WALGETT SHIRE COUNCIL

Long Term Financial Plan

2020/2021 – 2029/2030

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Long Term Financial Plan Introduction

Chapter 13 (Part 2) of the Local Government Act 1993 indicates Council's in regards to meeting Strategic Planning requirements, through development of the following key items;

- Community Strategic Plan
- Resourcing Strategy
- Delivery Program
- Operational Plan

A key component of the Strategic Planning management is the preparation of the Long Term Financial Plan, specifically as part of the Integrated Planning and Reporting Guidelines which require Council to prepare financial scenarios for the ten year period to 2026/2027.

The Long Term Financial Plan is made up of the following components;

- Projected incomes and expenditure, balance sheet and cash flow statements
- Planning assumptions used to develop the Plan
- Sensitivity analysis – risk/factors most likely to affect the Plan
- Financial modelling for different scenarios e.g. Best/Worst
- Methods of monitoring financial performance

The annual budget for the current year assumes that Council intends to maintain the existing asset stock in a sustainable manner and that Council wants to maintain current service levels. It also includes a number new initiatives and plans endorse by Council to date which create new or upgraded facilities within the Shire.

The Long Term Financial Plan is not a standalone document. It is prepared as part of the wider Resourcing Strategy which forms a key part of the Integrated Planning and Reporting Framework set out by the Office of Local Government. Other plans included within the integrated reporting framework are as follows;

a) A 10 year Community Strategic Plan
b) A 4 year Delivery Program
c) Asset Management Plans (covering a minimum period of 10 years) for each class of asset (including an overall Asset policy and Strategy)
d) A 4 year Workforce Management Plan

Therefore the Long Term Financial Plan should be reviewed in conjunction with these other plans. This is discussed further in section 2.

The Long Term Financial Plan is a tool used to allow informed decision making and reflects the outcomes from review of the Community Strategic Plan, it contains information and development form the Delivery Program, all of which are review as part of the annual Operational Plan.

The Long Term Financial Plan will be used to monitor financial performance within Council to ensure that Council is operating in the most efficient manner and working toward continuing financial sustainability. This is discussed further in sections 7 and 8.

Links to other Plans prepare under the Integrated Reporting Framework

Local Government Planning and Reporting framework

Taken from the IPR Manual available on the Division of Local Government website

The Community Strategic Plan and Delivery Program set out what the community (and Council) would like to achieve into the future. It is made up of;

- Very broad objectives which detail the area's they would like to achieve in those areas
- Strategies attached to those objectives, which show how Council is going to reach those objectives.
- The Delivery Program sets out actions, which fall under each strategy outlined, these actions make up Council schedule of works on a yearly basis. These actions are influenced by factors included in the Resourcing Strategy, incorporating the Long Term Financial Plan, the Workforce Management Plan and Asset Management Plan respectively.

Example:

OBJECTIVE: Develop a connected, informed and resilient community STRATEGY: Provide Youth Centre and Library services that respond to identified community needs

ACTION: Run Regular Youth Centre Sessions in Walgett, Lightning Ridge and Collarenebri throughout the year.

This action is then influenced and limited by:

A. Number of Youth workers available to work throughout the year (identified through the Workforce Strategy)
B. Finance available to pay for wages, materials, building maintenance and running costs (identified through the Long Term Financial Plan)
C. A safe, comfortable working environment for local youth to meet (identified through the Asset Management Plan, the costs of which will also be included in the Long Term Financial Plan).

Service Delivery

The current service level will be the number of youth workers available (as to keep the relevant legislative required ratio of workers to youths) and the number of hours the centre is open. Therefore if the community would like the service to increase (e.g. longer youth sessions) this has a direct impact on the operational costs and therefore Long Term Financial Plan. The plan has been prepared in line with current service levels.

Revenue Policy and Key Assumptions

Finance is an important resource for Council to complete its set of objectives included within the Community Strategic Plan.

