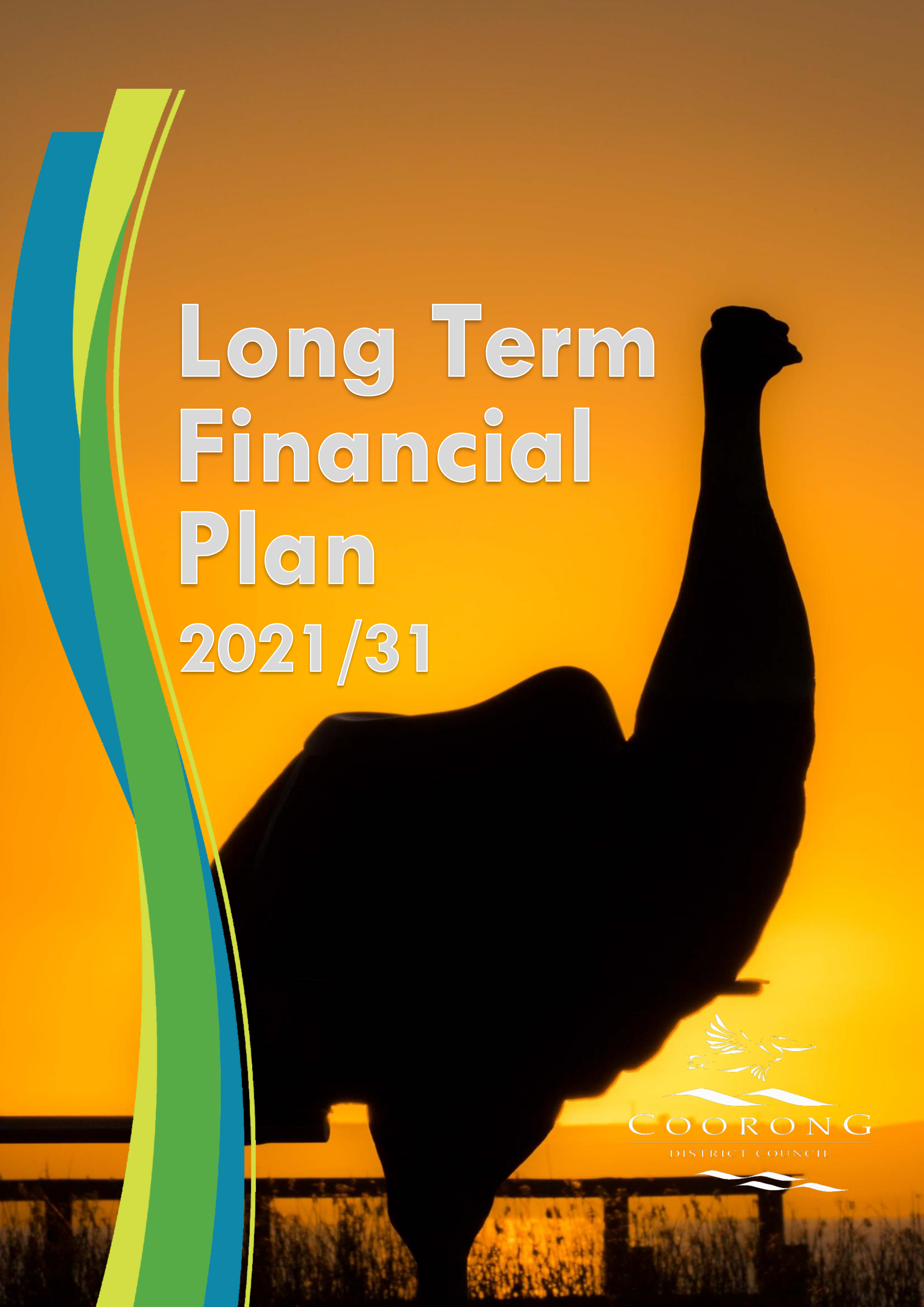
Long Term Financial Plan

2021/31



COORONG
DISTRICT COUNCIL

COORONG
DISTRICT COUNCIL

Coorong Civic Centre
95 – 101 Railway Terrace (PO Box 399)
TAILEM BEND SA 5260

P: 1300 785 277
E: council@coorong.sa.gov.au
W: www.coorong.sa.gov.au

Index

Council adopted the Long Term Financial Plan 2021-2031 on 15 February 2022.

Purpose

The Local Government Act SA (1999) states that one of Council's roles is to plan at the local and regional level for the development and future requirements of its area (Sections 2.7).

A council is, under the system of local government established by this Act (Section 2.6), established to provide for the government and management of its area at the local level, and in particular:

- to act as a representative, informed and responsible decision-maker in the interests of its community
- to provide and co-ordinate various public services and facilities and to develop the community and resources in a socially just and ecologically sustainable manner
- to encourage and develop initiatives within the community for improving the quality of life of the community
- to represent the interests of its community to the wider community
- to exercise, perform and discharge the powers, functions and duties of local government under this and other Acts in relation to the area for which it is constituted to plan at the local and regional level for the development and future requirements of its area.

This plan expresses in financial terms the activities Council proposes to undertake in not only the short term, but also the medium and long term. It has been developed to assist in the guidance of future strategies and to ensure that Council operates in a sustainable manner.

By preparing a Long Term Financial Plan (LTFP), Council will not only be able to see into the long term, but will also have the ability to determine whether service levels and community expectation are able to be funded. The result may require a shift in expectation and/or service levels in some areas of Council business.

The LTFP has been prepared with Asset Management Planning in mind (although there is an absence of a formal Asset Management Plan) and more recently, extensive strategy development and planning work across the main service areas.

The LTFP represents a comprehensive approach to consolidate and integrate the various financial strategies of Council which when combined produce the financial direction of the Council, as shown below:

Long Term Financial Plan

» Annual Business Plan
» Asset Management
» Capital Works Projects & Funding
» Community Vision & Other Strategic Plans
» Debt Management
» Fees & Charges
» Operational Requirements
» Rating Strategy
» Reserves & Restricted Funds

Objectives

The key objective of the LTFP is to determine financial sustainability in the medium to long term, whilst achieving the Council's Strategic Platforms as specified in the Community Vision Plan and other strategic plans.

The LTFP aims to achieve the following:

- improve on the operating result from continuing operations
- maintain stable and predictable rate increases
- maintain a responsible and sustainable asset management programme
- ensure the continuation and effective delivery of essential community and infrastructure services
- manage current and future liabilities
- provide a framework to deliver responsible financial budgets.

SUSTAINABILITY

A financially sustainable Council can meet its funding requirements relative to the provision of required services including maintenance, renewal and replacement of assets without imposing excessive debt on current or future generations, and also without unplanned rate revenue increases.

A successful LTFP will predict Council's performance and position to improve not only infrastructure levels but also standards without the need for unplanned increases to rates or reductions to services. For the purpose of the strategy, financial sustainability is defined in the diagram below, modelled essentially on a hierarchy of needs approach.

Long term sustainability: spending more on asset renewal than consumption, fully funded replacement gap and meeting community service needs.
Medium term sustainability: operating surplus achieved net of abnormal items and capital funding.
Critical short-term sustainability: working capital, cash liquidity and debt levels.

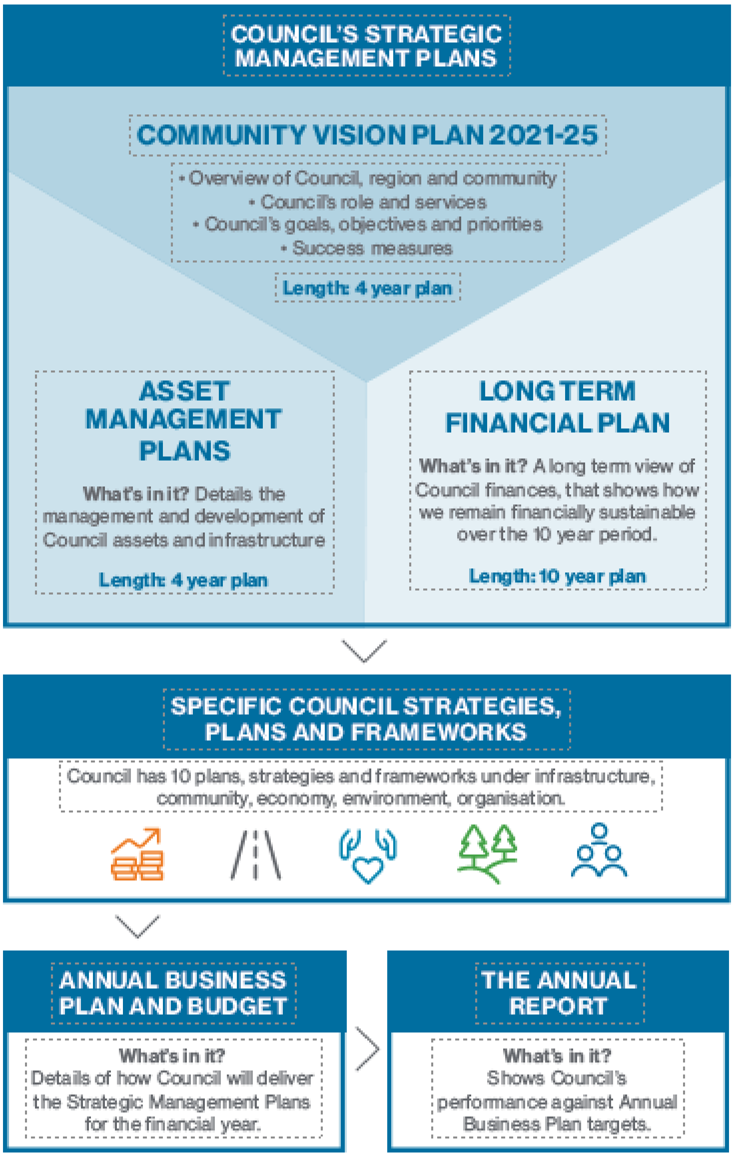
Whilst the Coorong District Council is addressing its short term sustainability issues (in the budget 2021/22), it has major challenges in meeting asset renewal requirements on an annual basis. Modelling is required to determine the longer term impact for Council.

Linkages to Council Plans

The plan has been developed within an overall planning framework, which guides the Council in identifying community needs and aspirations over time. The long and medium term strategies are identified through the Community Vision and Council Plan. Short term objectives are defined in the Annual Budget, which are then assessed to ensure accountability is maintained (Audited Financial Statements).

STRATEGIC PLANNING FRAMEWORK

The Strategic Outcomes Plan and the Community Vision Plan (CVP), has been incorporated summarising the financial impacts of the objectives and strategies, and determines the sustainability of those objectives and strategies. The Annual Budget is then framed within the Strategic Resource Plan, taking into account the activities and initiatives included in the Annual Budget, which contribute to achieving the strategic objectives specified in the Community Vision Plan. The diagram below the strategic planning framework of Council.



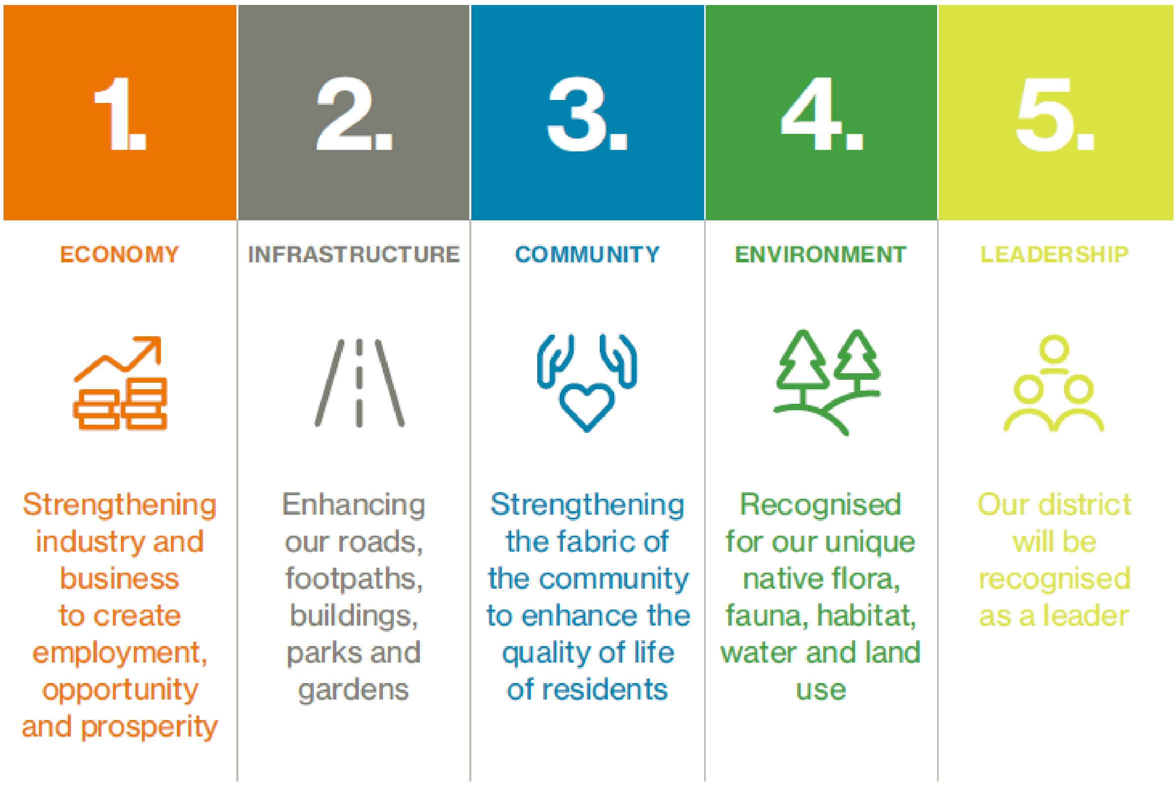
Source: Coorong District Council, Community Vision Plan 2021-2025, page 11

The timing of each component of the planning framework is critical to the successful achievement of the planned outcomes. The Local Government Act states that the Community Plan, including the Strategic Plans and the Long Term Financial Plan, are required to be completed within a period of six months after each general election or by the next June 30 (whichever is later). These documents are reviewed each year to ensure that they remain relevant and focussed on achieving Council's long term strategy.

