# Boundary review of Livingstone Shire Council and Rockhampton Regional Council

**FINANCIAL ASSESSMENT FOR LOCAL GOVERNMENT CHANGE COMMISSION**

March 2022

**PREPARED BY QUEENSLAND TREASURY CORPORATION**

QUEENSLAND TREASURY CORPORATION

## Further enquiries

All further enquiries should be directed to:

Electoral Commission of Queensland
GPO Box 1393
Brisbane QLD 4001

Email: media@ecq.qld.gov.au
Phone: 0438 120 699

# Executive Summary

## Purpose and context

On 31 January 2019 and later on 1 June 2021, the Minister responsible for Local Government requested the Local Government Change Commission (LGCC) to complete an independent assessment of the proposed boundary change of Livingstone Shire Council (LSC) and Rockhampton Regional Council (RRC).

The LGCC is scheduled to complete its assessment and provide recommendations to the Minister responsible for Local Government by the end of 2022. Its assessment will include the following:

- financial assessment of the impact of the change on LSC, RRC and the three suburbs, which is the subject of this report
- results of a voluntary poll of electors from both the LSC and RRC, and
- public submissions regarding other relevant issues.

Queensland Treasury Corporation (QTC) has been engaged by the Department of State Development, Infrastructure, Local Government and Planning (DSDILGP) and the Electoral Commission of Queensland (ECQ) to assist the LGCC on the financial assessment of the proposed boundary change. This includes the following:

1. assessing the financial impact and viability of the change for RRC and LSC using the financial information provided, and
2. working with RRC and LSC to estimate the corresponding rating impact on ratepayers.

While the financial assessment is an important component of the review, the LGCC will be considering a range of matters of community interest through the public consultation process to inform its recommendations.

We would like to thank LSC and RRC for their extensive assistance and collaborative efforts throughout this process.

## Subject area – three affected suburbs

The proposed boundary change would involve the transfer of the three suburbs of Glenlee, Rockyview and Glendale from LSC to RRC and other assets and liabilities including:

- **1,266 rateable properties** in the three suburbs that are residential, commercial and agricultural lots.
- **26 council properties** comprising mostly open space assets (eg, reserves and easements), as well as a single residential property valued at $0.1 million.
- **Property, plant and equipment of $40.3 million** for roads, water and parks. This also includes transfer of the Mt Charlton Reservoir, water main and other infrastructure servicing the Caves water scheme.
- **Debt of between $4.7 million and $8.1 million.** This estimated range is due to the different methodologies assumed by LSC and RRC, but this variance does not impact the key findings of this report.

The proposed boundary change would have a more pronounced impact on LSC than RRC due its smaller operating scale. LSC has 17,923 rateable properties (including those located in the three suburbs) and $1.0 billion in property, plant and equipment in 2021–22, compared to RRC that has 36,086 rateable properties and $2.8 billion in property, plant and equipment. The proposed transfers identified above are forecast to decrease LSC's ratepayer base and property, plant and equipment by 6.7 per cent and 3.7 per cent respectively in 2024–25. For RRC, this compares with increase of 3.4 per cent and 1.3 per cent for these respective measures of operating scale.

The date of the transfer is not certain and is subject to the outcome of the LGCC's boundary review and any subsequent implementation timeframes set through the Governor in Council. For this financial assessment, the transfer date is assumed to be 1 July 2024. This date is the beginning of the financial year following the local government quadrennial election scheduled for March 2024.

## Financial impacts for LSC and RRC

This report is based on analysis of LSC's and RRC's 10-year financial forecasts from 2021–22 to 2030–31, which incorporates seven financial years following the proposed boundary change. Based on the financials information provided by LSC and RRC, the proposed transfer of the three suburbs is forecast to have a **negative impact on LSC's financial profile** and a **marginal positive impact on RRC's financial profile**.

## Financial impact to LSC

LSC has historically had elevated debt levels relative to its smaller ratepayer base and operating scale. While LSC has high council-controlled revenue, council officers have advised that community affordability considerations may constrain LSC's ability to continue to increase rates and charges. These issues present challenges for LSC in managing financial risks and increase its susceptibility to adverse financial shocks. In recent years, LSC has been taking steps to improve its financial profile, including implementing a debt reduction plan.[1] LSC is not currently forecasting any additional borrowings over the next 10 years and gearing levels are forecast to continue to improve over the forecast period as a result. However, council has advised that it could potentially need to borrow to fund future capital expenditure.

If the boundary change were to proceed, LSC's operating results and cash balances are forecast to reduce significantly due to foregone rates and charges revenue from the three suburbs, which are only partly offset by reduced costs. However, forecasts indicate operating performance, leverage and debt serviceability metrics **would remain within preferred benchmark levels** indicating a level of resilience.

Cash flow metrics are forecast to fall further below preferred benchmarks under the boundary change scenario, which may indicate potential liquidity challenges. However, LSC's capital funding assumptions appear to be conservative, given 90 per cent of capital expenditure post 2024-25 is forecast to be cash funded, with the remainder being funded by grants.

A summary of key financial metrics under both Base Case (business-as-usual) and Scenario (boundary change) is shown in Table 1 below. Ratios that are outside of QTC's preferred range are identified in red.

**TABLE 1: KEY FINANCIAL METRICS FOR LSC**

| Key financials | Benchmark | Forecast | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 |
|---|---|---|---|---|---|---|---|---|---|
| Operating surplus ratio (operating performance) | -2 to 2% minimum range<br>Up to 10% preferred | Base Case | 2.0% | 4.3% | 5.5% | 4.4% | 3.6% | 4.6% | 4.5% |
| | | Scenario | -0.7% | 1.7% | 2.7% | 1.3% | 0.3% | 1.1% | 0.9% |
| EBITDA margin[2] (operating performance) | Higher preferred | Base Case | 29.4% | 30.8% | 31.5% | 29.0% | 27.9% | 28.0% | 27.9% |
| | | Scenario | 27.3% | 28.8% | 29.4% | 26.7% | 25.4% | 25.5% | 25.3% |
| Debt Service Cover Ratio (Leverage and debt Serviceability) | Greater than 2.0x | Base Case | 3.6x | 3.9x | 4.2x | 3.9x | 3.9x | 5.5x | 22.7x |
| | | Scenario | 3.1x | 3.4x | 4.7x | 4.4x | 2.9x | 3.2x | 3.3x |
| Debt to EBITDA (Leverage and debt serviceability) | Less than 3.0x | Base Case | 1.4x | 1.1x | 0.8x | 0.6x | 0.4x | 0.2x | 0.2x |
| | | Scenario | 1.3x | 0.9x | 0.7x | 0.7x | 0.6x | 0.5x | 0.2x |
| Cash Expense Cover Ratio[3] (excludes externally restricted cash) | Between 3 to 6 months | Base Case | 3.0mths | 1.9mths | 2.0mths | 1.6mths | 1.6mths | 1.6mths | 3.3mths |
| | | Scenario | 2.7mths | 0.9mths | 0.6mths | 0.4mths | 0.4mths | 0.3mths | 0.7mths |

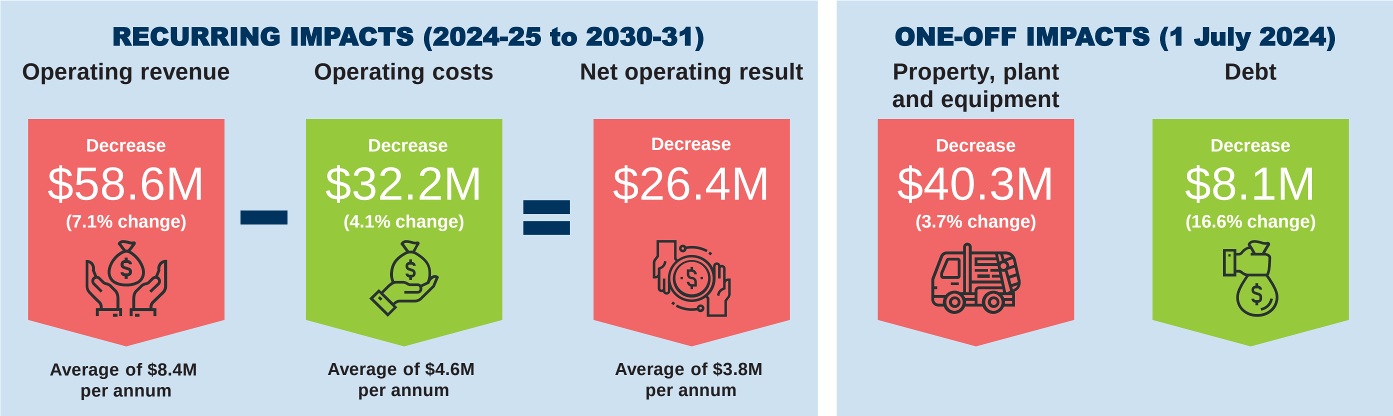
[1] This included a $5.5 million additional debt repayment in 2020–21.

[2] EBITDA refers to earnings before interest, taxes, depreciation and amortisation. Further information on the meaning of this figures and its use in financial ratios is shown in Appendix B.

[3] While cash flow metrics fall below preferred levels, LSC has a $10 million ongoing working capital facility which provides additional cash flow support if required. The facility is assumed to be undrawn in Base Case.

The financial impact of the boundary change on LSC is summarised in Figure 1 below.

**FIGURE 1: LSC'S ESTIMATED FINANCIAL IMPACT OF THE PROPOSED BOUNDARY CHANGE**




## Financial impact for RRC

RRC has a larger operating scale and ratepayer base, and a high level of council-controlled revenue. These factors should provide greater financial capacity to manage risks and flexibility to respond to financial shocks. However, RRC's current forecasts indicate increasing debt levels in the short term, declining revenue from operating grants and a significant capital expenditure program largely to be funded through cash.

If the boundary change were to proceed, RRC's key financial metrics are forecast to improve. The operating surplus ratio is within QTC's preferred range, albeit at the lower end of preferred levels. Forecast leverage and debt servicing capacity **would remain within the preferred limits**.

Operating cash flow benefits from the proposed boundary change are forecast to be largely offset by increased capital expenditure required to maintain the transferred assets. Cash flow metrics are forecast to fall below preferred levels of 3.0 to 6.0 months. This indicates potential cash flow challenges over the longer term, though there may be some flexibility regarding these forecasts such as revising its longer-term capital expenditure assumptions.

RRC may be able to reprioritise capital expenditure and consider the use of alternative funding sources if cash flow becomes an issue. Capital expenditure is currently assumed to be largely funded by cash (70 per cent post 2024-25). It is also yet to factor into its forecasts of any potential measures that the council may decide to implement to mitigate the cashflow impact of the forecast reduction in operating grants.

