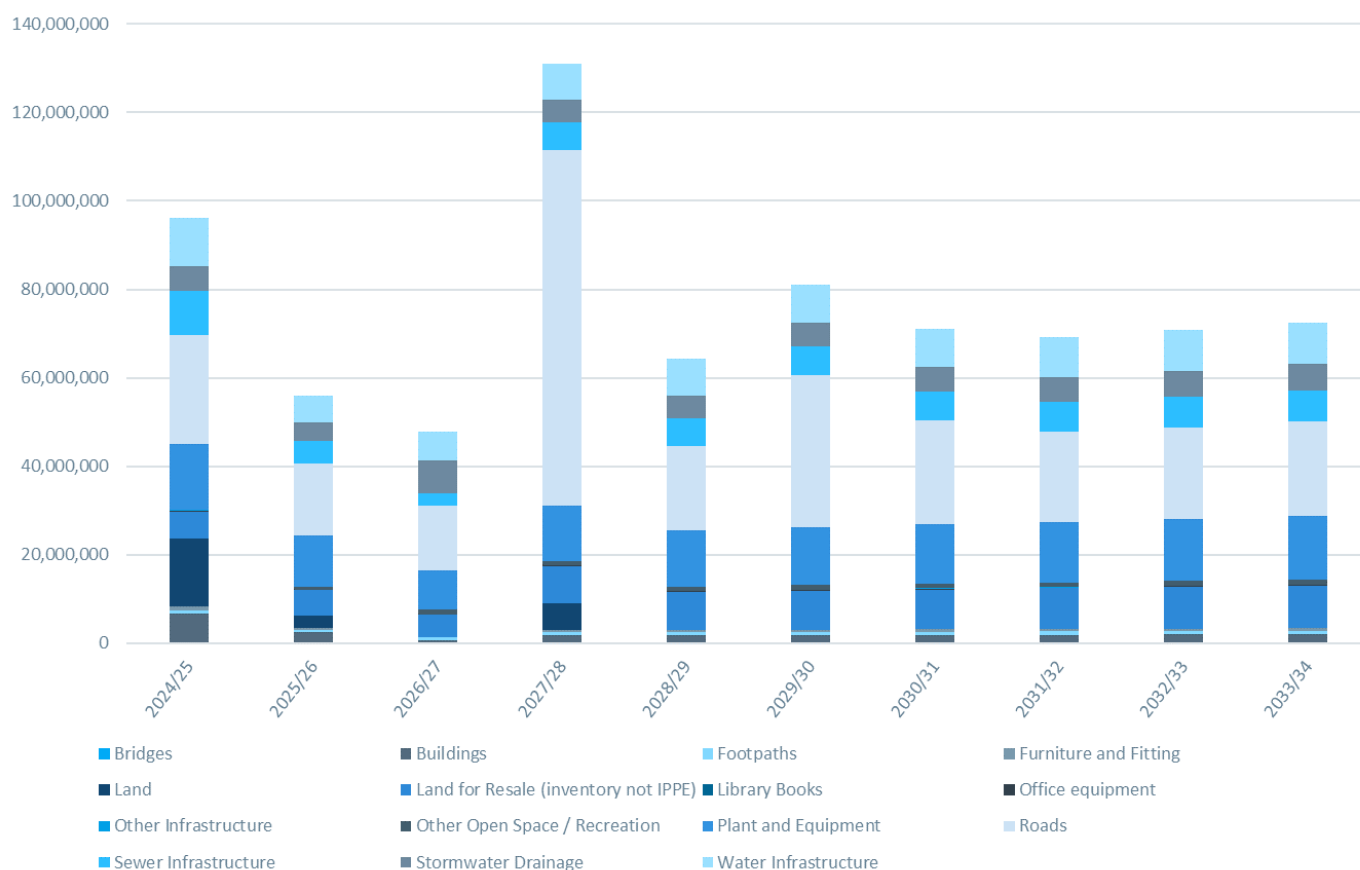
Council's current planned renewals expenditure in the Base Scenario represents an average renewal ratio over the forecast period of 65%, which is substantially below the Office of Local Government target value of 100%.

Figure 6.4 Capital Program Spend – Consolidated

Source – AEC (unpublished)

Figure 6.5 Capital Works Program by Fund – Base Case Scenario

Source – AEC (unpublished)

Figure 6.6 Capital Program Spend – by Asset Class (Base Case)

Source – AEC (unpublished)

6.5.2.1 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. AEC has reviewed the preparation of the Report on Infrastructure Assets as at 30 June 2022 and investigated the accuracy in the preparation of the report to provide confidence in using the report to comment on whether Council is maintaining infrastructure capital in a sustainable manner.

Our review and discussions with asset custodians indicates that the Report on Infrastructure Assets was completed without reliable data on the actual asset condition and backlog reporting. There is also a calculation error in the reported estimate to bring assets to a satisfactory level – the reported amount is \$569 million whereas applying similar approach AEC calculates the amount to be approximately \$140 million.

AEC has concluded that the Report on Infrastructure Assets is therefore not reliable to inform a conclusion. This should be a concern for Council as it is an important component of the performance reporting within the Integrated Planning and Reporting framework and a key report to inform the Council on the condition and adequacy of the current investment in asset maintenance and asset renewals.

Figure 6.7 Report on Infrastructure Assets – Extract

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	5
Buildings	Other	91,903	91,903	8,509	8,509	165,735	266,305	41.5%	26.2%	24.3%	5.1%	3.0%
	Sub-total	91,903	91,903	8,509	8,509	165,735	266,305	41.5%	26.2%	24.3%	5.1%	3.0%
Other structures	Other structures	52,616	52,616	4,863	4,863	114,921	180,552	48.8%	23.1%	20.0%	8.2%	0.0%
	Sub-total	52,616	52,616	4,863	4,863	114,921	180,552	48.8%	23.1%	20.0%	8.2%	0.0%
Roads	Other	199,624	199,624	19,550	19,550	979,375	1,339,129	55.9%	29.6%	12.8%	1.7%	0.0%
	Bulk earth works	–	–	–	–	445,930	445,930	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	199,624	199,624	19,550	19,550	1,425,305	1,785,059	66.9%	22.2%	9.6%	1.2%	0.0%
Water supply network	Other	94,806	94,806	20,791	20,791	315,417	448,894	67.9%	10.9%	12.7%	4.7%	3.8%
	Sub-total	94,806	94,806	20,791	20,791	315,417	448,894	67.9%	10.9%	12.7%	4.7%	3.8%
Sewerage network	Other	106,333	106,333	12,491	12,941	237,387	314,161	41.0%	31.4%	16.9%	6.3%	4.4%
	Sub-total	106,333	106,333	12,491	12,941	237,387	314,161	41.0%	31.4%	16.9%	6.3%	4.4%
Stormwater drainage	Other	22,270	22,270	1,305	1,305	133,861	181,394	50.9%	36.8%	7.0%	4.6%	0.6%
	Sub-total	22,270	22,270	1,305	1,305	133,861	181,394	50.9%	36.8%	7.0%	4.6%	0.6%
Open space / recreational assets	Swimming pools	1,079	1,079	186	186	5,763	9,003	78.8%	8.4%	12.8%	5.2%	(5.2%)
	Sub-total	1,079	1,079	186	186	5,763	9,003	78.8%	8.4%	12.8%	5.2%	(5.2%)
Total – all assets		568,631	568,631	67,695	68,145	2,398,389	3,185,368	60.5%	22.7%	12.4%	3.2%	1.2%