The ideal situation for the LTFP is where it becomes part of the financial monitoring process whereby making the budget or revised budget the first year of the plan against which the Council can monitor and evaluate with the ultimate aim that the LTFP establishes future budgets and aids in decision making and strategic direction.

GUIDING THEMES OF COUNCIL FROM THE COMMUNITY VISION PLAN

In preparing the LTFP, the Council’s guiding themes are identified below:-



Source: Coorong District Council, Community Vision Plan 2021-2025, page 19

Long Term Financial Plan Influences

PLANNING PROCESS

Although the process is co-ordinated by the Finance department, the project combined efforts from all areas of Council. Each of Council's strategic documents and asset management plans were assessed by relevant staff to identify actions contained in them, their timing and their cost. These are built into the LTFP along with recurrent income and expenditure based on historical data and known factors affecting future legislative changes where relevant.

It is noted that the LTFP is dynamic and will be updated on a rolling basis year by year once actual results have been determined. For this reason the focus on management is to use this LTFP and future refinements to establish a longer term financial perspective in the delivery of affordable goods and services to our communities.

In preparing the plan it has been necessary to make a number of assumptions about the internal and external environment within which the council operates. This section of the document highlights the various numbers of external and internal issues that have an impact on the development of this plan.

SNAPSHOT OF THE COORONG DISTRICT COUNCIL

The Coorong District Council operates under the provisions of the Local Government Act 1999 (as amended) and associated regulations and is the statutory organisation responsible to the ratepayers and residents within the district.

8,832
square kilometres

5,429
population (ABS 2019)

6%
of our population are Aboriginal or Torres Strait Islander People

35.5%
of our population volunteer

4,537
rateable properties

720
registered businesses

2,292
employed

$326M
gross regional product

5
libraries

106
kilometres of coast line

369
kilometres sealed roads

1,518
kilometres unsealed roads

Source: Coorong District Council, Community Vision Plan 2021-2025, page 7

$10.4M
rates and service charges levied 2021

$16.6M
total operating revenue 2021

$2.9M
total capital revenue 2021

57.1
council staff (FTE)

Community services:

- Environmental and economic programs including Local Action Plan (Landcare)
- Community Wastewater Management Systems
- Aged care and youth services
- On-street parking
- Increased support and development of tourism related activities and facilities
- Tourism and economic development
- Cemeteries
- Waste transfer stations
- Visitor toilets
- Australia Day awards
- Citizenship ceremonies
- Public library services
- Volunteer management program
- Sport and recreation development

Community facilities:

- Coonalpyn Caravan Park
- Coonalpyn Swimming Pool
- Coorong Civic Centre, Meningie Information Hub and Tintinara Customer Service Centre
- Community art galleries
- Arts and cultural development programs
- Community halls
- Parks and recreation facilities
- Playgrounds and mobile skate ramp
- Parklets (outdoor dining implements)
- Narrung camping ground and jetty
- Dickson Reserve
- Pangarinda Botanic Garden
- Murray Coorong Trail
- Point Malcolm lighthouse
- Dog parks
- RV dump points
- Tailem Info Station and Rail Museum

Key Assumptions

All financial estimates have been undertaken by using the 2021-22 Adopted Budget as base in Year 1 and identifying any significant specific non-recurrent funded projects.

The plan provides a retrospective look at the Coorong District Council financials to give rise to trend analysis to minimise financial risk going forward. The concept of 'business as usual" therefore has been used as the base to calculate this plan.

The plan has been established in the same context as the Annual Budget and is being presented in the form of commentary and graphs.

REVENUE

Revenue Type	Increase average over plan
Rates & Service Charges	CPI + 0.5%
Statutory Fees & Charges	CPI + 1% + expectations
User Charges & Fees	CPI + 1% + expectations
Operating Grants - recurrent	CPI + 1% + expectations
Operating Grants - non recurrent	(75%) Economic outlook
Investment Income	CPI + 1%
Reimbursements	CPI + 1%
Other Income	CPI + 1%
CPI	Based on 10 year projections

Rates & associated service charges

Rates and service charges income is the amount which council will receive as a result of raising rates and related charges on properties within each financial year.

Assumption: rates and associated service charges will increase by 2.5% (CPI) each year + growth factor of 0.5%.

Operating Grants

Operating grants include funding from State Government and agencies such as the Grants Commission and from the Federal Government in the form of Roads to Recovery.

The Grants Commission provides Council with two types of funding. These are General revenue funding and untied local roads funding. Both of these funding types have percentage increases each year based on the total funding received from the Grants Commission based on their complex allocation calculations.

Roads to Recovery (R2R) is funding received from the Federal Government to undertake local road construction and renewal. This is allocated at a rate determined for each year in 5 year tranches and is usually required to be spent in the financial year on receipt. Council must maintain its own funding contribution on road projects. This plan has been based on the premise that the funding will be spent each year. It is noted that under such arrangement the funding is really capital income in nature but reflected as an operating grant. The plan also assumes that the funding will be ongoing over the life of the plan.

Assumption: Grants Commission general purpose and roads grants are increased by CPI (2.5%), for the life of the plan.

Operating grants - non recurrent

Non recurrent grants include all monies received from the State and Federal governments and any other external sources for the purpose of funding specific projects.

Over the last 2 years Council has received significant grant funding, but it is expected that based on the current economic conditions that this income source may significantly reduce in the future years.

Assumption: Grants of this nature will decrease over the life of the plan due to tightening of the economic environment. The plan shows a decrease of 75% on average compared to the last 2 years, this is an average of $230k each year. Expenditure has also been resourced at the same values so there is very minimal financial impact. Any opportunities of funding will be vigorously pursued and catered for in future budgets and reviews.

Reimbursements

Reimbursements include diesel fuel rebates from the Australian Taxation Office (ATO), insurance rebates, work cover reimbursements and training reimbursements.

User fees and charges

User fees and charges relate to services where council has the discretion to levy its fee amount or where fees are statutory in nature and prescribed by the Federal and State governments. This area includes both Council defined user charges and statutory fees. The main sources of user charges are hall hire, burials and other hire/rental type charges.

Assumption: all user fees and statutory charges have been increased by CPI.

Interest Earnings

Interest earnings comprise interest earned from cash invested with financial institution. Interest earnings have been projected at a base rate due to the variability of interest rates set by the Reserve Bank, or by increases/decreases in cash inflows/(outflows).

Profit & Loss on sale of assets

The net loss or gain on disposal of assets relates to the sale of Council assets and is usually associated with land, plant replacements and building sales. It represents the difference between the amount received (proceeds) for the sale or trade-in, as the case may be, compared to the carrying or book value of the item in Council's asset register at the expected time of the sale. A conscious effort has been applied as to when, what and how relative items will be disposed of. This is primarily linked to the plant replacement programme.

Assumption: no profit or loss is planned upon the disposal of assets, alternatively there will be no disposal of infrastructure assets, any decrement thereof will be taken up with the revaluation processes and will be treated within the Asset revaluation reserves.

EXPENDITURE

Salaries & wages

Salaries and wages include all employee expenses such as hourly wage, annual leave loading (where applicable) and long service leave.

Under the award structure employees are able to move through bands within their pay level each year (for up to 4 years). After calculating the average increase of band movement, an overall increase has been applied.

The plan assumes that all established positions (21-22) will be maintained throughout the life of the plan and no additional positions have been included or provided nor have any staff reductions been planned. The plan also assumes all positions with be filled throughout each year, the plan and the annual budget 21-22 does not have any separation factor applied, it is fully budgeted and funded. Comparatives therefore in the plan before year start (budget 21-22) July 22 are irrelevant as any meaningful future comparisons can only be applied to the 21-22 budget and beyond.

It is noted that the allocation of salaries and wages in the comprehensive income statement relate only to operating activities, not salaries and wages for capital works.

Assumption: Salaries and wages are capped at 2% increase on the 21-22 budget for the life of the plan and are exclusive of any fully funded positions that may be created as a result of new grants.

Superannuation

This represents the amount payable on all employer superannuation. It is based on a total percentage of salaries and wages, taking into consideration the statutory percentage and any other industry or legislative contributions.

Assumption: Salaries and wages are capped at 2% increase on the 21-22 budget for the life of the plan and are exclusive of any fully funded grant positions and superannuation increases are tied to the same increases in salaries and wages.

Workcover

This represents the amount payable on all employee workcover insurance. It is based on a total percentage of total salaries and wages , including superannuation and claims history. Included in this item is Income protection and disability insurance.

Assumption: Workcover and income protection insurance has been increased by 2% aligned to expected increases in salaries and wages, along with allowance for any industry increases.

Staff training

Staff training in the LTFP has provided an allowance within respective business units of $1,250 per head (of staff) for specific job related education and training and will be aligned into the performance review and development program (PRD). Additionally, a base of $50k has been provided for 'Corporate wide' staff training e.g. report writing, corporate culture etc, this will managed and co-ordinated by Human Resources.

Staff uniforms

Staff uniforms in the LTFP has provided an allowance within respective business units of $400 per head (of staff).

MATERIALS & CONTRACTS

Materials, services & contracts include all expenditure incurred by Council in the day to day operating of the business that is not employee benefits or financial costs. It includes all non-capital maintenance on Council equipment, consumables and the consumption of stock on non-capital projects, payments to contractors and professional services in respect of non-capital projects and the costs of operating Council plant, machinery and buildings.

Assumption: Materials & contracts have been decreased by 5% in Year 1 and then increase by 2% each year thereafter.

DEPRECIATION

Depreciation is an accounting measure to assess the consumption of Council's property plant and equipment assets, including infrastructure assets such as roads and associated assets in a given year. Historically these is an increase in depreciation due to the addition of assets as a result of Council's capital works program and asset revaluation regime that will result in additional depreciation being charged against those new or revalued assets.

The forecasted depreciation has been calculated in accordance with Council's anticipated capital works program, based on the valuation of all assets as held in the Assetic asset management system as at June 2021. Any significant increase or decrease in Council revaluation of assets and more importantly any impact on depreciation has not been taken into account in this plan. It is expected that a significant increase in either depreciation or valuation of assets will prompt a revision of the LTFP.

Assumption: Depreciation expense has been allocated to increase by 25% in Year 1 and then by 3% each year thereafter.

BORROWING COSTS

This item refers to the interest expense incurred by Council on borrowings and overdraft facilities. The forecast for this item is in line with Council's borrowing policy. Council does not expect to be in overdraft during the life of this LTFP and therefore no interest on overdraft facilities is anticipated, additionally no new loans have been planned beyond 2021-22. The expense for this item has been uplifted from the existing loan portfolio and the interest in the loan repayment schedules.

Assumption: Borrowing costs and loan repayments are in line with the current loan program.

UTILITIES

Utilities are the expenses allocated for electricity, gas, water and telephone and communications.

Assumption: Utilities expense has been calculated to increase by 3% each year.

INSURANCE EXPENSES

This item refers to the insurance expense incurred by Council (other than Workers compensation and Income protection, both of which are disclosed as an employee cost).

Assumption: Insurance expense has been calculated to increase by 3% each year.

OTHER GENERAL ASSUMPTIONS

Currently the LTFP as presented includes optimum levels of service delivery in asset management and strategic plans.

