BULOKE SHIRE COUNCIL

EXTERNAL REVIEW OF BULOKE SHIRE COUNCIL'S CURRENT AND FUTURE FINANCIAL POSITION

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1. EXECUTIVE SUMMARY & CONCLUSIONS

1.1. REPORT CONTEXT

Buloke Shire Council is a small rural Council in North-West Victoria.

The Council is currently in a sound financial position after facing significant financial difficulties over a decade ago. The Council is however heavily dependent on State and Federal Government funding for its ongoing viability in an environment where both these levels of government are facing their own financial challenges.

Future financial modelling for the Council shows that the ongoing financial sustainability of the Council will be in jeopardy over the life of its long-term financial plan. This modelling has been prepared with a backdrop of uncertainty over whether the Council will receive significant government funding to repair assets damaged in the 2022 flood event.

Council has requested an independent review of its current and future financial position. This review will act as a document to inform its community, and the incoming Councillors and be provided to the Victorian State government. It will therefore serve multiple stakeholders.

The scope provided by the Council is as follows:

- Assess the relevant financial performance indicators (FPIs) listed in the 2024/25 Budget and comment on the results. Advise of any recommendations for any adjustments over the long term.

- Assess the predicted long-term trend of these FPIs and comment on the trend implications. Advise of recommendations for any adjustments over the long term.

- Compare these FPIs with like councils and comment on any points of difference relevant to improving the Long-Term Financial Plan (LTFP) of the Buloke Shire Council.

- Assess and comment on any unique aspect of the Buloke Shire Council that might influence the LTFP.

- Assess and comment on any unique external influences that might influence the LTFP of the Buloke Shire Council.

- Assess and utilise any similar industry reviews that have taken place in recent times and or any Industry direction being provided in this regard.

Following this scope further discussions have been held with the members of the Council's Audit and Risk Committee, the Council Monitor and the Council's Executive Management Team.

Considering the scope and these discussions, the report will follow the following framework.

- Providing an understanding of the current financial position of Buloke Shire Council as of 30 June 2024 including a financial health assessment in comparison to other Small Rural Councils.

- An analysis of the forecast financial position of Buloke Shire Council under the current future financial model.
- An assessment of the robustness of the current future financial model.
- Commentary on what options are available to the Council to address the outcomes in the future financial model.
- A review of the financial indicators contained in the 2024/25 Budget document including looking at the future trends in the indicators, what are the implications of these trends and how the Council can change this result.
- A deeper dive to compare Buloke Shire Council to Hepburn Shire Council and Ararat Rural City Council. This notes that Hepburn Shire Council has recently reached a financial position where it is now seeking a 10% rate increase (as an exemption from the rate cap) and Ararat Rural City which has had a zero-rate increase over the past seven financial years.
- Commentary on the unique external influences that will impact on the financial outcomes of Buloke Shire Council in the coming years.
- Similarly, some commentary on some of the internal influences that may also impact on the financial results.
- Highlighting some of the recent industry reviews of relevance to Buloke Shire Council.

1.2. REPORT BASIS

This report is based on information provided by Buloke Shire Council. This includes the following documents:

- Buloke Shire Council Financial Plan 2021-2031
- Annual Budget 2024/25 (incorporating the four-year Budget)
- Annual Financial Reports for 2022/23 and 2023/24 (draft)
- Long-Term Financial Model 2024/25 to 2033/34 (Noting this is a working document that is not tabled or endorsed by Council)

The report also reviewed the Annual Financial Reports of twelve other Small Rural Councils in Victoria to provide benchmark results.

The information in this report relies on the correctness of the reports provided. Whilst there is commentary on the robustness of the financial models in place at Buloke Shire Council, it remains the Council's responsibility to review and develop these models further.

1.3. REVIEW CONCLUSIONS

The following report is quite detailed. This section provides a higher-level snapshot of the conclusions that are reached in the report. The conclusions are:

- The current financial position of Buloke Shire Council is quite sound both looking at the organisation in isolation and comparatively to other Small Rural Councils.
- Most notable is the Council's strong cash position and its accumulated cash surplus outcome.
- This review highlights a methodology that is used to measure the accumulated cash result. Using this approach, Buloke Shire Council has an accumulated cash result of $17.8M after funding carried forward capital works from the 2023/24 year.
- The forward financial outlook based on the models prepared is not as positive for the Council. They show that all future years in the model are based on cash deficits casting some doubts on the affordability of the proposed capital works in the model.
- Should the modelled figures prove correct, the financial position of the Council will deteriorate quite rapidly. Cash funds held would decline from its highest point in 2022/23 of $40 million to just $3.9 million by 2031/32.
- The Council's Working Capital Ratio which measures how its current (short-term) assets pay for its current (short-term) liabilities falls from 402% to below 100% in 2031/32. At this point, the Council is no longer financially viable.
- A review has been done on whether the financial modelling is sound and found that this is the case. The modelling has however been done at a high level using broad assumptions and without any meaningful input from across the organisation.
- The Council is required to review the model as part of preparing a new ten-year financial plan that is required to be adopted by the Council before October 2025 as per the requirements of the Local Government Act 2020.
- The Council should be prepared to spend more time and resources to make this plan as accurate as possible, including involving all budget officers and Directors in reviewing the four-year budgets at a detailed level.
- Once this review is completed, this report recommends that the Council focus on preparing its four-year budgets on a balanced basis from a cash perspective.
- It is likely that this may lead to reductions in the Council's ability to undertake capital works and may in turn lead to increased challenges in terms of adequately renewing Council assets.
- The options that will then be available to the Council to consider will involve what expenditure efficiencies can be achieved including whether to reduce or remove some services, potential asset realisations, consultation with the local community on the financial choices and eventually whether to apply for a variation to the rate cap to increase revenue.
- The report reviews and comments on the Council's performance against the Local Government Victorian financial indicators shown in the four-year budget. It is noted that the calculation of some of these indicators was not correct.

- The indicator that would appear to have the most focus of the Council is the underlying operating deficit. Underlying operating deficits are not ideal but the reality is that the vast majority of Victorian Councils, including metropolitan Councils are operating in this environment. This is due to eight years of capped rates and rising costs to deliver services.
- Whilst the Council should continue to seek to improve this outcome, the reality is that achieving an underlying break-even result is simply impossible given the magnitude of the deficit ($8 million per annum) and the limited ways that the Council can improve the result.
- The higher focus of the Council should instead be based on having a break-even cash budget on an annual basis which will stop the Council from eroding its cash position.
- The report includes a deeper comparison of Buloke Shire Council to Ararat Rural City Council and Hepburn Shire Council. Some notable points are the significant differences in Buloke Shire Council's total land area, lower population and much greater road lengths than both of the other Councils.
- Ararat is the more comparable of the two Councils. Ararat despite not having increased rates in six years remains a higher rating Council than Buloke Shire Council. This increased level of rates and charges combined with significantly lower expenditure in wages, materials and depreciation allows Ararat to achieve an underlying surplus. Buloke Shire Council as part of its ongoing review of its efficiency needs to understand the implications of an expenditure reduction on its service standards.
- Hepburn Shire Council like Buloke Shire Council is in an underlying deficit outcome. Both Hepburn and Ararat have significantly lower cash balances than Buloke Shire Council and should they expend the funds they have set aside in Council reserves; both these Councils would be operating below 100% Working capital.
- The report notes that future financial models have been prepared without the inclusion of any assumptions on government funding for natural disaster relief due to the two flooding events (October 2022 and December 2023). The Council is bidding for an additional $82 million in funds to repair damage from these events. Should that funding eventuate, it will impact significantly on the forward financial projections.
- It is also noted that the current financial models do not include recent increases in the roads to recovery program and these need to be factored into the future model.
- The report notes that the Council could consider the use of debt funding (loans) in the future but only for capital projects that have a broad regional benefit as against a facility that services only a single township.
- The report discusses two recent industry reviews and directions. The first of these is the recently released financial vision for Hepburn Shire Council which outlines the financial pressures faced by the Council and its intention to seek a 10% rate increase for 2025/26.
- The second is the ongoing State and Federal government inquiries into the financial sustainability of local government. The report notes the recent submission from the Finance Professionals in Local Government and how many of these relate to Buloke Shire Council.