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

Infrastructure asset condition assessment 'key'

#	Condition	Integrated planning and reporting (IP&R) description
1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Source – Annual Financial Statements 2021/22

The following are standard observations:

- 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 10 virtual engagements with asset custodians 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 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.
- Anecdotally from asset custodians, Council has significantly under invested in its transport assets, particularly buildings and stormwater.
- Maintenance is heavily reactive, with limited planning for cyclical and other preventative maintenance. As a general rule, cost of maintenance for reactive works is at least 3 times that of planned maintenance, with breakdown maintenance costing in excess of 5 times the cost to maintain assets. It would suggest there is significant capacity to improve the efficiency of Council's maintenance activities.

6.6 SUMMARY ASSESSMENT OF BASE CASE

The Base Case scenario was developed by AEC to assess whether the current policy, strategies and resource allocation settings will over the medium to long term maintain fiscal capital (access to cash) and infrastructure capital (assets).

Based on the above analysis AEC concludes that:

- The Council is forecast to continue to produce significant operating deficits in the General Fund contributing to insufficient cash being generated from operations to avoid the unrestricted cash from deteriorating into a negative balance.
- While Council has a healthy balance (approximately \$48 million) in the Future Asset Renewal reserve, this is a short term mitigation only.
- The current investment in asset renewals is insufficient to maintain the current infrastructure capital.

The lack in the maturity of the asset management planning, in particular the ability to project forward the asset renewal demand and the backlog in the renewals, is a significant limiting factor in reporting on the adequacy of the current investment in renewal of assets and constrains the confidence in long term financial planning.

7. PERFORMANCE OF THE ENHANCED ASSET RENEWALS SCENARIO

Given that the assessment of the Base Case identified insufficient investment in asset renewals, AEC developed a scenario that increases the investment in asset renewals sufficient to maintain the infrastructure capital. There is no increase in the generation of cash in this scenario, therefore it is expected the Council will produce significant cash deficits in this scenario. Therefore, this Scenario is for illustrative purposes only to show the demand on cash should the Council enhance asset renewals to a level that is likely to sustain infrastructure capital.

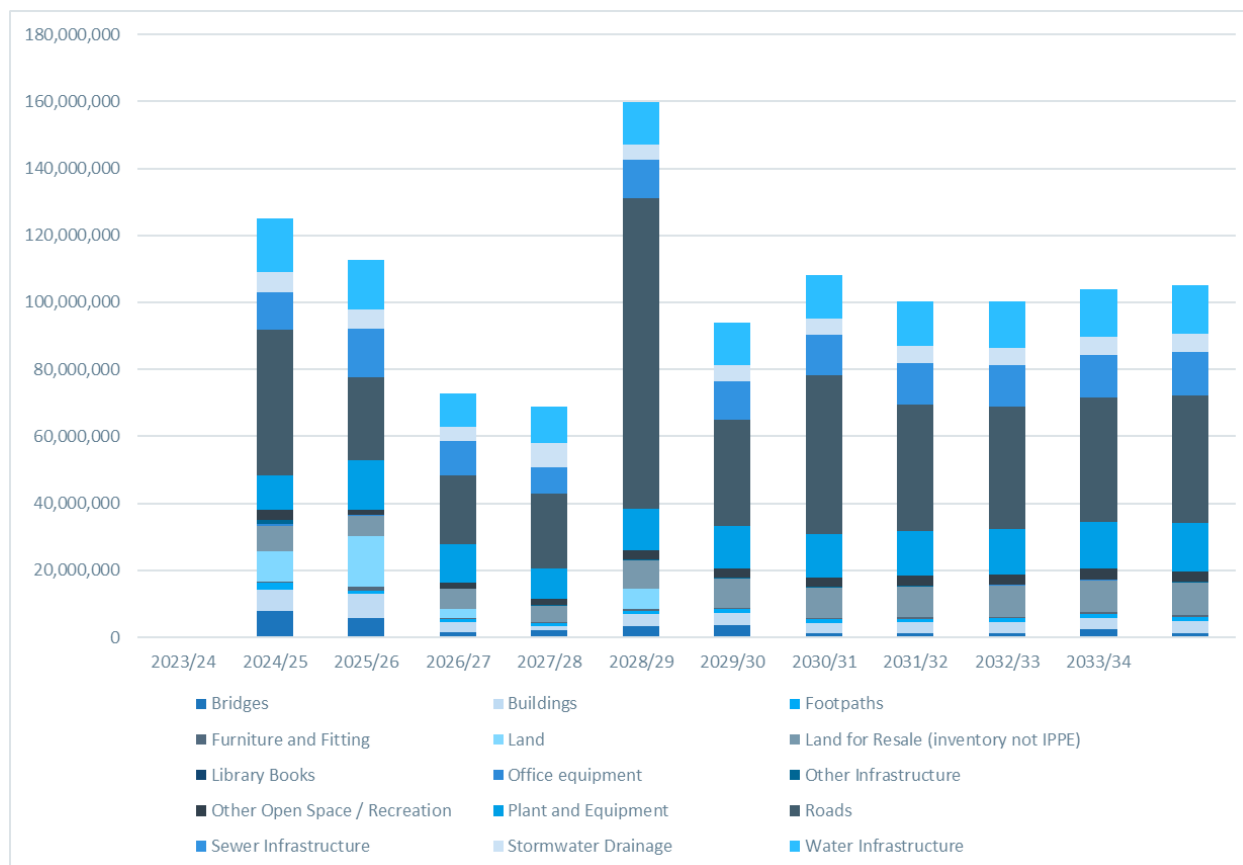
7.1 ASSUMPTIONS AND QUALIFICATIONS

The Enhanced Asset Renewals scenario has been compiled based on the Base Case Scenario, with equivalent assumptions, but with modifications to investment in asset renewals and increased maintenance (where relevant)