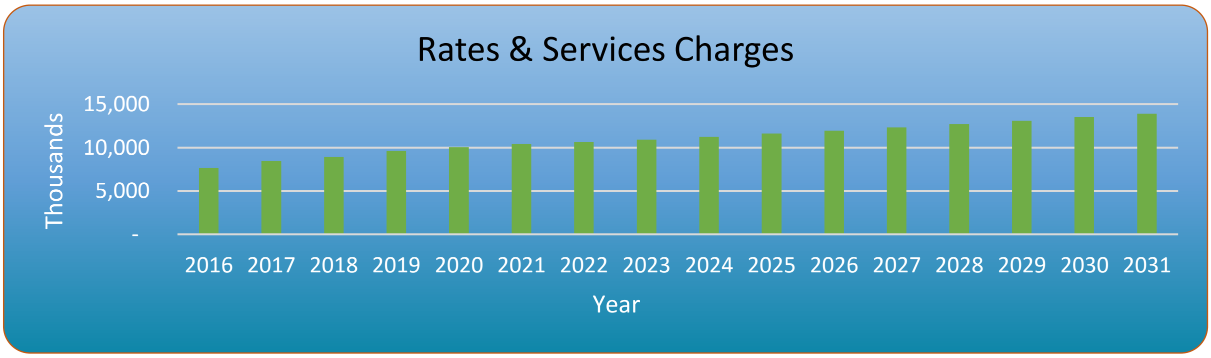
Options have included:

- No new borrowings have been provided for major infrastructure projects
- New initiatives (Grant) revenue has been set at a base of $400k per year, along with commensurate operating expenditures, reflected either as staff costs or materials & contracts
- rating increases have been maintained at CPI + .25% for the life of the LTFP
- service levels contained in current asset management plans
- service levels for day to day service delivery
- capital funding of new assets has been set at $500k per year (2-10) on the basis of a 2/3rd to 1/3rd split, culminating in Capital expenditure of $750k per year.

The pages that follow provide key information about the operating income and expenditure, capital works programs, rating strategy, financial sustainability and key strategic activities of the Council.

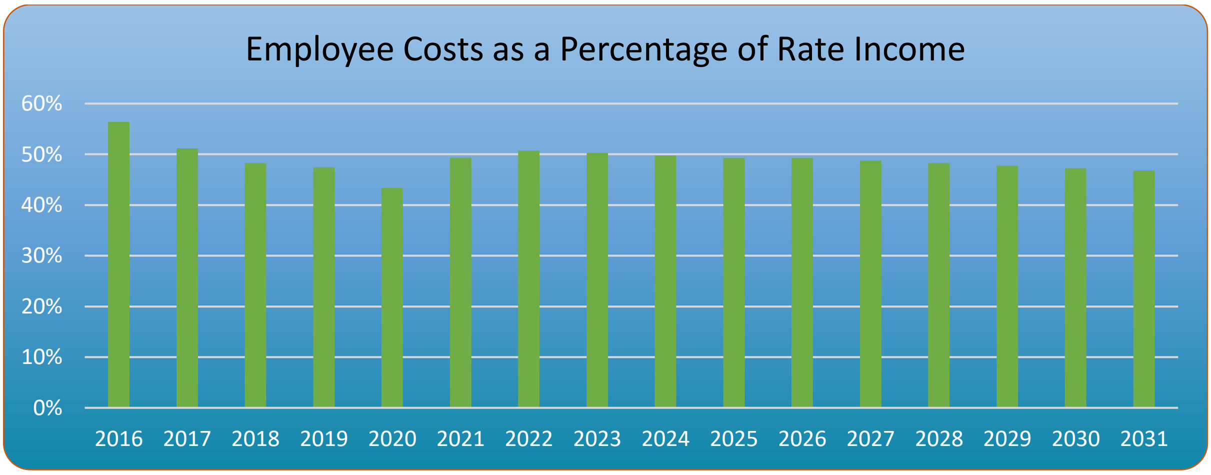
The Plan in Financial Terms

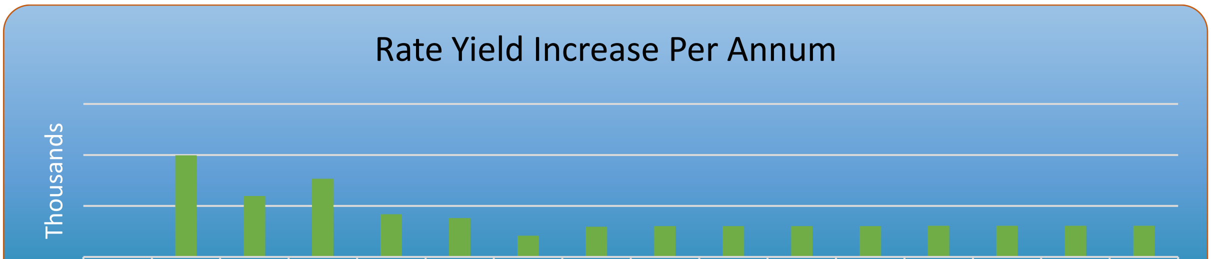
RATES & EMPLOYEE COSTS AS A PERCENTAGE OF RATES



It is proposed that average rate income be increased by CPI + 1% growth throughout the plan. Rates income in Year 1 will be $10.4M growing to $13.7M in year 10, with an average over the period of $12.1M. Included in the figure is service charges of approximately $2.3M in year 1 increasing to $2.9M at year 10.

A suitable guide to acceptable rate yield is to cover employee costs, as can be seen in the first year of the plan employee costs as a % of rates income is 51% reducing to 47% in Year 10. This augurs well for financial sustainability, please refer to the graph below.



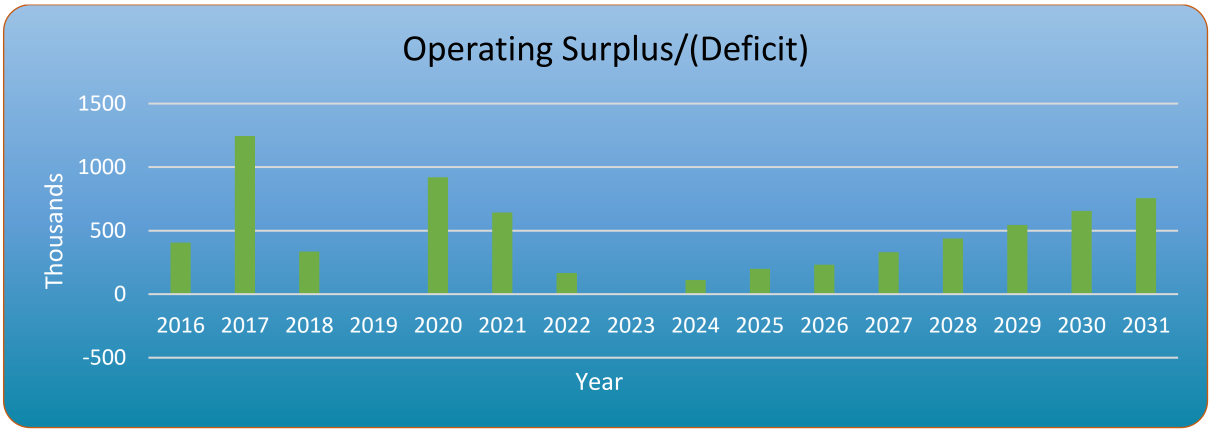


	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
■		10.0%	6.0%	7.7%	4.2%	3.8%	2.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.1%	3.0%

Council should be cautious to allow the rate income to fall below employee costs. The plan ensures that the ratio of 51% is maintained. As it is not prudent financial management to keep the rates yield increase below CPI as most of the costs borne by Council will exceed CPI, especially employee costs which are governed by enterprise bargaining arrangements.

The rate increases within the plan are 3% from Year 4 onwards, the average increase over the LTFP is 2.8%.

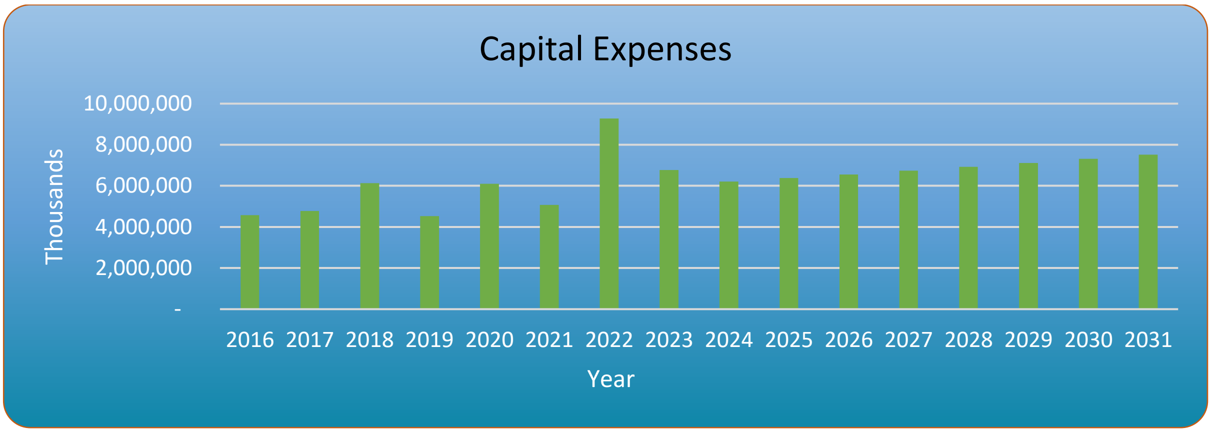
OPERATING RESULT



The plan shows a modest $89k operating surplus in Year 1, it is the intent that Council maintains a moderate financial surplus, the LTFP has an average financial surplus position of $70k per year, to an operating surplus of $682k. Please note that this result is before any capital income.

CAPITAL WORKS

The plan has $72.9M of capital works over the 10 year period, with an average per annum of approximately $7.2M. However this is distorted by the high level of capital expenditure to be undertaken in 2021-22 as this has significant external funding mainly from Reserves held over the year 2020-21. The plan assumes that capital outlay is commensurate with depreciation expense plus allowing for less grant funding for new assets, but still planned to deliver a moderate cash surplus. The plan also assumes that new assets to be delivered would be undertaken on 2/3rd to 1/3rd basis of the grant funding as reflected in the Statement of Comprehensive Income. If council wishes to include new assets over and above the capital grants funding they will need to be identified as Strategic and can be added in future iterations of LTFP. Capital expenditure will require Council to identify funding elements, whether they be external, internal from retained cash reserves or borrowings.



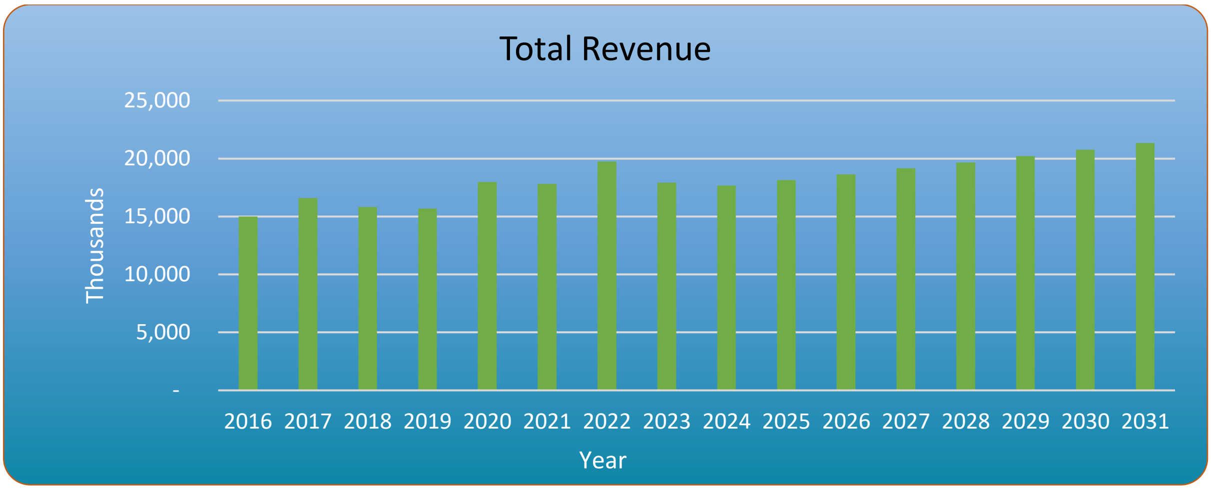
RESERVE BALANCES

Reserve balances within the plan are expected to decrease from $2.9M in 2021 down to $1.6M in 2022 and increasing to $2.3M at the end of the plan. The high value in 2021 is primarily due to the restriction of the prepaid General purpose and untied roads grants 50% ($1.6M) paid in advance for the financial year 2021-22 which was received in June 2021, this impact will be adjusted for in the first budget review in 2021-22. There is only minimal $225k expenditure to be funded from Reserves within the plan, in year 1 and then no other planned expenditures thereafter. Any such expenditure requires a funding decision of Council through either the budget process or the formulation of the LTFP. It would appear in the past that the practice was to create Reserves to hold some restricted funds but not all, this has been rectified in the annual accounts 2020-21. The plan assumes a normal amount of reserves which is to be held to finance future relevant projects. This balance is more sustainable and eliminates volatility that occurs with unspent grants.