Finance is raised for operating expenses through the following methods:

- Rates payments made by ratepayers in the Shire
- Government grants and contributions
- User fees and charges for services delivered by Council
- Private works completed for individuals and the RMS

Council will seek to ensure that all rates, charges and fees are set so as to provide adequate cash flows to meet operating costs and to contribute to the of funding capital works. Council will pursue cost effective opportunities in order to maximize its revenue base and seek an optimum commercial rate of return on investments, subject of course to community service obligations.

Council's Revenue Policy for all fees and charges is that fees are charged on a cost recovery "user pays basis". However in reality there are currently many instances of fees being charged below cost (for example community hall hire, or some library services). This is to keep charges at affordable levels for the community, subsidized by Council.

A number of assumptions are required to be made in the compilation of a 10 year financial plan. Some of these assumptions impact the Long Term Financial Plan, and for this reason we have gone through the process to identify and document all assumptions made, and where they impact financial results, include them in the Long Term Financial Plan. However Council stresses that the future is to a large extent unknown, and any assumptions made are subject to change both in the shorter or longer term.

Item	Movement
General purpose rating	Increase by 2.6% as per IPART decision, plus catch-up.
Fees and Charges	Generally increased by 2.5% to 3.00%, however some income streams have rather significant increases due to actual cost recovery.
Grants Capital and Recurrent	Increased on average by 2.00%.
Waste Management Charges	Increased by 2.60%.
Domestic Waste Charges	Increased by 2.60%.
Water Usage Charges	Increased by 5.00%.
Water Access Charges	Increased by 2.50%.
Sewer Service Charges	Increased by 2.60%. Lightning Ridge and Collarenebri
Wages and Salaries	Wage and Salary line items have been increased by an average of 2.25%. Cost centres having a mix a combination of labour and materials have increased by 2.25%.
Materials	Specific line items for materials increased by 2.00%.
Ratepayer Incentive Scheme	The 3.6% ratepayer incentive scheme was withdrawn in 17/18. Saving for Council equivalent to a 1% general purpose rate increase.

Notes and Key Matters of General Interest

- The Long Term Financial Plan has been completed based on currently known and available information, and on the basis that it will be updated after further analysis from Asset Management Plans. The process and measures put in place will ensure the Councils financial sustainability into the future.

- The Income Statement indicates grant funds as two separate items, those being for operational purposes and that of capital purpose for renewal or purchase of Infrastructure, Property, and Plant & Equipment. It is assumed that certain levels of grant funds used for both operational and renewal or purchase of IPP&E are a key component in ensuring a sustainable financial position. With the majority of these items being recurrent grants, Council needs to be mindful in modelling a scale of operations to suit a possible decline in specific non recurrent grant funds.

- Council's balance sheet as a measure is of current representative liquidity. Where Council is in a sound position in terms of meeting liabilities, a positive net current asset position. Revaluation of assets is completed as a cost of replacement scenario, rather than an indicative market value, whilst this improves Council's asset basis on the balance sheet, the result is an increase in depreciable expense. A long term goal of Council is to have a balanced budget inclusive of this depreciable expense, thereby reducing the overall effect of said revaluations as they occur. This is a key aspect of maintaining longevity in Council's financial position.

Key Risk Factors

a) Reliance on Grant Funding

The majority of grant income comprises of operating grants (Untied), that being the Financial Assistance Grant, along with Capital Grants –non recurrent from Government Agencies for ongoing operations and maintenance or renewal of infrastructure, also Operating Grants for Specific Purposes for renewal or replacement (Road Infrastructure).

Both State and Federal Government have an ongoing interest to ensure that regional Shires are well serviced, as they often play a part in wider population strategies, and national income sustainability. However to be so reliant on handouts makes accurate financial planning difficult, and leaves the provision of ongoing Council services at the mercy of government policy change.

If Council builds or buys new assets, the total asset cost increases, along with the depreciation expense reducing the asset value over time. All capital projects associated with the acquisition or construction of new assets should be subject to close scrutiny with a whole of life cost analysis completed.

