# LIVERPOOL PLAINS SHIRE COUNCIL

## Resourcing Strategy – Long Term Financial Plan

## 2014/15 – 2023/24

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# Foreword

This is the Long Term Financial Plan for Liverpool Plains Shire Council prepared in accordance with the requirements of the NSW Integrated Planning and Reporting Framework.

The Long Term Financial Plan was prepared by Council's Corporate Services Directorate with assistance from Councillors and the Management Executive Team.

The Plan reflects Council's intentions at the time of publication. As with any plan or budget, the actual results may vary from that forecast.

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Disclaimer

# 1. Executive Summary

The Long Term Financial Plan provides an indication of Council's future financial position from 2014/2015 to 2023/24.

The Long Term Financial Plan presents three scenarios:

**Scenario 1** – Base Case with no Special Rate Variation (SRV) approved

This is the financial forecast based on the revised 2013/14 budget, indexed for forecast movements in the major income and expenditure areas for every year out to 2023/24.

The key assumptions are:

- Rates increased by 2.3% in 2014/2015 then by 3.0% p.a thereafter
- Rates income reduced in 2014/15 and onwards due to cessation of existing SRV of 6.5%
- Fees, charges and other revenue increased by 3.0% p.a
- Investment Return = 4.0% p.a.
- Employee Costs increased by 3.0% p.a.
- Electricity, Insurance and Other Expenses increased by 3.0% p.a
- Materials & Contracts increased by 3.0%

The Base Case financial position places great strain on maintaining the current levels of service to ratepayers with Council going into deficit budgets due to the loss in rate income from the SRV. This scenario does not address Council's long term financial sustainability or the continued deterioration of Council's infrastructure assets, with projections under Council's Asset Management Plans of ongoing deterioration in asset levels, whereas Scenarios 2 and 3 attempt to address this.

**Scenario 2** – Continuation of the existing SRV of 6.5% plus an additional 3.7% plus rate pegging of 2.3% from 2014/15.

This is the financial forecast based on the revised 2013/2014 budget, indexed for forecast movements in the major income and expenditure areas for every year out to 2023/24.

The key assumptions are:

- Rates permanently increased by 12.5% in 2014/2015 (SRV of 10.2% plus rate pegging increase of 2.3%) then by 3.0% p.a from 2015/16 onwards
- Fees, charges and other revenue increased by 3.0% p.a.
- Investment Return = 4.0% p.a
- Employee Costs increased by 3.0% p.a.
- Electricity, Insurance and Other Expenses increased by 3.0% p.a.
- Materials & Contracts increased by 3.0% p.a.

Under this scenario, Council will continue to achieve a surplus budget before capital grants & contributions, while maintaining much needed funding for capital infrastructure which will continue to slow the rate of deterioration of the asset network.

**Scenario 3** – Total rates income has been increased to achieve the income necessary to raise the quality of all Council assets to a satisfactory standard and to fully fund depreciation expenses.

This is the financial forecast based on the revised 2013/2014 budget, indexed for forecast movements in the major income and expenditure areas for every year out to 2023/2024.

The key assumptions are:

- Rates increased by 12.5% in 2014/2015 (2.3% rate pegging increase plus 10.2% p.a SRV) then by 13.0% p.a from 2016/17 (3.0% rate pegging plus 10.0% SRV) then by another 13% from 2018/19 (3.0% rate pegging plus 10.0% SRV) and then by 3% onwards from 2019/20. All increases are permanent and ongoing.
- Fees, charges and other revenue increased by 3.0% p.a
- Investment Return = 4.0% p.a
- Employee Costs increased by 3.0% p.a
- Electricity, Insurance and Other Expenses increased by 3.0% p.a
- Materials & Contracts increased by 3.0% p.a

Under this scenario rates income has been increased over a 5 year period to fund the additional expenditure required to bring all Council assets up to a satisfactory level, to fully fund the depreciation expense and to maintain service levels as requested by the community.

### Recommendation

Council at its Ordinary Council Meeting of 18th December 2013 resolved that Scenario 2 be adopted initially with a potential move to Scenario 3 in 2016/17 after it is known whether or not there is to be any redistribution of the Financial Assistance Grants from urban areas to rural remote areas. Scenario 1 is not sustainable in the longer term if any of the infrastructure backlog is to be addressed or if Council is to become financially sustainable.

Scenario 2 will allow Council to continue to work towards its long term goals of a surplus budget and financial sustainability while continuing to provide additional funding for the renewal and maintenance of Council's road infrastructure. Additional external funding will be sought to address Council's infrastructure backlog and to reduce its dependence on rate increases.

## 2. Current Financial Position

An analysis of Council's Financial Indicators for 2012/2013 reveals an improving but still weak financial position of Council:

- Net Operating Result – Including capital grants and contributions. Council had a net surplus of $3,978,000 compared to a deficit of $686,000 in 2011/2012. The improved result was largely due to additional capital grants and increased refinement of the Asset Management Plan with respect to asset condition assessments and depreciation rates. The result excluding capital grants & contributions is a deficit of $1.911m.
- Unrestricted Current Ratio – The consolidated fund ratio of 2.58:1 indicates a relatively strong position.