1.4. MANAGEMENT RESPONSE

The Buloke Shire is in North-West Victoria between 210 and 360 kilometres from Melbourne. It is bounded by both the Mildura and Swan Hill Rural Cities in the north, Gannawarra and Loddon Shires in the east, Northern Grampians Shire in the south and Yarriambiack Shire in the west.

Buloke is predominantly a rural area. The main townships are Birchip, Charlton, Donald, Sea Lake, and Wycheproof. The Shire also comprises the smaller townships of Berriwillock, Culgoa, Nandaly, Nullawil, and Watchem.

Buloke encompasses a total land area of 8,000 square kilometres and is approximately 140 kilometres long and 60 kilometres wide. Council maintains a road network spanning 5,300 kilometres. There are also 747 kilometres of roads under State Government control within the Buloke Shire. The two main highways servicing the Buloke Shire are the Calder Highway and the Sunraysia Highway.

Given the above information plus the fact that Buloke Shire has a population of approximately 6,200 and rateable assessments of 6,396 adds to the financial impacts of providing council services to its community.

From our initial read there are no surprises contained within the External Review of Buloke Shire Council's Current and Future Financial Position as prepared by MIK2 Consulting Services. The report however provides Buloke Shire Council a clear direction over the next few years as we prepare for a new Council and put in place the statutory requirements of the *Local Government Act 2020*.

It is pleasing that Council is in a sound financial position noting its strong cash position and accumulated cash surplus.

In preparation of the Council Plan, Financial Plan, Budget and Revenue and Rating Plan, Council will look to strengthen its financial sustainability in accordance with Section 101 Financial Management Principals of the *Local Government Act 2020* and this report, the External Review of Buloke Shire Council's Current and Future Financial Position as prepared by MIK2 Consulting Services. These further actions include:

Proposed Capital Works

Noting that some adjustments were made to the Capital Works Program for the 2023/24 and 2024/25 financial years, it is acknowledged that further work in this area is required in preparation of developing the Financial Plan and Annual Budget (incorporating the four-year Budget). Council will need to prioritise asset renewal over the term of the new Financial Plan.

Budget Officers and Directors

Staff turnover has greatly impacted the budget development and involvement of staff over the last two financial years. Budget officers will be move involved in developing the Annual Budget (incorporating the four-year Budget). Budget officers will also have access to more financial information as well as input into the quarterly financial reports.

Break Even Cash Budget

This point is agreed and will be the focus moving forward. The report provides reconciliation table that can be utilised to ensure that a break-even cash budget is achieved. This will also be discussed with Councillors during the budget setting process.

Natural Disaster Funding

Buloke Shire has been impacted from three (3) declared natural disasters events since October 2022.

Council and the community continue to recover from the impacts of the October 2022 flood event and storms in December 2023 and February 2024. These events have put an added strain on Council resources to respond effectively to the needs of the community while advocating for Federal and State Government funding.

Natural disasters, in particular the October 2022 floods, continue to place a strain on Council and impact the service provision to the community. When a natural disaster occurs, it places additional financial pressures on Council, delays existing programmed works programs and service delivery.

When the extent of Disaster Recovery Funding Arrangements financial eligibility is approved, the financial impacts will be included in the Annual Budget and Financial Plan.

Roads to Recovery Program

Information relating to the Roads to Recovery program was received late in the 2024/25 budget development process. The quantum wasn't known nor were councils informed of what additional matching financial contributions would be required. Council will receive $14.078 million in Roads to Recovery funding to 30 June 2029.

Debt Funding

Debt funding (loans) is a means to bring forward works and are not revenue source. Debt funding is an option available to Council but must be affordable. The potential of any debt funding will need to be incorporated into the Financial Plan.

Asset Rationalisation Review

It is noted that the level of assets owned by Buloke Shire Council is above average. This represents an opportunity for Council in the future to review its asset holdings and determine if any assets are surplus to its needs to deliver services to the community. Council needs to undertake some advocacy with the State Government for funding for this to occur.

State and Federal Government Inquiries

Buloke Shire Council made two (2) submissions in relation to inquiries into the Financial Sustainability of Local Government (Federal) and Local Government Funding and Services (State). The submissions were:

- House of Representatives Standing Committee on Regional Development, Infrastructure and Transport for their 'Inquiry into Local Government Sustainability' May 2024, and
- Legislative Council Economy and Infrastructure Committee 'Inquiry into Local Government funding and services' June 2024.

Council also presented to the Legislative Council Economy and Infrastructure Committee 'Inquiry into Local Government Funding and Services' in Bendigo on Wednesday, 21 August 2024.

2. UNDERSTANDING BULOKE SHIRE COUNCIL'S CURRENT FINANCIAL POSITION

2.1. COUNCIL'S COMPARATIVE FINANCIAL HEALTH

Appendix 1 of this report provides a detailed financial analysis of Buloke Shire Council compared to twelve other Small Rural Councils.

In summary, the benchmarking exercise based on the financial statements published on 30 June 2023, portrays Buloke Shire Council in a very positive light. The comparisons were performed across 17 custom financial key performance indicators, some of which replicate indicators in the Annual Budget, but many are unique to this exercise.

The key outcomes can be summarised as the following:

- Council is asset-rich compared to its Small Rural Council benchmark group. This result applies to both Total Assets (Current and Non-Current combined) and realisable assets (which excludes the infrastructure assets (roads, footpaths drains etc). Having assets is a positive but they also need to be maintained and renewed creating a future financial obligation on the Council. Councils have further been generally reluctant to sell or dispose of assets even if surplus to service needs. This is an opportunity that Buloke Shire Council should explore further.
- Council has a strong cash position both at the comparative date of 30 June 2023 and again on 30 June 2024. Council had $29.3M in cash assets at this later date.
- Council's working capital ratio which is how much its current assets (short-term realisable assets) cover its current liabilities (amounts that need to be provided for in the next 12 months) is extremely strong. Council has a ratio of 355% which equates to $3.55 in assets to cover every $1 in liabilities. This compares to the group average of $3.01. Any ratio above $1.50 would be considered adequate.
- Council has only a small amount of funds held in Reserve funds (funds set aside for dedicated purposes in the future). Importantly however it does hold sufficient cash funds for these Reserves to be fully cash-backed.
- Both 2022/23 and 2023/24 produced below-ideal results for the Council in terms of spending on asset renewal and upgrade in comparison to the annual depreciation charge (how much of the asset that Council is consuming each year). This ratio is an imperfect one in that it assumes that the Council consumes an asset in equal amounts each year as against the reality of an asset not changing condition early in its life and then rapidly towards the end of its life. The result of the Council is still however not sustainable longer term and will become even more challenging as the financial position of the Council deteriorates.
- Council has zero loan indebtedness in a comparative group of Councils which are very averse to borrowings. Future borrowing opportunities are further canvassed in the main report.
- Council's revenue per assessment was very strong in 2022/23 based on rate revenue and grant revenue which comprised 93% of the total. The figure was inflated in this financial year due to the receipt of $10M in natural disaster funding which was fully recorded as revenue in that year.

- Council raises slightly above the average for rates per assessment which is a positive outcome in terms of ongoing financial strength. Given rate capping restricts the Council's ability to improve in this ratio, having a stronger starting position is essential.
- Council has performed well in terms of its ability to collect outstanding rates in comparison to other Councils.
- Fee revenue for Buloke Shire Council is very low in comparison to others but this is reflective of the nature of the Council which does not have some of the larger urban centres that some other Councils have.
- Grant revenue has been extremely strong, particularly in 2022/23 but again this result needs to be considered in light of the one-off receipt of the natural disaster grant funding.
- Expenses per assessment were above average in 2022/23 but this is reflective to a degree of the income being received. Of the $10.2M in natural disaster funding received in 2022/23, $5.4M of this was expended on operational costs leading to a higher expenditure per assessment amount.
- Buloke generated the highest net operational surplus of the comparative group in 2022/23. This result measures the net surplus after deducting operating expenditure from operating revenue. This result does need to be read with a little caution in that the Council only expended just over 50% of the natural disaster funding it received and will expend the remaining funds in the following years.