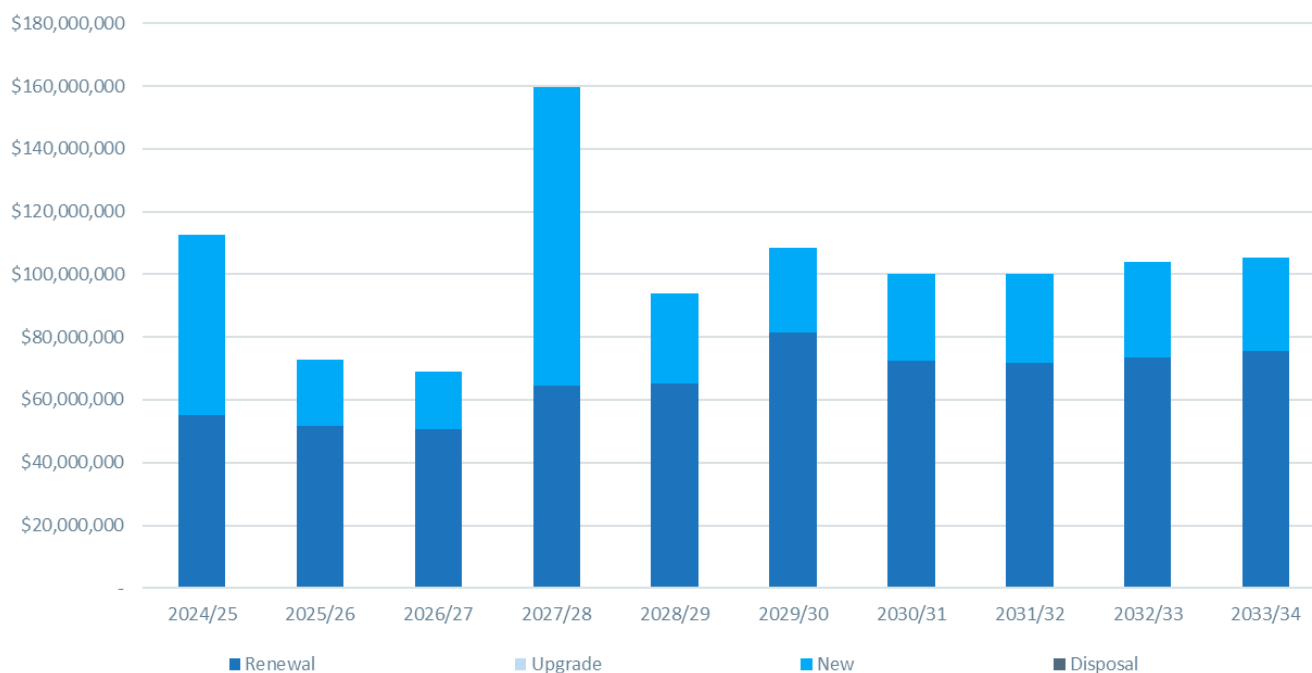
In consultation with asset custodians and relevant Executive members, AEC has increased the value of the forecast renewals program based on an activity based assessment of the minimum technical level of treatment necessary to sustain the assets in an acceptable level of performance (indicated predominantly by expected change in condition of assets).

The level of renewals assumed raises the Capital Renewal Ratio to an average of 97% over the forecast period, which is slightly below the Office of Local Government recommended target of 100%. In discussion with Council an average asset renewal ratio of 97% is most likely a reasonable target given that Council currently holds on the Balance Sheet and included in the annual depreciation expense assets that the Council is not planning to renew. This includes assets in the “Red Fleet” – emergency services fleet items that the Council is not responsible to fund the renewal.

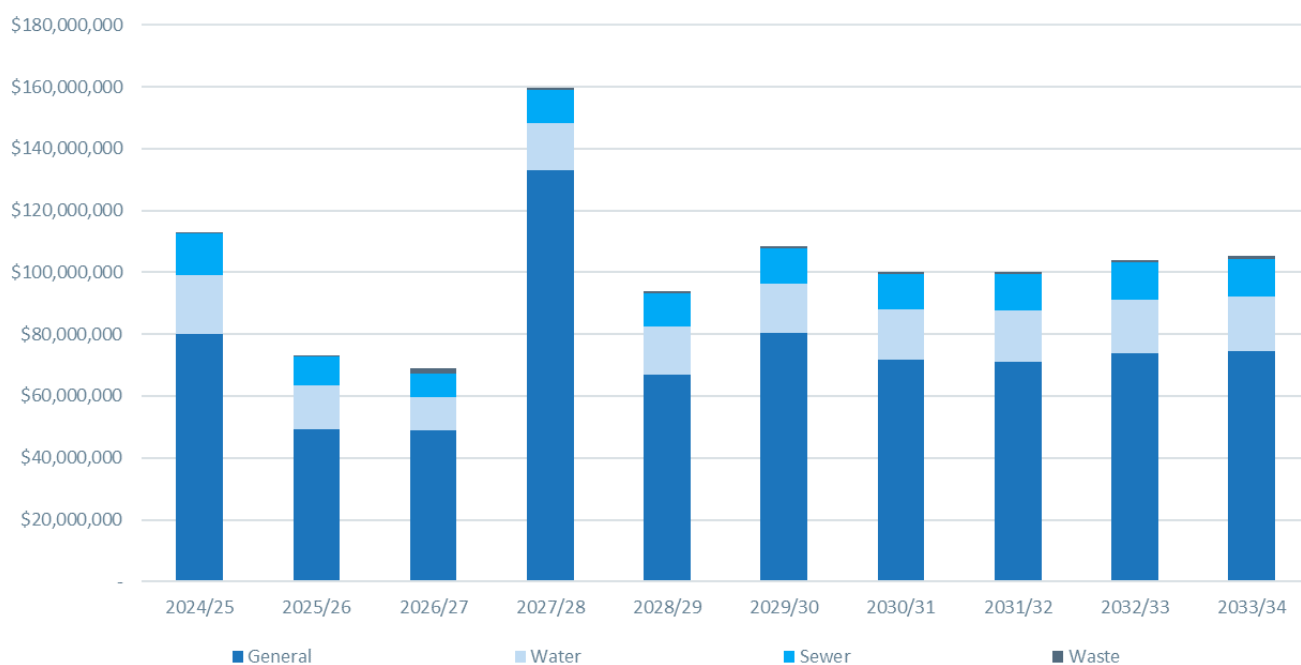
Figure 7.1 Capital Works Program – By Asset Class