- Debt Service Ratio – at 3% this ratio is strong however Council has limited discretionary funding available in General Fund at this time to repay any new loans raised.
- Capital Expenditure Ratio – at 1.77:1 is greater than the minimum 1:1 and shows that we are spending more on capital than is being depreciated.
- Rates & Annual Charges Outstanding Percentage – this has increased slightly to 8.85%.

As can be seen from the above, the long term financial sustainability of the Council remains a significant challenge for the future unless the special rate variation in 2014/15 is approved and other financial measures are undertaken.

## 3. Long Term Financial Plan Objectives

The Long Term Financial Plan intends to achieve the following objectives over the ten year time frame:

• maintain and improve the existing service levels to the community;

• strive to provide adequate funding to support Council's asset management plans;

• improve its cash position;

• maintain a **surplus** annual budget after 2015/2016 (before and after capital grants & contributions);

• maintain an adequate Employee Leave Entitlements Reserve based on the age and entitlements of all staff in accordance with Council's Workforce Strategy; and

• ensure that all Reserves are cash backed.

Council is committed to the delivery of strategies outlined in the Community Strategic Plan. The development of the Long Term Financial Plan alongside the Strategic Plan will assist Council to assess the financial impact of the strategic directions.

Council is projecting that it will operate with a surplus budget (before capital grants and contributions) from 2015/2016, however it will continue to examine a number of strategies to improve efficiencies, access future revenue opportunities, further increase rates by some 10% plus rate pegging and contain costs. The impact of these strategies will be incorporated into future Long Term Financial Plans.

## 4. Performance Monitoring & Review

Performance reporting will be in accordance with Note 13 – Statement of Performance Measurement of the current Local Government Code of Accounting Practice and agreed key performance indicators.

Council will review the Long Term Financial Plan each year in conjunction with the Annual Operational Plan. The review will include an assessment of the previous year's performance in terms of the accuracy of the projections made in the Long Term Financial Plan compared to the actual results. Evaluation will include reviewing and amending estimates and scenarios while the assumptions will be adjusted to improve the accuracy of the Long Term Financial Plan.

Council will not only monitor its performance against the Long Term Financial Plan and the annual Operational Plan, but also against key performance indicators including:

- Unrestricted current ratio
- Available cash position
- Net Operating Result
- Debt service ratio
- Rates and Annual Charges coverage ratio
- Rates and Annual Charges outstanding percentage
- Building and Infrastructure renewals ratio
- Investment rate of return (75 points greater than average 90 day BBSW Bank Bill Index)

Council will thoroughly evaluate the Long Term Financial Plan every four years, in line with the review of the Community Strategic Plan. This will occur within three to nine months after each local government election.

The Resourcing Strategy, including the Long Term Financial Plan, will be reviewed and updated and a draft Community Strategic Plan and resourcing options presented to the community.

Performance will be monitored by Council's Management Executive Team and Councillors via quarterly performance reporting against the Operational Plan.

Council's Key Financial Performance Indicator projections are included in the Financial Statements for each of the three scenarios at Attachments B, C and D.

## 5. Planning Assumptions

The 2013-2014 revised budget (as per the September Quarterly Review) is used as the basis for developing the Long Term Financial Plan 2014/2015-2023/24.

The following assumptions have been used to forecast growth in both income and expenditure over the next ten years. The assumptions have been prepared in accordance with the Council's legislative requirements and in reference to the Community Strategic Plan. A summary of Council's significant financial policies that govern financial management is available at Attachment A.

The longer the timeframe the greater the uncertainty so forecasts and financial projections over 2014/15-2023/24 may vary in the future particularly in the later years of this period. However the plan will be reviewed annually and where appropriate changes will be made to the assumptions used.

**Service Levels**

The following general assumptions in relation to service levels have underpinned the development of the Long Term Financial Plan 2014/15 -2023/24:

• The Council will continue to be responsible for providing the current range of services but levels of service may not remain the same given the Council's continuing financial challenges;

• The quantity and location of assets may not remain the same given the Council's continuing financial challenges; and

• The current philosophy and practices of condition based maintenance will continue.

### Workforce Levels

Workforce levels are assumed to remain largely the same. However, the composition of future workforce levels and organisation structure will need to reflect the changing needs of the organisation, the potential impacts of mining and associated developments, the Community Strategic Plan and the Council's financial position.

### Population Growth

The 2011 Census stated that Liverpool Plains Shire had a population of 7,480. The Namoi 2030 Study predicts a population, due to mining related growth, of 11,000 people by 2030.

The provision of infrastructure in the Shire will largely be at the expense of developers however, this infrastructure will have to be maintained by Council in the future. The Long Term Financial Plan assumes that this maintenance cost will be offset by the growth in ratable property income and consequently there is no net increase in income or expenditure.