An easy and understandable way to portray an assessment of financial health is to use the same framework that banks have their credit rating assessed.

That being:

A+, A, A-, B+, B, B-, C+, C, C-

If a credit rating were to be applied to Buloke Shire Council as **of the date of the comparative financial indicators (30 June 2023),** the rating assessed would be in the **B to B+ range**. It is important to note that this rating is not likely to be maintained based on the current future financial forecasts.

2.2. COUNCIL'S ACCUMULATED CASH POSITION

Local Government Financial Statements can be a difficult read in terms of understanding and analysing their content. They are prepared under Australian Accounting Standards and, as such, include several non-cash related entries that impact the value of Council assets. They also exclude several cash-related payments.

Currently, the main conversation around financial sustainability centres around achieving an ongoing underlying operating surplus. This means the Council is achieving a surplus of ongoing operating revenues greater than ongoing operating expenditures.

The measure remains valid and important in long-term financial planning but cannot be the only measure. It includes non-cash items such as depreciation and excludes cash items such as expenditure on capital works, loan repayments and proceeds and transfers to and from Council Reserve funds.

However, managing the Council's accumulated cash surplus remains a critical function. How does the Council balance its budget annually? How can it assess what level of capital funding is affordable? How can it ensure that its future financial position remains sound?

If you accept the notion that Councils are a not-for-profit break-even business, then it goes without saying that Councils should, therefore, have a process/methodology for measuring their accumulated cash position.

The approaches in Victorian Local Government vary greatly in answering this question. Unlike all other areas of financial management, which are governed by standards, regulations, and best practice models and guidelines, there is no standard industry practice for managing cash results.

The preferred approach in this report is to use a method based on the Balance Sheet which provides an accumulated cash position for the Council and a reconciliation of its one-year result. While this sounds complicated, it is not and is better explained by tables.

The below table shows the one-year cash result for Buloke Shire Council for the year ended 30 June 2024.

Description	Actual 2023/24
Operating Statement Surplus/(Deficit)	**(5,037)**
Management Accounting Reconciliation	
Add back Non-Cash Items:	
Depreciation	8,924
Amortisation Right of use	424
Granted Assets	(31)
Additional landfill provision	-
Transferred Assets Land held for resale	(115)
Transferred Assets from Non-Current	(272)
Change in value of investment in associates	269
Subtotal	**9,199**
Less Non-Operating Cash Items:	
Capital Expenditure	10,875
Additions to Right of use assets	637
Transfers to Reserves	598
Transfers from Reserves	(6,882)
Increased lease proceeds	(637)
Lease Repayments	381
Subtotal	**4,972**
Cash Surplus/(Deficit) for year	**(810)**

The table starts with the deficit result of $5.037M which is the amount shown in the Council's Income Statement in the annual financial reports. From this amount, the impact of a range of 'non-cash' adjustments is removed and then several cash items that are excluded from the Income Statement such as capital works are added back in to provide a final cash result for the financial year of a deficit of $810,000.

Put simply, the one-year 'accounting result' was a deficit of $5.037M but the actual cash result was a deficit of $810,000.

It needs to be kept in mind that this result however is a one-year result and does not represent the accumulated cash position of the Council. To do this, the Balance Sheet of the Council highlights the accumulated cash position.

Description	2022/23 Actuals	Actual 2023/24
	$'000's	$'000's
Current assets (excluding land held for resale)	46,967	35,533
Non Current Assets - Receivables/Financial Assets only	0	0
Less		
Current liabilities (excluding loans/ leases/landfill provision)	-10,990	-7,078
Non Current Liabilities (excluding loans/ leases/ landfill provision)	-602	-174
Reserves (excluding Asset Revaluation Res)	-9,152	-2,868
Raw Accumulated surplus	**26,223**	**25,413**
Movement Between Financial Years		**(810)**

In plain speak, this approach requires the Council to have enough current assets to fund its current liabilities (with exceptions), non-current liabilities (with exceptions), and its Other Reserve funds.

The exceptions that are not funded are:

- Loans – these are backed by the fixed assets purchased with the loan funds, with annual repayments forming part of the cash budget.
- Leases – same as loans
- Landfill provisions—These are backed by the periodic allocation of capital works to complete required rehabilitation and do not require the Council to fund entirely out of current assets.

It should be noted that the movement in the Balance Sheet ($810,000) for these items directly matches the one-year outcome recorded by the Council.

The method shows the Council has a forecast Raw Accumulated Surplus of $25.4M. So, does this mean that the Council has this surplus?

Unfortunately, this is not the case. The Council needs to consider three other factors in reaching its final adjusted accumulated surplus.

These are:

1. Any operating funds being carried forward to the following financial year that is NOT already taken up as a liability in Unearned Income.
2. The advanced payment of the Victorian Grants Commission (Note that this is now NIL for all Councils given that the advance payment was not made in 2023/24)
3. Capital works that must be carried forward for funding from the following financial year that is funded from Council rates.

The following adjustments have been made to these items included.

Description	2022/23 Actuals	Actual 2023/24
	$'000's	$'000's
Current assets (excluding land held for resale)	46,967	35,533
Non Current Assets - Receivables/Financial Assets only	0	0
Less		
Current liabilities (excluding loans/ leases/landfill provision)	-10,990	-7,078
Non Current Liabilities (excluding loans/ leases/ landfill provision)	-602	-174
Reserves (excluding Asset Revaluation Res)	-9,152	-2,868
Raw Accumulated surplus	**26,223**	**25,413**
Movement Between Financial Years		**(810)**
Balance Check		-
Less Operational carryovers not included in unearned income		
Less Forward payment of the VGC grant (if not reserved)		
Less Capital works to be carried forward to the next period	-	7,567
Net Surplus/ (Deficit) Position	**26,223**	**17,846**

The adjustment that has been made is to cater for the $7.567M in carried forward works as disclosed in the 2024/25 Annual Budget. The Budget does highlight that $2.174M of these will be funded from grant revenue but it is unclear as to whether these grants are yet to be received or were taken up as revenue in the previous year. As such the full amount has been used here but it may be overstating the amount.

With this adjustment, it shows that the Council has a residual surplus of $17.8M which for a small rural Council is particularly strong.

3. WHAT DOES THE FINANCIAL FUTURE LOOK LIKE?

The previous section has highlighted that as of 30 June 2024, Buloke Shire Council is in a sound financial position. This next section will look at what the financial position looks like moving forward based on models prepared by the Council.

3.1. LOOKING AT THE FORWARD OUTLOOK

The following tables look at the forward outlook of the Council using the same methodology applied in the previous section.

The first table below highlights the projected cash outcomes across each of the future years. It should be noted that the first four years match the data contained in the Council's published four-year Budget. The years that follow this are based on internal projections only as a working document.