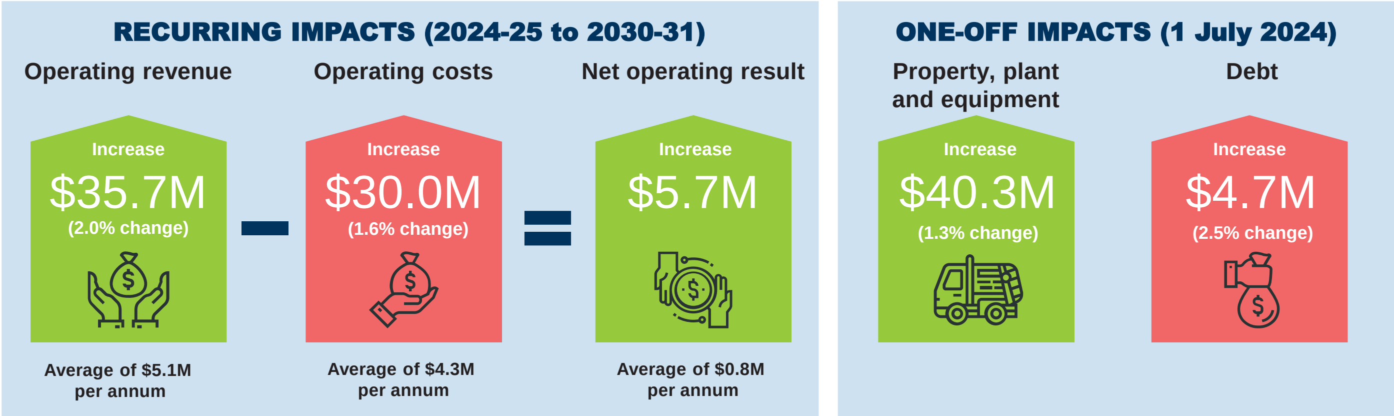
A summary of key financial metrics under both Base Case (business-as-usual) and Scenario (boundary change) is shown in the Table 2 below. Ratios that are outside of QTC's preferred range are identified in red.

**TABLE 2: KEY FINANCIAL METRICS FOR RRC**

| Key financials | Preferred range | Forecast | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 |
|---|---|---|---|---|---|---|---|---|---|
| Operating surplus ratio (operating performance) | -2 to 2% minimum range<br>Up to 10% preferred | Base Case | -0.5% | -0.5% | -0.5% | -0.6% | -0.3% | -0.2% | 0.2% |
| | | Scenario | 0.1% | -0.2% | -0.2% | -0.3% | 0.0% | 0.0% | 0.4% |
| EBITDA margin (operating performance) | Higher preferred | Base Case | 28.2% | 28.1% | 27.9% | 27.6% | 27.8% | 27.6% | 27.5% |
| | | Scenario | 28.7% | 28.6% | 28.4% | 28.1% | 28.2% | 28.1% | 28.0% |
| Debt Service Cover Ratio (leverage and debt Serviceability) | Greater than 2.0x | Base Case | 3.7x | 3.7x | 3.6x | 3.5x | 3.5x | 3.5x | 3.5x |
| | | Scenario | 3.8x | 3.7x | 3.7x | 3.6x | 3.5x | 3.6x | 3.6x |
| Debt to EBITDA (leverage and debt serviceability) | Less than 3.0x | Base Case | 2.7x | 2.5x | 2.4x | 2.3x | 2.0x | 1.8x | 1.7x |
| | | Scenario | 2.6x | 2.5x | 2.4x | 2.3x | 2.0x | 1.8x | 1.8x |
| Cash Expense Cover Ratio (excludes externally restricted cash) | Between 3 to 6 months | Base Case | 3.1mths | 2.6mths | 2.2mths | 1.7mths | 1.3mths | 0.8mths | 0.4mths |
| | | Scenario | 3.5mths | 2.9mths | 2.4mths | 1.8mths | 1.4mths | 0.9mths | 0.4mths |

The financial impact of the boundary change on RRC is summarised in Figure 2 below. RRC's total revenue is forecast to increase by $36 million over the forecast period, while LSC's revenue is forecast to decrease by $59 million. This variance is primarily due to different setting of rates and charges between the two councils.

FIGURE 2: RRC'S ESTIMATED FINANCIAL IMPACT OF THE PROPOSED BOUNDARY CHANGE




## Financial impact to ratepayers

Interpretation of this section: This section is intended to show the difference in average rates and charges as a result of the boundary review, rather than provide an estimate of the absolute costs to ratepayers. The financial impact to ratepayers presented are indicative only based on the forecasts provided by LSC and RRC management. Estimates have been developed at a point in time and are subject to change as part of each council's annual budget processes.

### LSC ratepayer impact

Forecasts indicate that the boundary change would decrease the net operating result by $2.8 million in 2024–25. If the council were to fully pass this incremental impact through to ratepayers, this **would increase the average rates and utilities bill** by $161 in 2024–25.[4] This increase is forecast to grow to $250 by 2030–31. Therefore, council would need to consider passing this through to ratepayers through additional charges and/or revising its service levels.

### RRC ratepayer impact

Forecasts indicate that the boundary change would increase the net operating result by $1.4 million in 2024–25. If council were to fully pass this incremental impact through to ratepayers[5], this **would decrease average rates and utilities bill** by $36 in 2024–25.[6] This amount is forecast to decrease to $14 by 2030–31.

### Rating impact for the three transferred suburbs

If the boundary change were to proceed, the three suburbs would be subject to the ratings system and service levels of RRC rather than LSC. RRC estimates an average rates and utilities bill for the three suburbs would be $4,627 in 2024–25. This compares with LSC's forecast rates and utility charges of $5,300 in 2024–25. If the boundary change were to proceed, this **would reduce the average cost to this ratepayer group by $673 in 2024–25.**[7] This comparative reduction is forecast to grow over the forecast period due to the different escalation rates assumed between LSC and RRC. However, it is noted that RRC and LSC could have different levels of service, which would not be captured in these estimates.

## Other issues for consideration

As the boundary change is only a proposal at this stage, the terms and conditions of the transfer are yet to be negotiated and finalised between LSC and RRC, which may impact the above financial assessment. These could include the value of debt and cash to be transferred, amendments to water and waste contracts and other one-off implementation costs.

[4] The ratepayer estimate is the difference in operating result in each year divided by total rateable properties in that particular year.

[5] Including the three suburbs

[6] The ratepayer estimate is the difference in operating result in each year divided by total rateable properties in that particular year.

[7] Note that these figures exclude potential discounts and remissions, and the emergency services levy, which would be paid by ratepayers irrespective of whether the boundary change proceeds.

# Contents

# 1 Introduction

## 1.1 Project context

On 31 January 2019 and later on 1 June 2021, the Minister responsible for Local Government requested that the Local Government Change Commission (LGCC), an independent body administratively supported by the Electoral Commission of Queensland (ECQ), complete an independent assessment and determination of the proposed change of the boundary between Livingstone Shire Council (LSC) and Rockhampton Regional Council (RRC).

The LGCC's review encompasses:

- financial assessment of the impact of the change on LSC, RRC and the three suburbs, which is the subject of this report (see QTC scope of works below)
- results of a voluntary poll of electors from both the LSC and RRC, and
- public submissions regarding other relevant issues.

After considering the outcomes of these activities, the LGCC will make a recommendation to the Minister responsible for Local Government by end of 2022 as to whether the proposed change should proceed.

RRC was established on 14 March 2008 through the amalgamation of LSC, Rockhampton City Council, Fitzroy Shire Council and Mount Morgan Shire Council. LSC was re-established on 1 January 2014 through de-amalgamation from RRC. The proposed boundary change would transfer the three suburbs of Glenlee, Rockyview and Glendale from LSC to RRC and shift the current local government area boundary.

## 1.2 QTC scope of works

QTC has been engaged by the Department of State Development, Infrastructure, Local Government and Planning (DSDILGP) and ECQ to assist LGCC on the financial assessment of the proposed boundary change. This includes the following scope of works:

1. Request and review the information from RRC and LSC:
   - 10-year financial forecasts in the form of the QTC Local Government Financial Forecasting Tool (FFT) based on 1) business-as-usual assumptions, and 2) assuming the boundary change were to proceed.
   - Underlying assumptions from RRC and LSC including the proposed allocation of rateable properties, revenue, staff, contract commitments, one-off and recurrent costs, assets, liabilities and cash between RRC and LSC.
   - Any third-party financial assessments commissioned by RRC and/or LSC for the proposed boundary change.
2. Assess the financial impact and viability of the change for RRC and LSC using the financial information provided.
3. Work with RRC and LSC to estimate the corresponding rating impact on ratepayers.

QTC's engagement excludes:

- Assessment of financial impact for LSC and RRC at the division or business-unit level.
- Assessment of non-financial impact of the change to RRC and LSC.
- Determining the allocation of rateable properties, assets, liabilities, staff, or other one-off or recurrent financial impact.
- Quality assurance of any financial models/spreadsheet provided by RRC and LSC.
- Provision of legal, accounting, valuation, audit or taxation advice.

## 1.3 Process

### 1.3.1 Key steps

QTC's financial assessment has been undertaken based on the following steps:

- **Introductory meetings:** QTC and ECQ met with the respective Mayors and senior officers from both RRC (on 19 August 2021) and LSC (on 25 August 2021) to outline the boundary review process and scope of works for the financial assessment.
- **Data request:** LSC and RRC fulfilled the data and information requested by QTC.
- **Clarification meetings:** QTC reviewed the information received and facilitated joint meetings with LSC, RRC and ECQ (on 17 November 2021, 10 December 2021and 19 January 2022) to clarify and align the assumptions where possible. LSC and RRC reached a broad agreement about most assumptions, though there are still some differences as described in Table 5.
- **Revision of financial forecasts:** Where necessary, LSC and RRC revised their financial forecasts/models to reflect any amendments and agreements to the assumptions.

- **QTC's financial analysis:** QTC completed its financial analysis based on the latest financial models received from LSC and RRC and the key findings are detailed in this report.
- **QTC's report:** This report was provided to LSC and RRC management, ECQ and DSDILGP for their review prior to finalisation.

There were significant resources, time and effort spent by all parties to complete this financial assessment. QTC would especially like to thank LSC and RRC for their extensive assistance and collaborative efforts throughout this process.

### 1.3.2 Key information sources

Key information sources considered by QTC as part of this financial assessment included:

- Financial forecasts and spreadsheets:
  - Provided by RRC, including 'Base Case' and 'NB review' (both provided on 19 January 2022), and key assumptions as set out in the 'Northern Boundaries' spreadsheet.
  - Provided by LSC, including LSC FF-FY21v1.0 (provided on 4 January 2022), LSC FF-FY21v2.1.2 (provided on 25 January 2022) and 'Underlying assumptions' spreadsheet (provided 7 December 2021).
- RRC Terms of reference submission to LGCC dated 29 March 2019.
- AEC report prepared for LSC dated November 2020.
- LSC presentation on boundary change dated 27 October 2021.
- LSC briefing papers on Mt Charlton Reservoir upgrade dated 2 November 2021.
- Queensland Regional Profiles report comparing RRC with LSC dated 10 September 2021.

## 1.4 Limitations

QTC has prepared this report for the benefit of DSDILGP and ECQ to assist LGCC in its financial assessment of the proposed boundary change between LSC and RRC. This report has been prepared for public release to inform voting in ECQ's poll of ratepayers from LSC and RRC, which is scheduled to be conducted in 2022.