### Economic Growth

The Long Term Financial Plan assumes minimal increased economic activity due to the current uncertainty of mining in the Shire and in neighbouring shires. However, Council is actively working to facilitate increased economic growth through its Tourism and Economic Development strategies and as they come to fruition, future revisions to the Long Term Financial Plan will be made to appropriately reflect them.

### Inflation/Consumer Price Index Forecasts

A consumer price index of 3.0% p.a. has been used for all material costs and 3.0% for all employee costs in the preparation of the Long Term Financial Plan..

### Depreciation/Amortisation Expenses

Depreciation has not been adjusted by CPI or any percentage. The depreciation amount used in each of the scenarios is calculated on an asset condition assessment basis using asset cost data, periodic inspections of assets, revaluated asset data and standard depreciation periods for major asset groups. Adjustments have been made for large capital purchases planned in the Capital Works Program.

### Interest Rate Movements

The uncertainty of future interest rate movements over a 10 year period has led to the assumption of interest rates, on average, remaining at the same level for loan borrowings over this period.

## Employee costs

Employee costs make up **40%** of the projected 2014-15 operating expenditure. This is reflective of the service based nature of a significant proportion of Council activities as well as the construction and maintenance of the considerable infrastructure owned by Council. As it makes up such a large proportion of the operating expenditure budget and movements in rates of pay are determined through industry-wide Award negotiations and market forces, the Council is sensitive to unplanned changes in employee costs.

The Long Term Financial Plan assumes annual increases of 3.0% to employee costs and this also includes proposed increases to the compulsory superannuation guarantee levy.

The Council's ability to put in place the necessary workforce to achieve the community's aspirations for the future is affected by several internal and external factors. The internal challenges include:

- The rising cost of employment;
- Skill shortages;
- Staff turnover; and
- The attraction and retention capacity of Council.

External challenges include:

- Projected superannuation increases;
- Award salary increases above CPI and rate pegging
- Changes in service levels in response to community priorities.
- Impacts of mining growth and associated multiplier effects on current workforce capacity and,
- Competition for staff with the mining industry, e.g. plant operators, engineers.

Any significant changes in these employee costs will have major impacts on the Council Long Term Financial Plan and the organisation would need to quickly adapt its original planned operations to offset movements in this area.