Description	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	$000'S	$000'S	$000'S	$000'S	$000'S	$000'S
Operating Statement Surplus/(Deficit)	**2,033**	**(5,017)**	**(4,830)**	**(5,343)**	**(5,477)**	**(5,615)**
Management Accounting Reconciliation						
Add back Non-Cash Items:						
Depreciation	8,852	9,163	9,269	9,333	9,520	9,710
Amortisation Right of use	430	430	430	430	430	430
Additional landfill provision	59	10	40	10	-	-
Subtotal	**9,341**	**9,603**	**9,739**	**9,773**	**9,950**	**10,140**
Less Non-Operating Cash Items:						
Capital Expenditure	19,709	8,303	8,401	10,515	6,200	6,200
Additions to Right of use assets	454	430	430	430	430	430
Transfers to Reserves	810	390	400	400	-	-
Transfers from Reserves	-	-	-	-	-	-
Increased lease proceeds	(423)	(378)	(345)	(345)	(350)	(350)
Lease Repayments	345	345	345	345	350	350
Subtotal	**20,895**	**9,090**	**9,231**	**11,345**	**6,630**	**6,630**
Cash Surplus/(Deficit) for year	**(9,521)**	**(4,504)**	**(4,322)**	**(6,915)**	**(2,157)**	**(2,105)**

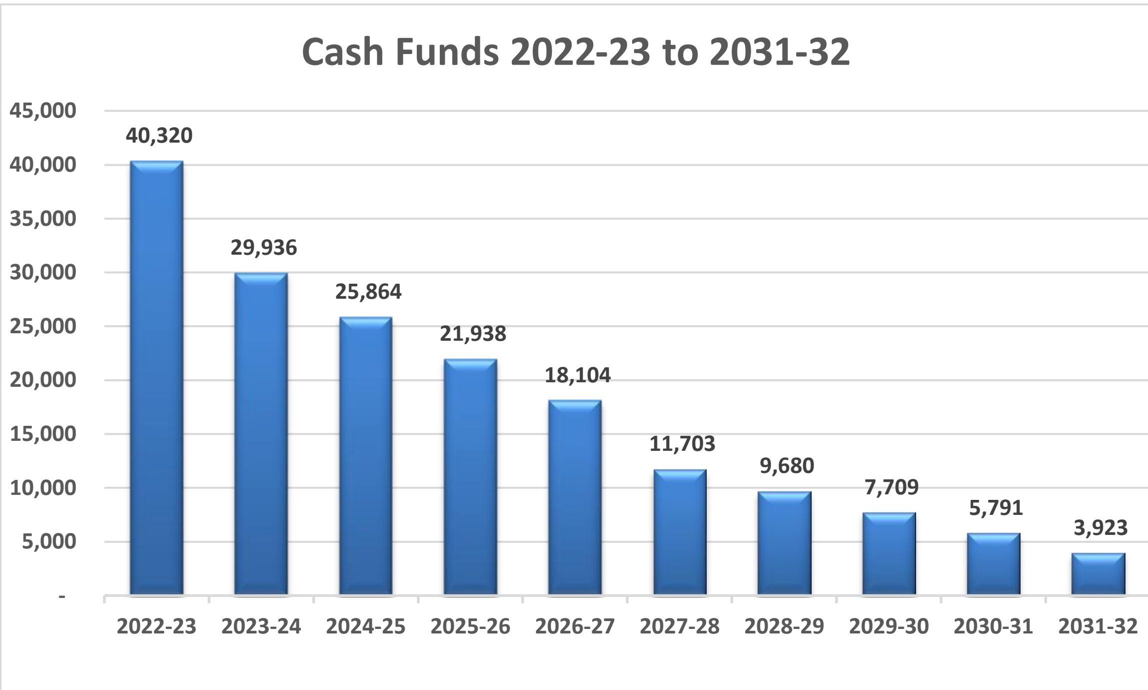
The table highlights that the Council's future budgets are not based on a cash-break-even result and continue to erode the Council's cash position. The larger deficit in 2024/25 is to be expected given that it is based on including the $7.5M in works carried forward from the previous years. The years out from this however show that the level of capital works in the draft budget for future years is unaffordable.

The above table as noted in the previous section is based on a collection of one-year outcomes. What does the picture then look like in terms of the movement in the Council's accumulated cash position?

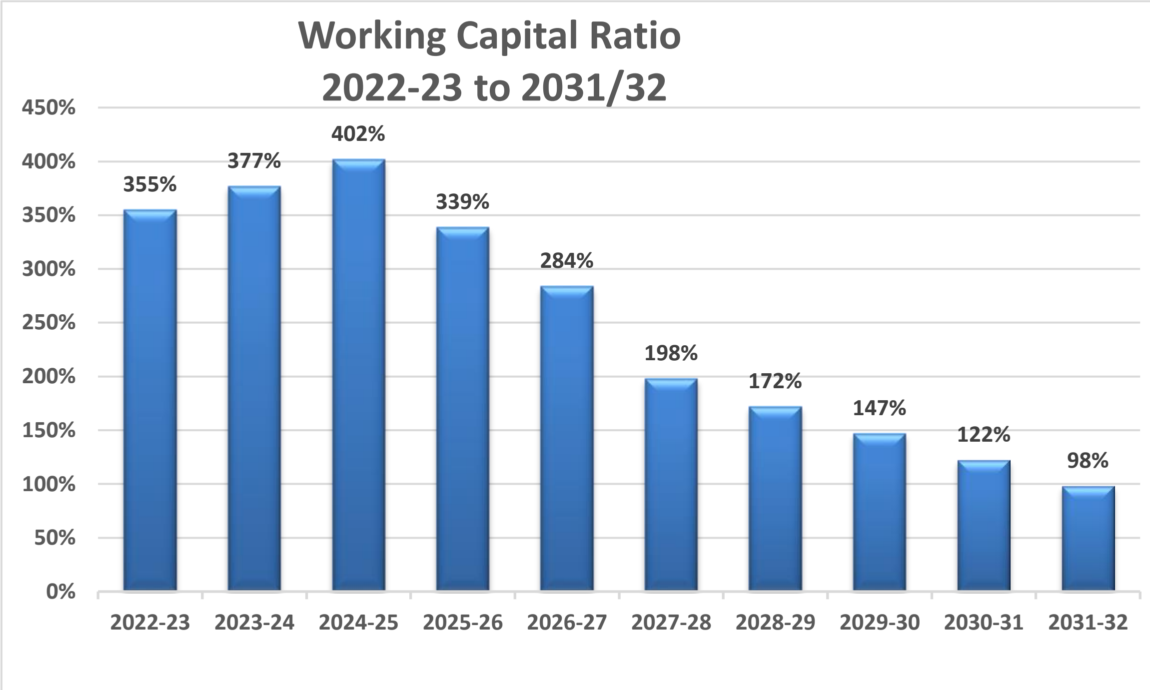
Description	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's
Current assets (excluding land held for resale)	29,591	25,665	21,831	15,430	13,407	11,436
Non Current Assets - Receivables/Financial Assets only	0	0	0	0	0	0
Less						
Current liabilities (excluding loans/ leases/landfill provision)	-4,950	-5,131	-5,213	-5,320	-5,320	-5,320
Non Current Liabilities (excluding loans/ leases/ landfill provision)	-215	-221	-228	-235	-235	-235
Reserves (excluding Asset Revaluation Res)	-3,100	-3,490	-3,890	-4,290	-4,290	-4,290
Raw Accumulated surplus	**21,326**	**16,823**	**12,500**	**5,585**	**3,562**	**1,591**
Movement Between Financial Years	**(9,515)**	**(4,503)**	**(4,323)**	**(6,915)**	**(2,023)**	**(1,971)**
Balance Check	(6)	(1)	1	0	(134)	(134)
Less Operational carryovers not included in unearned income						
Less Forward payment of the VGC grant (if not reserved)						
Less Capital works to be carried forward to the next period						
Net Surplus/ (Deficit) Position	**21,326**	**16,823**	**12,500**	**5,585**	**3,562**	**1,591**

The table above shows that the Council's accumulated cash position continues to decline to the point where it is reaching close to a break-even result. Whilst beyond the years shown in this table, each future year after 2029/30 takes the Council further into the red.

Section 4 of this report will look at the range of financial indicators contained in the four-year Annual Budget. The following two graphs however best summarise the impact of the forward financial plan on the position of the Council.



Under the current financial model, cash funds decline from a peak in 2022/23 of $40M to a projected balance of just $3.9M in 2031-32.



During this same period, the Council's Working Capital Ratio which measures how its Current Assets can meet its Current Liabilities declines to below the minimum level of 100%

3.2. HOW ROBUST IS THE CURRENT MODEL?

As noted in the introduction to this report, the comments and analysis in the report are only as valid as the accuracy of the data provided on which it is based. So, it is worthwhile to spend some time analysing the robustness of the current modelling process.

