The Coorong District Council

Long Term Financial Plan 2021-30

July 2020

1. Introduction

The purpose of the long-term financial plan (LTFP) is to express, in financial terms, the activities that the Coorong District Council (Council) proposes to undertake over the medium to longer term to achieve its stated objectives as outlined in its Strategic Plan.

It is a guide for future action based on the longer-term impact of revenue and expenditure proposals. The aggregation of future intended outlays and anticipated revenues enables the accumulating overall financial implications to be readily identified and if warranted, for proposed future activities to be revised.

Long-term financial plans are particularly important for local governments as they are responsible for managing a high level of long-lived assets relative to their income base. A council may have long-periods with modest levels of asset renewal requirements and then other periods when very significant outlays are necessary. All councils need to generate revenue in an equitable manner over time and ensure they have capacity to finance peaks in asset management and other outlays when, and including by way of borrowings where, necessary.

The preparation of a LTFP generates improved information to guide decisions about the mix and timing of outlays on operating activities and additional assets and the funding implications of these. Without a soundly based LTFP & IAMP (Infrastructure & Asset Management Plan) an organisation with significant asset management responsibilities is unlikely to have sufficient data to determine sustainable service levels and affordable asset stockholding strategies, appropriate revenue targets or optimal treasury management.

2. Key assumptions

The following assumptions have been built into the forecast calculations:

- The content of the LTFP is based on real (2020-21) dollar values for all future years to facilitate comparisons between years;
- Investment revenue has been calculated on the assumed rate of 1% per annum;
- Interest expenses on CAD facilities have been calculated at the assumed rate of 3.5%
- Capital renewal expenditure for Road Infrastructure, CWMS and Buildings has been funded at the levels identified in Councils Asset Management Plan. No new assets will be constructed from year 2 onwards.
- Where a class of asset does not have an identified renewal program the depreciation charge has been used as a surrogate until such time as ten year renewal programs are identified;
- Wages have been assumed to increase in line with CPI;
- A zero growth or decline in population is assumed;
- Maintenance costs are maintained at current levels;
- Service range & standards are maintained at current levels;
- A pool of funds approach to financing has been assumed. Accordingly, any accumulations of cash have been offset against any debt that may exist;
- Forecast debt and cash reserves in future years have been discounted by 1.8% p.a. in recognition of the fact that inflation reduces the real value of financial assets and liabilities;
- Commonwealth Financial Assistance Grant (FAGs) including the Supplementary Local Roads revenue has been evened out such that the plan reflects a stable four payments across each year.

3. Financial Strategy

In response to the Covid 19 pandemic Council has frozen rate revenue at 2019-20 levels. In a normal year, a rate rise of CPI plus 2% would have returned a breakeven operating result however as rate revenue has been held constant a deficit of ($500k) is currently being forecast for the 2020-21 financial year. Council resolved to operate in this manner on the understanding that the following financial strategy will be implemented to return Council to an operating surplus position by the 2024-25 financial year at the latest. The financial strategy will be reviewed and updated as required on at least an annual basis as part of the annual update of the LTFP required by the act. The future year rate increases will only occur if they remain necessary to move Council into an operating surplus position.

- Targeted efficiency savings in non-salary expenditure of 3% in year 1 and a further 0.5% per annum for the following four years;
- Rate revenue increases of 1% plus CPI for the financial years ending 30 June 2022-2025;
- Significant quantities of debt will not be incurred until a strategy has been identified that will highlight how Council will repay the additional debt. This will be reflected in an updated LTFP to be prepared at that time;
- Community Wastewater Management Schemes (CWMS) service charges will be sufficient to recover the whole of life costs of the system;
- Grant revenue will be targeted in a strategic manner. This means that grant revenue to build new assets would only be pursued and accepted if the new assets were deemed to be warranted, particularly if additional funding were to be contributed by Council. Where an operating grant is sought and additional Council funds are required to be contributed, then careful consideration will be given to long-term benefits and costs. This will ensure activities that may better fit Council's strategic objectives are not being delayed in lieu of the activity being funded by the grant;
- Revaluation of assets will be undertaken in a timely and appropriate manner to allow for increased accuracy with the IAMP and Asset Register and subsequently to ensure accurate depreciation figures can be determined;
- The long term financial plan will be updated on an annual basis.