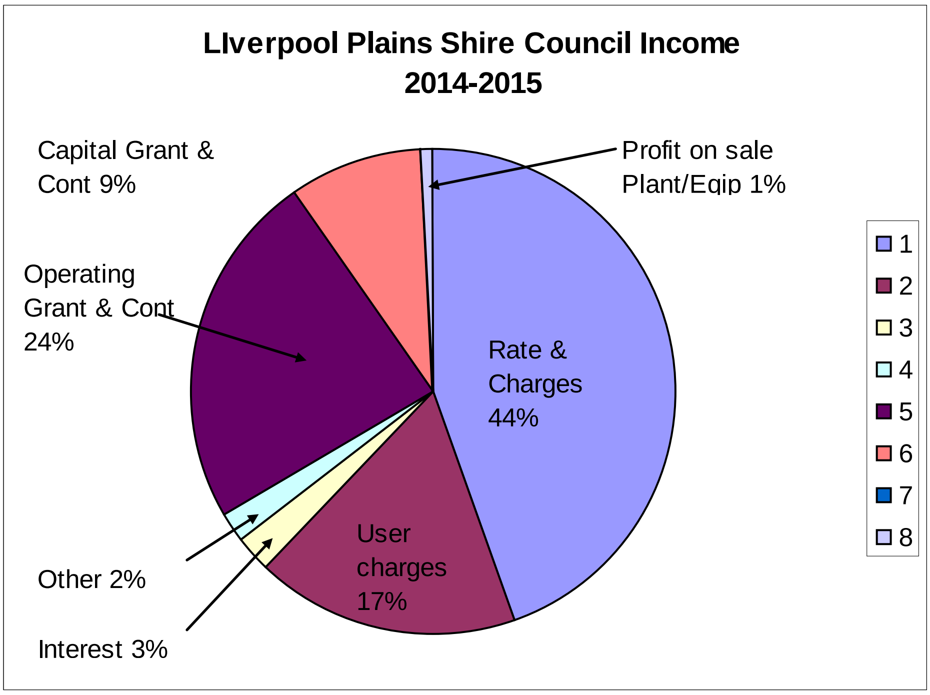
## Materials and Contracts

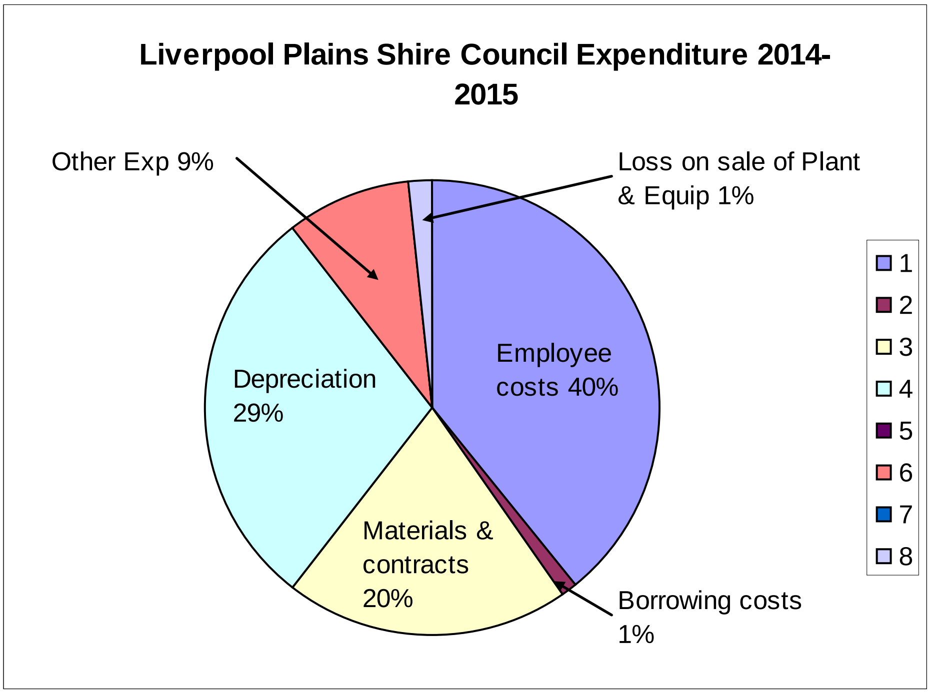
Materials and contracts make up **20%** of projected 2014-15 operating expenditure. This is reflective of the considerable number of assets held, constructed and maintained by Council. This places the Council at considerable pressure from rising raw material costs including fuel and oil based products. Any major unplanned rises in these costs will impact the Long Term Financial Plan. Any new assets, including major projects, will also increase materials and contracts due to increased maintenance requirements.

## Capital Works Program

All capital expenditure is based on Council's asset management plans. Material and employment costs greater than forecast remain a threat to the Council achieving its planned outcomes. The Capital Works Program projected in the Long Term Financial Plan is particularly sensitive to any variations to the planned program as a result of these pressures.

## PIE CHARTS OF REVENUE and EXPENDITURE GROUPS



# 6. Available Financial Strategies

## 6.1. Rates and Levies

### Rates and Annual Charges

Rates and Annual Charges make up **44%** of the projected 2014-15 operating revenue. The Council cannot apply a rate increase greater than the rate pegging limit imposed annually without a Special Rate Variation application approval from the Independent Pricing and Regulatory Tribunal (IPART).

Council is currently the recipient of a 6.5% Special Rate Variation for the period 2009/10 to 2013/14. Council gained community support at the time for this increase to be permanent however the Minister for Local Government restricted the increase to just 5 years.

Council intends to apply to IPART for an ongoing Special Rate Variation from 2014/15 of 12.5% (inclusive of the expiring 6.5% and 2.3% rate peg increase). Council has undertaken extensive community consultation during 2013/14 prior to consideration of this further application for a Special Rate Variation under Section 508 (2) of the Local Government Act 1993.

In the Long Term Financial Plan, the three scenarios have been included which show the impact of rate pegging and special rate variations as follows:

Scenario 1: It is assumed rate pegging will continue for the life of the Long Term Financial Plan and has been set at 2.3% p.a. in 2014/15 and then 3.0% onwards. However it allows for the cessation of the current Special Rate Variation of 6.5% from 2014/15 and a subsequent corresponding reduction in expenditure on the road network.

Scenario 2: It is assumed rate pegging will continue for the life of the Long Term Financial Plan and has been set at 2.3% p.a. in 2014/15 and then 3.0% p.a. onwards. A Special Rate Variation of 12.5% (inclusive of the rate peg increase of 2.3%) is applied permanently from 2014/15 onwards and will be ongoing. Scenario 2 assumes that the 6.5% variation that has been in place since 2009/10 will continue as part of the 12.5% proposed increase.

Scenario 3: It is assumed rate pegging will continue for the life of the Long Term Financial Plan and has been set at 2.3% p.a. in 2014/15 and then 3.0% p.a. onwards. Rates are increased by 12.5% in 2014/2015 (2.3% rate pegging increase plus 10.2% p.a special rate variation) then by 13.0% p.a from 2016/17 (3.0% rate pegging plus 10.0% special rate variation) then by another 13% from 2018/19 (3.0% rate pegging plus 10.0% special rate variation) and then by 3% onwards from 2019/20.

### Domestic Waste Management Charge

All ratepayers who have access to domestic waste collection services incur a domestic waste management charge. This charge includes waste and recycling collections, educational programs, illegal dumping management, cleanup collections, waste collection facilities management and remediation of landfill sites.

The Domestic Waste Management Charge is projected to increase by 3% p.a in 2014/2015 and then 3% thereafter, however this may be refined when a Domestic Waste Management Strategy has been developed and implemented for all Council landfills.

Community survey results and general community consultation has revealed a majority of ratepayers are not in favour of a green waste pick-up service.