Financial forecasts have been developed by LSC and RRC based on the outlook at a point in time and are subject to change. If the boundary change were to proceed, the actual impact to RRC and LSC and their respective ratepayers may be different to that presented in this report. While this report calculates the financial impact of the change to LSC and RRC, this report does not make any representations about whether compensation should be provided, in line with the terms of our engagement letter between DSDILGP and QTC dated 21 July 2021.

This financial assessment is not a credit review and, in this report, QTC has not assigned a credit rating to either council due to the time horizon and other uncertainties associated with the proposed boundary change. Further information around the use of this report is set out in the Disclaimer on page 28.

## 1.5 Structure of this report

The remainder of this report is structured as follows:

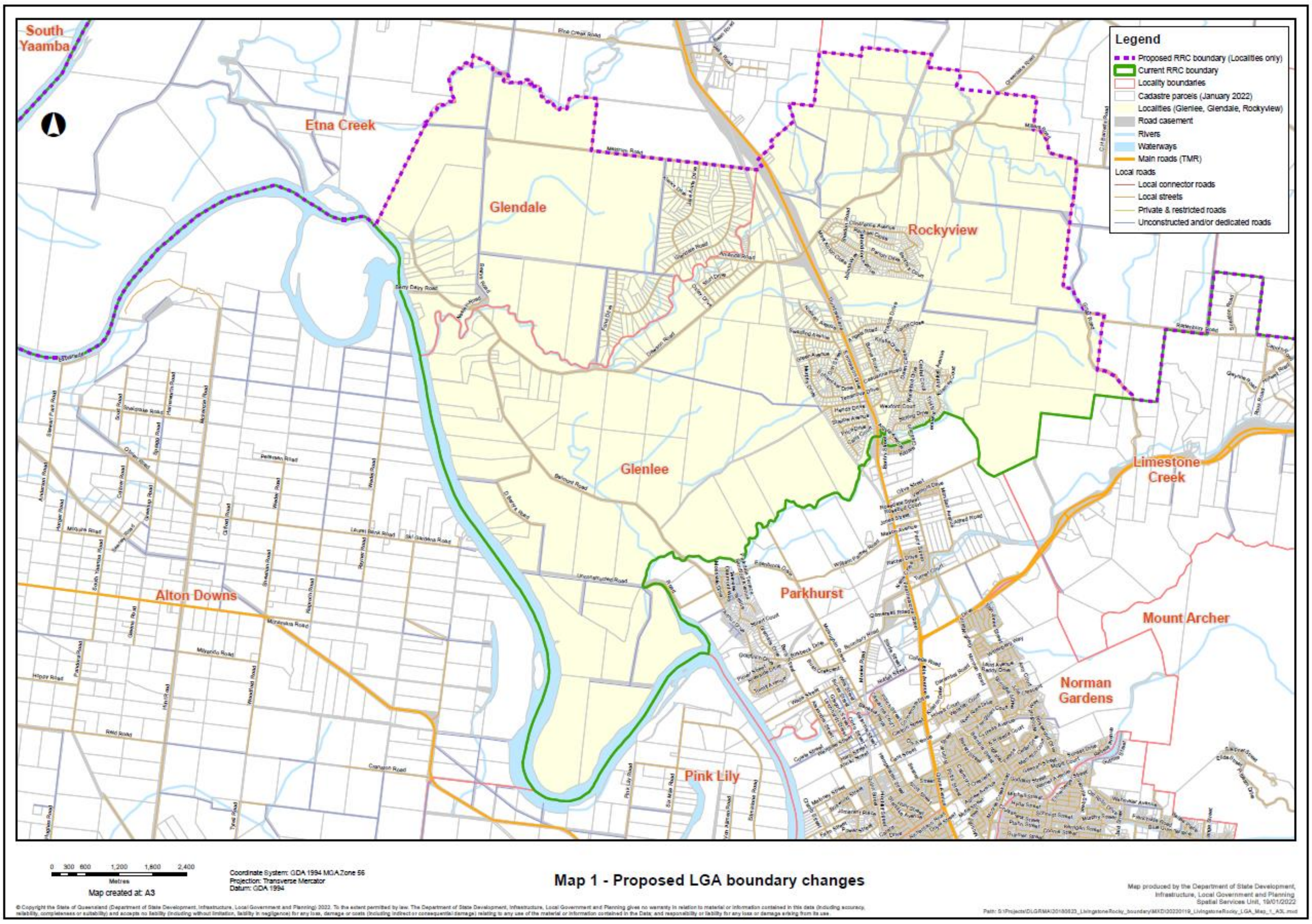
- **Section 2** describes the subject area that would be affected by the proposed boundary change including the area, properties and assets.
- **Section 3** outlines the scenarios considered for the financial assessment.
- **Section 4** discusses the potential financial impact on LSC and RRC.
- **Section 5** discusses the potential financial impact on the ratepayers in LSC, RRC and the three suburbs.
- **Section 6** outlines other items and changes that may have a material impact on the financial assessment.
- **Section 7** provides a conclusion for this report.
- **Appendix A** lists the modelling assumptions.
- **Appendix B** defines the key financial ratios and preferred outcomes referenced in this report.

# 2 Subject area affected by the proposed change

## 2.1 Three affected suburbs

The proposed boundary change would reallocate the three suburbs of Glendale, Glenlee and Rockyview from the LSC area to the RRC area. Consequently, the 1,266 rateable properties in these three suburbs would receive services from and pay rates directly to RRC, rather than LSC as is currently the case. As shown in Figure 3 below, this would involve extending RRC's current boundary north to include these suburbs, which is shown by the purple dotted line (the existing boundary is shown by the green line).

**FIGURE 3: MAP OF AREA AFFECTED BY PROPOSED CHANGE**




## 2.2 Affected assets and services

### 2.2.1 Transfer of assets from LSC to RRC

In addition to reallocation of rateable properties in the area, the proposed boundary change would involve the transfer of the following assets from LSC to RRC:

- Property, plant and equipment of $40.3 million for roads, water and other infrastructure. It is expected that this estimate would need to be confirmed as part of the transfer process.
- 26 council properties comprising mostly open space assets (eg, reserves and easements), as well as a single residential property with an estimated value of around $0.1 million.

### 2.2.2 Service provision to three suburbs

If the proposed boundary change were to proceed, RRC would be responsible for providing services to the three suburbs including:

- Maintaining the estimated 57 kms of sealed council roads, including renewing the assets as required

- Operating, maintaining and renewing water infrastructure to deliver potable water to the three suburbs and Caves water scheme; this is not seen as a material impediment for RRC given:
  - RRC already provides bulk water supply to the LSC area. RRC sources water from the Fitzroy Barrage, which is treated at the Glenmore Water Treatment Plant and piped north to Yaamba and east to LSC's reticulated network.[8] LSC pays RRC for these services under a Bulk Water Supply Agreement.
  - If the boundary change were to proceed, councils' have agreed that the Caves water scheme (including Mt Charlton Reservoir, water main and other associated infrastructure) would be transferred from LSC to RRC. RRC would then be able to deal directly with customers in the three suburbs and other customers of the Caves water scheme (ie, Capricornia Correctional Centre and other small customers). The Bulk Water Supply Agreement would need to be amended to reflect these changes. LSC would continue to rely on bulk water supplies from RRC via the Rockhampton to Yeppoon pipeline.
- Maintaining parks and open space assets.
  - RRC estimates there would be eight parks with structures and facilities (eg, toilets, barbecues, shelters) over an area of 38 hectares that would require ongoing maintenance (eg, cleaning and mowing).

## 2.3 Change of operating scale

LSC has a smaller operating scale with 17,923 rateable properties and $1.0 billion in property, plant and equipment in 2021–22, compared to RRC that has 36,086 rateable properties and $2.8 billion in property, plant and equipment. As a result, the proposed boundary change would have greater impact on LSC than RRC. As shown in Table 3, LSC's ratepayer base and asset base are forecast to decrease by 6.7 per cent and 3.7 per cent respectively in 2024–25. For RRC, this compares with increase of 3.4 per cent and 1.3 per cent for these respective measures of operating scale.

**TABLE 3: IMPACT OF TRANSFER ON PROFILE OF LSC AND RRC**

| Council | Operating scale | Current (2021–22) | Forecast without boundary change (2024–25) | Forecast with boundary change (2024–25) | Difference |
|---|---|---|---|---|---|
| LSC | Rateable properties | 17,923 | 18,843 | 17,577 | -1,266 (6.7%) |
| | Property, plant and equipment ($M) | 1,040 | 1,096 | 1,056 | -40 (3.7%) |
| RRC | Rateable properties | 36,086 | 37,179 | 38,445 | +1,266 (3.4%) |
| | Property, plant and equipment ($M) | 2,756 | 2,997 | 3,037 | +40 (1.3%) |

[8] Regional Water Supply Security Assessment for Rockhampton. 2016. Page 5. https://www.resources.qld.gov.au/__data/assets/pdf_file/0003/338736/rockhampton-rwssa.pdf

# 3 Scenarios considered

The scenarios considered are:

- **Base Case** is the business-as-usual case (without boundary change), which is based on LSC's and RRC's expectations about their future rates and charges, grant receipts, operating expenses, capital expenditure, and borrowings (see Table 4 below).
- **Scenario** is the boundary change scenario, where LSC and RRC have included adjustments to their operating revenues, expenses, and capital expenditure, as well as assets and debt.

For this analysis, the boundary change is assumed to take effect from **1 July 2024** (start of 2024–25 financial year). This aligns the first full financial year after the next local government quadrennial elections due March 2024, though the precise timing is still uncertain.

This report is based on analysis of LSC's and RRC's 10-year financial forecasts from 2021–22 to 2030–31, which incorporates seven financial years following the proposed boundary change.

**TABLE 4: COUNCIL FINANCIAL MODELS FOR SCENARIO ANALYSIS**

| Scenarios | LSC financial models | RRC financial models |
|---|---|---|
| Base Case model | Model FF-FY21v1.0 provided on 4 January 2022.<br>Based on 2021–22 adopted budget including updates for 2020–21 actuals. This also includes the revised outlook for operating grants.[9] | Model version 'FF-FY21 23.12.21 Base case 2021 Actuals v2a' provided on 19 January 2022.<br>Based on 2021–22 adopted budget including updates for 2020–21 actuals. This also includes the revised outlook for operating grants.[10] |
| Scenario model | Model FF-FY21v2.1.2 provided on 25 January 2022, with adjustments outlined in Table 5. | Model version 'FF-FY21 NB review 23.12.21 2021 Actuals v2' provided on 19 January 2022, with adjustments outlined in Table 5. |

**Limitations of financial forecasts:** Management of RRC and LSC have developed the financial forecasts at a point time to support the financial assessment of the boundary review. Councils are in the process of developing the 2022-23 budget (and longer-term financial forecasts) and will be working through a number of proposals to address the income shortfall from operating grants, which may include adjusting services levels and/or increasing future rates. Therefore, the financial forecasts are subject to change.