Currently Council is only funding part of its depreciation expense, and when an asset comes up for renewal (for example the Walgett Depot), Council has to find adequate sources of finance to pay for it. If grants are not available, then Council must fund the works itself. This can be in one hit during the year (or years) of construction, or over a longer period with an external loan. The issue with funding assets in arrears is that it is difficult to forward plan, especially over a 10 year time period. However when Council continues to purchase or build brand new assets, it is certain that less capital will be available in the years to come to share around the ever increasing number of assets.

b) Legislative compliance

i) Legislative compliance for Risk management in the community

This risk is related to Council's commitment to a safe and orderly manner, minimizing any risks of harm to any persons (including employees) or property within the Shire. This includes (but is not limited to) the following:

- Maintaining Council run assets (such as public parks, halls and sporting facilities) to a standard which minimises the risk of harm due to natural deterioration or vandalism of the asset.
- Maintaining vegetation around the Shire to minimise the risk of harmful bush fire
- Maintain public roads and footpaths to a safe level
- Ensuring public order and safety are well resourced and managed (e.g. dog catchers)
- Maintaining stormwater assets (including the levee), to ensure the risk of harmful flooding is kept at a minimum.
- Ensuring Council has enough resources to foresee and deal with any environmental planning issues, and dealing with environmental legislation changes

If funds are limited to the extent that any of the above cannot fully take place, the financial implications for Council would come in the form of litigation and fines for breach of legislation, and even administration.

ii) Legislative compliance for Governance

Council must comply with numerous administrative legislations, code of conduct, Local Government Act, and it must be heading towards complying with best practice guidelines in how it administers Council assets. If any of the prescribed legislations are breached on a continued basis, Council may again face financial penalties and administration.

Therefore Council must not underestimate its responsibilities to comply with legislation, and must prioritise funds to service these responsibilities above any new asset or asset improvements.

Sensitivity Analysis and Scenario's

Sensitivity Analysis

This is the investigation into how projected performance varies along with changes in the key assumptions on which the projections have been based. The following assumptions have been found the most sensitive, with results as follows:

- General Government Grant and Contributions income

  Our findings have indicated that if this income source did not increase in line with inflation, and instead only increased by 1.0%, Council would experience financial hardship. In the 2020/2021 year Council's income would fall leading to unrestricted cash deficits and therefore over-committing its cash, and this figure would be compounded further in the following years.

- Changes in employee expenses

  Employee expenses have been assumed to increase by 2.25% per annum. If this increased to 4%, Council would have short term cash flow difficulties, if it increased to 5% per annum there would be unrestricted cash deficits into the mid-term.

- Increase in Asset renewal cost due to legislative change

  Council has commenced meeting replacement of assets above the annual depreciation expense and this will continue into the future.

- Rates & Charges

  Should the Ministers allowable rate pegging increase not be adopted, Council will encounter an income deficit. This will result in a deficit for the year and a reduction in Council's capacity to meet any unexpected expenditure that may arise during the year.

A. Conservative

The following profit and loss and cash flow schedules have been adapted from the Base case scenario with the following factors in place:

- No adoption of the Ministers allowable rate pegging limit for 2020/2021 of 2.6%
- To improve Council's owns source income performance ratio, it is planned that all fees and charges be increased by on average 2.75% per annum and higher in some instances where charges reflect actual cost recovery.

Results

- The result reflects that Council is not in a stable position to fund more Capital renewals and engage in a delivery of higher service to the Community.
- Substantial increases in user fees and charges along with no pegging increase has a negative result on a number of financial performance indicators and Council's overall liquidity.

Measures which could be taken

- Council is dependent on grant income for the replacement of its assets, it should be a priority to seek out these grants and take full advantage of them.
- Council is constantly looking for where efficiencies can be made in operations. With a full management team in place, Council will be focusing on where these savings can be made, with no loss to service level.