Revenue

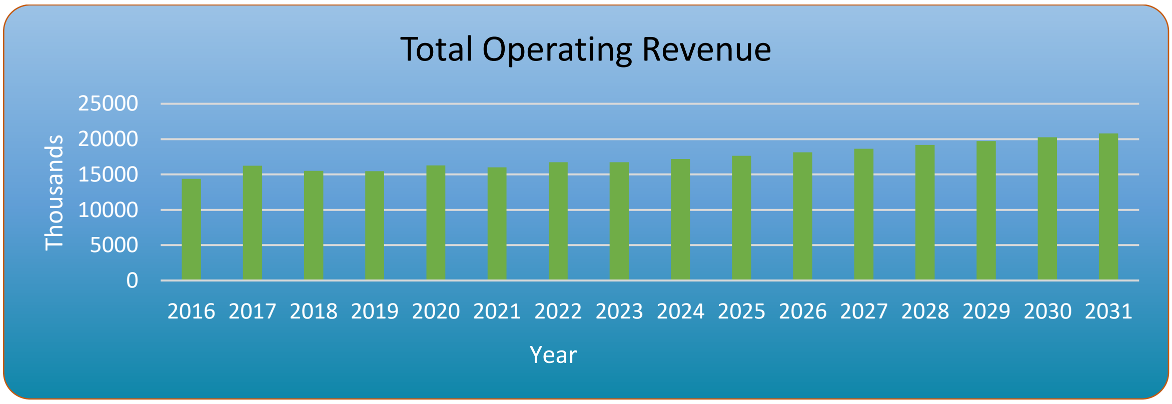
TOTAL REVENUE

Total revenue includes recurrent (operating) and non-recurrent (capital) sources of income. Capital revenue is predominantly for new and upgraded assets with some funding used for renewal of assets. Total revenue for the LTFP shows revenue in year 1 of $19.7M increasing to $21.3M in year 10. The accumulative total revenue over the 10 year period is $193.2M with an average of just under $20m per year. The graph below also shows that significant grant funding has occurred in the years 2019-20 to 2021-22 due to the significant increase in new and upgraded assets and flood relief. The revenue in the plan only provides basic ongoing funding. This provides easily understandable trend lines and analysis. Any new funding associated with new projects has been included as a base of $500k per year.



Total Operating Revenue

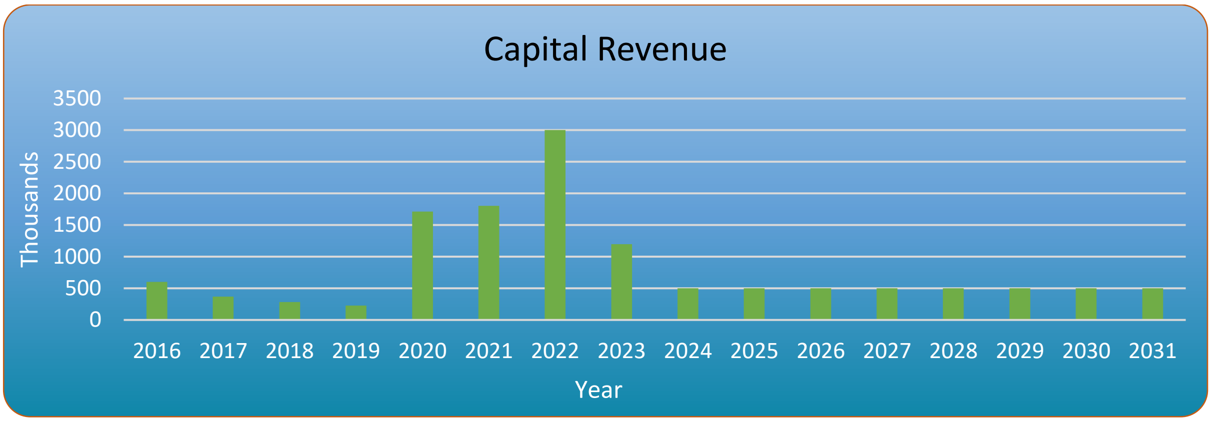
Operating revenue is where sources of income are recurrent in nature, or will be funding abnormal operating expenditures e.g. drought and LAP grants. Operating revenue will take the form of grants, rates and associated service charges, user fees and charges and interest on investments. Operating revenue contained within the LTFP shows revenue in year 1 of $16.7M increasing to $20.8M in year 10. The accumulative total revenue over the 10 year period is $185M with an average of just under $18.5m per year. Much the same comments on funding for once off projects in prior years is relevant.



Total Capital Revenue

Non-recurrent or capital revenue is where sources of income are not recurrent in nature and is only associated with specific capital expenditure/projects that have finite time frames and conditions. Council has received significant grant funding in the last 3 years that is considered as unusual. The plan predicts a tightening in the economy and thus these grants in the future from both State and Federal government will likely reduce. The plan assumes consolidation rather than unexpected growth in capital funding, as the past in no precursor to the future. Any funding associated with significant funding will be considered as Strategic and updated in future iterations of the LTFP.

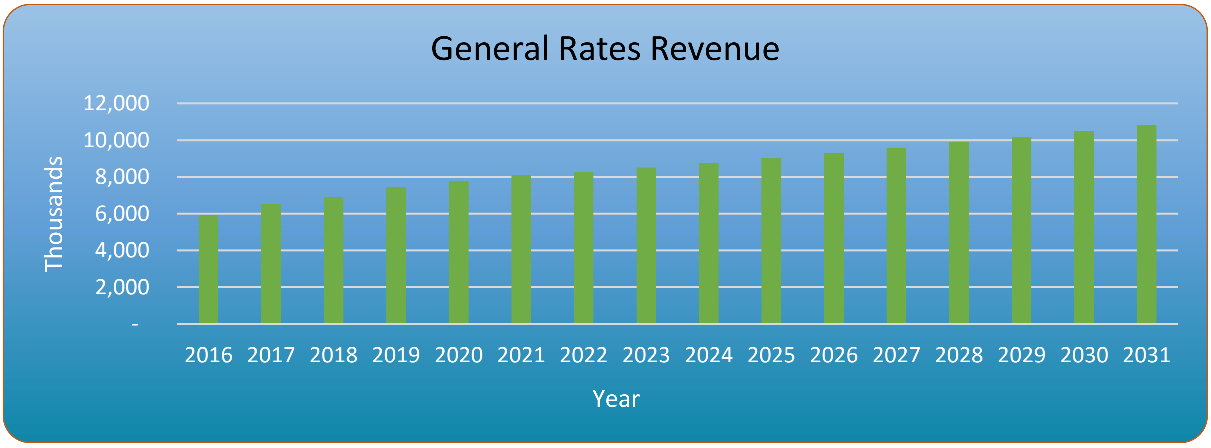
Capital revenue contained in the LTFP shows revenue in Year 1 and 2 in respect of Local Roads and Community Infrastructure Program (LRCIP) round 3 ($750k in each year) plus for the remaining years is additional funding of $500k per year. The accumulative revenue of the life of the LTFP is $8.2M with a base average for new grants of $500k per year. A commensurate increase of new funding has been included in the Capital expenditure program within the plan, so there is no associated financial risk.



REVENUE BY TYPE

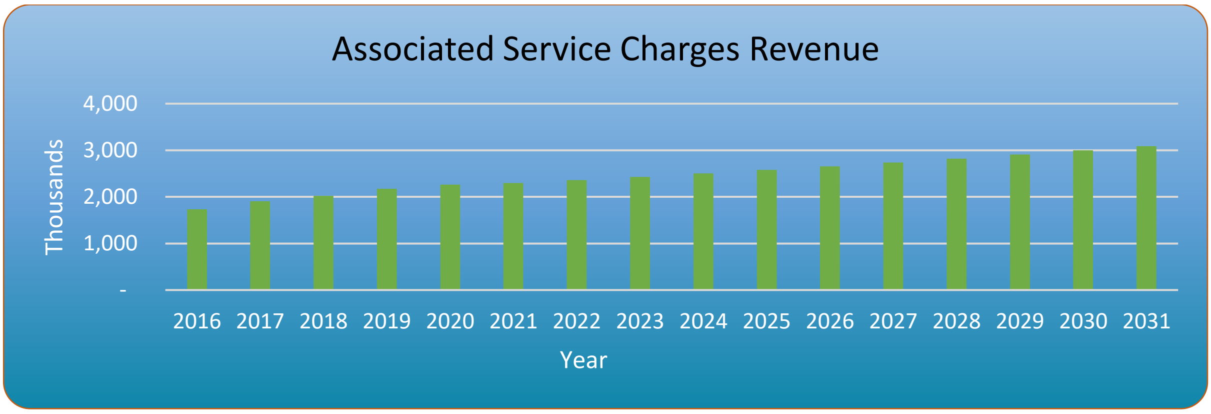
General rates revenue

It is proposed that average rate income be increased by CPI + 1% growth throughout the plan. Rates income in Year 1 will be $8.3M growing to $10.8M in year 10, with an average over the period of $9.6M. Accumulative general rate income in the LTFP is $95.8M.



Rates associated service charges revenue

It is proposed that average service charges revenue be increased by CPI + 1% growth throughout the plan. Service charges income in Year 1 will be $2.4M growing to $3.1M in year 10, with an average over the period of $2.7M. Accumulative associated service charges income in the LTFP is $26.8M.



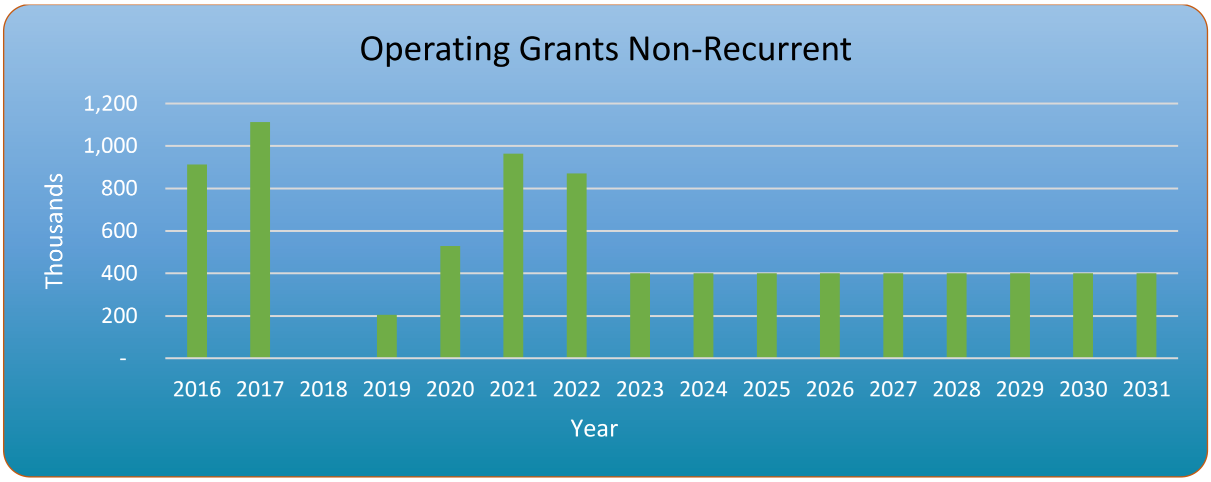
OPERATING GRANTS - RECURRENT & NON-RECURRENT

Operating grants include all monies received from State and Federal governments that are considered as continuous funding for the delivery of Council's services to ratepayers of an operating nature. The main source of income in grants are General Purpose and untied roads grants received from the SA Local Government Grants Commission, HAAC grants and Roads to Recovery (Federal Government). For the purpose of the Plan and due to the volatility, abnormal or unusual (specific condition) grants have been separated.

Normal or recurring operating grants revenue contained in the LTFP shows revenue of $4.3M in year 1 increasing to $5.4M in year 10. The accumulative operating revenue over the 10 year period is $48.1M or an average of $4.8M a year. All recurrent operating grants are planned to increase by 2% per annum.

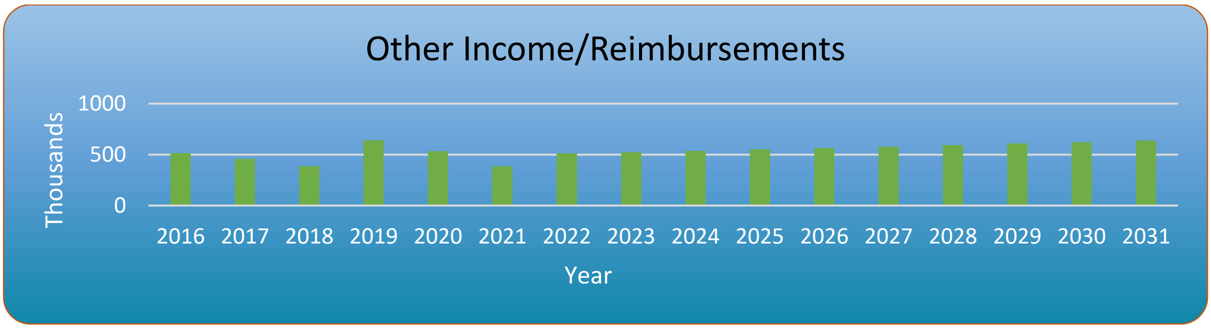
Non-recurrent operating grant income is where sources of income are not recurrent in nature and is only associated with specific operating expenditure/projects that have finite time frames and conditions. Council has received significant grant funding in the last 3 years that is considered as unusual. The plan predicts a tightening in the economy and thus these grants in the future, from both State and Federal government, will likely reduce. The plan assumes consolidation rather than unexpected growth in abnormal grant funding, as the past in no precursor to the future. Any significant additional funding will be considered as Strategic and updated in future iterations of the LTFP. Items in the past years in this category would include Land Action Plan (LAP).