### 6.2. Fees and Charges

#### User Fees and Charges

It is assumed these services will continue to be provided on the same pricing and cost recovery basis. Increases of 3% p.a. are based on the forecast rise in the cost of the provision of these services plus an increase to reduce the level of rate increases for residents.

For user fees and charges under statutory control, Council has no discretion to determine the amount of the fee for a service when the amount is fixed by regulation or by another authority. Examples of statutory fees include development assessment fees and planning certificates. The majority of statutory charges do not provide for annual increases in line with CPI or the cost of providing the service.

#### Commercial Activities

Fees for Swimming Pools, Cinema, etc are expected to increase in line with CPI and employee costs.

#### Section 94A fees

Section 94A of the Environmental Planning and Assessment Act 1979 (currently under review) provides for a contribution towards capital expenditure from a developer towards new facilities and services required for the increased population.

The Section 94A Plan adopted by Council determines contribution rates and works programs. Developments between $100,001 and $200,000 in cost attract a 0.5% fee. Developments above $200,000 in cost attract a 1% fee. A list of proposed future works is contained in Council's S94A Plan available on its website.

### 6.3. Property Development

Provision is made in the Long Term Financial Plan for some property development however it is assumed the development cost is equivalent to the sale proceeds. 50% of any actual profits are held in the Land Acquisition Reserve to meet future property development opportunities while the other 50% is placed back into General Fund.

### 6.4. Interest on Investments

Investments will be made in accordance with the Minister's Investment Order and the Council's Investment Policy. Expected investment returns of 4.0% have been based on a rate of 1.0% above the average forecast 90 day BBSW rate of 3.00%. Again these estimates will be adjusted based on annual reviews, level of funds invested and updated investment information.

### 6.5. Grants and Subsidies

It is assumed all recurrent grant funds will be maintained at current levels with CPI adjustments of 3%.

## 6.6. Borrowings

Council has traditionally taken out loan borrowings where necessary to fund capital works. Loan borrowings for the Shire Wide Water Strategy have been included in the Long Term Financial Plan.

## 6.7. Council Reserves

Transfers to and from reserves have been made in accordance with Council policy and are approved by Councillors at budget reviews. A detailed list of Council's Reserves is included at Attachment E.

Transfers to the Employee Leave Entitlements reserve have been made based on the strategy outlined in Council's Workforce Plan. The current liability is around **$2.245m** while the ELE Reserve contains **$963,000** representing 43% of the liability.

Council plans to maintain a similar balance in ELE reserve each year of the Long Term Financial Plan as this level is considered sufficient to meet any required demands from employees leaving.

## 6.8. Water and Sewer Charges

In 2007 Council adopted a long term water strategy to drought proof the communities of Quirindi and Werris Creek. The project is estimated to cost $22 million and is being financed by way of grants, loans and increased user pay and access charges.

The increase in access charges over the next ten (10) years is an essential factor in the overall financing strategy for the infrastructure improvements. The increased access charges provide the necessary funds to finance loan repayments and smaller capital projects.

It is proposed that all access charges be increased in accordance with the long-term pricing strategy (see below) with a uniform shire wide access charge effective in 2014/2015. Usage charges are estimated to increase by 3% over the next ten years.

It is noted that to comply with Best Practice Pricing Principles Council will have to review its access charges and usage charges in 2015/16 so that each charge generates around 50% of total income. This will necessitate a substantial increase in usage charges offset by a reduction in access charges. The conundrum here is that if a wet year occurs usage income will be reduced and Council could find itself in a loss making situation given the largely fixed cost nature of water operations and infrastructure loan repayments.

The table below shows the proposed residential access charges for Quirindi, Werris Creek and Village consumers for the next ten (10) years, in the absence of best practice pricing principles.

## Water Access Charges

| Service | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|
| Quirindi | $543 (10%) | $559 (3%) | $575 (3%) | $690 (20%) | $710 (3%) | $732 (3%) |
| Werris Creek | $543 (10%) | $559 (3%) | $575 (3%) | $690 (20%) | $710 (3%) | $732 (3%) |
| Village | $435 (19%) | $505(16%) | $575(14%) | $690 (20%) | $710 (3%) | $732 (3%) |

| Service | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|---|
| Quirindi | $771 (5%) | $794 (3%) | $818 (3%) | $842 (3%) | $867 (3%) | $893 (3%) |
| Werris Creek | $771 (5%) | $794 (3%) | $818 (3%) | $842 (3%) | $867 (3%) | $893 (3%) |
| Village | $771 (5%) | $794 (3%) | $818 (3%) | $842 (3%) | $867 (3%) | $893 (3%) |

Note: also shows percentage increases for each category.