Source – AEC (unpublished)

Figure 7.2 Capital Works Program by Investment Type

Source – AEC (unpublished)

Figure 7.3 Capital Program Spend – by Fund Type

Source – AEC (unpublished)

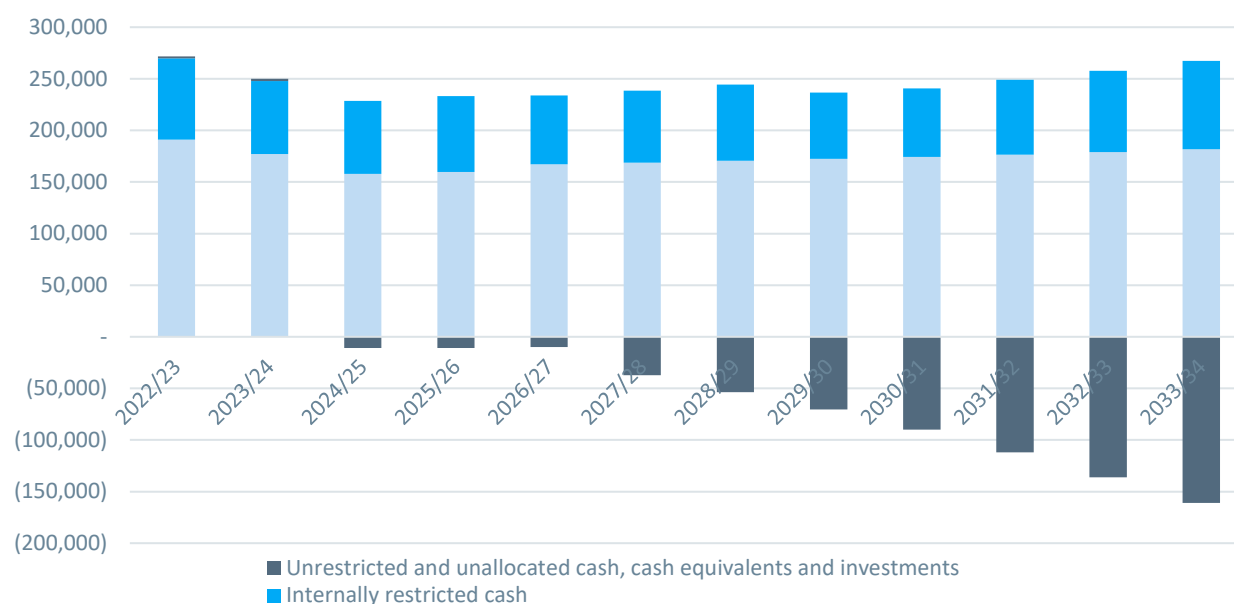
7.2 AVAILABILITY OF CASH

As expected, under the Enhanced Asset Renewals Scenario the total cash, cash equivalents and investments is forecast to decline from \$271.6 million reported in 2022/23 to \$106.3 million in 2033/34. This reflects a consumption of \$165.3 million of Council's cash reserves. This is due to additional investment in asset renewals without any enhanced cash being generated.

We have not amended our assumptions with respect to internally restricted reserves (except for the Future Asset Renewal reserve) which remain projected to increase from \$78.8 million in 2022/23 to \$85.6 million in 2033/34.

The Future Asset Renewal reserve is used to fund additional asset renewals, with the reserve deteriorating from \$44.9 million in 2022/23 to a balance of \$0.750 million in 2033/34

Figure 7.4 Restricted and Unrestricted Cash



Source – AEC (unpublished)

This results in a forecast decline in Unrestricted Cash, Cash Equivalents and Investments as outlined in the following table.

Table 7.1 Cash Available to Fund Renewal Program

Year	Unrestricted cash (\$ million)	Asset Renewal Reserve	Total Unrestricted Cash and Asset Renewal Reserve
2022/23	\$1.8	\$44.9	\$46.7
2024/25	(\$10.7)	\$27.7	\$17.0
2028/29	(\$53.7)	\$2.6	(\$51.1m)
2033/34	(\$160.9)	\$0.8	(\$160.1m)

Source – AEC (unpublished)

This indicates that Council most likely has sufficient cash (both Unrestricted and within the Future Asset Renewal reserve) to fund the increased level of renewals within the Enhanced Renewals Scenario until 2024/25 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 beyond 2024/25.

7.3 INVESTMENT IN ASSETS

Following consultation with asset custodians and relevant Executive members, AEC has developed a capital works program with an enhanced asset renewal program that is likely to result in a maintenance of infrastructure capital. In the Enhanced Asset Renewal scenario AEC has also increased operating expenditure expected on the gravel grading program to meet the technical levels of service as defined by the asset custodians.

In total, the Enhanced Renewal scenario projects an additional \$239.1 million over the 10 year forward assessment period required to maintain the infrastructure capital under the control of Council.

Due to the lack of confidence in the current condition assessments in the asset register, in particular quantifying the backlog in asset renewals, AEC has not been able to address backlog replacements for specific asset categories.

Table 7.2 Increase in Renewal Expenditure – Enhanced Renewal Program

Year	Total Renewal Program - Base Case Scenario	Total Renewal Program - Enhanced Asset Renewal Scenario	Increase in Asset Renewal Program Assumed
2023/24	46.7	46.7	0.0
2024/25	44.7	55.3	10.6
2025/26	36.4	51.6	15.1
2026/27	31.8	50.6	18.8
2027/28	39.4	64.4	25.1
2028/29	39.4	65.1	25.7
2029/30	55.7	81.3	25.6
2030/31	45.0	72.6	27.6
2031/32	42.4	71.9	29.5
2032/33	43.3	73.6	30.2
2033/34	44.4	75.4	31.0
TOTAL	469.3	708.4	239.1

Source – AEC (unpublished)

7.4 SUMMARY ASSESSMENT OF ENHANCED ASSET RENEWAL SCENARIO

The Enhanced Asset Renewal scenario was developed by AEC to assess the impact on fiscal capital (access to cash) should Council increase the investment in asset renewals and increase maintenance expenditure with an approach that is likely to maintain the infrastructure capital (assets).

