# LONG TERM FINANCIAL PLAN

2016/17 –2022/23

## Table of Contents

## 1. Long Term Financial Plan Introduction

Chapter 13 (Part 2) of the Local Government Act 1993 indicates Council's in regard 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 2022/2023.

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

I. Projected income and expenditure, balance sheet and cash flow statements
II. Planning assumptions used to develop the Plan
III. Sensitivity analysis –risks/factors most likely to affect the Plan
IV. Financial modelling for different scenarios e.g. Base/Best/Worst
V. 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 of new initiatives and plans endorsed 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 four 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 four 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 from the Delivery Program, all of which are reviewed 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.

## 2. Links to other Plans prepared 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.

## 3. 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 landholders in the Shire
- Government grants
- 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.

## 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, 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 modeling 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 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.

- Council has increased its level of borrowings for replacement of assets, by way of loan. Both standard loans and specific purpose loans under the LIRS (Local Infrastructure Renewal Scheme) arrangement where if successful in application, the State Government will grant the first 4% interest repayable on the loan. This is measurable by key performance indicators such as Debt Service Ratio, which shows Council undertaking large scope of works in the public interest and funding them via long term loan liability, falling well within current accepted benchmarking percentages. Council should be mindful that while the above statement is true, there needs to be a balance in the borrowing scenario, as an increase in loan repayments will automatically decrease the level of annual discretionary funds available to Council for general asset acquisition and maintenance.

- A number of road upgrades and other new assets such as a new depot and waste facility have been included in the plan which is shown to be partly funded through external grants. Although grants become available periodically, grants have not necessarily been sourced to cover these asset projects, and if come the time, no grant is available, then the project will be delayed until such funds do become available. It is also noted that extra maintenance and operational costs associated with any new asset have not been included in the operating statement at this time.

## 5. Key Risk Factors

### a) 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.
On average, it has been estimated that there is an increase in operational and maintenance spend of 0.5% of the cost of every new asset added to Council's asset register.

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.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 minimizes the risk of harm due to natural deterioration or vandalism of the asset.
- Maintaining vegetation around the Shire to minimize the risk of harmful bush fire.
- Maintain public roads and footpaths to a safe level
- Ensuring public order and safety services 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.

## b.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.

## 6. Scenario’s–BaseCase

## 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 2016/17 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 2.8% 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 in the order of $90,000. This will result in a smaller cash surplus for the year and a reduction in Council’s capacity to meet any unexpected expenditure that may arise during the year.

## Scenario - Best case

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 2016/17 of 1.8%.
- To improve Council’s own source income performance ratio, it is planned that all fees and charges be increased by 2.5% 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.

## 7. Financial Strategy

### a. 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.

### b. Financial Indicators

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

The performance results are attached.

## 8. Water Fund

### a. Key issues of interest

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

### i) 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 review as Council investigates the pricing and step allocations.

### ii) Capital Upgrades

In 2016/2017 there is a number of planned equipment upgrades for the water supplies including telemetry, disinfection, switchboards and water mains renewal.

The Long Term Financial Plan has been compiled on a consolidated basis, due to the interdependency of the funds. 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.

## 9. Sewer Fund

## a. Key Issues of interest

### i. 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.

### iii. Capital Upgrade

In the coming year Council will be undertaking an upgrade of telemetry and equipment along with the repair of trickling filter plant.

The Sewer fund has resulted in a marginal profit before capital grants and contributions, also is meeting depreciation 100%