The documentation provided for review in this report is as follows:

- 2022/23 and 2023/24 Annual Financial Statements (noting that 2023/24 is still subject to final audit clearance)
- 2024/24 Annual Four-Year Budget (including supporting spreadsheet tables that make up the budget document)
- 2024/25 – 2033/34 LTPF Spreadsheet (noting that the first four years match the budget spreadsheet, and the final years have been modelled based on assumptions). It should further be noted that this is an internal working document only and will be formally reviewed as part of the process to develop the next Long Term Financial Plan due no later than October 2025.
- Buloke Shire Financial Plan 2021/22 – 2030/31

Further to the documentation provided, a review of the Annual Financial Statements of twelve other Small Rural Councils has been accessed for benchmarking purposes.

It is difficult to analyse the robustness of the model given that the key spreadsheet is the four-year Budget model and the figures in the key statements are input directly without reference to how they have been determined. But a high-level overview is still possible to perform.

In terms of the cash outcomes of the Council, there are only six budget lines that make a material difference to the outcome. They are:

- Rates
- Operating Grants
- Capital Grants
- Materials and Services
- Employee Costs
- Capital Spending

In terms of looking at the outcomes in the model (four years commencing 2024/25) to the two years before this, the below table shows the results.

Description	2022/23 $'000s	2023/24 $'000s	2024/25 $'000s	2025/26 $'000s	206/27 $'000s	2027/28 $'000s
Rate Revenue	14,583	15,007	15,374	15,797	16,231	16,678
Operating Grants	22,014	3,175	9,327	9,522	9,784	10,053
Capital Grants	4,688	5,913	8,357	3,100	3,385	2,927
Employee Costs	11,107	12,147	13,262	13,792	14,206	14,632
Materials and Services	13,379	10,868	9,909	10,140	10,419	10,706
Capital Spending	9,492	10,877	19,709	8,303	8,401	10,515

The table does throw up some interesting results.

Rate Revenue would appear to be fairly based and assessed across the life of the four-year Annual Budget.

The result for Operating Grants has been skewed the past two financial years due to the Council receiving $10.2M in 2022/23 for Natural Disaster funding and then in 2023/24 receiving virtually no funding from the Victorian Grants Commission as the Federal government reversed its decision to provide an advanced payment. The forecast budget appears fairly accurate with the Council set to receive $8.2M in funding from the Grants Commission in 2024/25 and typically receives around $1M in additional operating grants.

Capital grants are inherently unpredictable, and it is accepted that the model has applied a conservative approach to them. The key grant in this category is the Roads to Recovery Grant which is likely to increase beyond the model.

Employee Costs took a jump between the actual in 2023/24 and the budget in 2024/25 and this is hard to assess given the information available but may be able to be commented further by management.

Offsetting this, however, material costs declined between the same two financial years. The future indexation of both categories looks to be reasonable.

Capital spending in 2024/25 is extremely high. It is accepted that over $7M of this is due to carried forward projects but the remaining $12M program is beyond the financial sustainability of the Council. Moving forward these programs are reduced but the question will remain as to whether they need to be further reduced again.

3.3. WHAT CAN THE COUNCIL DO TO IMPROVE THE CURRENT FORECAST OUTCOME?

The Council should consider a range of initiatives to address the forward financial outcome of the Council. These include the following.

3.3.1 Modelling Review

As noted in the previous section there are opportunities to review the existing model and provide greater detail on the model assumptions. This work will naturally be required as part of the process for the Council to deliver a revised ten-year financial plan before October 2025 as per the Local Government Act. Other key strategic decisions should at least wait until this work is completed.

3.3.2 Balanced Cash Budgeting

As outlined in Section 2 and this section, the Council's forward plan is not based on balancing future cash budgets. Council will have the difficult choice of spending the right amount of funds to adequately renew its assets (and becoming financially unsustainable) or to balance its cash budgets and accept that it will most likely develop a larger asset renewal backlog.

3.3.3 Expenditure efficiencies

It is noted from the Annual Budget document that the Council already has in place a program to review services and service levels to achieve any efficiencies possible and this should continue to be a focus.

3.3.4 Rationalisation of assets

The key performance indicators note that the level of assets held by Buloke is above average. The potential for asset rationalisation should be reviewed closely.

3.3.5 Rate Cap Variation Application

At a point in the future, the Council should consider making an application for a variation to the rate cap to enhance its revenue from rates. The Council's current financial position would not support this happening at this point, nor should the Council wait until it is on its financial knees before considering this option.

3.3.6 Grant funding advocacy

The Council is heavily dependent on grant funding for its ongoing viability and needs to continue to advocate for increased funding. This however needs to be done in an environment where simply adding grant revenue that has matching expenditure requirements does nothing to improve the viability of the Council. Additional funding for services currently being provided would however assist.

3.3.7 Reduced capital spending

The ultimate lever for the Council to consider is to reduce the proposed capital spending in future budgets back to the level where the cash budget is balanced. This will have implications for future asset management planning but would be recommended as an important step.

4. ANNUAL BUDGET FINANCIAL INDICATORS – A REVIEW AND ANALYSIS

Appendix 1 of this report provides financial benchmarking comparing Buloke Shire Council with twelve other Small Rural Councils across 17 custom financial indicators. It is important to note that this comparison is done at a point in time (30 June 2023, the last published Annual Report).

This section of the report varies from that approach in that it reviews the Council's performance against the set of financial indicators required by Local Government Victoria and looks at how the Council performs across the four-year budget timeframe. Comments are provided on how the indicator works and the relevance of the result to the Council.

4.1. LOCAL GOVERNMENT VICTORIA FINANCIAL INDICATORS

The table below sets out the Council result against each of the indicators as shown in the 2024/25 Annual Budget.

Indicator	Measure	Target 2024/25	Target Projections 2025/26	2026/27	2028/29	Trend +/o/-
Liquidity						
Working Capital (sufficient working capital is available to pay bills as and when they fall due)	**Current assets compared to current liabilities** Current assets / current liabilities	402%	339%	284%	198%	-
Obligations						
Asset renewal (assets are renewed as planned)	**Asset renewal compared to depreciation** Asset renewal and upgrade expense / Asset depreciation	156%	91%	91%	113%	-
Stability						
Rates concentration (revenue is generated from a range of sources)	**Rates compared to adjusted underlying revenue** Rate revenue / adjusted underlying revenue	58%	60%	60%	60%	-
Efficiency						
Expenditure level (resources are used efficiently in the delivery of services)	**Expenses per property assessment** Total expenses / no. of property assessments	$5,229	$5,401	$5,530	$5,655	+
Operating position						
Adjusted underlying result (an adjusted underlying surplus is generated in the ordinary course of business)	**Adjusted underlying surplus (or deficit)** Adjusted underlying surplus (deficit) / Adjusted underlying revenue	(27%)	(31%)	(30%)	(30%)	o
Liquidity						
Unrestricted cash (sufficient cash that is free of restrictions is available to pay bills as and when they fall due)	**Unrestricted cash compared to current liabilities** Unrestricted cash / current liabilities	351%	289%	235%	150%	-
Obligations						
Loans and borrowings (level of interest bearing loans and borrowings is appropriate to the size and nature of Council's activities)	**Loans and borrowings compared to rates** Interest bearing loans and borrowings / rate revenue	0%	0%	0%	0%	o
Loans and borrowings (level of interest bearing loans and borrowings is appropriate to the size and nature of Council's activities)	**Loans and borrowings repayments compared to rates** Interest and principal repayments on interest bearing loans and borrowings / rate revenue	0%	0%	0%	0%	o
Indebtedness (level of long term liabilities is appropriate to the size and nature of a Council's activities)	**Non-current liabilities compared to own-source revenue** Non-current liabilities / own source revenue	48%	48%	47%	47%	o
Stability						
Rates effort (rating level is set based on the community's capacity to pay)	**Rates compared to property values** Rate revenue / CIV of rateable properties in the municipal district	0.30%	0.26%	0.26%	0.27%	o
Efficiency						
Revenue level (resources are used efficiently in the delivery of services)	**Average rate per property assessment** General rates and municipal charges / no. of property assessments	$2,404	$2,470	$2,538	$2,607	+

In terms of each of the indicators, an analysis of the results is discussed below.

4.1.1 Liquidity – Working Capital

This ratio is much used and is also included in the custom set indicators in Appendix 1. It measures the amount of current assets that the Council has to meet its short-term liabilities (Current Liabilities). In the ratios shown above it highlights that the Council is projecting to have $4.02 cents for every $1 of current liabilities.