Based on the above analysis AEC concludes that:

- An additional \$239.1 million is required to be invested in asset renewals over the next 10 years to maintain infrastructure capital.
- Without additional generation of cash, the enhanced asset renewals can only be funded to 2024/25 from existing cash held by Council.
- This Scenario is not a plausible scenario as the cash position significantly deteriorates to a position that is not acceptable nor compliant with Council's financial management responsibilities.

8. FINANCIAL PERFORMANCE OF THE ENHANCED ASSET RENEWALS AND ENHANCED CASH SCENARIO

Following development of the Base Case and Enhanced Asset Renewal scenarios, it is evident that Council will not be sustainable without an increase in the generation of cash from operations. AEC has developed a third scenario that, in addition to enhancing the asset renewals and asset maintenance, increased the cash generated to increase cash available to fund the additional asset renewals and maintenance.

8.1 ASSUMPTIONS AND QUALIFICATIONS

This scenario has been compiled based on the previous Enhanced Renewals Scenario, with equivalent assumptions, but with the following further modifications.

AEC has assumed actions will be taken by Council that will have the effect of improving the cash generated from operations by an aggregate amount equivalent to a cumulative increase over four years of 37.1% in ordinary rates, above what would otherwise be projected through the annual rate peg (increase in rates) and growth.

Table 8.1 Correction Required to Enhance Cash Generation

	2024/25 Adjustment %	2025/26 Adjustment %	2026/27 Adjustment %	2027/28 Adjustment %
% Adjustment to Ordinary Rates (or equivalent initiatives)	7.50%	7.50%	7.50%	7.50%
Rate Peg Assumed	2.50%	2.50%	2.50%	2.50%
Growth Assumed	1.00%	1.00%	1.00%	1.00%
Total Increase	11.0%	11.0%	11.0%	11.0%

The cumulative increase in rates without the adjustment would be a 14.8% increase in the fourth year. With the correction the cumulative increase (including the 7.5% increase for four consecutive years) would be a 51.8% increase in the fourth year. The cumulative impact of the adjustment is therefore the difference – being 37.1%.

Whilst correction above has been expressed in a change in net revenue assumed in the form of the percentage increase in ordinary rates, this may be achieved through a combination of initiatives, including:

- Identification of operational efficiencies and productivity improvements.
- Reduction in service provision – levels and/or range of services.
- Reduction in debt through sale of surplus assets.
- Increase in revenue from operations through increase in service fees, rates and/or charges.

8.1.1 Consolidated Operating Position

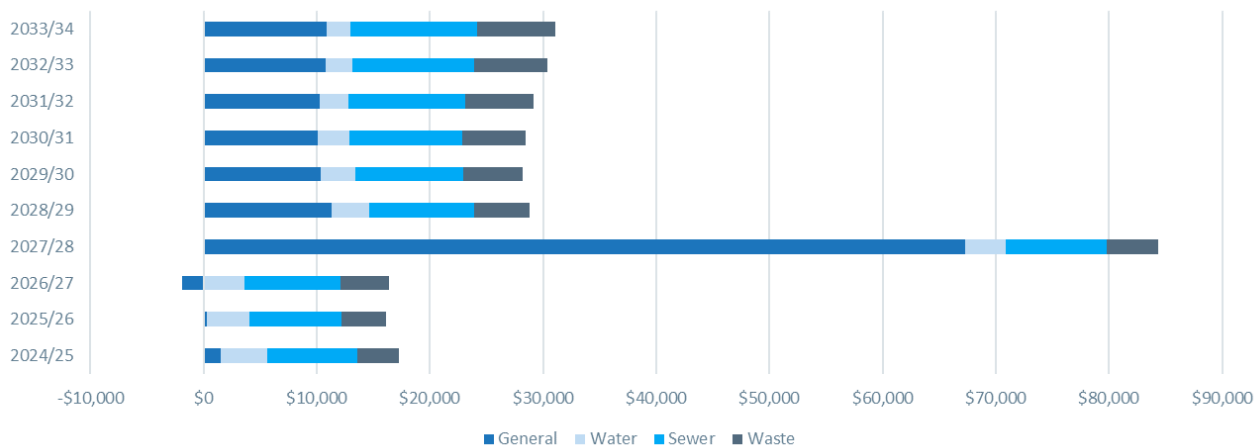
Under the Enhanced Asset Renewal and Enhanced Cash scenario, the operating position improves to produce a health consolidated operating surplus, however while the General Fund improves significantly the General Fund does not improve sufficiently to avoid an operating deficit.

Following four years of increasing the cash generated from operations by 7.5% above the rate peg and population growth (a cumulative additional increase of 37.1%) the operating position in the General Fund improves from a net operating deficit of \$15.5 million in 2023/24 to an operating deficit of \$3.2 million in 2027/28.

It worth noting that Council has estimated the annual depreciation on assets that Council does not intend to renew (or has no responsibility to renew) is approximately \$4.0 million. It could be considered that an operating deficit of

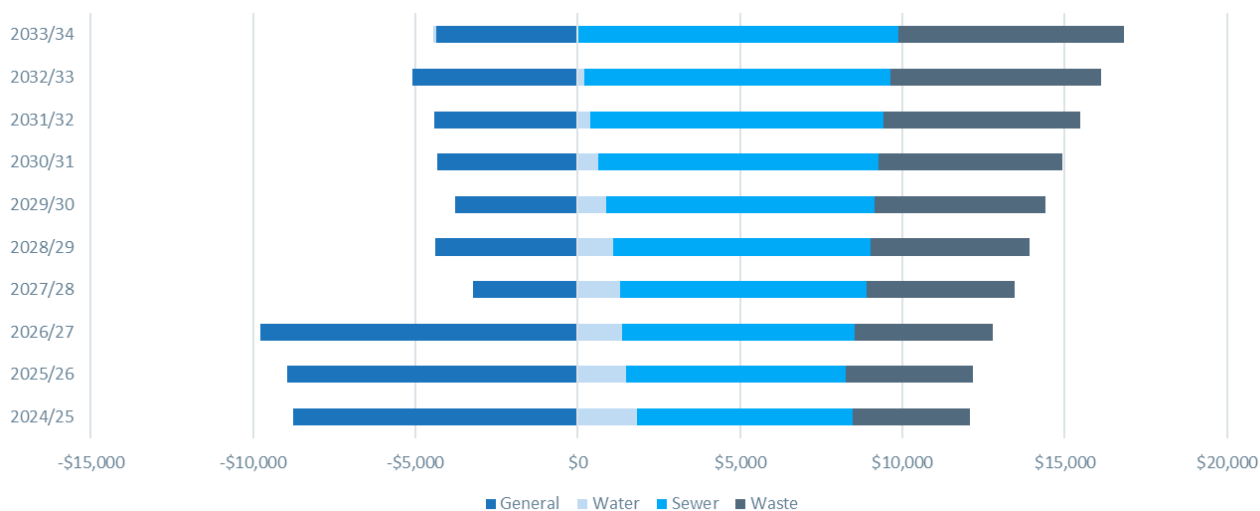
\$3.2 million in 2027/28 is a responsible target given that \$4.0 million of the depreciation expense included in the deficit relates to assets the Council does not plan to renew.