4. Financial Sustainability – Key Financial Indicators

The financial sustainability evaluation of a Council is undertaken with reference to a properly developed and complete LTFP. The financial plan includes the forecast achievement of projected performance against agreed financial sustainability targets. By achieving these targets Council can claim to be operating in a financially sustainable manner.

In order to demonstrate that the financial strategies above are being achieved, Council needs to monitor the operating surplus ratio.

Further to this, two additional ratios will be reported on to demonstrate that assets are being replaced in line with the requirements of the infrastructure and asset management plan whilst maintaining sensible debt levels.

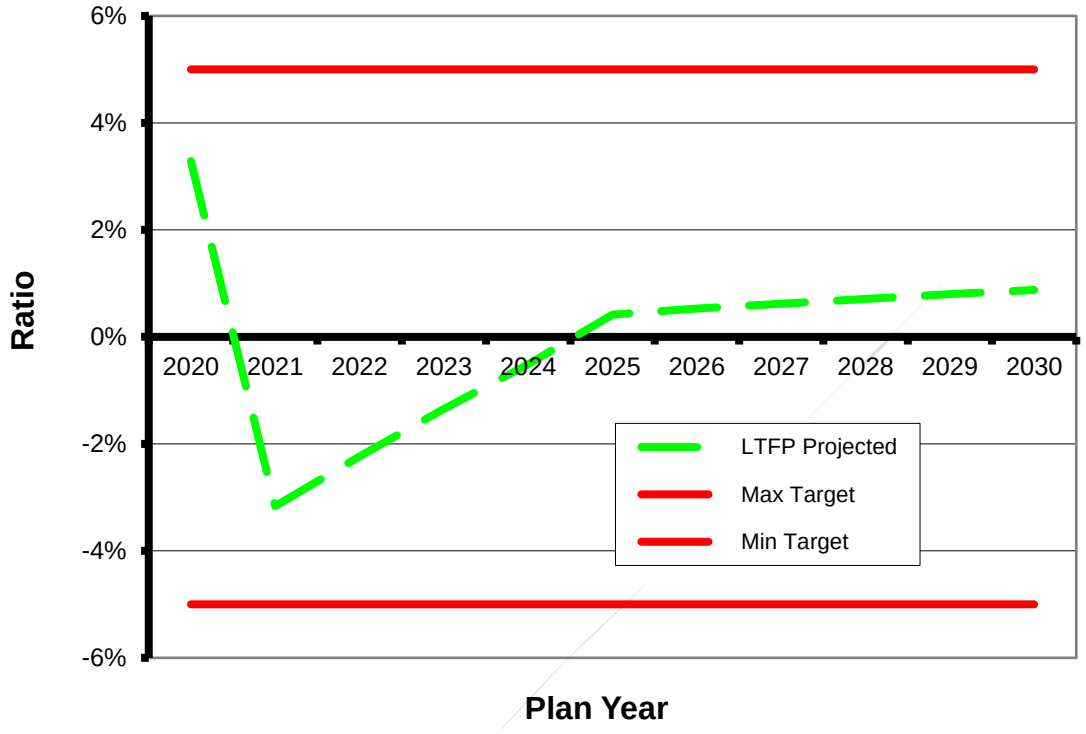
These ratios are:

- Net financial liabilities ratio
- Asset renewal funding ratio

4.1 Operating surplus ratio (OSR)

The operating surplus ratio expresses the operating surplus (deficit) as a percentage of total operating revenue.

Calculated as: Operating revenue minus operating expense divided by operating revenue.



The OSR is used to confirm that Council can cover its operating expenditure and depreciation charge from its operating revenue. A negative result indicates that Council is not doing so.