Any measure above 150% is considered very stable and Buloke Shire remains in this range for the four-year budget period. The concern is however the steady decline in its cash position that shows that Council will fall below 100% in the longer term.

So, whilst the current position is sound, the forecast trend in this ratio is an issue that the Council will have to address.

4.1.2 Obligations – Asset Renewal

This ratio is also a commonly used one and again is covered in Appendix 1.

The premise behind this ratio is that the Council should be spending at least as much funds on renewing its existing assets as the amount it consumes of these assets each year represented by the annual depreciation charge.

It is an imperfect ratio in that it assumes that assets deteriorate in an even straight-line fashion from the day they are built whereas in reality, new assets deteriorate only slightly in their early years and much faster as they reach the end of their useful life. That aside, a ratio performance under 100% for many years in a row represents a concern.

The data in Appendix 1 shows that Buloke Shire Council was around the 80% mark in 2022/23 and 2023/24 whilst the budget for 2024/25 is much more positive. The ratio results across the four-year budget show a positive result for the Council but the concern is that these results are more than likely based on a level of capital spending that the Council cannot afford.

4.1.3 Stability – Rates Concentration

The premise behind this ratio is that it measures the extent to which the Council has a reliable source of income that it controls in its rate revenue as a percentage of operating income.

Buloke Shire Council's results mirror the majority of Small Rural Councils with its rates making up approximately 60% of its operating revenue and operating grant revenue forming the bulk of the remaining percentage.

With the rate capping framework in place, there is little chance for the Council to move in this indicator other than operating grants rising and falling which impact the result.

4.1.4 Efficiency – Expenses per assessment

This ratio is titled as an efficiency indicator, but it performs that role poorly as the Council's expenditure will always be tied somewhat to the revenues it receives. Where the Council receives additional operating grant revenue for example it will then expend those funds and appear high in this ratio compared to others.

It is included in the indicators in Appendix 1 with the difference being that depreciation is excluded in that ratio but included in this one.

The historical position of Buloke Shire Council is that it is slightly above average in the amount it spends per assessment, but this is also reflective of it being above average in income as well.

The four-year results for this ratio show a steady increase as expenditure goes up and the assumed level of assessments has been kept flat.

4.1.5 Operating Position – Adjusted Underlying Result

This ratio is probably one of the most used and discussed ratios in the Local Government Victoria set.

The theory behind this ratio is that the Council should be achieving at least a break-even result and not incurring ongoing underlying deficits.

Underlying operating deficits show that the Council is gradually eroding its net assets from a purely operational perspective. A one-year underlying deficit is of no great concern given the large amount of net assets that the Council has – the issue instead is the trend of ongoing and growing underlying results.

Ideally, the underlying result for Buloke Shire Council would be better and if it can be improved then it should be. Moving the dial on this ratio is however not easy. The table below shows the dollar amount of the underlying deficits over the life of the four-year budget.

Year	Amount $'000s
2024/25	(7,019)
2025/26	(8,117)
2026/27	(8,215)
2027/28	(8,270)

The council has limited ability to change these results. Its primary source of income in Council rates is capped and expenses are rising faster than income. Its other main source of revenue is government grants and whilst improving the level of operating grants (without any matching expenditure obligations) would help, it is unlikely to occur.

The Council's only ability to change this result is by reducing operating expenditure or depreciation and again both outcomes appear unlikely to any substantive point.

It should also be noted that Buloke Shire Council is not alone in this result. Underlying deficits within local Councils are now common after 8 years of capped rates and costs, particularly over the past three years escalating rapidly.

Whilst it would be ideal to have a better result, the Council is far better off focusing on balancing its cash budgets moving forward than having too large a focus on the underlying result.

4.1.6 Liquidity – Unrestricted cash

The purpose of this ratio is to measure the amount of funds that the Council could call upon if required.

The figures presented in the four-year budget are not correct as they simply divide the total cash funds held by the Council by its current liabilities.

The correct methodology for this ratio is that it needs to deduct any trust funds, grants in advance, statutory reserve funds and funding for capital works carried forward from the cash amount before dividing by current liabilities. Given these figures are not highlighted separately in the budget document, a restatement in this report is not possible.

So the current ratio figures can largely be ignored but what should not be ignored is the decreasing trend in the cash funds held by the Council which has previously been highlighted in this report.

4.1.7 Loans and Borrowings

There are two ratios in the Local Government Victoria set dedicated to loans and borrowings. Given that Buloke Shire Council has NIL borrowings there is no need to comment on these ratios.

4.1.8 Indebtedness

As distinct from loans and borrowings above, the Local Government Victoria indicators include a ratio that is aimed at highlighting the amount of long-term financial commitments (non-current liabilities) as a percentage of the Council's own source revenue.

The calculation in the budget document is not correct as it picks up the figure of current liabilities (rather than non-current liabilities) and divides this by rate revenue (when it should also include fees, fines and other income).

The result in the table should therefore be ignored.

This ratio is not that relevant to Buloke Shire Council in any regard. Council has very low non-current liabilities which are made up of employee provisions, landfill rehabilitation and leases.

4.1.9 Rates Effort

This is another ratio that has questionable value.

Most Councils of a like nature need to raise a similar level of rates per assessment to provide similar operational services to their communities. What can vary however is the average property valuations in each community and Council. The variations are more pronounced in metropolitan areas, but it is still an issue even with Small Rural Councils.

To explain this more simply, Frankston City Council and Stonnington City Council (Toorak) both need to raise a similar amount of rates per assessment to deliver similar service levels. The average valuation of an assessment in Frankston is however approximately $500,000 whereas in Stonnington it is $1.2M. Stonnington can therefore strike a much lower rate in the dollar to raise rates compared to Frankston and therefore perform well in this ratio.

Given the limited value of this ratio, no other comments are made on it.

4.1.10 Revenue Level – Average rates per assessment

Rates per assessment is a very valid indicator and is also included in Appendix 1 to give a comparison to other Councils.

It should be noted that the guidance material for the Local Government Victoria indicators notes that waste service charges should be excluded from the calculation of this ratio and in the four-year Budget figures these have not been excluded from the figures.

Buloke Shire Council has slightly higher than average rates per assessment which is a positive financial result for the Council.

5. COMPARING THE PAIR- BULOKE COMPARED TO ARARAT AND HEPBURN

Following discussions with the Buloke Shire Council management team and the Audit and Risk Committee, a request was made to have a deeper dive comparison into how Buloke Shire Council compares financially to the Ararat Rural City and Hepburn Shire Council.

These two Councils were chosen for different reasons.

Ararat Rural City Council has now gone six successive years without applying a rate increase and continues to operate without an underlying deficit result. Hepburn Shire Council is under financial stress and has indicated to its community via its recently released Financial Vision that it will seek an exemption from the rate cap in 2025/26 and ask for an increase of 10% in rate revenue.

So where does Buloke Shire Council sit in comparison to these two Councils?

5.1. GENERAL CHARACTERISTICS

Whilst all three Councils are classified as Small Rural Councils some distinctive differences in their general characteristics impact their ability to operate financially.

The table below highlights some of these.

Description	Buloke	Ararat	Hepburn
General Characteristics			
Population	6,201	11,880	16,604
Rateable Assessments	6,396	7,399	11,885
Total Council area	8,004	4,211	1,473
Road lengths urban sealed	122	139	266
Road lengths unsealed (natural surface)	3,009	253	166
Road lengths rural other	2,250	2,067	1,023
Total Local Road Lengths	5,381	2,459	1,455

The table highlights some interesting unique characteristics. Buloke is the smallest of the three Councils with a population of just over half of what resides in Ararat and around 40% of the population of Hepburn. The two latter Councils both have larger urban centres in the townships of Ararat and Daylesford.

Despite a relatively low population, the rateable assessments in Buloke are just below that of Ararat and there are more rateable assessments than population. Buloke has a very low population density and this is further borne out by the relative square kilometre areas of the Councils. Buloke Shire Council is 8004 square kilometres in area which is double that of Ararat and seven times that of Hepburn.