The plan assumes a lowering of the non-recurrent grant income over the years 2023-2031.



OTHER INCOME & REIMBURSEMENTS

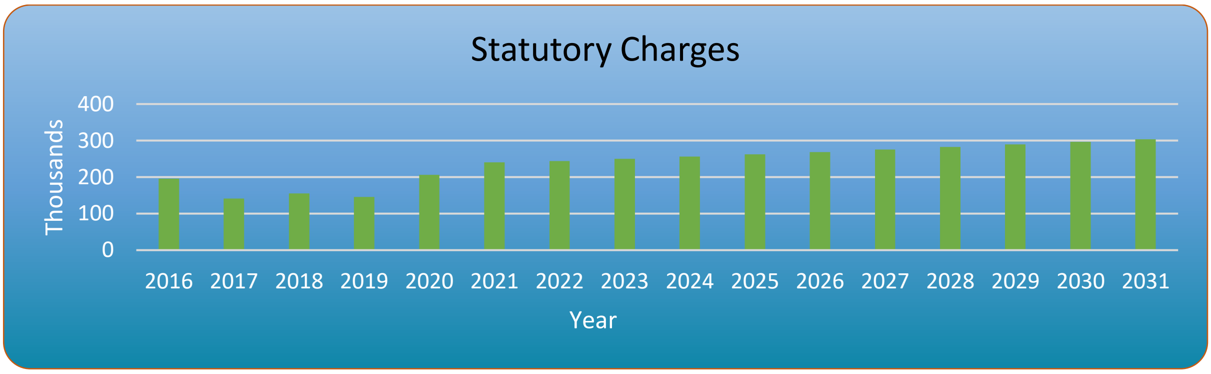
Other revenue includes reimbursements from diesel rebates received from the Australian Taxation Office (ATO), insurance rebates and claim reimbursements, Workcover reimbursements and training subsidies, along with funds received from the community and other external parties. Reimbursement income in Year 1 will be $513k growing to $612k in year 10, with an average over the period of $560k. Accumulative income in the LTFP is $5.6M.



USER FEES & CHARGES

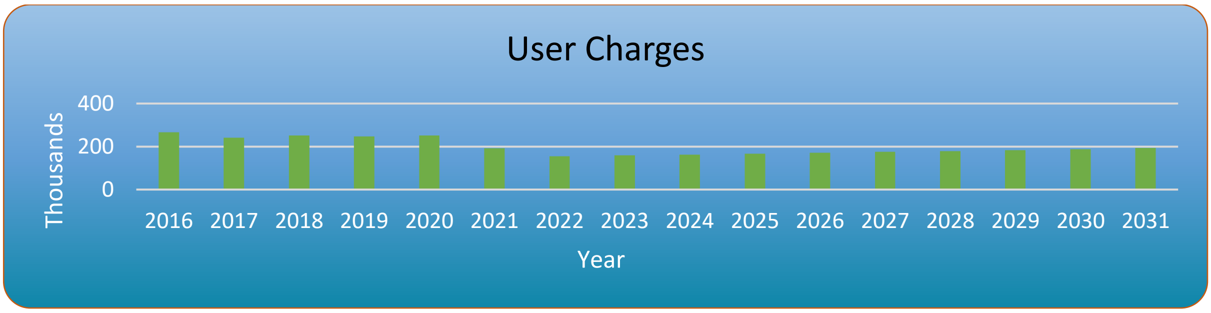
Statutory charges are levied under various Acts and Regulations, such as Health, Planning, Building, Cemeteries, Fire management and Animals Acts.

Revenue from statutory charges contained in the LTFP shows revenue of $244k in year 1 increasing to $291k in year 10. The accumulative operating revenue over the 10 year period is $2.7M or an average of $270k per year.



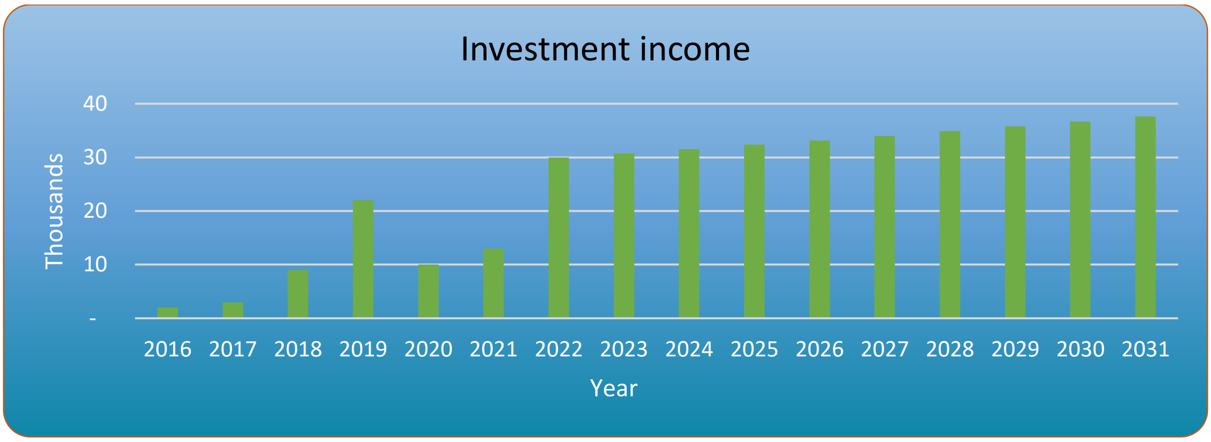
Council has many varied sources of user fees and charges. The main source of income is from waste services, leases, burial fees and hall hire.

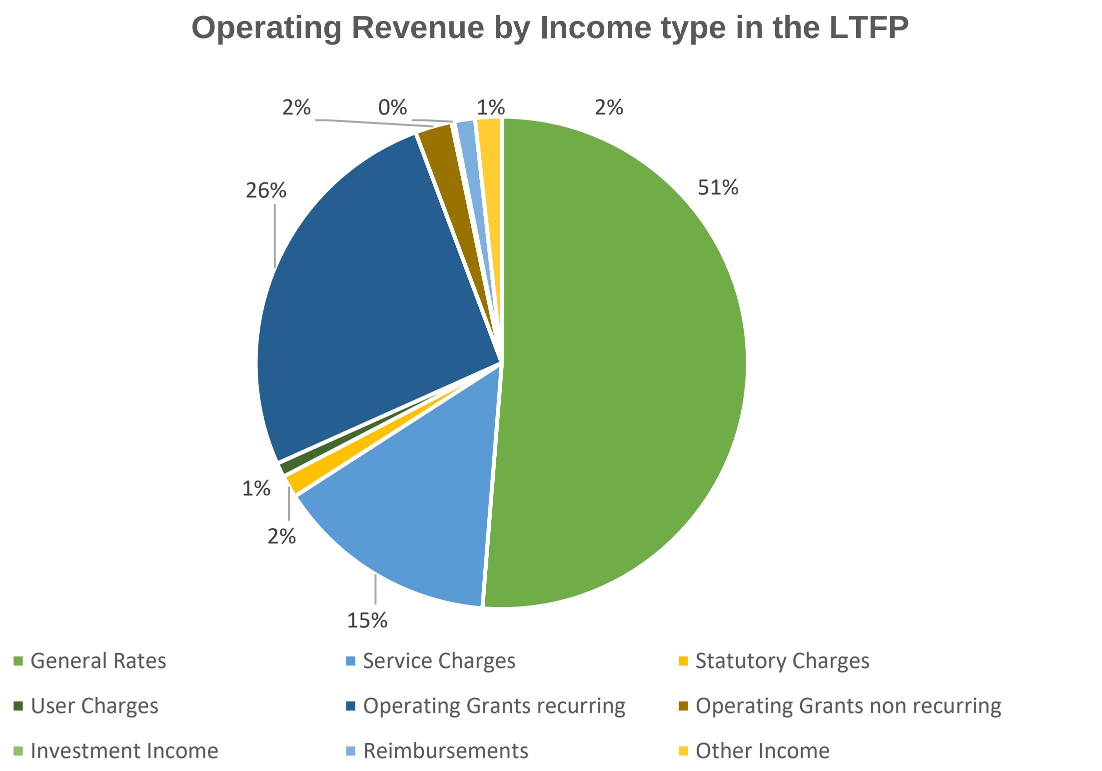
Revenue from user charges contained in the LTFP shows revenue of $155k in year 1 increasing to $185k in year 10. The accumulative operating revenue over the 10 year period is $1.7M or an average of $170k per year.



INVESTMENT (INTEREST) INCOME

Interest is earned on Council investments, the plan assumes an average earnings on investment income of $34k with the accumulative total over the 10 years being $340k.





Operating Expenditure

Operating expenditure contained in the LTFP shows an amount of $16.6M in year 1, increasing to $19.9M in year 10. The accumulative operating expenditure over the 10 year period is $180.4M with an average of just over $18M per annum.

EMPLOYEE COSTS

Employee costs include labour related expenditures such as, salaries and wages, superannuation, training costs, staff uniforms, workers compensation and income protection insurance. It does not include labour related to capital expenditure projects.

The plan allows for existing budgeted positions as defined in the 2021-22 budget and an increase of 2% has been applied each year. Employee costs will go from $5.4M in year 1 to $6.5M in year 10. Employee costs as a percentage of total operating expenditure will be 33% average over the life of the plan and represent 49% as a percentage of rates income. Accumulated employee costs over the life of the plan will be $5.94M at an average of $5.9M.

MATERIALS & CONTRACTS

Materials, services & contracts

Materials and services include the purchase of goods and services from contractors/external third parties in respect of operating activities. This includes, contractors of a legislative (statutory nature e.g. waste kerbside pickup), contractors and consultants that are of a discretionary nature, legal and professional costs and all general consumable related costs including plant operations. They relate to operating expenditure and do not include any outlays in respect of Capital expenditure.

As the LTFP shows that costs under this category will go from $5.4M in year 1 to $4.9M in year 10. The primary reason for the reduction is a shift in unsealed road maintenance (moving $500k to capital expenditure), reduction in LAP and other non-recurring operating grants from years 2 to 10, a reduction in waste services acknowledging savings from a new contract and savings in information technology costs. Accumulative costs over the life of the plan will be $43.6M with an average of $4.4M each year. The average yearly increase has been planned at 2%.

Utilities

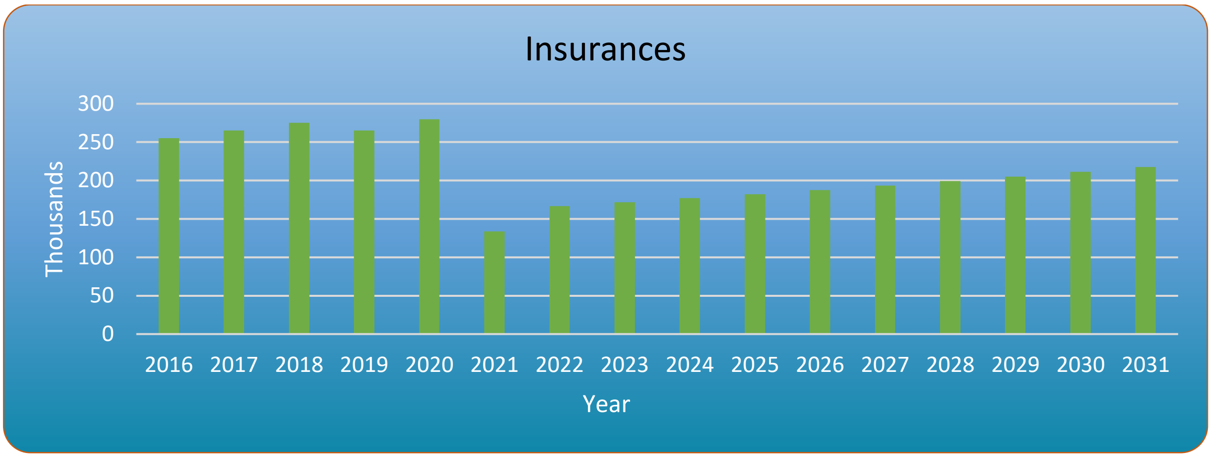
Utilities include the purchase of electricity, water, gas and telephone and communication costs.

As the LTFP shows that costs under this category will go from $315k in year 1 to $411k in year 10. Accumulative costs over the life of the plan will be $3.6M with an average of $360k each year.