Figure 8.1 Operating Result (including Capital Grants) – By Fund



Source – AEC (unpublished)

Figure 8.2 Net Operating Result (excluding Capital Grants) – By Fund



Source – AEC (unpublished)

Table 8.2 Income Statement – Consolidated

	2023/24 \$'000	2024/25 \$'000	2025/26 \$'000	2026/27 \$'000	2027/28 \$'000	2028/29 \$'000	2029/30 \$'000	2030/31 \$'000	2031/32 \$'000	2032/33 \$'000	2033/34 \$'000
FORECAST	FORWARD PLAN										
Income from continuing operations											
Rates and annual charges	73,156	78,812	85,014	91,821	99,298	102,774	106,371	110,094	113,947	117,935	122,063
User charges and fees	42,909	44,089	45,191	46,321	47,479	48,666	49,882	51,129	52,408	53,718	55,061
Other revenue	2,235	2,296	2,354	2,412	2,473	2,535	2,598	2,663	2,729	2,798	2,868
Grants and contributions provided for operating purposes	19,945	20,031	20,531	21,045	21,571	22,110	22,663	23,229	23,810	24,405	25,016
Grants and contributions provided for capital purposes	48,036	13,941	12,853	11,501	74,084	19,266	17,612	17,880	18,155	19,377	18,729
Interest and investment revenue	9,833	10,003	9,649	10,204	10,818	10,672	11,064	10,945	11,259	11,690	12,120
Other income	-	-	-	-	-	-	-	-	-	-	-
Net gains from the disposal of assets	8,997	14,564	11,182	6,818	11,094	11,371	11,656	11,947	12,246	12,552	12,866
Internal Revenue	-	-	-	-	-	-	-	-	-	-	-
Total income from continuing operations	205,111	183,735	186,775	190,122	266,816	217,393	221,845	227,888	234,554	242,475	248,721
Expenses from continuing operations											
Employee benefits and on-costs	51,306	53,909	55,803	57,763	59,791	61,891	64,065	66,315	68,644	71,054	73,549
Materials and services	46,511	47,791	48,652	50,073	52,338	54,613	55,622	57,313	59,045	61,540	62,654
Borrowing costs	2,450	2,096	1,808	1,589	1,360	1,156	1,007	860	727	518	390
Depreciation, amortisation and impairment of non-financial assets	55,953	58,200	59,885	61,601	64,363	66,302	68,262	70,272	72,332	74,456	76,620
Other expenses	4,443	4,493	4,540	4,589	4,638	4,689	4,741	4,794	4,849	4,905	4,963
Internal expenditure	-	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-	-
Total expenses from continuing operations	160,663	166,490	170,688	175,614	182,491	188,652	193,697	199,554	205,597	212,473	218,175
Operating result from continuing operations	44,448	17,246	16,087	14,508	84,325	28,742	28,148	28,334	28,957	30,002	30,546
Net operating result for the year before grants and contributions provided for capital purposes	(3,588)	3,305	3,234	3,007	10,241	9,475	10,536	10,454	10,803	10,625	11,817

Table 8.3 Income Statement – General Fund

INCOME STATEMENT - 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										
Income from continuing operations											
Rates and annual charges	40,839	45,368	50,406	56,008	62,238	64,417	66,671	69,005	71,420	73,919	76,507
User charges and fees	20,760	21,331	21,864	22,411	22,971	23,546	24,134	24,738	25,356	25,990	26,640
Other revenue	1,823	1,873	1,920	1,968	2,017	2,067	2,119	2,172	2,226	2,282	2,339
Grants and contributions provided for operating purposes	19,575	19,651	20,142	20,646	21,162	21,691	22,233	22,789	23,359	23,943	24,541
Grants and contributions provided for capital purposes	37,209	10,334	9,264	7,930	70,530	15,729	14,092	14,376	14,668	15,907	15,275
Interest and investment revenue	3,325	3,232	3,092	3,412	3,587	3,235	3,411	3,066	3,142	3,324	3,481
Other income	-	-	-	-	-	-	-	-	-	-	-
Net gains from the disposal of assets	8,997	14,564	11,182	6,818	11,094	11,371	11,656	11,947	12,246	12,552	12,866
Internal Revenue	38,583	39,644	40,635	41,651	42,692	43,759	44,853	45,974	47,124	48,302	49,509
Total income from continuing operations	171,110	155,996	158,505	160,842	236,291	185,815	189,169	194,067	199,541	206,218	211,158
Expenses from continuing operations											
Employee benefits and on-costs	43,184	44,911	46,483	48,110	49,794	51,537	53,341	55,208	57,140	59,140	61,210
Materials and services	31,657	32,048	32,415	33,364	35,069	36,770	37,191	38,278	39,393	41,254	41,718
Borrowing costs	765	595	430	306	176	77	40	12	5	-	-
Depreciation, amortisation and impairment of non-financial assets	42,327	43,912	45,126	46,406	48,629	50,014	51,408	52,836	54,301	55,814	57,352
Other expenses	4,443	4,493	4,540	4,589	4,638	4,689	4,741	4,794	4,849	4,905	4,963
Internal expenditure	26,975	28,483	29,195	29,925	30,673	31,440	32,226	33,031	33,857	34,704	35,571
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-	-
Total expenses from continuing operations	149,352	154,443	158,190	162,701	168,980	174,528	178,946	184,160	189,544	195,817	200,814
Operating result from continuing operations	21,758	1,554	315	(1,859)	67,311	11,287	10,223	9,907	9,997	10,401	10,344
Net operating result for the year before grants and contributions provided for capital purposes	(15,451)	(8,780)	(8,949)	(9,788)	(3,219)	(4,442)	(3,869)	(4,469)	(4,672)	(5,506)	(4,931)