This distance has links to the cost of providing services over such a spread area in comparison to a more urbanised and central population.

Road Maintenance is the biggest cost to small rural Councils and Buloke has significantly higher road lengths than both other Councils. The difference in the length of natural surface roads is quite extreme between Buloke Shire Council and the other two Councils.

5.2. OPERATING FINANCIAL RESULTS 2024/25 BUDGETS

The below figures have been drawn from the 2024/25 Annual Budgets

Description	Buloke $'000s	Ararat $'000s	Hepburn $'000s
Operating Financial Outcomes			
Income			
Rate Revenue and Muncipal Charge	13,896	15,527	23,843
Waste Charges	1,478	2,423	3,093
Total Rates and Charges	**15,374**	**17,950**	**26,936**
Fees	463	1,515	741
Fines	139	272	894
Operating Grants	9,327	8,323	7,785
Capital Grants	8,357	7,304	2,312
Contributions Monetary	695	100	520
Other Revenue	1,125	722	1,516
Total Revenue	**35,480**	**36,186**	**40,704**
Expenditure			
Employee Costs	13,262	11,333	17,269
Material Costs	9,909	8,259	14,889
Depreciation	8,852	7,681	9,092
Total Expenditure	**33,447**	**28,023**	**42,765**
Net Income Statement Result	**2,033**	**8,163**	**(2,061)**

The table shows the respective income and expenditure sources for each of the Councils. Hepburn being larger than both Buloke and Ararat makes it a little harder to compare in direct dollar amounts as shown in this table. The relative size of Buloke and Ararat does however make for an interesting comparison.

Ararat Rural City Council is raising $2.6M more than Buloke in terms of rates and waste charges with $1M of this amount being in the waste service charge.

Ararat can raise an additional $1M in fees compared to Buloke. Approximately one-third of this fee income is related to leisure centres which also have matching costs.

Buloke Shire Council receives an additional $1M compared to Ararat in operational grants which is only part compensation for the costs of servicing such a broad area and road network.

The biggest variance between Buloke Shire Council and Ararat comes in the expense profile between the two Councils. Buloke is spending $3.5M more per annum in employee costs and material costs than Ararat. This may be a factor of the length of roads and area that it needs to provide services to but this may form part of the Council's future consideration in terms of expenditure efficiencies.

Depreciation expense for Buloke is also higher than Ararat and nearly on par with Hepburn despite this latter Council having an additional $45M in total assets. This also contributes to a poor underlying result.

5.3. BALANCE SHEET FINANCIAL RESULTS 2024/25

Description	Buloke $'000s	Ararat $'000s	Hepburn $'000s
Balance Sheet Outcomes			
Cash	25,964	7,808	6,948
Current Assets	29,591	7,983	10,070
Non-Current Assets	316,143	310,380	380,042
Total Assets	345,734	318,363	390,112
Current Liaibilities	7,367	5,053	8,540
Non Current Liabilities	1,290	933	12,603
Total Indebtedness	-	156	14,022
Other Reserves	3,268	4,650	5,157

The most striking element from the above table is the financial strength of Buloke Shire Council at this point in its level of cash assets. Despite both other Councils reporting a higher level of Reserve funds, they both have very low cash balances and in reality, they do not have sufficient funds to back these reserves.

5.4. KEY PERFORMANCE INDICATORS

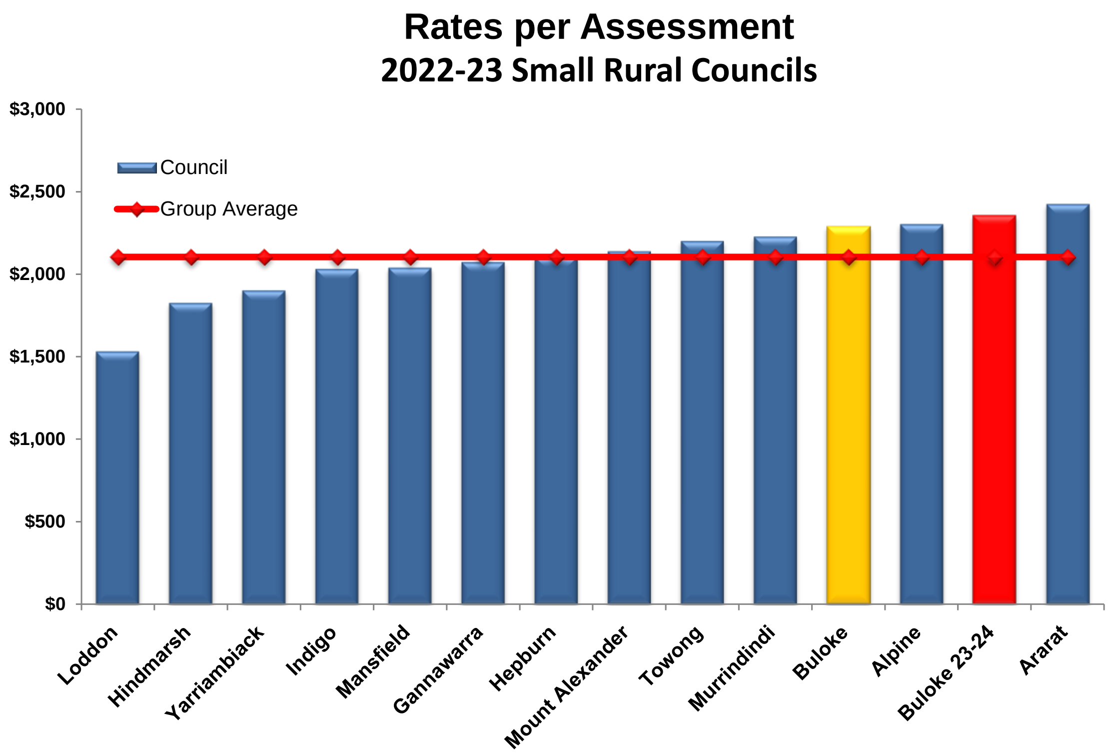
Using the information from the above two tables, the below highlights the three Councils over a range of key performance indicators.

Description	Buloke	Ararat	Hepburn
Key Performance Indicators			
Rates per assessment	$ 2,173	$ 2,099	$ 2,006
Rates and Charges per assessment	$ 2,404	$ 2,426	$ 2,266
Operating Revenue per assesment	$ 4,241	$ 3,904	$ 3,230
Expenses per assessment	$ 5,229	$ 3,787	$ 3,598
Underlying Result	$ (6,324,000)	$ 859,000	$ (4,373,000)
Working Capital Ratio	402%	158%	118%
Working Capital exluding Reserves	357%	66%	58%
Cash Funds / Operating Revenue	96%	27%	18%
Asset Renewal & Upgrade/ Depreciation	155%	200%	90%

Rates and Charges

Whilst Buloke Shire Council raises more rates per assessment than the other two Councils, Ararat Rural City raises a higher amount of rates and charges per assessment.

This is consistent with the information contained in Appendix 1 which is based on rates and charges per assessment using the information in the 2022/23 financial statements. This is shown below.



The outcomes are quite surprising given that Ararat Rural City Council has not increased rates in the past six years.

Whilst rate capping purports to treat all Councils equally it is a little like the Stawell Gift where in theory all runners need to complete the 120-yard course. What needs to be noted however is that all runners have different starting positions. Whilst some Councils hit the rate capping with both legs tied together due to their low starting rate base, Ararat made the start line with a 10-metre handicap which has allowed it to both have zero rate increases but remain the highest rates and charges per assessment Council in the benchmark group.

The low results for Hepburn Shire Council provide some indication of the financial stress that it is experiencing compared to other Councils.

Buloke Shire Council's higher level of operating grants contributes to it having higher revenue per assessment. Its expenses per assessment are however much higher and the gap between operating revenue per assessment and expenditure per assessment is what contributes to the underlying result.

Buloke has an incredibly strong level of working capital compared to the other two Councils based on its high level of cash funds. This also emphasises that the Council should not overly focus on the underlying result but instead focus on preparing future budgets that are balanced from a cash perspective.