LSC's and RRC's key assumptions for Scenario are considered to be broadly aligned. There are some differences as outlined in Table 5, though these are not considered to have a material impact on the key findings of this report. If the boundary change were to proceed, differences between transfer assumptions regarding debt and future capital expenditure would need to be reconciled prior to implementation. The financial impact of amending the current Bulk Water Supply Agreement would also need to be agreed.

[9] The Queensland Local Government Grants Commission has proposed to transition to a new Financial Assistance Grant allocation model from 2022-23. LSC forecasts this change will result in **some decreases** in its future operating grant.

[10] The Queensland Local Government Grants Commission has proposed to transition to a new Financial Assistance Grant allocation model from 2022-23. RRC forecasts this change will result in **significant decreases** in its future operating grant.

Note that the arrows in Table 5 indicate the direction of the change, and the colours indicate whether this is a positive (green) or negative (red) impact. More detailed modelling assumptions used by LSC and RRC are listed in Appendix A.

**TABLE 5: FINANCIAL IMPACT OF BOUNDARY CHANGE AND OBSERVATIONS**

| Financial impact ($M) | LSC assumption | RRC assumption | Observations |
|---|---|---|---|
| **Operating revenue (2024–25)** | ↓$7.4 | ↑$4.6 | ▪ Difference is due to the council's different rating systems.<br>▪ RRC's estimate also includes revenue that would be foregone under the Bulk Water Supply Agreement. |
| **Operating expenses (2024–25)** | ↓$4.6 | ↑$3.2 | The $1.4 million difference for RRC is due to:<br>▪ General maintenance: RRC estimated a larger annual cost of maintaining roads and parks than the decrease assumed by LSC. RRC's estimate is based on the costs of providing service levels consistent with its existing assets. It is unclear if these service levels would differ from those already provided by LSC.<br>▪ Water expenses: Due to the reduction in LSC's payment to RRC under the Bulk Water Supply Agreement.<br>▪ Finance costs (including in other expenses): LSC estimated a larger reduction in finance costs than RRC is assumed to incur, due to different debt transfer assumptions. |
| *General maintenance eg, roads and parks* | ↓$0.8 | ↑$1.3 | |
| *Water expenses* | ↓$1.8 | ↑$0.5 | |
| *Waste contractor* | ↓$0.4 | ↑$0.5 | |
| *Depreciation* | ↓$1.0 | ↑$1.0 | |
| *Other (incl. finance costs)* | ↓$0.6 | ↑$0.03 | |
| **Net operating result (2024–25)** | ↓$2.8 | ↑$1.4 | |
| **Property, plant and equipment (1 July 2024)** | ↓$40.3 | ↑$40.3 | ▪ Predominantly comprising roads and water infrastructure. The final value of assets will need to be confirmed through the transfer process. |
| **Debt transferred at 1 July 2024** | ↓$8.1 | ↑$4.7 | ▪ The $3.4 million difference is due to varying assumptions and calculation methodologies used by LSC and RRC. However, this difference is not expected to materially change the key findings of this report. |
| **New borrowings** | $0.0 | ↑$11.0 | ▪ RRC has also forecast to borrow an additional $11 million to fund renewal of Mt Charlton Reservoir. |
| **Capital expenditure (2024–25 to 2030–31)** | ↓$1.9 | ↑$31.0 | ▪ LSC forecast suggests its capital program would reduce by $1.9 million from 2024–25 to 2030–31, based on its asset renewal schedules.<br>▪ RRC estimated that its capital program would increase by $31 million over the same period. This is due to higher estimated renewal expenditure, including on the Mt Charlton Reservoir ($11 million) and other Caves water scheme infrastructure ($10 million), but does not include improvements to current service levels.<br>▪ Given the disparity between the estimates provided by LSC and RRC, the asset conditions and potential renewals may require further investigation. |

# 4 Potential financial impact for councils

QTC's analysis considered the impact of the boundary change on the financial profile of councils using a range of financial ratios. Key areas of focus include operating performance (ability to fund operations), leverage and debt serviceability (ability to manage borrowings) and liquidity (ability to meet short-term financial commitments). Appendix B outlines the key ratios referenced in this report including their definitions and preferred outcomes.

The key findings are outlined below. This financial assessment is not a credit review and, in this report, QTC has not assigned a credit rating to either council due to the time horizon and other uncertainties associated with the proposed boundary change.

## 4.1 LSC

### 4.1.1 Financial profile

LSC has historically had elevated debt levels relative to its smaller ratepayer base and operating scale. In the past, LSC's financial forecasts have indicated operating performance and leverage metrics outside QTC's preferred levels. However, in recent years, we note that LSC has been taking steps to improve its financial profile, including implementing a debt reduction plan. LSC is not forecasting any additional borrowings over the next 10 years, though council has advised this could change. Key aspects of LSC's financial profile are described below:

- LSC has delivered an operating surplus in three out of the last four years (averaging 3.4 per cent of revenue).
- Borrowings peaked at $85.3 million in 2017–18, subsequent repayment commitments were met, and in 2020–21 LSC made an additional debt repayment of $5.5 million to reduce borrowings further to $65.2 million.

Overall, there are still risks for Council's financial profile:

- While LSC has high council-controlled revenue, council officers have advised that community affordability considerations may constrain council's ability to raise rates and charges.
- The region is susceptible to adverse weather events, which could have financial and operational implications.
- LSC has a small ratepayer base and operating scale, hence its financial profile is more susceptible to financial shocks. If its financial assumptions are not achieved, there would be a proportionally greater impact on its financial metrics compared to that of a larger council.

### 4.1.2 Impact of the boundary change

The proposed boundary change is forecast to **adversely affect** LSC's financial metrics. Operating results and cash balances are forecast to reduce significantly due to foregone rates and charges revenue from the three suburbs, which are only partly offset by cost reduction. Leverage, debt serviceability and operating performance metrics are **still forecast to remain within preferred benchmark levels** indicating some level of resilience.

The cash expense cover ratio is forecast to fall further below the preferred benchmark of 3.0 months, which indicates that there could be potential longer-term challenges with cash flow. However, LSC's capital funding assumptions appear to be conservative, given 90 per cent of capital expenditure post 2024-25 is forecast to be cash funded, with the remainder being funded by grants.

A summary of key financial metrics under both Base Case (business-as-usual) and Scenario (boundary change) is shown in Table 6 below. Ratios that are outside of QTC's preferred range are identified in red.

**TABLE 6: KEY FINANCIAL METRICS FOR LSC**

| Key financials | Benchmark | Forecast | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 |
|---|---|---|---|---|---|---|---|---|---|
| Operating surplus ratio (operating performance) | -2 to 2% minimum range<br>Up to 10% preferred | Base Case | 2.0% | 4.3% | 5.5% | 4.4% | 3.6% | 4.6% | 4.5% |
| | | Scenario | -0.7% | 1.7% | 2.7% | 1.3% | 0.3% | 1.1% | 0.9% |
| EBITDA margin (operating performance) | Higher preferred | Base Case | 29.4% | 30.8% | 31.5% | 29.0% | 27.9% | 28.0% | 27.9% |
| | | Scenario | 27.3% | 28.8% | 29.4% | 26.7% | 25.4% | 25.5% | 25.3% |
| Debt Service Cover Ratio (leverage and debt serviceability) | Greater than 2.0x | Base Case | 3.6x | 3.9x | 4.2x | 3.9x | 3.9x | 5.5x | 22.7x |
| | | Scenario | 3.1x | 3.4x | 4.7x | 4.4x | 2.9x | 3.2x | 3.3x |
| Debt to EBITDA (leverage and debt serviceability) | Less than 3.0x | Base Case | 1.4x | 1.1x | 0.8x | 0.6x | 0.4x | 0.2x | 0.2x |
| | | Scenario | 1.3x | 0.9x | 0.7x | 0.7x | 0.6x | 0.5x | 0.2x |
| Cash Expense Cover Ratio (excludes externally restricted cash) | Between 3 to 6 months | Base Case | 3.0mths | 1.9mths | 2.0mths | 1.6mths | 1.6mths | 1.6mths | 3.3mths |
| | | Scenario | 2.7mths | 0.9mths | 0.6mths | 0.4mths | 0.4mths | 0.3mths | 0.7mths |

The comparative analysis of the key financial metrics is discussed further below. A table of key financials is provided on page 17, at the end of Section 4.1.

### Operating performance: Ability to fund operations

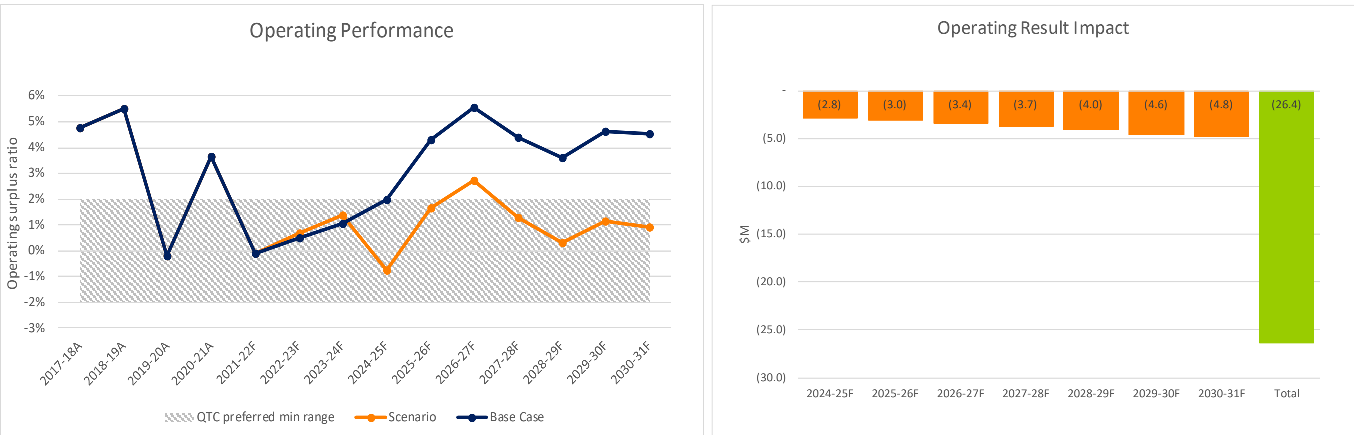
Under the Base Case, LSC is forecasting to deliver operating surpluses that total $34.5 million over 2024–25 to 2030–31. The operating surplus ratio is forecast to average 4.1 per cent over this period (or 3.0 per cent over a longer period, 2021–22 to 2030–31), which is within QTC's preferred benchmark levels. This indicates LSC is forecast to generate sufficient operating revenue to fund its operating costs.

Under the Scenario, LSC forecasts that the proposed transfer would adversely impact its forecast operating performance. However, LSC still forecasts to generate operating surpluses.

- Operating surpluses would total $8.1 million over 2024–25 to 2030–31, which is a $26.4 million decrease from Base Case.
- The average operating surplus ratio would reduce to 1.0 per cent (compared to 4.1 per cent in Base Case). This is still within QTC's preferred range, though it is at the lower end. This suggests that LSC would continue to recover sufficient revenue to cover its operating costs post the proposed transfer.
- Earnings before interest tax depreciation and amortisation (EBITDA, a measure of operating cash flow earnings) is still forecast to remain adequate (averaging 26.9 per cent of revenue over 2024–25 to 2030–31) to support future debt repayments.