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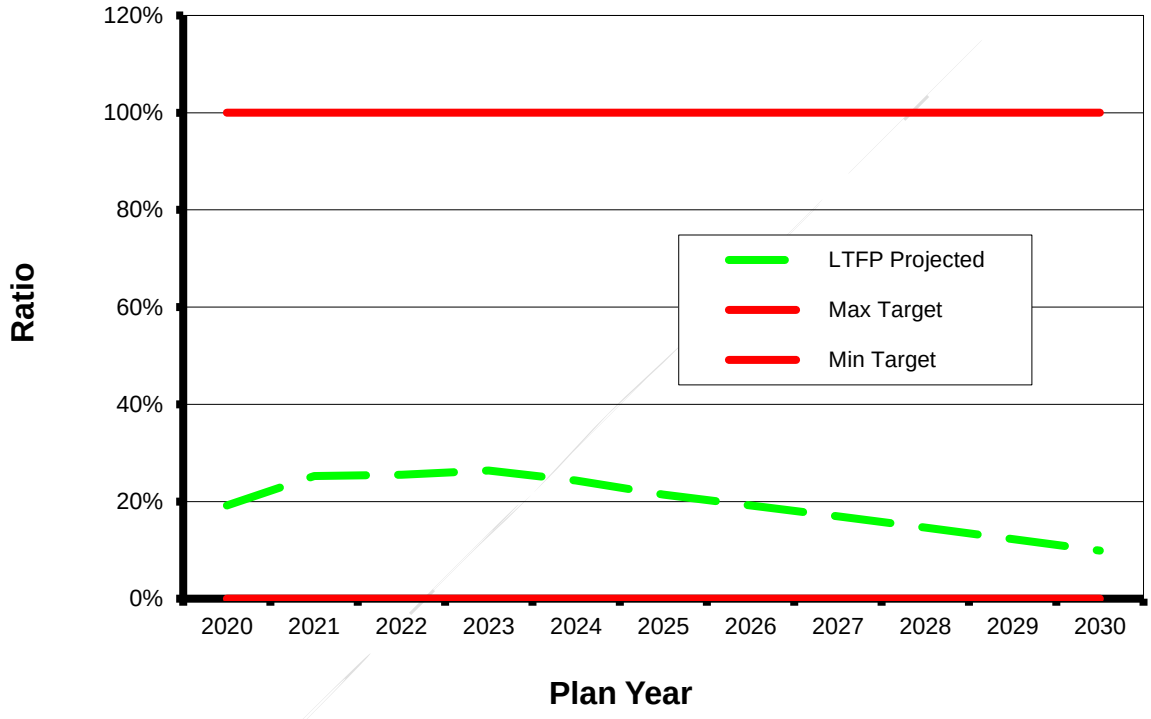
Council has set a target range of between -5% to 5% in relation to this indicator.

4.2 Net Financial Liabilities Ratio (NFLR)

Net financial liabilities are a comprehensive measure of the indebtedness of the Council as it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account of the level of Council's available cash and investments. Specifically, net financial liabilities equal total liabilities minus financial assets, where financial assets for this purpose includes cash, cash equivalents, trade and other receivables, and other financial assets, but excludes equity held in Council businesses, inventories and land held for resale.

The NFLR answers the question - Does Council have a manageable level of debt and other liabilities when considering its available revenue and other cash reserves? The following graph shows that Council can answer “Yes” to this question.



The above graph demonstrates that Council is forecast to incur a manageable level of net financial liabilities throughout the life of the plan. The line tends downwards indicating that liabilities are being systematically reduced over time.