Scenario - Planned

The following profit and loss and cash flow schedules have been adapted from the Base case scenario with the following factors in place:

- Adoption of the Ministers allowable rate pegging limit for 2020/2021 of 2.6%.
- To improve Council's own source income performance ratio, it is planned that all fees and charges be increased on average by 2.75% per annum and higher in some instances where charges reflect actual cost recovery

Results

- The result reflects that Council is in a stable position to fund more Capital renewals and engage in a delivery of higher service to the Community.
- Substantial increases in user fees and charges along with a full rate pegging increase has a positive result on a number of financial performance indicators and Council's overall liquidity.

Measures which could be taken

- Council is dependent on grant income for the replacement of its assets, it should be a priority to seek out these grants and take full advantage of them.
- Council is constantly looking for where efficiencies can be made in operations. With a full management team in place, Council will be focusing on where these savings can be made, with no loss to service level.

Scenario - Moderate

The following profit and loss and cash flow schedules have been adapted from the Planned case scenario with the following factors in place:

- Adoption of a 1.3% rate pegging limit for 2020/2021
- To improve Council's own source income performance ratio, it is planned that all fees and charges be increased on average by 2.75% per annum and higher in some instances where charges reflect actual cost recovery

Results

- The result reflects that Council is in a stable position to fund more Capital renewals and engage in a delivery of higher service to the Community.
- Substantial increases in user fees and charges along with a full rate pegging increase has a positive result on a number of financial performance indicators and Council's overall liquidity.

Measures which could be taken

- Council is dependent on grant income for the replacement of its assets, it should be a priority to seek out these grants and take full advantage of them.

Council is constantly looking for where efficiencies can be made in operations. With a full management team in place, Council will be focusing on where these savings can be made, with no loss to service level.

Financial Strategy

Overview

It is clear that any decisions made by Council today have large impacts on Council in the future. One purpose of the Long Term Financial Plan is to ensure Council and the Community is aware of the financial impacts in the future. This is especially true for any new assets which are proposed for Council to take ownership over, even when they are given a full grant to be constructed, whole of life costs must be considered.

Financial Indicators

Council has adopted the TCorp performance ratios as its benchmark for future assessment and development of its Long Term Financial Plan.

Water Fund

Key issues of interest

There are a number of issues arising within the Water fund in the coming years.

Water billing & pricing

Water billing has recently undergone review with the implementation of a two tier pricing strategy for the pricing of water consumption charges. Water billing is conducted three (3) times a year.

In the coming year the pricing structure will undergo another further review as Council investigates the pricing and step allocations.

For the Delivery program 19/20 to 22/23 Council proposes to increase the water consumption charges by 5% per annum.

Water standpipe charges are to be re-introduced at Lightning Ridge when the drought breaks.

Major water infrastructure works over the past few years, has slowly depleted the once sound working capital balance for water fund. It is proposed that revenue capital works for the next ten (10) years be kept to a minimum, in order to regenerate the cash position with borrowing.

The projected working funds result (cash result) for 20/21 is a deficit of $270,901. The cash balance increase each year, will be sufficient to accommodate any unforeseen capital expenditure that may arise.

Water usage charges

In 2015/16 Council increased its water usage charges in an effort to move towards best practice pricing as detailed by the NSW Governments Office of Water.
The NSW Government encourages best-practice by all NSW Local Water Utilities
(LWUs). The purpose of best-practice management is:

- to encourage the effective and efficient delivery of water supply and sewerage services; and
- to promote sustainable water conservation practices and water demand management throughout NSW.

The NSW Government is required to demonstrate compliance with the Australian Government's National Competition Policy and National Water Initiative. The approach adopted since 1995 is to progressively encourage best-practice management by LWUs to ensure effective, efficient and sustainable water supply and sewerage businesses.

Demonstrated best-practice management is therefore a pre-requisite for payment of a dividend from the surplus of a local government LWU's water supply and sewerage businesses and for financial assistance under the CTWS&S Program.