Insurance expenses (other than employee related insurances).

Insurance expenses include all insurances costs, excepting worker compensation and income protection, main items within this category will be public liability, non-current assts (plant buildings and other structures).

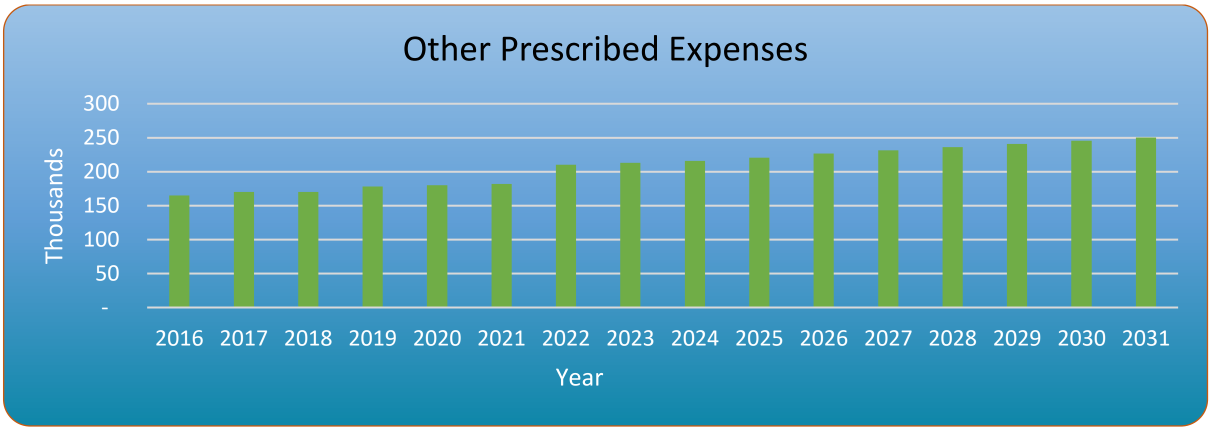
As the LTFP shows that costs under this category will go from $339k in year 1 to $442k in year 10. Accumulative costs over the life of the plan will be $3.9M with an average of $390k each year.



Other prescribed expenses

Other prescribed expenditure relates to Councillor remuneration and expenses, audit fees and election related costs.

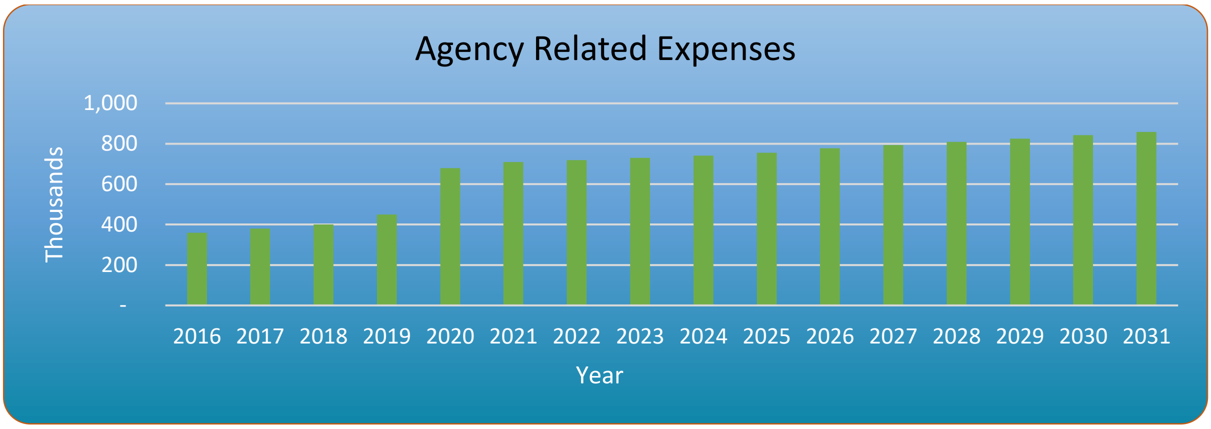
As the LTFP shows that costs under this category will go from $210k in year 1 to $251k in year 10. Accumulative costs over the life of the plan will be $2.3M with an average of $230k each year.



Agency related expenses

Agency related expenses are costs incurred whereby the Council has received monies in the form of rates and associated service charges. These include Natural Resource Management Levies (Limestone Coast and Murrayland Riverland), or where Council has collected grant funding acting as recipient to pass onto another third party organisation which in Council's case is the Health and Community Care (HACC) provider. Agency costs increased in 2020 as this was the first year that the HACC funding/program commenced.

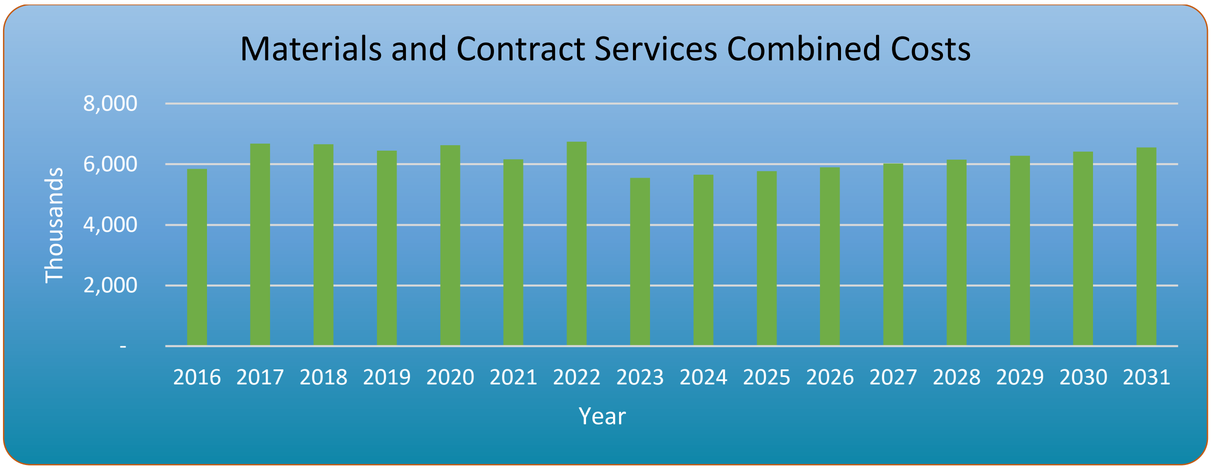
As the LTFP shows costs in this category will go from $718k in year 1 to $857k in year 10. Accumulative costs over the life of the plan will be $7.8M with an average of $780k each year. Costs here are commensurate with the relevant revenue.



Total combined materials & contracts

Total combined materials and contract services costs relate to all operating expenditure where third party providers are engaged.

The LTFP shows that costs under this category will go from $6.8M in year 1 to $6.3M in year 10. Accumulative costs over the life of the plan will be $59.2M with an average of $5.9M each year.



DEPRECIATION

Depreciation is an accounting measure to assess the consumption of Council's property, plant and equipment - including infrastructure assets such as roads, drains, Community Waste Water, footpaths and other structure assets, in a given year. Assets have a rate of depreciation attached to them. That rate represents the useful life of the asset, as determined by the asset owner. For example, an item of plant with a useful life of 5 years has a depreciation rate of 20%.

Depreciation is required under the Australian Accounting Standards to be re-assesed each year and where necessary adjusted to accurately represent the pattern of consumption of the Council's assets.

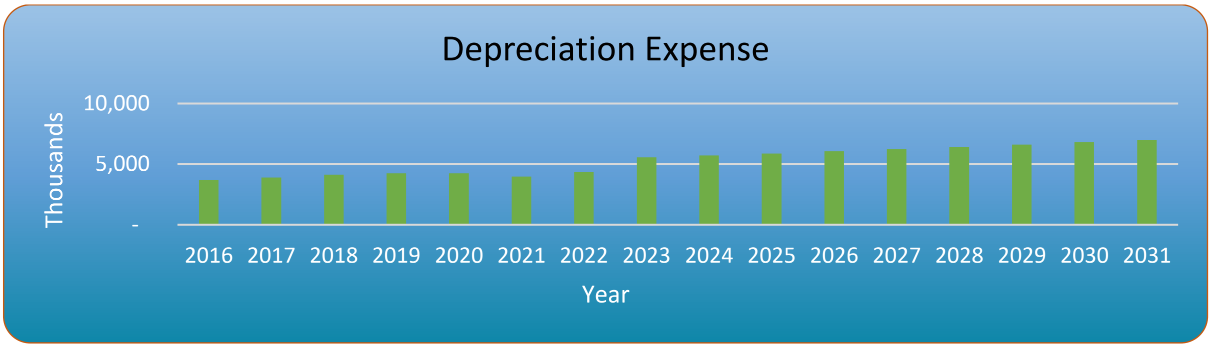
Depreciation is a non-cash line item that adds pressure to Council's financial sustainability as it is included when determining the operating result. Council will have to assess the reality of its depreciation expense in future years, especially in light of the significant increase that can be borne as a result of revaluations and a change to useful lives.

This is the most contentious line item in the operating expenses, as a revaluation of assets and changing of values and useful lives can have a significant effect on Council's ability to sustain a moderate surplus/(deficit). This plan assumes that there is a significant of 25% in year 2 and then increase each year of 3% thereafter.

For the ease of understanding the impact of depreciation and consequent impact on asset renewal (capital expenditure) this plan assumes that asset renewal will equate to depreciation expense, known as the "asset sustainability ratio". This means that Council has fully funded asset renewal.

The LTFP shows that the depreciation expense represent 26.2% of total expenditure in year 1 increasing to 35% of total expenditure in year 10.

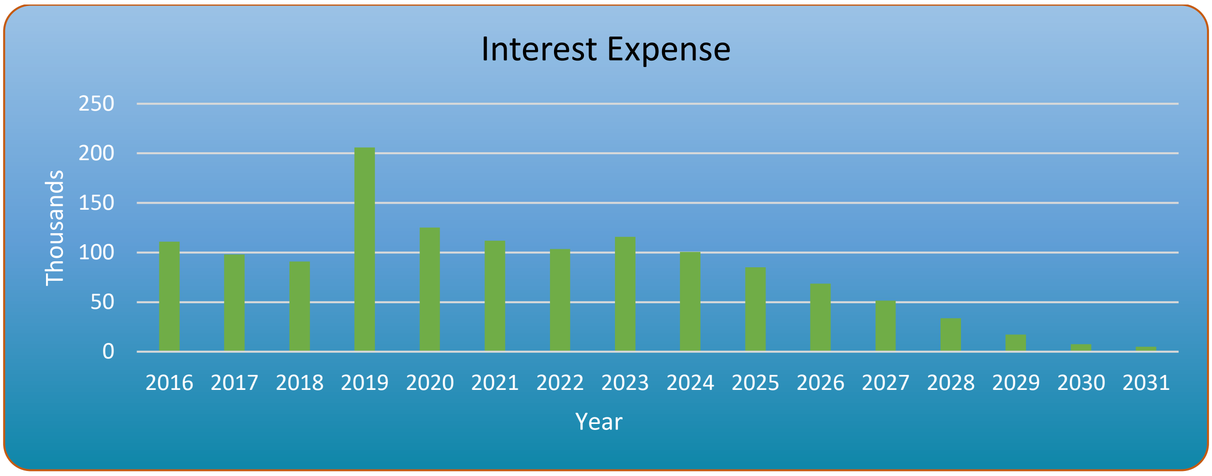
The LTFP shows that depreciation expense will go from $4.3M in year 1 to $7.0M in year 10. Accumulative costs over the life of the plan will be $60.6M with an average of $6M each year.