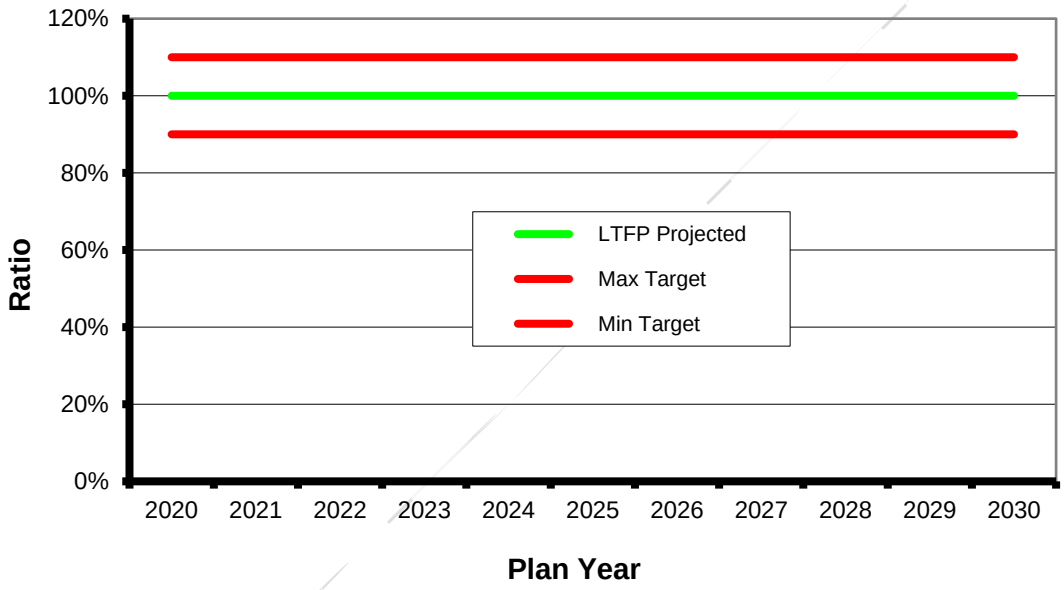
Council has set a target range of between 0% and 100%.

4.3 Asset Renewal Funding Ratio (ARFR)

This ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with what is needed to cost-effectively maintain service levels. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in Council's asset management plan.

If capital expenditure on renewing or replacing existing assets is at least equal to the level proposed in the AMP, then a Council is ensuring optimal timing of replacement of physical assets to maintain service levels. Any material underspending on renewal and replacement over the medium term is likely to adversely impact on the achievement of preferred, affordable service levels and could potentially progressively undermine Council's financial sustainability.

Council have adopted a range for this ratio of between 90% to 110%.



The above graph indicates that the ARFR is targeted to be 100% for the life of the plan indicating that assets are being replaced at the same rate as they are wearing out.

4.4 Conclusion

Council can claim to be operating in a financially sustainable manner as the forecast key financial indicators are within the acceptable range set by Council for each of the three key financial indicators.

5 Relevant Legislation

Local Government Act 1999

122—Strategic management plans

(4) A council may review its strategic management plans under this section at any time but must—

(a) undertake a review of—

(i) its long-term financial plan; and

(ii) any other elements of its strategic management plans prescribed by the regulations for the purposes of this paragraph,

as soon as practicable after adopting the council's annual business plan for a particular financial year;

Local Government (Financial Management) Regulations 2011

5—Long-term financial plans

(1) A long-term financial plan developed and adopted for the purposes of section 122(1a)(a) of the Act must include—

(b) a summary of proposed operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled *Uniform Presentation of Finances*; and

(c) estimates and target ranges adopted by the council for each year of the long-term financial plan with respect to an operating surplus ratio, a net financial liabilities ratio and an asset renewal funding ratio presented in a manner consistent with the note in the Model Financial Statements entitled *Financial Indicators*.

(2) A long-term financial plan must be accompanied by a statement which sets out—

(a) the purpose of the long-term financial plan; and

(b) the basis on which it has been prepared; and

(c) the key conclusions which may be drawn from the estimates, proposals and other information in the plan.

(3) A statement under sub-regulation (2) must be expressed in plain English and must avoid unnecessary technicality and excessive detail.

6. Future Iterations of the Long Term Financial Plan

This plan is based on the data that is currently on hand. The following actions will be undertaken in the near future as part of the comprehensive review to be undertaken of Council suite of strategic management plans due to be completed by 28 February 2021.

- The ten year asset renewal programs will be revised and updated.
- Ten year renewal programs will be identified for those classes that do not already have them
- The assumptions that underpin the depreciation calculation will be reviewed
- A review will be undertaken of Councils asset register data to ensure reliable standard costings & total useful lives are being used
- The above reviews will also ensure that asset renewal data is consistent with data used to calculate depreciation

7. Uniform Presentation of Finances

The Uniform Presentation of Finances together with the results of the Key Financial Indicators provides a summarised report that focuses on Council's finances at a strategic level.