The working capital figure based on the assumption that Councils have spent any Reserve funds shows that both Councils would be in financial difficulty were that to occur and casts doubts over whether these Reserve funds are cash-backed.

6. SIGNIFICANT EXTERNAL AND INTERNAL INFLUENCES ON FUTURE FINANCIAL OUTCOMES

The financial model that has been discussed in this report has largely been based on business at Buloke Shire Council continuing without any influences from external and internal factors. This section of the report looks at some aspects that could have a significant impact on the model.

6.1. EXTERNAL INFLUENCES

Natural Disaster Funding

Without a doubt, the most significant external influence that has not yet been built into the future financial model is Natural Disaster Funding.

The Council was impacted by two separate flooding events. The first in October 2022 and the second in December 2023.

Council received $10.239M in 2022/23 and a further $980,000 in 2023/24. Of these funds, 10.68M related to the first flood event with the balance relating to the latter.

The Council has significant flood damage that is yet to be determined through grant funds being allocated. The Council is seeking natural disaster funding of a further $82M with $43.6M relating to the first flood event and $38.47M to the second event.

At present none of this funding is included in the future financial model in either revenue or expenditure. If the Council were to receive a significant proportion of these funding applications, it would impact future financial outcomes. Whilst all grant funds received will need to be expended, the resourcing of this project will be such that other Council-funded capital projects are likely to be deferred providing a forced saving in Council funds.

Roads to Recovery Funding

The current 2024/25 Annual Budget and future financial year forecasts are based on a continuation of Roads to Recovery funding at previous levels. There has been an increase in this grant fund that is not yet included in the forecasts and needs to be built into future financial models.

There is some conjecture that the increased funding needs to be met with an increase in the Council funding of road maintenance. The alternate view is that the funding that the Council already provides for road maintenance can meet this obligation. If the latter is correct, then the additional grant funds will improve the financial outcomes of the Council.

Other Funding Sources

In the longer term, the Council may receive some reasonably significant income from windfarms. This has not been included in the current models due to the longer-term nature of this funding.

6.2. INTERNAL INFLUENCES

Use of loan funding

At present, Buloke Shire Council has zero loan borrowings similar to several other Small Rural Councils.

The future use of loan funds should not be discounted by the Council due to the equity benefits of using debt funding for capital projects of the right nature.

When the Council constructs an asset, it provides benefits to the future generations of the Council that use this asset. The use of loan funds matches this benefit as the populations of the future pay for the asset through annual loan payments.

For this equity benefit to apply, the Council should only consider using future loan funding on projects that have a wider regional benefit rather than a capital project that benefits any township.

Waste and Landfill Rehabilitation

The model is based on a continuation of current operating models for the disposal of the Council waste.

It is not known what the remaining lifespan is of the current waste disposal sites but for many other Councils, this is a key issue with Councils having to investigate alternative waste disposal methods other than landfill.

The cost of rehabilitating current landfills will also need to be built into future capital works plans. Whilst the Council has a provision for this in its Balance Sheet, this provision is not backed by cash and needs to be provided for in future capital works allocations.

Asset Rationalisation Review

This report has highlighted that the level of assets owned by Buloke Shire Council is above average. The Council should be open in the future to reviewing its asset holdings and determine if any assets are surplus to its needs to deliver services to the community. Whilst asset sales are a one-off source of revenue, they would still provide assistance in maintaining the Council's cash position. Undertaking such a review is also an essential part of demonstrating that the Council has considered all financial options prior to making an application for a rate cap variation.

7. SIMILAR INDUSTRY REVIEWS AND DIRECTIONS FOR CONSIDERATION

Two current significant reviews are particularly relevant for Buloke Shire Council to consider.

Hepburn Shire Council Financial Vision

Hepburn Shire Council has recently released its financial vision in response to its lack of financial sustainability.

The vision outlines the difficulties that the Council has faced due to the sharp increase in the costs of service delivery and construction, a small and dispersed population base, a very limited number of additional revenue options, the cost of natural disasters and a low rating base since the commencement of rate capping.

The vision outlines the numerous steps taken by the Council to reduce operating budgets by $1.5M per annum but still notes that the Council will have annual cash shortfalls of over $4M per annum from 2025/26 onwards (not unlike the current Buloke Shire Council model)

In developing the financial vision, the Council heavily consulted with its residents which is a key part of any potential future rate cap variation application. From this consultation, the Council received the approval of 60% of those who were consulted to apply for a variation to the rate cap.

The vision outlines the Council's plan to generate an additional $1.56 million from rate revenue with further plans to reduce operational services by $2.44 million to address the cash shortfall.

The present financial position of Buloke Shire Council is stronger than that of Hepburn Shire Council but the future financial models for Buloke will take it down a similar path.

The financial vision created for Hepburn Shire Council does provide a road map for both Buloke and other Councils on what would be required to make a successful rate cap variation application.

State and Federal Government enquiries into the financial sustainability of Local Government

There are two government reviews that are ongoing at present in the future financial sustainability of Local Government with findings set to be released in late 2025.

The submission lodged by FinPRO which represents the financial staff of all Victorian Councils is particularly relevant for Buloke Shire Council. It notes the following:

> There are increasing financial pressures being felt by all levels of government, business and community members. The Victorian Local Government sector is experiencing financial challenges that will ultimately result in the reduction of services and infrastructure investment for Victorian Communities.
>
> FinPro recently surveyed its members to understand the impact. 55 Councils (70% of councils) completed the survey, with representation across all Council types.
>
> We asked Councils to detail how they would describe the current financial pressures facing their Council, with comments such as 'extreme', 'significant' and 'immense' being common. Several themes emerged from the responses:

- Financial Sustainability Strategy: Many councils are grappling with financial challenges and developing strategies to improve long-term financial sustainability.
- Financial Pressure and Deficits: Many councils face significant financial pressure, with underlying deficits in their Long-Term Financial Plans (LTFP). The rate cap, often below inflation, contributes to these challenges.
- Service Provision Challenges: The ability to maintain current service levels is difficult due to the gap between revenue and escalating costs. Councils are considering how to reduce services or levels of service, which will ultimately have impacts on the community.
- Rate Cap Impact: The rate cap at 2.75% is insufficient to cover increasing costs in various areas, including labour costs, construction, insurance, and service delivery. This puts pressure on councils to limit capital expenditure, defer projects, and reduce services.
- Population Growth Challenges: Growing councils face the challenge of providing infrastructure and services for rapidly increasing populations. This requires careful planning and poses additional financial strain.
- Cost Escalations: Councils across the board are grappling with cost escalations well above income increases, placing additional strain on budgets and resources.
- Revenue and Funding Issues: Dependence on rates for revenue, coupled with limitations on discretionary income sources creates financial instability. External funding doesn't always match increasing costs, adding to the strain.
- Impact of External Factors: External factors like natural disasters, legislative changes, and global events such as COVID-19 contribute to financial stress, affecting cash flow, operational expenses, and service delivery.
- Workforce and Employment Pressures: Employment-related costs, including Enterprise Agreement pressures and staffing challenges, contribute to financial strain. Some councils report difficulties in securing resources.
- Infrastructure and Asset Renewal Challenges: Councils are grappling with the need for extensive capital works programs, renewal targets, and new asset demands. The ability to fund these projects is impacted by the rate cap and other financial constraints. These costs for maintenance and upgrades are soaring well above income increases.
- Climate Change and Environmental Impact: Costs associated with mitigating climate change, environmental impacts, and extreme weather events contribute to financial pressure. This includes environmental protection and sustainability efforts.
- Legislative Changes and Cost Shifting: Legislative changes, cost shifting from higher levels of government, and evolving reporting obligations add complexity to financial management.
- Ongoing Challenges and Uncertainties: Councils express ongoing challenges, uncertainties, and the need for constant adaptation to new circumstances, impacting their ability to make real cost savings and sustain services.

The submission from FinPRO highlights that the broader local government industry is also feeling the same financial impacts that Buloke Shire Council is. The outcomes of the two government enquiries will be important for the Council to monitor.