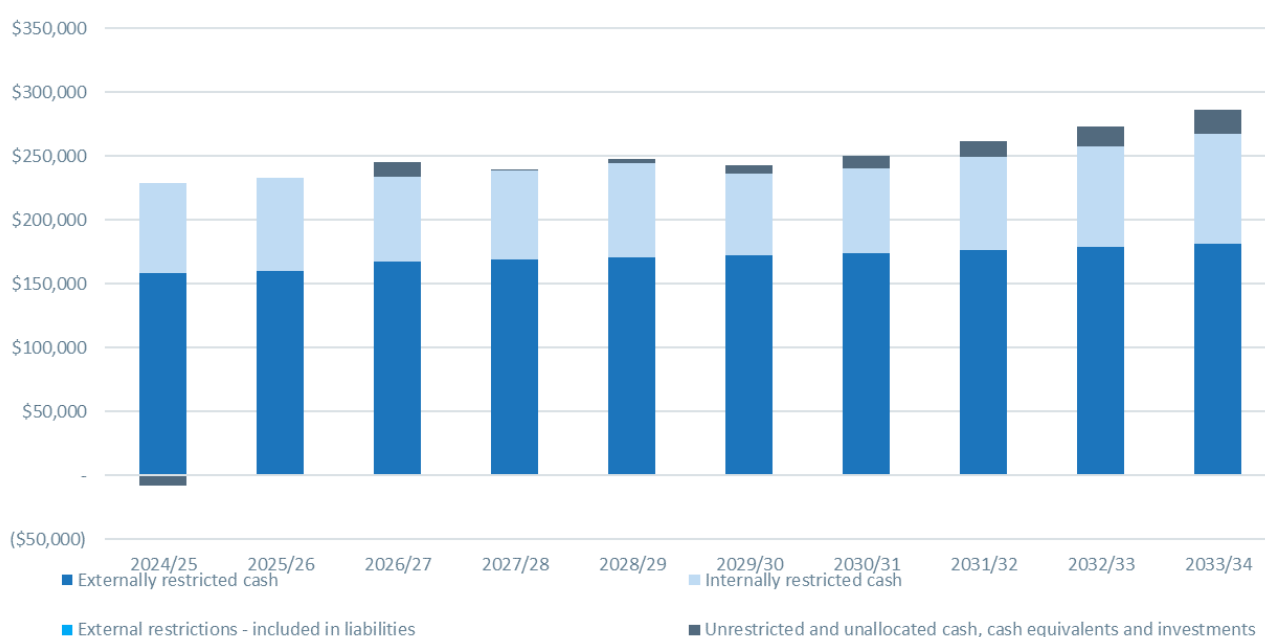
8.2 AVAILABILITY OF CASH

Under the Enhanced Asset Renewals and Enhanced Cash scenario the total cash, cash equivalents and investments is forecast to remain broadly stable, commencing at \$271.6 million in 2022/23 and being maintained at \$286.5 million in 2033/34.

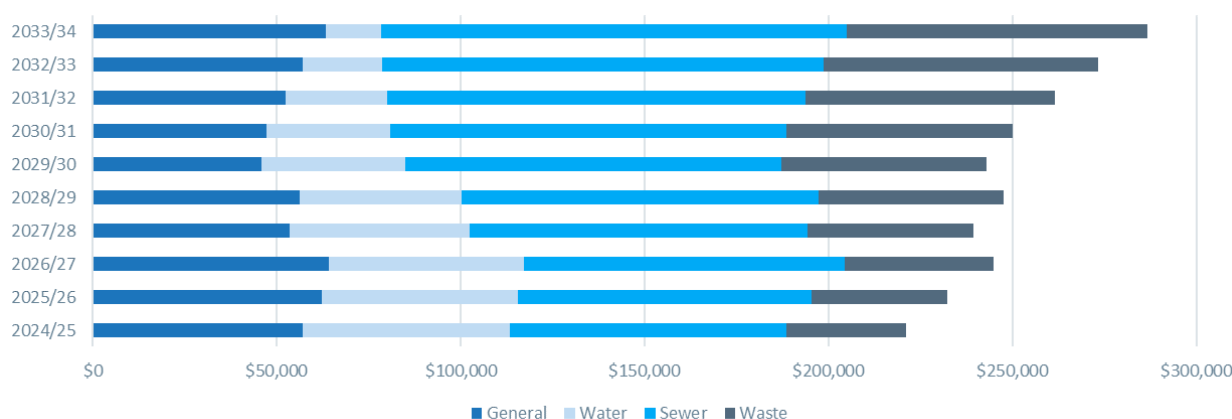
Under this scenario, internally restricted reserves increase from \$78.8 million in 2023/24 to \$85.6 million in 2033/34. The unrestricted cash balance increases from \$1.8 million in 2023/24 to \$19.5 million in 2033/34, with the improvement in the balance achieved in the last five years of the ten year assessment period.

An increasing unrestricted cash position is a good outcome for Council in the scenario modelling given the low confidence in the measurement of the asset renewal backlog. An improving unrestricted cash position in the last five years will enable the Council to invest further in asset renewals to address the backlog once the asset management capacity has matured.

Figure 8.3 Restricted and Unrestricted Cash



Source – AEC (unpublished)

Figure 8.4 Cash and cash equivalents by Fund (\$,000s)

Source – AEC (unpublished)

8.3 SUMMARY ASSESSMENT OF ENHANCED ASSET RENEWAL AND ENHANCED CASH SCENARIO

The Enhanced Asset Renewal and Enhanced Cash scenario was developed by AEC to assess the increase in cash required to general sufficient cash to maintain fiscal capital, while also increasing the investment in asset renewals and maintenance to maintain the infrastructure capital.

Based on the above analysis AEC concludes that an improvement in the cash generated from operations in required to an aggregate amount equivalent to a cumulative increase over four years of 37.1% in ordinary rates, above what would otherwise be projected through the annual rate peg (increase in rates) and growth.