Readers are strongly encouraged to take the time to comprehend how this report is structured and what the implications of the various lines of this report are for the Key Financial Indicator calculations.

The Summary of Financial Performance & Position report highlights the operating surplus / (deficit) measure which is considered the most critical indicator of a Council's financial performance.

The last line or rather the result of this report is the movement in Net Financial Liabilities (Net Lending / Borrowing) for the year based on Council's planned capital and operating budgets for that year.

Achieving a zero result on the net lending / (borrowing) measure in any one year essentially means that the Council has met all of its expenditure (both operating and capital) from the current year's income (with income including amounts received specifically for new / upgraded assets).

7.1 Explanation / Examples of Components of Summary of Financial Position

Operating Revenue and Expenditure: Represent the totals from the relevant lines of the Statement of Comprehensive Income (operating statement) for the year being reported on.

Capital Expenditure on renewal and replacement of Existing Assets: e.g. Roads reseals, replacement tractor, building renovations, replacement computer hardware.

Proceeds from sale of replaced assets: e.g. trade in value of a tractor or motor vehicle being replaced.

Capital Expenditure on New & Upgraded Assets: e.g. constructing a new building, constructing a new catchment pond, purchasing a piece of machinery that was not previously on hand.

Amounts specifically for new or upgraded Assets: e.g. Capital grants to partly fund a new CWMS, funds received to build new footpaths that did not previously exist.

Proceeds from Sale of Surplus Assets: Proceeds from the sale of a council building that was no longer required, sale of surplus land.

7.2 Uniform Presentation of Finances

Year Ending 30 June:	2020 Year 0 Actual $'000	2021 Year 1 Budget $'000	2022 Year 2 Plan $'000	2023 Year 3 Plan $'000	2024 Year 4 Plan $'000	2025 Year 5 Plan $'000	2026 Year 6 Plan $'000	2027 Year 7 Plan $'000	2028 Year 8 Plan $'000	2029 Year 9 Plan $'000	2030 Year 10 Plan $'000
Operating Revenues	16,283	15,812	15,897	15,995	16,098	16,202	16,202	16,202	16,202	16,202	16,202
less Operating Expenses	15,749	16,313	16,252	16,210	16,180	16,134	16,116	16,102	16,086	16,073	16,059
Operating Surplus/(Deficit) before Capital Amounts	**535**	**(500)**	**(355)**	**(216)**	**(82)**	**68**	**85**	**100**	**115**	**129**	**142**
LESS: Net Outlays on Existing Assets											
Capital Expenditure on Renewal or Replacement of Existing Assets	4,037	4,349	3,995	4,231	3,900	3,907	4,003	4,003	4,003	4,003	4,003
less Depreciation, Amortisation & Impairment	(4,243)	(4,243)	(4,243)	(4,243)	(4,243)	(4,243)	(4,243)	(4,243)	(4,243)	(4,243)	(4,243)
less Proceeds from Sale of Replaced Assets	(81)	(81)	0	0	0	0	0	0	0	0	0
Net Outlays on Existing Assets	**(287)**	**25**	**(249)**	**(12)**	**(344)**	**(336)**	**(240)**	**(240)**	**(240)**	**(240)**	**(240)**
LESS: Net Outlays on New or Upgraded Assets											
Capital Expenditure on New/Upgraded Assets	2,530	2,728	0	0	0	0	0	0	0	0	0
less Amounts Specifically for New/Upgraded Assets	(1,682)	(2,380)	0	0	0	0	0	0	0	0	0
less Proceeds from Sale of Surplus Assets	0	0	0	0	0	0	0	0	0	0	0
Net Outlays on New or Upgraded Assets	**847**	**348**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EQUALS: Net Lending / (Borrowing) for Financial Year	**(26)**	**(873)**	**(106)**	**(203)**	**261**	**404**	**325**	**340**	**355**	**369**	**383**