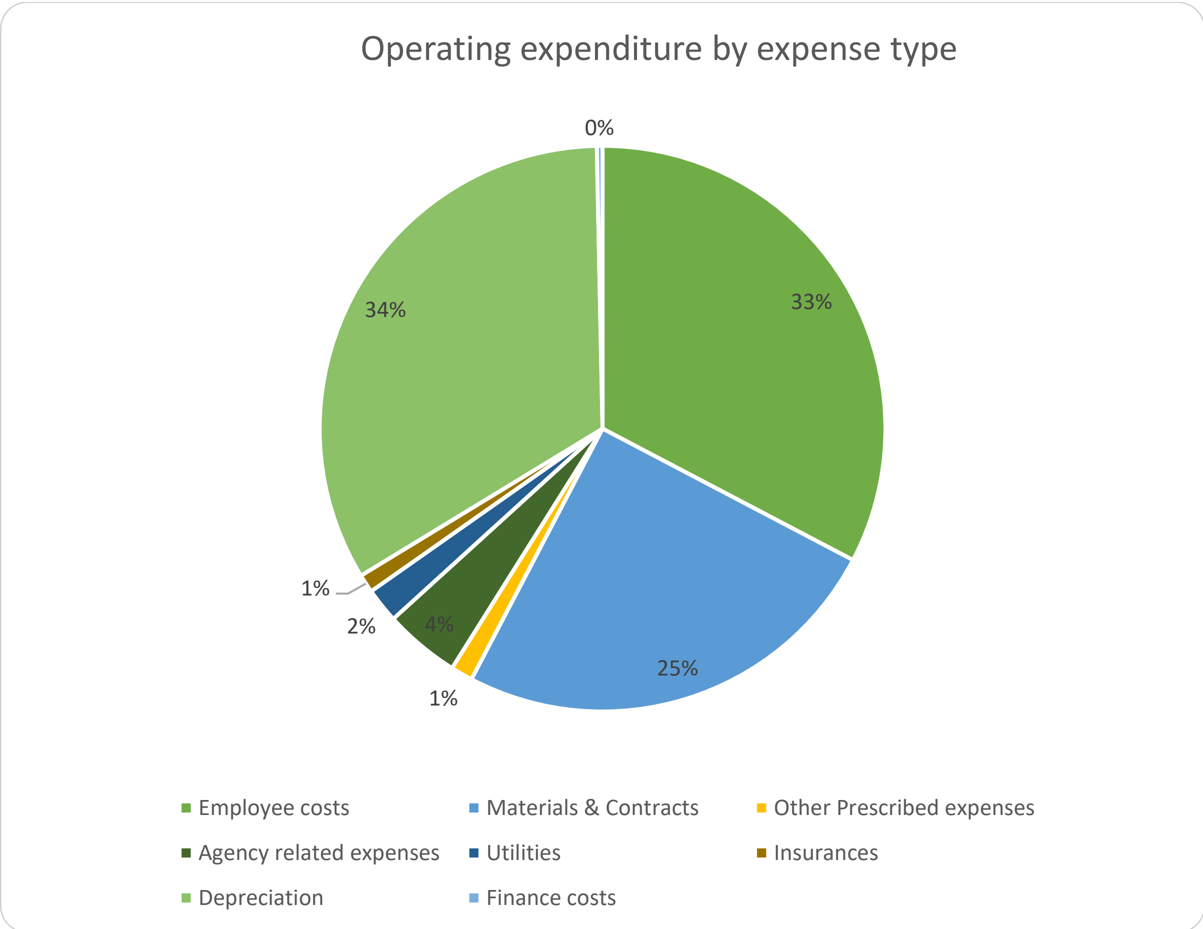
INTEREST EXPENSE

Interest expense relates to interest charged by financial institutions on borrowed funds. Currently, Council has an outstanding loans balance of $2.5m. The plan assumes new loans in the first year only and the interest applied within the plan is based on the schedule of repayments associated with each current loan. As the loans age, and the balance of the loans diminishes, the amount of interest incurred against the loans will reduce whilst the amount of principal applied to each repayment will increase. The loan balance at the end of the period in this LTFP will be $100k.

The LTFP shows that interest expense will reduce from $104k in year 1 to $4k in year 10.



Interest Expense
Thousands
250
200
150
100
50
0
2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031
Year



Operating expenditure by expense type
0%
33%
25%
1%
4%
2%
1%
34%
Employee costs
Materials & Contracts
Other Prescribed expenses
Agency related expenses
Utilities
Insurances
Depreciation
Finance costs

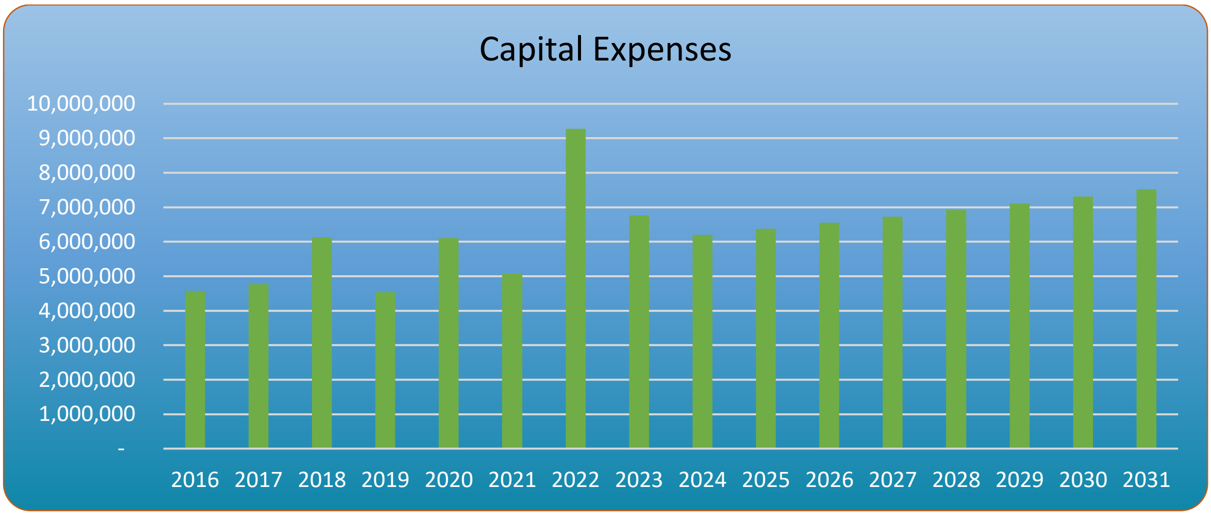
Capital Expenditure

This section of the plan outlines the planned capital expenditure.

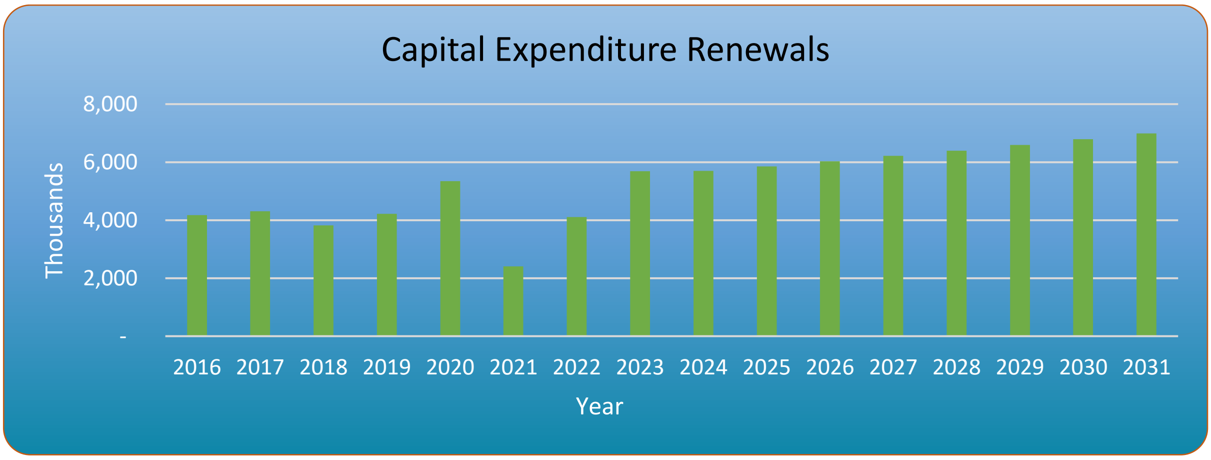
CAPITAL EXPENDITURE

The plan has $72.9M of capital works over the plan period, giving an average of $7.3M. Capital expenditure is however distorted by the high level planned in Year 1, being $9.3M, which had significant external funding mainly from restricted grant funding and reserves, held over the year in 2021 and to be expended in year 2022 (second year of the plan).

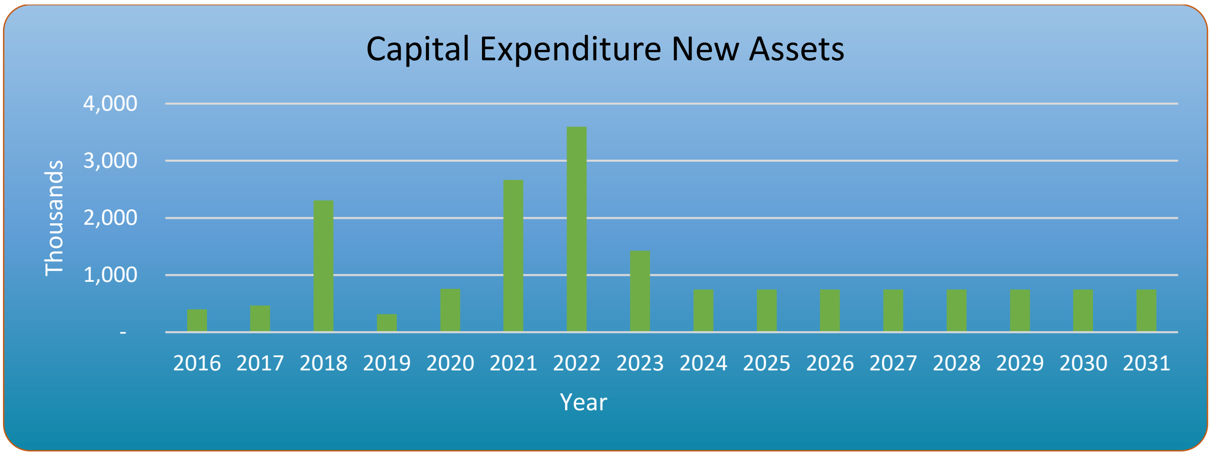
Capital expenditure over the life of the plan shows accumulated expenditure of 72.9M with an average of $7.3M, the plan assumes that Council will meet depreciation expense with asset renewals and shows a sustainability ratio of 100%. New capital expenditure is only planned at a rate of $750k with relevant revenue of $500k. Another significant increase in capital expenditure will be the movement of previous operating expenditure on unsealed roads (shift of $500k each year over the plan, compared to actual in 20-21 and budget in 21-22.



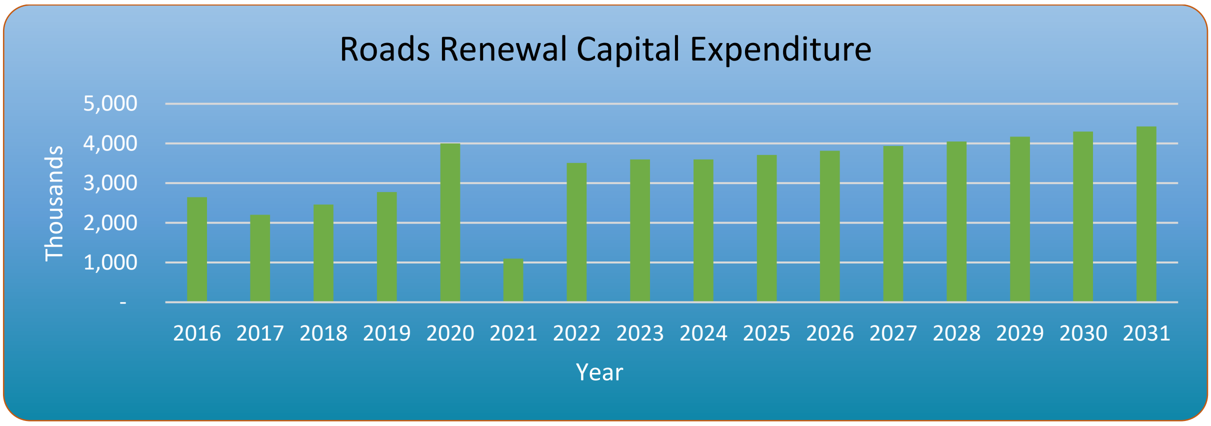
The plan assumes that renewal expenditure on existing assets will be equal to the depreciation expense.



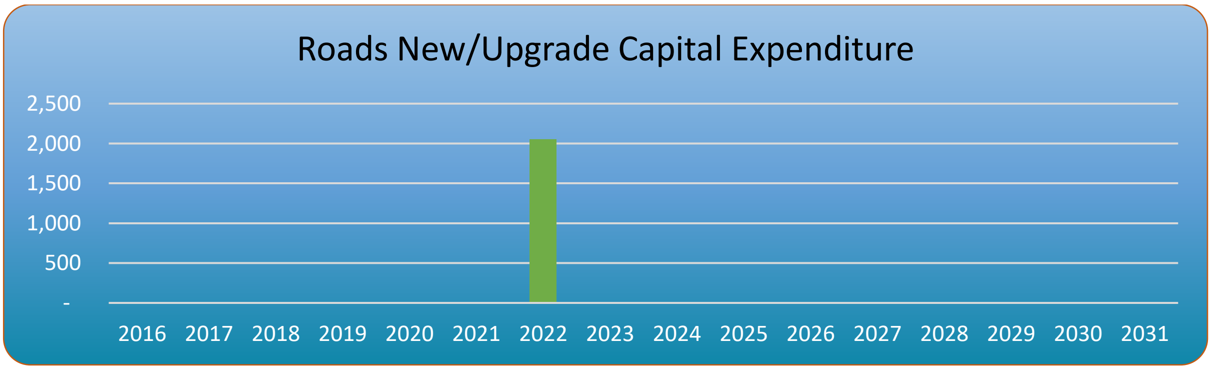
The plan provides for capital expenditure on new/upgraded assets of $3.5M in year 1, $1.4M in year 2 and then reducing to a base amount of $750k for the remaining years of the plan. The accumulative total over the life of the LTFP is $11M at an average of $1M.