There are six (6) criteria, each of which must be complied with to qualify for a dividend payment. These are:
1. Strategic Business Planning
2. Pricing (including Developer Charges, Liquid Trade Waste Policy and Approvals)
3. Water Conservation
4. Drought Management
5. Performance Reporting
6. Integrated Water Cycle Management"

The primary objective of the National Water Initiative and NCP is full cost recovery of expenditure, management, administration and depreciation. Best practice requires LWU's to raise at least 50% of revenue from water consumption charges to better manage water resources. The trap for small LCU's (small number of connections) is a high unit per kilolitre consumption charge may be financially detrimental as water users significantly reduce water consumption therefore, consumption income is considerably lower. The table below shows a comparison to adjoining Council charges.

The NSW Office of Water advises "Best Practice Management" (BPM) framework provides a strong basis for good planning, management and the continued performance improvement of LWUs.

Compliance of the BPM framework is not a pre-requisite for financial assistance under the current Safe & Secure Water Program, however applicants will need to demonstrate that their project is consistent with an appropriate strategic infrastructure planning process such as an IWCM strategy. A sound IWCM strategy must address each element of the best-practice pricing. Directly related Best Practice framework elements may also be taken into account. In addition, any other future funding program may link directly with the best-practice framework compliance.

As you are aware, two-part water supply tariff with appropriate access charge and usage charge is the key pricing requirement of NSW Water Supply and Sewerage Best Practice Management Guidelines. These guidelines are issued by the Minister for Water.

It is also a key requirement under the National Water Initiative (NWI) urban water pricing principles. The NWI, agreed in 2004 by the Council of Australian Governments, is the national blueprint for water reform. Accordingly, by 2007 all NSW water utilities including local water utilities have eliminated "Water allowance" and adopted user pay pricing model with two-part tariff. Also, all NSW local water utilities adopted the best-practice pricing principles including user pay pricing with two-part tariff.

Two-Part tariff with usage charges reflecting the long-run marginal cost provides appropriate pricing signals for efficient water use and minimises cross-subsidies among water users with fair customer bill reflecting the water use of a customer.

Capital Upgrades

In 2020/2021 there is a number of planned equipment upgrades for the water supplies including projects at Walgett $970K, Lightning Ridge $90K and emergency bore in Collarenebri $90K and Village $140K.

The Long Term Financial Plan has been compiled on a consolidated basis (water fund), due to the interdependency of the individual water services. It is noted that capital expenditure after the first four years has only been estimated in the absence of the financial information in the Water asset management plan. The asset management plan will be reconciled to the water plan in the coming year.

Sewer Fund

Key Issues of interest

Overall

Council Sewer Fund has undergone investigation regarding levels of expenditure and the impact of this results in a marginal profit. This will be allocated to a reserve for future capital works expenditure, or to fund contingency based items (unforeseen) should they arise. The 2020/2021 pricing now reflects the physical structure and operational cost associated for each service.

Capital Upgrade

Council will be undertaking major mains replacement programs for 2020/2021 and in future years in the three major service areas of Walgett, Collarenebri and Lightning Ridge. There are also plans to apply for a grant to replace the Walgett Sewer Treatment Plant at a cost of $2,000,000.

The Sewer fund has resulted in a marginal surplus before capital grants and contributions, also its meeting 100% depreciation cost.

Domestic Waste management (DWM)

Key Issues of interest

Overall

Council's DWM Fund enjoys a healthy financial position with substantial reserves set aside for future rehabilitation of waste sites throughout the shire. Notwithstanding this, it is planned to increase the waste charges for future year's in-line with the expected CPI. In 2020/2021 Council proposes to increase the charges by 2.6%.

The DWM operations for the forthcoming year are a continuum of previous years with no expansion of the collection areas in the foreseeable future.

The landfill management contract expenditure has been increased to reflect a new contract commencing in 2019/2020 and this is indexed for future years.

Capital Upgrade

In 2020/2021 it is planned to undertake $1,122,954 of capital works including land fill consolidation, recycling shed at Walgett.