Figure 4 shows the forecast operating performance of LSC under Base Case and Scenario.

**FIGURE 4: LSC OPERATING PERFORMANCE METRICS AND FORECASTED RESULT IMPACT**[11]




[11] Note there are minor differences in LSC's Base Case and Scenario models which is why the operating result is slightly different before 2024–25 (due to rounding and other factors). This is not considered sufficiently material to alter the conclusions of this analysis.

### Leverage and Debt Serviceability – Ability to manage borrowings

Under the Base Case, LSC is forecasting to continue to pay off existing loans and is not expecting to require any additional borrowings over the next 10 years. Total debt is forecast to reduce from $65.2 million to $7.3 million by 2030–31. As a result, key metrics are forecast to continue to improve significantly over the forecast period.[12]

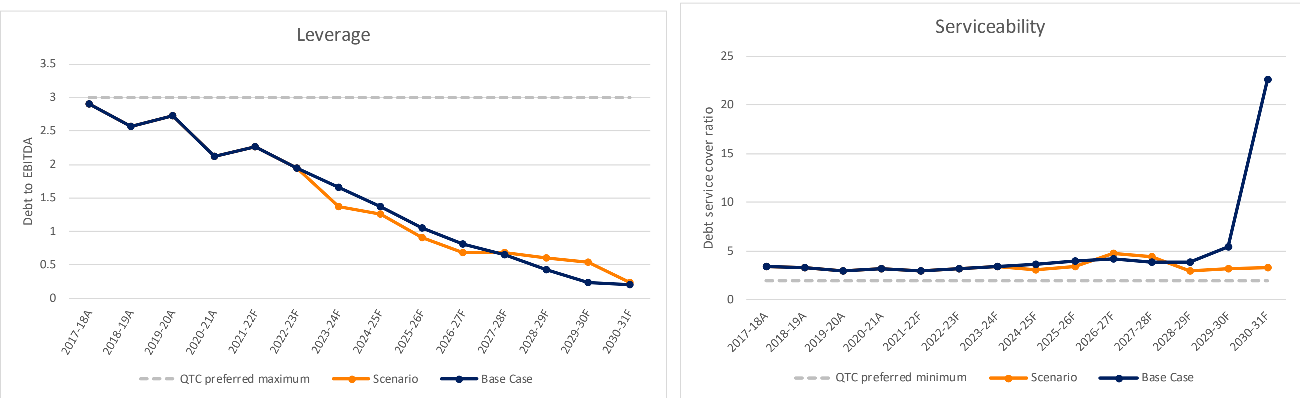
Under the Scenario, LSC has assumed that $8.1 million of borrowings will be transferred to RRC.[13] As with Base Case, by 2030–31, total debt is forecast to reduce to $7.3 million and remain manageable. Key observations are below:

- The debt service cover ratio would average 3.6x over 2024–25 to 2030–31, which is above QTC's preferred minimum of 2.0x.[14]
- LSC's forecast assumes using the QTC working capital facility, which would be paid off every year, later in the forecast period[15] to ensure that available cash remains above restricted cash levels (reserved for specific purposes) at all times. If cash restrictions are removed ($25-30 million each year from 2024–25 onwards) and the overdraft is not utilised, the debt service cover ratio would improve significantly.
- Overall, LSC would likely have sufficient flexibility to continue to make repayments on the reducing debt balances.

LSC's current forecasts assume no additional borrowings. However, this will be subject to change during future Council deliberations and Budget processes. Any change to this assumption would likely alter the observations above.

Figure 5 shows the forecast leverage and debt serviceability of LSC under Base Case and Scenario.

**FIGURE 5: LSC LEVERAGE AND DEBT SERVICEABILITY METRICS**




### Liquidity: Ability to meet short-term financial commitments

Under the Base Case, unrestricted cash expense cover is forecast to fall below QTC's preferred benchmark of three to six months from 2025–26 onwards indicating potential cash flow challenges in the long-term.

- LSC has a $10 million QTC working capital facility limit, which would provide further liquidity support if required (assumed to be unutilised under this scenario).
- As noted above, LSC's assumptions regarding restricted cash and capital expenditure funding may also be conservative. LSC's forecasts indicate 90 per cent of capital expenditure post 2024-25 is assumed to be cash funded, with the remainder being funded by grants. This assumption is less than LSC's historical capital grants receipts, which have funded more than half of its capital spend on average over the last five years.[16]

Under the Scenario, cash levels would reduce significantly, the net change in cash balance would be $21.0 million lower than Base Case by 2030–31. Cash expense cover, excluding restricted cash, would reduce and LSC is forecasting to use an overdraft to maintain restricted cash levels.

Figure 6 shows the forecast cash flow metrics of LSC under Base Case and Scenario.

[12] Under Base Case, debt service cover ratio increases dramatically in 2030–31 due to loans expiring the previous year.

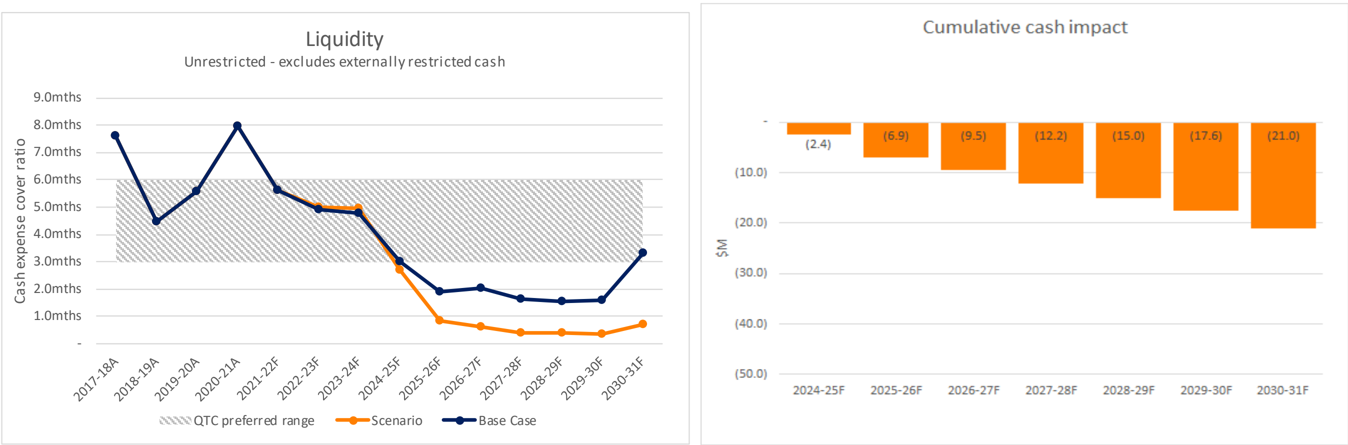
[13] RRC has assumed a lower debt transfer of $4.7 million. This difference is not forecast to have a material impact on observations in this section.

[14] LSC currently has access to a $10 million QTC working capital facility to support cash flow if required. Under Scenario, debt service cover is forecast to be initially favourable to Base Case since borrowings are lower due to the debt transfer. However later in the forecast period, the metric reduces as LSC is forecasting to use the working capital facility, increasing debt service costs later in the forecast period.

[15] LSC Scenario forecast indicates an overdraft balance from 2027–28 until 2029–30.

[16] LSC's incurred capital expenditure of $240 million from 2016-17 to 2020-21, and $133 million of this spend was funded through capital grants (56 per cent).

**FIGURE 6: LSC CASH FLOW METRICS[17]**




A summary of key financials of LSC under both scenarios is included in Table 7.

**TABLE 7: FORECAST FOR LSC'S KEY FINANCIAL METRICS FOR POST-TRANSFER PERIOD**

| Key financials ($M) | | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 |
|---|---|---|---|---|---|---|---|---|
| **Operating Revenue** | Base Case | 105.2 | 110.8 | 114.6 | 116.6 | 120.8 | 127.1 | 131.8 |
| | Scenario | 97.8 | 103.1 | 106.6 | 108.3 | 112.1 | 118.1 | 122.3 |
| **Operating Expenditure** | Base Case | 103.1 | 106.0 | 108.3 | 111.5 | 116.4 | 121.2 | 125.8 |
| | Scenario | 98.6 | 101.4 | 103.7 | 106.9 | 111.7 | 116.7 | 121.2 |
| **Operating Result** | Base Case | 2.1 | 4.7 | 6.3 | 5.1 | 4.3 | 5.9 | 5.9 |
| | Scenario | (0.7) | 1.7 | 2.9 | 1.4 | 0.3 | 1.3 | 1.1 |
| **Capital Expenditure** | Base Case | 35.9 | 33.1 | 26.9 | 28.6 | 25.0 | 31.0 | 28.6 |
| | Scenario | 35.7 | 33.1 | 26.8 | 28.5 | 25.2 | 31.6 | 26.3 |
| **Cash** | Base Case | 39.3 | 33.7 | 36.4 | 35.7 | 38.1 | 38.5 | 47.5 |
| | Scenario | 36.8 | 26.8 | 27.0 | 27.2 | 29.4 | 28.9 | 26.6 |
| **Net Cash (cash less overdraft balance)** | Base Case | 39.3 | 33.7 | 36.4 | 35.7 | 38.1 | 38.5 | 47.5 |
| | Scenario | 36.8 | 26.8 | 27.0 | 23.5 | 23.1 | 21.0 | 26.6 |
| **Debt (loans)** | Base Case | 42.4 | 35.9 | 29.0 | 21.8 | 14.2 | 8.4 | 7.3 |
| | Scenario | 33.7 | 26.7 | 21.4 | 15.9 | 10.7 | 8.3 | 7.3 |
| **Debt (loans and overdraft)** | Base Case | 42.4 | 35.9 | 29.0 | 21.8 | 14.2 | 8.4 | 7.3 |
| | Scenario | 33.7 | 26.7 | 21.4 | 19.7 | 17.0 | 16.2 | 7.3 |

## 4.2 RRC

### 4.2.1 Financial profile

RRC has a larger operating scale and ratepayer base, and a high level of council-controlled revenue. This should provide greater financial capacity to manage risks and flexibility to respond to adverse financial shocks. However, there are current and emerging risks to RRC's financial profile:

- While borrowings are forecast to be manageable over the long-term, leverage is currently high and forecast to increase in the short-term.
- There has been a declining trend in operating surpluses historically and this is forecast to continue.
- The region is exposed to adverse weather events, which could have financial and operational implications.
- Operating grants are forecast to decline, which RRC estimates will result in small annual operating deficits.
- Forecasts indicate there may be cash flow challenges in the longer term, as capital expenditure is assumed to be largely funded by cash.

[17] Note there are minor differences in LSC's Base Case and 2 forecast models prior to the transfer date (resulting in cash levels that approximately $1 million different prior to the transfer). This is not considered sufficiently material to alter the conclusions of this analysis.