This service is classified as a category 2 business activity which is subject to the provisions of National Competition Policy and its pricing procedures. In the forthcoming year, the service will not make a recognised subsidy to consumers

## Quirindi and Werris Creek Sewer Charges

**Quirindi and Werris Creek Sewer Services – Proposed Charges 2014/15**

| Standard Charges | Access Charge 2013/14 | Proposed Access Charge 2014/15 | Proposed Usage Charge 2014/15 |
|---|---|---|---|
| Standard Residential Charge 20mm WSC | $490.00 | $504 | 0.000 |
| Vacant Lots Unoccupied (Residential and Non-Residential) | $490.00 | $504 | 0.000 |
| Standard Non-Residential Charge 20 mm WSC | $317.00 | $326 | 1.70c/Kl |
| Standard Non-Residential Charge 25 mm WSC | $466.00 | $480 | 1.70c/Kl |
| Standard Non-Residential Charge 32 mm WSC | $730.00 | $752 | 1.70c/Kl |
| Standard Non- Residential Charge 40 mm WSC and over | $1,114.00 | $1,147 | 1.70c/Kl |

The increased sewer service charges are necessary to fund the on-going renewal of the sewer infrastructure. Standard residential access charges in 2014/15 have increased by 3% and thereafter charges are estimated to increase by 3% p.a. for the next 9 years.

This service is classified as a category 2 business activity which is subject to the provisions of National Competition Policy and its pricing procedures. In the forthcoming year, the service will not make a recognised subsidy to consumers.

# 7. Sensitivity Analysis

The Long Term Financial Plan contains a number of assumptions based on various sources such as legislation, inflation, current service provision and wage markets. Variations in these assumptions during the life of the plan may have a significant impact on the Council's future financial plans. The Long Term Financial Plan will be updated annually to ensure the assumptions continually reflect the latest information available.

**Interest on Investments:** Council has a modest investment portfolio that is subject to movements in interest rates. Investments are placed and managed in accordance with the Council's adopted Investment Policy in compliance with the Local Government Act. As a custodian of the community's funds, the Council ensures funds are invested with the same care, diligence and skill that a prudent person would exercise.

**Rate Pegging and Special Rates Variations:** Any changes in rate pegging following the approved 2.3% in 2014/15 and the assumed 3.0% thereafter will impact revenue forecasts. Special Rate Variations accepted by the community and the Independent Pricing and

Regulatory Tribunal that are less than that forecast in Scenarios 2 and 3 will also impact revenues for these Scenarios.

**Inflation:** Changes in inflation will impact both revenue and expenditure.

**Employee Costs:** Changes in employee costs will impact Council's expenditure. Staff turnover patterns will impact the employee leave entitlements' reserve and liability as well as recruitment and training costs.

**Population Growth:** The Shire's population growth is predicted to be below the NSW state average however there will still be growth. The level of growth will depend on the development of mining and the success of Council's Economic Development and Tourism strategies. The Long Term Financial Plan is based on 0.1% rates base growth. Should the population growth vary from this rate both service levels and rating income will be impacted.

**Grants:** The Long Term Financial Plan scenarios only include recurring grants and capital grants that have already been awarded. The Council does have a strong reliance on grants revenue in comparison with other sources of revenue.

A number of the grants that are received, fund specific programs such as Child Care and Home and Community Care services that may not be offered by the Council if the grants were eliminated. The Council's Financial Assistance Grant received from the Federal Government is approximately $3.2 million. If this grant was eliminated the Council would need to reduce expenditure and service levels. However based on the current review of Local Government it is being recommended that these funds be redistributed from metropolitan councils to rural/remote councils and it could be that this Council could have a substantial increase in funding.

## 8. Scenario Development

Financial modeling has been used to create three scenarios. Each Scenario presents a different financial result depending on what capital funding was assumed to provide, renew and maintain assets at different condition levels and how, in each scenario, this impacted on achieving the Council's ten year performance measures for becoming more financially sustainable. The scenarios were developed by varying the following:

- Budgeted revenue;
- Budgeted non capital expenditure;
- Budgeted capital expenditure.

# 9. Scenario 1

**Base Case – 2.3% in Year 1 then 3.0% Rate Pegging Increase for years 2 to 10. A reduction in rates due to current Special Rate Variation of 6.5% expiring in June 2014 and a corresponding reduction in road expenditure over the ten year plan.**

**Attachment B shows the budget summary for Scenario 1.**

**Assumptions:**

**Operating Revenue**

• General Rates have been increased based upon rate pegging of 2.3% in year 1 and then 3.0% onwards and rate base growth of 0.1%.

• Other Rates, Reimbursements and Other Revenue have been increased by 3.0%.

• User Charges and Commercial Activity Revenue have been increased by 3.0%

• General Purpose Grants (mostly the Financial Assistance Grant) have been increased by 3.0% however these movements can be inconsistent.

• Statutory Charges have been increased by 3.0% however these movements are also inconsistent.

• Specific Grants and Investments Income have been increased by 3.0% and 4.0% respectively however these are subject to external influences that could cause them to move in either direction.

**Operating Expenses**

• Salaries have been increased by 3.0% and allow for predicted Award and superannuation guarantee levy increases

• Electricity, Insurance and Other Expenses have been increased by 3.0%

• Materials have been increased by 3.0% and these are also subject to external factors

• Loan interest expenses are reflective of the movement in Loan Borrowings

**Capital Revenue**

• Roads Grants have been increased only marginally while other Grants and Contributions have been left static due to possible external influences that could cause them to move in either direction.