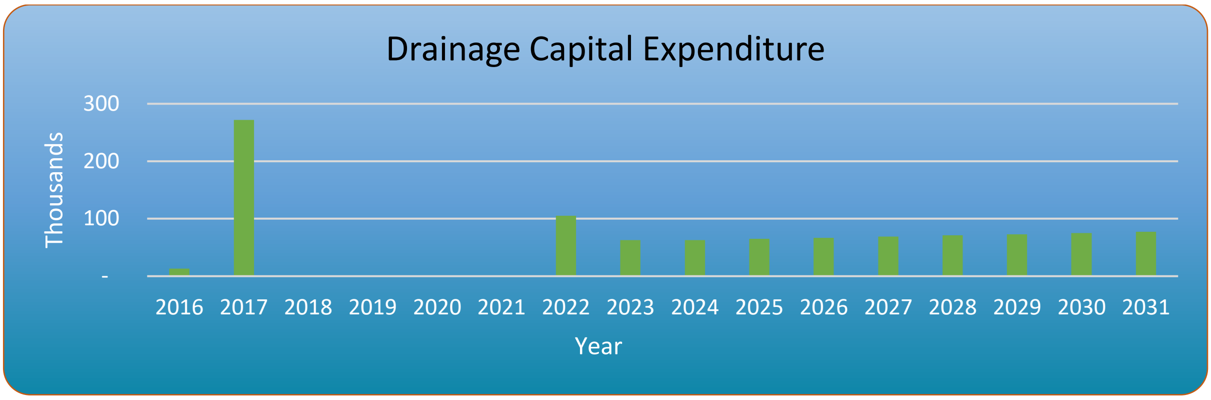
The plan provides for $39.0M to be spent on renewal of road infrastructure at an average of $3.9M per year, including $20M for unsealed roads and $19M for unsealed roads.



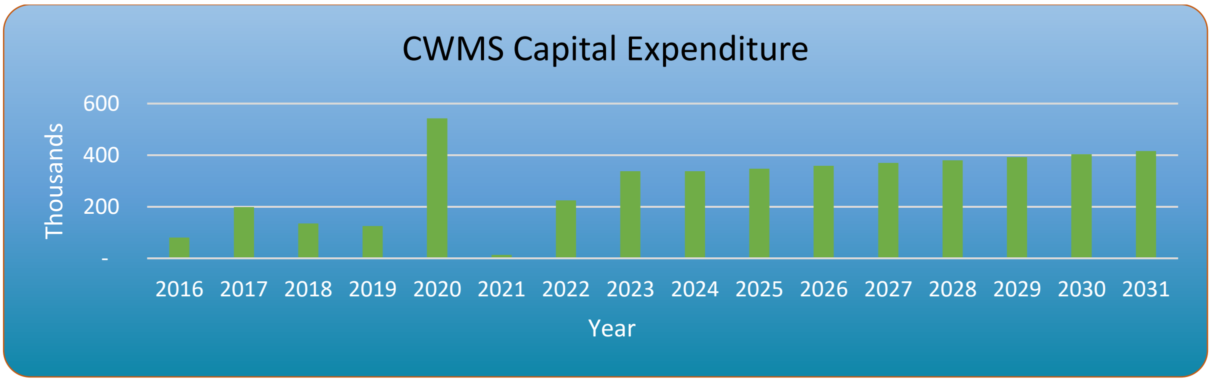
The plan provides for $2.05M to be spent on new or upgraded of road infrastructure in year 1 being $900k for intersection upgrade (which is funded by new loan borrowing) and $1.15M for Carcuma Road. No other road upgrades or new asset capital expenditure has been provided for in this plan.



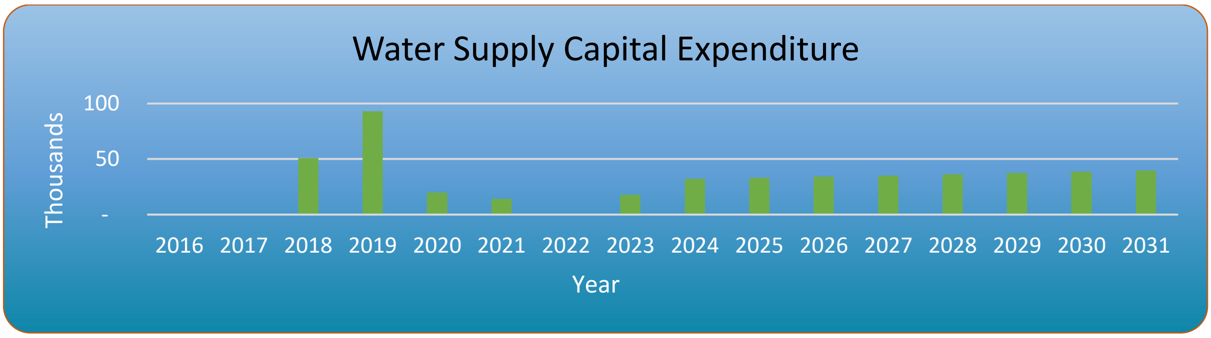
The plan provides for $730k to be spent on drainage at an average of $70k per year.



The plan provides for $3.6M to be spent on CWMS infrastructure at an average of $360k per year.

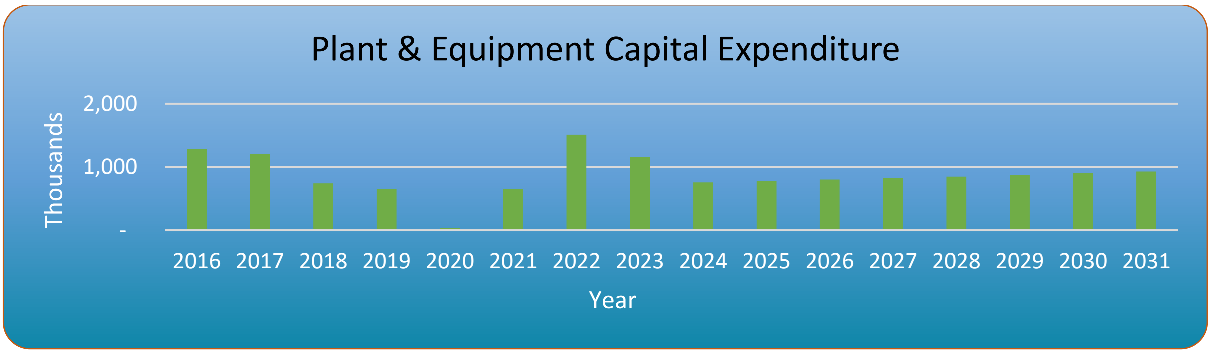


The plan provides for $280k to be spent on water supply capital expenditure with an average of $28k.

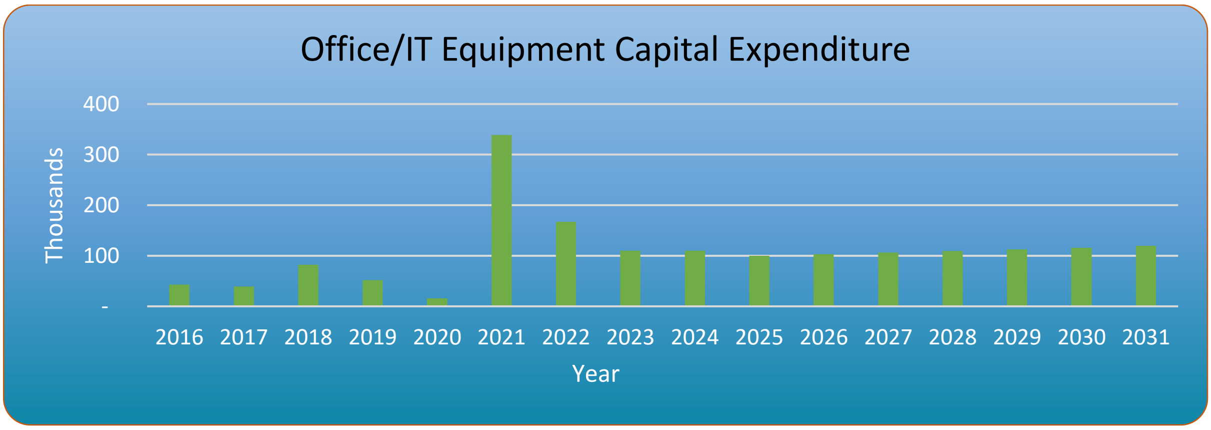


The plan provides for $480k to be spent on kerb and gutters capital expenditure with an average of $48k

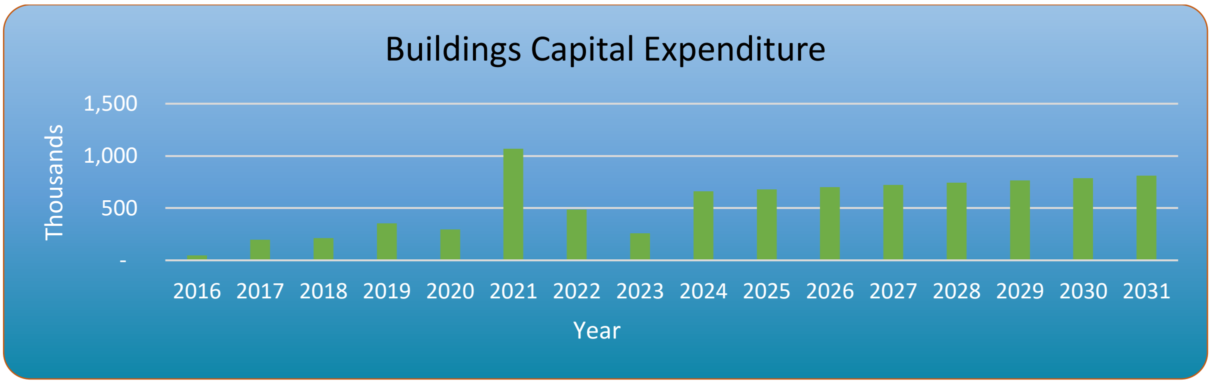
The plan provides for $9.4M to be spent on plant and fleet replacement, in line with the plant replacement program, this equates to an average of $940k. The application of the plant and fleet replacement program will determine optimum asset life expectancy and predicting best value time of replacement. This also ensures that Council keep up to date with technology and provides safe and sustainable plant for our workforce.



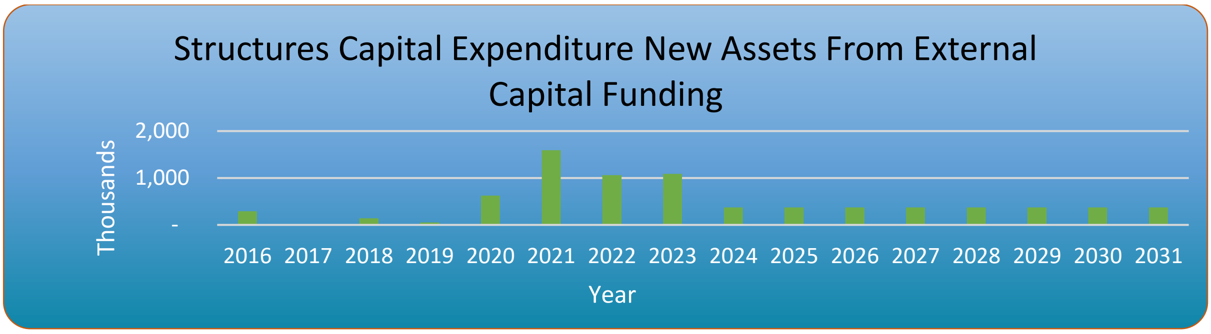
The plan provides for $1.2M to be spent on information and technology and office equipment with an average of $120k. This allows for a rolling PC replacement program, some server replacement and minor software enhancement in the form of additional SynergySoft modules.



The plan provides funds for the capital upkeep (renewal) of existing buildings. As is shown this funding has been somewhat minimal over the last 5 years. This is not desirable on a continual basis as buildings will deteriorate quickly and require significant funding to preserve or may even have to be decommissioned, lessening service delivery to the community. The plan provides $6.6M or an average of $660k.



The plan provides for a reduction in structure assets, that are primarily as a result of external grant funding. The plan has allocated $5M at an average of $500k per year, however within the first 2 years it includes already approved funding in respect of LRCIP round 3 of $750k in year 1 & year2, then applies a base of $375k for each year thereafter, representing 50% of new asset capital expenditure that is externally fund dependent.



The plan provides for a reduction in other assets, that are primarily as a result of external grant funding. The plan has allocated $3.3M at an average of $330k per year, however within the first 2 years it includes already approved funding in respect of LRCIP round 3 of $338k in year 2 and then applies a base of $375k for each year thereafter, representing 50% of new asset capital expenditure that is externally fund dependent.