### 4.2.2 Impact of the boundary change

RRC's key financial metrics are forecast to **improve** under the boundary change. The operating surplus ratio is within QTC's preferred range, albeit at the lower end. Forecasts indicate RRC's leverage and debt servicing capacity **would remain within the preferred limits**.

Operating cash flow benefits from the proposed boundary change are forecast to be largely offset by increased capital expenditure. Cash flow metrics are forecast to fall below preferred levels even if the boundary change proceeds. This indicates potential liquidity challenges over the longer term, though there may be some flexibility regarding these cash forecasts such as revising longer term capital expenditure forecast assumptions.[18]

A summary of key financial metrics under both Base Case (business-as-usual) and Scenario (boundary change) is shown in the table below. Ratios that are outside of QTC's preferred range are identified in red.

**TABLE 8: KEY FINANCIAL METRICS FOR RRC**

| Key financials | Preferred range | Forecast | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 |
|---|---|---|---|---|---|---|---|---|---|
| Operating surplus ratio (operating performance) | -2 to 2% minimum range Up to 10% preferred | Base Case | -0.5% | -0.5% | -0.5% | -0.6% | -0.3% | -0.2% | 0.2% |
| | | Scenario | 0.1% | -0.2% | -0.2% | -0.3% | 0.0% | 0.0% | 0.4% |
| EBITDA margin (operating performance) | Higher preferred | Base Case | 28.2% | 28.1% | 27.9% | 27.6% | 27.8% | 27.6% | 27.5% |
| | | Scenario | 28.7% | 28.6% | 28.4% | 28.1% | 28.2% | 28.1% | 28.0% |
| Debt Service Cover Ratio (leverage and debt Serviceability) | Greater than 2.0x | Base Case | 3.7x | 3.7x | 3.6x | 3.5x | 3.5x | 3.5x | 3.5x |
| | | Scenario | 3.8x | 3.7x | 3.7x | 3.6x | 3.5x | 3.6x | 3.6x |
| Debt to EBITDA (leverage and debt serviceability) | Less than 3.0x | Base Case | 2.7x | 2.5x | 2.4x | 2.3x | 2.0x | 1.8x | 1.7x |
| | | Scenario | 2.6x | 2.5x | 2.4x | 2.3x | 2.0x | 1.8x | 1.8x |
| Cash Expense Cover Ratio (excludes externally restricted cash) | Between 3 to 6 months | Base Case | 3.1mths | 2.6mths | 2.2mths | 1.7mths | 1.3mths | 0.8mths | 0.4mths |
| | | Scenario | 3.5mths | 2.9mths | 2.4mths | 1.8mths | 1.4mths | 0.9mths | 0.4mths |

A comparative analysis of the key financial metrics is discussed further below. A table of the key financials is provided on page 20, at the end of Section 4.2.

#### Operating performance: Ability to fund operations

Under the Base Case, operating performance is forecast to continue to decline in the short-term but would remain within QTC's preferred limits over the forecast period (average of negative 0.3).

Notable elements are included below:

- Operating grants are forecast to decline, which RRC estimates will contribute to small annual operating deficits totalling $6.1 million over 2024–25 to 2030–31.
- RRC is forecasting to generate a sufficient level of cash flow earnings (EBITDA) to support debt servicing over the medium to longer term.

Under the Scenario, operating results are forecast to improve slightly, compared to Base Case. This is due to increased rates and charges from the three suburbs, albeit this is partly offset by additional costs to service these areas. Key aspects are included below:

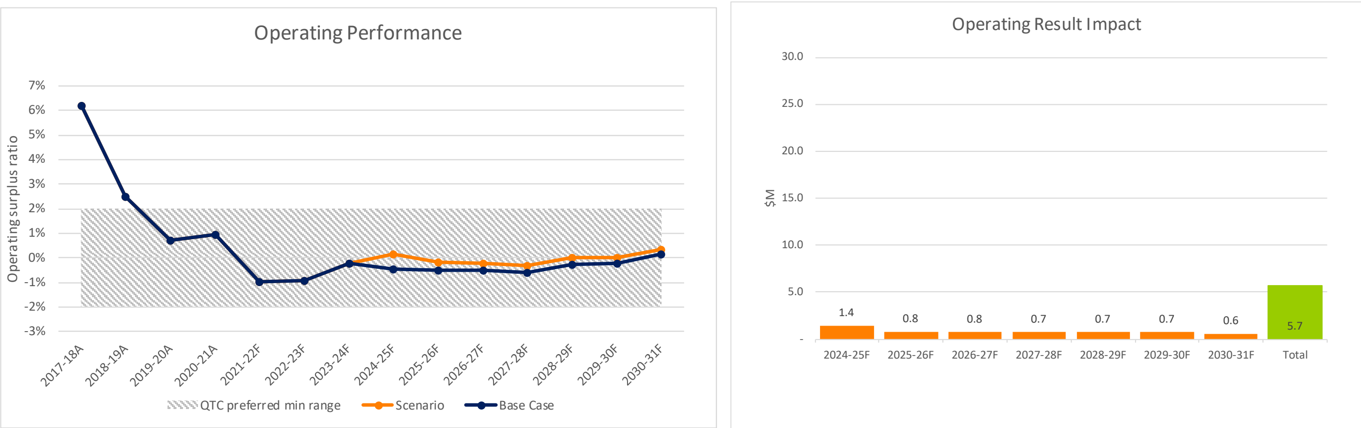
- Total operating revenue is forecast to total $1,836.8 million over 2024–25 to 2030–31, which is a $35.7 million increase from Base Case.
- Total operating expenditure is forecast to total $1,837.1 million over 2024–25 to 2031–31, which is a $30.0 million increase from Base Case.
- Net operating results total -$0.4 million over 2024–25 to 2030–31 (a $5.7 million increase from Base Case). This would allow RRC to essentially deliver a break even result over this period.

[18] RRC may be able to reprioritise capital expenditure and considering the use of alternative funding sources. Capital expenditure is currently assumed to be largely funded by cash (70% post 2024-25). It is also noted RRC is yet to factor into its forecasts any potential measures Council may decide to implement to mitigate the cashflow impact of the forecast reduction in operating grants. .

- EBITDA is still forecast to be sufficient (averaging 28.3 per cent of revenue over 2024–25 to 2030–31) to support future debt repayments.

Figure 7 also shows the forecast operating performance of RRC under Base Case and Scenario.

**FIGURE 7: RRC OPERATING PERFORMANCE METRICS**




## Leverage and Debt Serviceability – Ability to manage borrowings

Under the Base Case, RRC's debt levels are high but are forecast to be manageable.

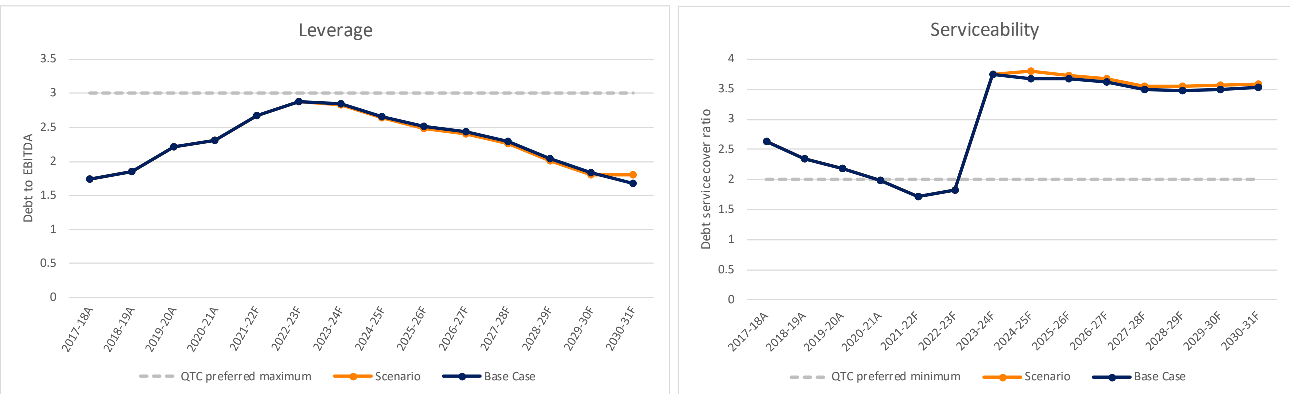
- Leverage, as measured by Debt to EBITDA, is forecast to approach QTC's preferred maximum benchmark of 3.0x in the short-term. The peak of 2.9x is forecast to occur in 2022–23, and is then forecast to reduce thereafter, averaging 2.4x over 2021–22 to 2030–31.
- Other leverage metrics, such as the net financial liabilities ratio and net debt to revenue are also at or above preferred maximum levels.
- Debt serviceability metrics are forecast to temporarily fall below preferred levels but improve from 2023–24 because of the full repayment of historical loans.

Under the Scenario, there is minimal change to leverage and serviceability metrics.

- Leverage, as measured by Debt to EBITDA, is forecast to remain mostly unchanged post the transfer. The impact of the assumed $4.7 million[19] debt transfer is largely offset by the increase in revenue. However, this metric would slightly increase in 2030–2031, as RRC is forecasting to borrow an additional $11 million in that year to fund the renewal of Mt Charlton Reservoir.
- There is forecast to be a slight improvement in RRC's ability to service its borrowings.

Figure 8 also shows the forecast leverage and debt serviceability of RRC under Base Case and Scenario.

**FIGURE 8: RRC LEVERAGE AND DEBT SERVICEABILITY METRICS**




[19] LSC has assumed a higher debt transfer of $8.1 million. The difference is not forecast to have a material impact on RRC's metrics and the observations in this section.

### Liquidity: Ability to meet short-term financial commitments

Under the Base Case, cash levels are forecast to reduce significantly over the next 10 years due to reduced grant revenue[20] and a large capital expenditure program assumed to be funded by cash.

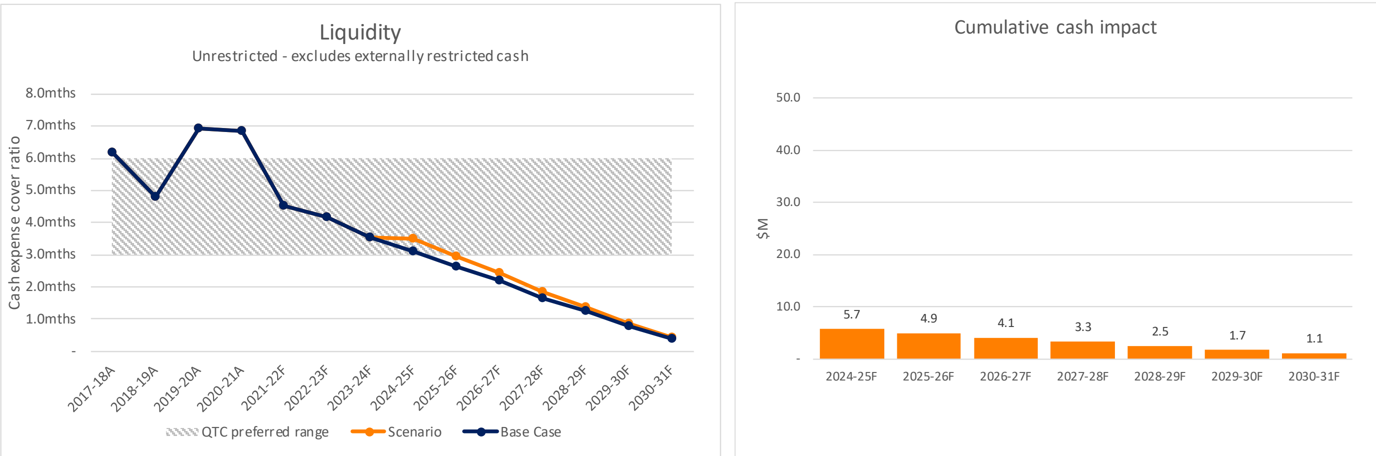
- Unrestricted cash expense cover is forecast to fall below QTC's minimum benchmark of three months post 2025–26 and decline to 0.4 months by 2030–31.
- However, longer-term forecasts are less certain and RRC may have some flexibility to reprioritise or defer capital expenditure over the long-term in response to any cash flow or funding pressures.