**Capital Expenditure**

• Moderate increases based on the draft budget for Year 1 have been allowed.

**Commentary on Trends**

The Budget Summary shows consistent operating losses before capital transactions for the next six (6) years, however, a surplus budget (cash) is forecast after year one (1). The cash flow trend suggests that while reserves will be maintained, working funds will be reduced in real terms.

The 6.5% "Special Rate Variation" comes to an end in 2013/2014, and the loss of income is clearly evident in the Budget Summary for the ten year period, along with a corresponding reduction in road maintenance expenditure. This is an unsustainable situation where road infrastructure will deteriorate as it is not being adequately maintained to a satisfactory level.

This would suggest that there needs to be an adjustment to the level of services provided to offset the loss of the Special Rate Variation.

**Summary**

This is the "benchmark" reflecting Council's current expenditure. It is assumed that service levels will not alter significantly over the next ten years with the exception of road maintenance which is reduced due to the cessation of the Special Rate Variation in 2013/14. The future year projections take into account various inflationary factors including adjustments for CPI, wages index and other increases in revenue and costs.

In this scenario, the operational revenue is not sufficient to meet the total expenditure necessary for road maintenance. Council will need to adjust the levels of services provided to the community and/or find additional revenue streams.

## 10. Scenario 2

**A permanent 12.5% Special Rate Variation (inclusive of the 2.3% rate peg) is proposed in 2014/15 then annual rate pegging increases of 3% per annum thereafter.**

**Attachment C shows the budget summary for Scenario 2.**

**Assumptions**

Same as Scenario 1 plus:

**Operating Revenue**

• The current expiring Special Rate Variation of 6.5% is retained plus an additional 3.7% variation plus the 2.3% rate peg take effect from 2014/15. This allows additional revenue to be spent on roads to meet expected levels of service desired by the community as evidenced in Community Surveys and for Council to become more financially sustainable in the long term.

**Capital Expenditure**

• Expenditure equivalent to the Special Rate Variation increase has been included in all years and is to be spent on road infrastructure.

**Commentary on Trends**

In comparison to Scenario 1 the trend of the Income Statement shows increasing surpluses, before capital revenue, and surpluses after capital expenditure. The positive cash flow balance trend remains over the ten years, unlike Scenario 1 which has a surplus budget from year one (1) after reducing road maintenance expenditure.

### Summary

Scenario 2 displays a different trend to Scenario 1 in that the operational revenue is sufficient to meet the total expenditure after capital movements. This Scenario will provide for sufficient funds to increase the existing level of Working Funds and reserves. However, Scenario 2 provides for additional funds for much needed road infrastructure works with this additional funding being sourced from a Special Rate Variation of 12.5%.

This scenario provides Council with some additional funds to address its infrastructure backlog while providing a more robust level of working funds, which in effect increases the organisations financial capacity, and sustainability in the medium to long-term.

Council has had a 6.5% special rate variation in place for the past five years which has been utilised on improving Council's road network infrastructure. Council intends to apply for the retention and expansion of this Special Rate Variation to 12.5% including rate pegging. The purpose of the Special Rate Variation is to provide Council with the necessary funds to continue with its road network program improvements and at the same time become more financially sustainable.

## 11. Scenario 3

**2.3% Rate Pegging Increase in Year 1 then 3% thereafter. A permanent Special Rate Variation of 12.5% is being sought in 2014/15, then a further permanent Special Rate Variation of 13% (3% rate peg plus 10%) from 2016/17 and a final permanent Special Rate Variation of 13% (3% rate peg plus 10%) from 2018/19 onwards.**

**Attachment D shows the budget summary for Scenario 3.**

### Assumptions

Same as Scenario 1 plus:

- Increased expenditure to a point where assets are maintained to a satisfactory level over time with a reduction in the infrastructure backlog.
- Rate levy increases have been included to cover this additional expenditure.
- Part of the additional rate revenue will be used to fund depreciation expense.

### Commentary on Trends

In comparison to Scenario 1 the trend of the Income Statement shows increasing surpluses before capital revenue, with a similar working funds surplus as Scenario 1 and 2 (from year one) after capital expenditure. The cash flow balance and reserve trend remains similar to Scenario 2.

### Summary

This scenario has been based upon the premise of bringing all Council assets up to a satisfactory condition, funding depreciation expenses and ensuring Council's long term financial sustainability. This is only possible by cumulatively increasing rates levied over a period of 5 years by a permanent 52.4%, placing a significant burden on ratepayers and adversely affecting their "capacity to pay".

## 12. Conclusions and Recommendations

The recommendation of this plan is Scenario 2 which provides for a continuation of the existing 6.5% special rate variation plus an increase of 6% and the Council will be applying to IPART in accordance with this scenario. Scenario 2 provides better long term cash retention, increases funds available for road infrastructure works and in the medium to long-term assists in meeting Council's financial objectives of a surplus budget and ensuring financial sustainability.

The additional income raised from the proposed special rate increase will be committed to priority areas of Council's road network and will enable a continuation of needed infrastructure improvements.