Table 8.4 Correction Required to Enhance Cash Generation

	2024/25 Adjustment %	2025/26 Adjustment %	2026/27 Adjustment %	2027/28 Adjustment %
% Adjustment to Ordinary Rates (or equivalent initiatives)	7.50%	7.50%	7.50%	7.50%
Rate Peg Assumed	2.50%	2.50%	2.50%	2.50%
Growth Assumed	1.00%	1.00%	1.00%	1.00%
Total Increase	11.0%	11.0%	11.0%	11.0%

The cumulative increase in rates without the adjustment would be a 14.8% increase in the fourth year. With the correction the cumulative increase (including the 7.5% increase for four consecutive years) would be a 51.8% increase in the fourth years. The cumulative impact of the adjustment is therefore the difference – being 37.1%.

Whilst the correction has been expressed in a change in net revenue assumed in the form of the percentage increase in ordinary rates, this may be achieved through a combination of initiatives, including:

- Identification of operational efficiencies and productivity improvements.
- Reduction in service provision – levels and/or range of services.
- Reduction in debt through sale of surplus assets.
- Increase in revenue from operations through increase in service fees, rates and/or charges.

Table 8.5 Reserve Balances

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
Externally Restricted - Other												
Developer contributions – general	15,621	17,644	20,227	22,889	25,632	28,460	31,374	34,379	37,478	40,673	43,969	47,368
Unexpended grants	29,897	12,725	2,480	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587
Water fund	63,219	63,592	53,622	49,023	47,681	42,042	36,030	29,628	22,817	15,577	8,099	158
Sewer fund	73,660	74,665	72,566	75,972	82,019	85,493	89,243	93,287	97,643	102,331	107,370	112,783
Stormwater Management	4,357	3,358	3,031	3,031	3,031	3,031	3,031	3,031	3,031	3,031	3,031	3,031
Domestic Waste Management	4,220	5,050	6,043	7,100	7,244	8,182	9,236	10,415	11,723	13,167	14,756	16,495
Externally Restricted - Other	190,974	177,035	157,969	159,602	167,194	168,794	170,502	172,327	174,278	176,366	178,811	181,423
Internally Restricted												
Employees Leave Entitlement	3,401	3,789	3,853	3,743	3,328	3,328	3,328	3,328	3,328	3,328	3,328	3,328
Property development	(7,612)	(13,261)	(3,796)	3,217	2,853	2,853	2,853	2,853	2,853	2,853	2,853	2,853
Dubbo Regional Airport	2,027	2,873	4,872	6,834	9,182	10,655	13,064	410	(653)	1,911	4,530	7,203
Livestock markets	3,298	3,549	3,547	3,866	4,244	4,477	4,705	4,928	5,145	5,357	5,562	5,760
Other waste management services	21,612	23,295	26,367	29,728	33,201	36,974	40,980	45,236	49,755	54,555	59,654	65,070
Road network - state roads	1,401	1,401	1,401	870	870	684	493	298	98	10	10	10
Fleet management services	9,828	9,090	6,758	6,824	7,443	6,601	5,718	4,794	3,827	2,815	1,755	647
Future asset renewal	44,887	40,128	27,673	18,395	5,462	4,079	2,591	2,300	2,002	1,697	1,071	750
Internally Restricted	78,842	70,863	70,675	73,477	66,584	69,651	73,732	64,147	66,355	72,526	78,763	85,621
Total internal and external restrictions	269,816	247,898	228,644	233,079	233,779	238,444	244,234	236,474	240,633	248,892	257,574	267,044
Total cash, cash equivalents and investments	271,664	250,072	221,008	232,209	244,806	239,446	247,500	242,796	250,069	261,556	273,154	286,518
Externally restricted cash	190,974	177,035	157,969	159,602	167,194	168,794	170,502	172,327	174,278	176,366	178,811	181,423
Internally restricted cash	78,842	70,863	70,675	73,477	66,584	69,651	73,732	64,147	66,355	72,526	78,763	85,621
External restrictions - included in liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted and unallocated cash, cash equivalents and investments	1,848	2,174	(7,636)	(870)	11,027	1,002	3,267	6,323	9,435	12,664	15,580	19,474

9. DEFINING A SUSTAINABLE FUTURE

The vision for a sustainable Dubbo Regional Council is that the 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 is access to cash) and the infrastructure capital (that is assets that the Council owns).

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

- Within the 10-year forecast, Dubbo Regional Council would like to achieve and maintain a net operating surplus greater than 0 percent (%). As a growing council, Dubbo Regional Council needs to produce above the benchmark to support the growth in services and infrastructure required.
- Council should have at least \$5 million in the unrestricted cash balance.
- Council should achieve an average of 95% for the asset renewal ratio over a ten year period. This will likely need reviewing for the next ten years 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 should 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.

9.1 OPTIONS AVAILABLE TO COUNCIL TO ACHIEVE THE VISION

The following options are provided with the view to collectively improving the capacity of the council to maintain fiscal capital and infrastructure capital into the future.

9.1.1 Efficiencies Savings 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. It would appear that 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.

AEC has raised an option of establishing a self-funding innovation reserve whereby gains from the initiatives implemented are put back into the reserve for future initiatives. The fund could be used for internal initiatives or fund external experts to research and investigate areas where material improvements could be made. This encourages a culture of innovation and improvement.

9.1.2 Review of User Charges and Fees

A comprehensive review of Council's Fees and Charges is recommended to ensure appropriate targets are set and achieved for revenue generating activities.

9.1.3 Increase in General Rate Through a Special Rate Variation

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 urgency of implementing the correction.

It is AEC's view that the decision to increase the general rate through a SRV should begin in the 2024/25 financial year with a 7.5% increase beyond the expected rate peg and population growth, with an additional 7.5% above rate peg and population growth for three consecutive years. This will have the cumulative impact of increasing the general rate by a cumulative 37.1% above what would be expected through rate peg and population growth.

As estimated by AEC, the current operating deficit is approximately \$15 million in the General Fund and cash being generated from operations is insufficient to fund adequate renewals and maintenance of the current assets controlled by the Council.

9.1.4 Revise Current Range and Levels of Service (including previously endorsed/approved decisions)

To implement a service planning approach, Council should enhance the 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.

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.

9.1.5 Establish Governance & Enhanced Capital Works Program Framework

To enhance the governance and financial controls, integrating the Project Management Framework, Asset Management Planning, and LTTP is a strategic option that ensures effective management of assets through their lifecycle. The LTTP 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 LTTP 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 LTTP 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.

9.1.6 Asset Management

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 measure the current asset management maturity, set target maturity level and develop the strategic improvements initiatives 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 custodians.
- 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 current 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.

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