Under the Scenario, cash levels would increase initially post 2024–25 due to the rise in operating cash flow, however this is mostly offset by the $31 million increase in capital expenditure over the forecast period, most of which is funded through cash. Key notables include:

- Available cash by 2030–31 is forecast at $14.8 million ($1.1 million increase from Base Case).
- RRC's unrestricted cash expense cover ratio is forecast to improve initially but converges to Base Case by 2030–31.
- There may be some flexibility later in the forecast period for RRC to reprioritise or defer capital expenditure if required in response to any liquidity pressures. By that time, RRC may also have other funding options.

Figure 9 also shows the forecast cash flow metrics of RRC under Base Case and Scenario.

**FIGURE 9: RRC CASH FLOW METRICS**




A summary of key financials of RRC under both scenarios is included in Table 9 below.

**TABLE 9: FORECAST FOR RRC'S KEY FINANCIAL METRICS FOR POST-TRANSFER PERIOD**

| Key financials ($M) | | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 |
|---|---|---|---|---|---|---|---|---|
| **Operating Revenue** | Base Case | 236.1 | 242.8 | 249.7 | 256.9 | 264.2 | 271.8 | 279.5 |
| | Scenario | 240.8 | 247.7 | 254.7 | 262.0 | 269.5 | 277.2 | 285.0 |
| **Operating Expenditure** | Base Case | 237.2 | 244.0 | 251.0 | 258.4 | 265.0 | 272.4 | 279.0 |
| | Scenario | 240.4 | 248.1 | 255.2 | 262.8 | 269.5 | 277.1 | 283.9 |
| **Operating Result** | Base Case | (1.1) | (1.2) | (1.3) | (1.6) | (0.7) | (0.7) | 0.5 |
| | Scenario | 0.3 | (0.4) | (0.5) | (0.8) | (0.0) | 0.1 | 1.0 |
| **Capital Expenditure** | Base Case | 71.4 | 77.9 | 83.3 | 84.6 | 77.3 | 84.2 | 90.0 |
| | Scenario | 113.2 | 80.9 | 86.3 | 87.7 | 80.4 | 87.4 | 104.0 |
| **Cash** | Base Case | 51.4 | 45.7 | 40.1 | 32.9 | 27.2 | 20.1 | 13.7 |
| | Scenario | 57.2 | 50.6 | 44.1 | 36.2 | 29.7 | 21.8 | 14.8 |
| **Debt** | Base Case | 177.1 | 171.0 | 169.2 | 162.4 | 149.6 | 137.3 | 129.4 |
| | Scenario | 181.8 | 175.5 | 173.4 | 166.3 | 153.3 | 140.7 | 143.4 |

[20] The Queensland Local Government Grants Commission has proposed to transition to a new Financial Assistance Grant allocation model from 2022-23. RRC forecasts this change will result in significant decreases in its future operating grant.

# 5 Potential financial impact to ratepayers

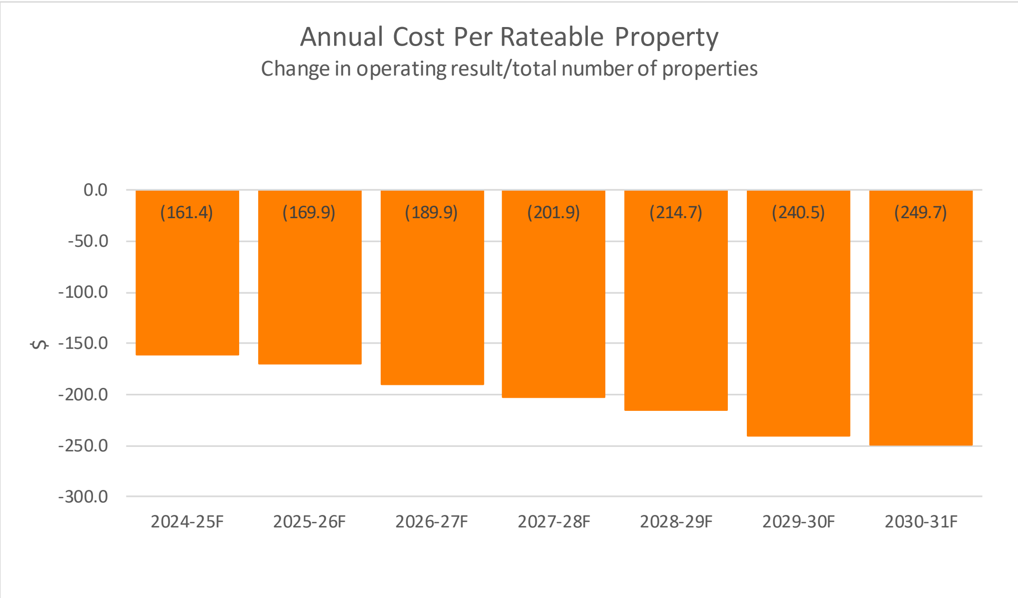
Interpretation of this section: This section is intended to show the difference in average rates and charges as a result of the boundary review, rather than provide an estimate of the absolute costs to ratepayers. The financial impact to ratepayers presented are indicative only based on the forecasts provided by LSC and RRC management. Estimates have been developed at a point in time and are subject to change as part of each council's annual budget processes.

In addition to potential financial impact on the councils, QTC has also analysed how the proposed boundary change may financially impact ratepayers. This section includes the estimated average financial impact to ratepayers in the LSC area and the RRC area, as well as the ratepayers of the three suburbs if they were transferred to RRC's rating system.

## 5.1 LSC ratepayers

If the boundary change were to proceed, it is forecast to reduce LSC's operating result by $26.4 million from 2024-25 to 2030–31. Figure 10 shows the annual negative impact on a per rateable property basis. If council were to fully pass this incremental negative impact through to ratepayers, this would **increase** the average annual rates and utilities bill by $161 in 2024–25.[21] This increase is forecast to grow to $250 in 2030–31. Therefore, council would need to consider either passing this through to ratepayers through additional charges, absorbing the impact and/or revising its service levels.

**FIGURE 10: FINANCIAL IMPACT PER RATEABLE PROPERTY IN LSC AREA**




## 5.2 RRC ratepayers

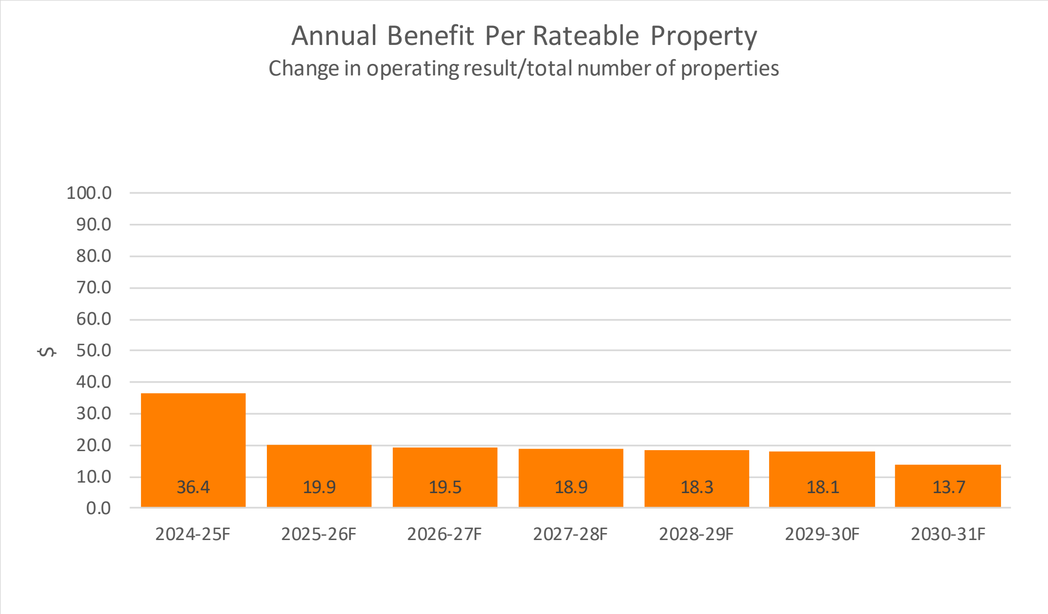
The boundary change is forecast to improve RRC's operating result by $5.7 million over seven years to 2030–31. Figure 11 shows the annual positive impact on a per rateable property basis. If RRC were to fully pass this incremental positive impact through to all ratepayers evenly[22], this would **decrease** the average annual rates and utilities bill by $36 in 2024–25.[23] This amount is forecast to decrease to $14 in 2030–31.

[21] The LSC ratepayer estimate is the difference in operating result in each year divided by total remaining rateable properties in that particular year.

[22] Including the three suburbs.

[23] The RRC ratepayer estimate is the difference in operating result in each year divided by total rateable properties in that particular year (including the three suburbs). It assumes 1,266 additional rateable properties in 2024–25, growing to 1344 in 2030–31 (ie, 1 per cent per year growth, consistent with RRC's assumptions for other properties).

FIGURE 11: FINANCIAL IMPACT PER RATEABLE PROPERTY IN RRC AREA




## 5.3 Rating impact for the three transferred suburbs

The estimated impact for the ratepayers in the three suburbs is based on the different ratings of the two councils. If the boundary change were to proceed, rateable properties in the three suburbs would be subject to the rating system and service levels of RRC instead of LSC.

RRC estimates an average annual rates and utilities bill for the three suburbs would be $4,627 in 2024–25, based on its current rating system plus annual indexation. This compares with LSC's forecast rates and utility charges of $5,300 in 2024–25. Therefore, there would potentially be an average **reduction** of $673 on the annual rates and utilities bill for this ratepayer group in 2024–25. This comparative reduction is forecast to grow over the forecast period due to the different escalation rates assumed between LSC and RRC. Note that these figures exclude potential discounts and remissions, and the emergency services levy, which would be paid by ratepayers irrespective of whether the boundary change proceeds.

This is an average estimate that could be higher or lower, depending on escalation, property classification, changes to rates and other factors. RRC and LSC could also have different levels of service, which would not be captured in these estimates.