The Budget Summary for Scenario 2 shows consistent increases in the operating result before capital transactions, with a cash surplus forecast in each of the ten (10) years. The cash flow trend suggests that reserves will be maintained and working funds increased to provide improved financial capacity and long-term sustainability for the organisation.

There is currently a review of the distribution of financial assistance grants with the aim of transferring grants away from metropolitan councils that have greater own revenue raising ability to rural/remote councils. Should this not occur in the next two years then Council will need to closely examine adopting Scenario 3 to ensure Council's financial sustainability in the long term.

Scenario 1 is not recommended as it does not provide the additional funding provided for in Scenario 2 and 3 for much needed road infrastructure works.

# Attachment A: Council's Financial Policies

In developing the Liverpool Plains Shire Council "Long Term Financial Plan 2014/15-2023/24" the following financial policies of the Council have been taken into account. The policies may be viewed on Council's website www.lpsc.nsw.gov.au

## Investment Policy

Council must comply with the Ministerial Investment Order (revised on a periodic basis) which notifies forms of investment for the purposes of section 625 (2) of the Local Government Act 1993. Council has an investment policy which meets the requirements of the Order and the Act and can be summarised to:

• Undertake authorised investment of surplus funds not required to meet commitments after consideration of credit risk and diversification limits as set out in the policy;

• Maximise earnings from authorised investments and ensure the security of Council funds;

• Ensure the availability of sufficient funds to meet Council's ongoing commitments for salary, wages, loan repayments, contract payments and general payments and limit usage of the overdraft facility; and

• Meet obligations under Council's Charter as the custodian and trustee of public assets and to effectively account for and manage those assets for which it is responsible.

## Revenue (user charges)

Council has a broad Fees & Charges Policy, which is adopted through the annual operational plan process. Council's fees and charges range from regulatory prescribed fees, minimum contribution to full cost and overhead recovery.

## Loan Borrowings

This policy is to establish guidelines for loan borrowings. Council uses loan funds when it considers that it is in the best interests of the community to carry out capital works or purchase assets and the funding of these purchases are not able to be sourced from existing budgets.

# Attachment B: Scenario 1 Budget Summary

# Attachment C: Scenario 2 Budget Summary

# Attachment D: Scenario 3 Budget Summary

# Attachment E: Council Reserves

## Externally Restricted Assets

### Domestic Waste Management

Funds received from the Domestic Waste Management charge but not expended in the current financial year must be transferred to the Reserve to be expended in future years for this purpose. It also provides a mechanism to accumulate funding for special projects and to be able to spread the associated costs over a number of years.

### Water Fund

Funds received but not expended on water operations in the current financial year must be transferred to the Reserve to be expended in future years for this purpose.

### Sewer Fund

Funds received but not expended on sewer operations in the current financial year must be transferred to the Reserve to be expended in future years for this purpose.

### Section 94 and 94A Contributions

The Section 94 and 94A Plans adopted by Council levy contributions for the various projects within these Plans. Funds received but not yet expended must be placed in this Reserve to be expended in future years.

### Unexpended Grants

Grant funds from State and Federal Governments and other bodies received for roads and other specific purposes but not expended in the current financial year must be carried forward to the next period.

### Unexpended Loan Funds

Funds borrowed but not expended in the current financial year must be carried forward to the next financial year and be recorded separately as unexpended loan funds.

## Internally Restricted Assets

### Employee Leave Entitlements

To meet Council's liabilities in respect of future employee leave entitlements for staff. Funds are adjusted at quarterly reviews where extraordinary leave entitlements are taken in any one year.

### Office Equipment and Information Technology Reserve

Funds allocated for the purchase of office equipment including information technology hardware and software, but not completed within the current financial year and carried forward to the next period. Also includes additional transfers to this Reserve for future office equipment and IT requirements.

### Plant Reserve

To fund the replacement of Council's heavy plant, equipment and vehicles.

### Tip Rehabilitation

To fund the rehabilitation of Council's landfill sites.

### Land and Property Acquisition/Development

50% of the net proceeds from land and property dealings are transferred to this Reserve for future land and property acquisition or development so that Council is ready for any opportunities which may arise.

### Special Projects - Works

Any unspent funds for minor and major projects in the Works Directorate are transferred to this Reserve to fund future expenditure on projects.

### Special Projects – Community & Economic Development

Any unspent funds for minor and major projects in the Community and Economic Development Directorate are transferred to this Reserve to fund future expenditure on projects.

### Special Projects – Corporate Services

Any unspent funds for minor and major projects in the Corporate Services Directorate are transferred to this Reserve to fund future expenditure on projects.

### Special Projects – Environmental Services

Any unspent funds for minor and major projects in the Environmental Services Directorate are transferred to this Reserve to fund future expenditure on projects.

### Tr@ceR EDMS & Weeds Reserve

Funds received for the purchase of these Council developed IT Programs are transferred to this Reserve for future reallocation by Council to specific projects.

## Attachment F: Detailed Ten Year Budget