Table 10 shows the comparison of estimated rates and charges for the three suburbs.

TABLE 10: POTENTIAL AVERAGE RATING IMPACT FOR THE THREE SUBURBS IN 2024–25[24]

| Rates and utility charges for the three suburbs | Average per property LSC rating scheme | Average per property RRC rating system | Average rating difference |
|---|---|---|---|
| General rates | 2,163 | 2,127 | (35) |
| Other charges (eg, roads, environment, etc.) | 1,333 | 1,044 | (288) |
| Water access charges | 482 | 439 | (43) |
| Water consumption charges | 1,322 | 1,017 | (306) |
| **Total** | 5,300 | 4,627 | (673) |

[24] Note that these figures exclude potential discounts and remissions, and the emergency services levy, which would be paid by ratepayers irrespective of whether the boundary change proceeds.

# 6 Other considerations

If the boundary change were to proceed, the terms and conditions of the proposed boundary change would need to be negotiated and finalised between LSC and RRC. Some of these matters, that may have a material impact on the above financial assessment, are outlined in Table 11 below. However, this list is not intended to be exhaustive.

**TABLE 11: OTHER CONSIDERATIONS**

| Grouping | Item | Assumptions underpinning the financial assessment | Potential impact |
|---|---|---|---|
| **Assets and liabilities** | 1. Value of debt to be transferred | Councils have not reached agreement regarding the value of debt to be transferred. LSC's estimated value of debt to be transferred is $8.1 million vs RRC's $4.7 million. | The debt value to be transferred would affect the forecast interest payment and therefore operating result of LSC and RRC. |
| | 2. Value of cash to be transferred | Councils have not come to an agreement that any cash would be transferred from RRC to LSC. | Any cash to be transferred from RRC to LSC would affect the cash balance of LSC and RRC. |
| **Key contracts** | 3. Amendments to bulk water supply agreement | In 2024–25, LSC has assumed a cost reduction of $1.8 million, and RRC is assumed to forego $1.0 million in water contract revenue. | LSC's forecast operating result could potentially be worse if the cost reduction is less than $1.8 million. |
| | 4. Amendments to the waste contracting arrangements | Expiry of LSC's waste collection contract for the three suburbs is broadly aligned with the assumed transfer. | If the actual transfer date is different to what has been assumed, there may be additional costs and operational implications for LSC. |
| **Other one-off impact** | 5. Staffing implications | Labour costs are assumed to decrease for LSC and increase for RRC, but no formal decisions regarding changes in staffing have been made. | There could be additional one-off costs for LSC due to staffing changes. |
| | 6. Implementation costs and stamp duty | This financial assessment has not included any one-off transaction costs including legal, accounting, and stamp duty.<br>This could also specific valuation advice to confirm the final value of assets closer to the transfer date. | Any one-off costs would affect the operating result of the proponent RRC. |

# 7 Conclusion

Based on the financials information provided by LSC and RRC, the proposed transfer of the three suburbs of Glenlee, Rockyview and Glendale from LSC to RRC is forecast to have a **negative impact** on LSC's financial profile and a **marginal positive impact** on RRC's financial profile. Both councils would be facing financial challenges but may have some level of financial flexibility to respond.

As a result of the proposed boundary change, the potential impact to ratepayers are as follows:

- **LSC ratepayers:** LSC's net operating result would be lower by $26.4 million over the forecast 2024–25 to 2030–31 period. This negative impact would potentially equate to $161 to $250 per rateable property per annum over that period.[25]
- **RRC ratepayers:** RRC's net operating result would be higher by $5.7 million over the forecast 2024–25 to 2030–31 period. This positive impact would potentially equate to $36 to $14 per rateable property per annum over that period.[26]
- **Three suburbs:** RRC estimates an average rates and utilities bill for the three suburbs would be $4,627 in 2024–25, compared to LSC's forecast rates and utility charges of $5,300 for that year. Therefore, the average rates and utilities bill for the three suburbs would be potentially lower by $673 in 2024–25.[27] This comparative reduction is forecast to grow over the forecast period due to the different escalation rates assumed between LSC and RRC.

These figures are intended to show the potential difference in average rates and charges as a result of the boundary review, rather than provide an estimate of the absolute costs to ratepayers. The financial impact to ratepayers presented are <u>indicative only</u> based on the forecasts provided by LSC and RRC management. Estimates are subject to change as part of each council's annual budget processes.

Please note that the terms and conditions of the proposed transfer are yet to be negotiated and finalised between LSC and RRC (eg, any cash to be transferred), which may have a material impact on the above financial assessment.

[25] The ratepayer estimate is the difference in operating result in each year divided by total rateable properties (**excluding** the three suburbs) in that particular year.

[26] The ratepayer estimate is the difference in operating result in each year divided by total rateable properties (**including** the three suburbs) in that particular year.

[27] Note that these figures exclude potential discounts and remissions, and the emergency services levy, which would be paid by ratepayers irrespective of whether the boundary change proceeds.

# Appendix A: Modelling assumptions provided by LSC and RRC

Scenario for the proposed boundary change is based on the forecasts and assumptions provided by LSC and RRC. These assumptions are set out below.

**TABLE 12: SCENARIO MODELLING ASSUMPTIONS AS PROVIDED BY LSC AND RRC**

| Metric | LSC | RRC | Difference | Commentary |
|---|---|---|---|---|
| **Rateable properties** (current and 2024–25) | 1,266 properties | 1,266 properties | | LSC also has 26 council properties to be transferred, which mostly comprise of open space (eg, reserves and easements) and a single residential property<br>Note that these properties are not included in the rateable properties figure shown. |
| **Book value of property, plant and equipment to be transferred ($M)** | **At 1 July 2024** | **At 1 July 2024** | | |
| Total property, plant and equipment | $40.3 | $40.3 | 0 | Property, plant and equipment includes roads, water infrastructure and other assets. This includes assets servicing the Caves water scheme, such as the Mt Charlton Reservoir and associated water main.<br>Other assets predominantly comprise park structures (eg, playgrounds and park shelters). |
| **Operating revenue ($M)** | **2024–25** | **2024–25** | | |
| Rating revenue | 2.7 | 2.7 | 0 | |
| Separate rates & utility charges | 1.7 | 1.3 | 0.4 | |
| Water access charges | 0.9 | 0.6 | 0.3 | |
| Water consumption charges | 2.2 | 1.3 | 0.9 | |
| Financial assistance grants | 0.3 | 0.0 | 0.3 | |
| Discounts & remissions | (0.5) | (0.4) | (0.1) | |
| Other | 0.0 | (0.8) | 0.8 | RRC figure includes decreased receipts from Bulk Water Supply Agreement with LSC ($1.0M), which is offset by increased building fees of $0.2M. |
| Total operating revenue | 7.4 | 4.6 | 2.8 | Difference largely due to council's different rating systems as set out above. |
| **Operating costs ($M)** | **2024–25** | **2024–25** | | |
| Staffing effects | ↓ 6 FTEs | ↑ 3 FTEs | | Staffing impacts are included in other operating cost items below.<br>LSC estimate represents the aggregate decrease in workload for affected staff but is not intended to be interpreted as an indication of potential changes to headcount.<br>RRC estimated an additional three staff would be required to deliver extra maintenance. |
| General repairs & maintenance | 0.8 | 1.3 | (0.5) | RRC estimated a larger annual cost of maintaining roads and parks, than the decrease assumed by LSC. RRC's estimate is based on costs of providing service levels consistent with its existing assets. It is unclear if these service levels would differ to those already provided by LSC. |
| Water expenses | 1.8 | 0.5 | 1.3 | LSC assumed a large cost reduction due to the reduced payments to RRC under the Bulk Water Supply Agreement. |
| Waste | 0.4 | 0.5 | (0.1) | RRC's estimate includes impact to landfill facility |
| Depreciation | 1.0 | 1.0 | 0 | Depreciation estimates are aligned despite the difference in property, plant and equipment values. |

| Metric | LSC | RRC | Difference | Commentary |
|---|---|---|---|---|
| Other | 0.6 | 0.03 | 0.6 | Figures include impact to finance costs. LSC has assumed a larger reduction in finance costs than RRC is assumed to incur, in part because of the difference in debt transfer assumptions. LSC's estimate also includes 'other materials & services', while RRC's estimate includes increase bank fees. |
| Total operating costs | 4.6 | 3.2 | 1.4 | |
| Net impact to operating result | 2.8 | 1.4 | 1.4 | |
| **Capital expenditure** (2024–25 to 2030–31) ($M) | 1.9 | 31.0 | 29.1 | RRC's estimate includes significant renewal expenditure for the three suburbs and assets servicing the Caves water scheme, including the Mt Charlton Reservoir ($11M) and water main ($10M).<br>LSC does not consider that this quantum of expenditure would be required over the forecast period. |
| **Debt transfer** as at 1 July 2024 ($M) | (8.1) | 4.7 | (3.4) | Both councils have agreed that some debt would be transferred along with the assets, though there is a $3.4M difference between the figures assumed due to varying assumptions and calculation methodologies used by LSC and RRC. However, this difference is not expected to materially change the key findings of this report. |
| **New borrowings** (2030–31) ($M) | 0.0 | 11.0 | (11.0) | RRC borrowings to fund renewal expenditure for Mt Charlton Reservoir. |

# Appendix B: Financial ratios considered

QTC has assessed the financial profile of LSC and RRC using a range of ratios. Table 13 outlines the key ratios referenced in the report including their definitions and preferred outcomes. These ratios, among others, are used to identify long-term trends and determine the factors that contribute positively or negatively to the financial profile of both LSC and RRC.

**TABLE 13: KEY FINANCIAL RATIO DEFINITIONS AND PREFERRED OUTCOMES**

| Ratio | Definition | Preferred outcomes |
|---|---|---|
| **Operating Performance** | | |
| Operating Surplus Ratio | Operating result as a percentage of total operating revenue | Between 0% and 10%<br>Note: An operating result (between -2% to 2%) is still considered adequate |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) margin | EBITDA as a percentage of Total Operating Revenue<br>Also known as the Operating Cash Ratio | Higher ratio generally indicates greater ability to cover core cash operational expenses |
| Council Controlled Revenue | Net rates, levies and charges plus fees and charges, divided by total operating revenue | Higher proportion generally indicates greater independence and capacity to influence revenues |
| **Leverage and Debt Serviceability** | | |
| Debt Service Cover Ratio (EBITDA) | EBITDA divided by total debt service costs (ie, all finance costs including principal and interest expense) | > 2.0x |
| Leverage ratio (Debt/EBITDA) | Total debt outstanding divided by EBITDA | < 3.0x |
| Net Debt/Operating Revenue | Total debt outstanding less available non-externally restricted cash balances, as a percentage of total operating revenue. | < 60% |
| Net Financial Liabilities Ratio | Total liabilities less current assets as a percentage of total operating revenue | < 60% |
| **Cash Flow and Liquidity** | | |
| Cash Expense Cover | Non-externally restricted cash balances divided by total operating expenses excluding depreciation, amortisation and finance costs, multiplied by 12. | Between 3 and 6 months |

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