DENILIQUIN COUNCIL

Long-Term Financial Plan

2013-2023

Adopted by Council
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INTRODUCTION TO THE LONG TERM FINANCIAL PLAN

We are pleased to present the Deniliquin Council's Long Term Financial Plan. This is the first Long Term Financial Plan prepared by Deniliquin Council in accordance with the NSW State Government's Integrated Planning & Reporting requirements.

The Local Government Act requires council to have a Long Term Financial Plan to enable the community aspirations and goals that have been identified in the Community Strategic Plan to be tested against financial realities.

"The Long Term Financial Plan is the point where long-term community aspirations and goals are tested against financial realities."

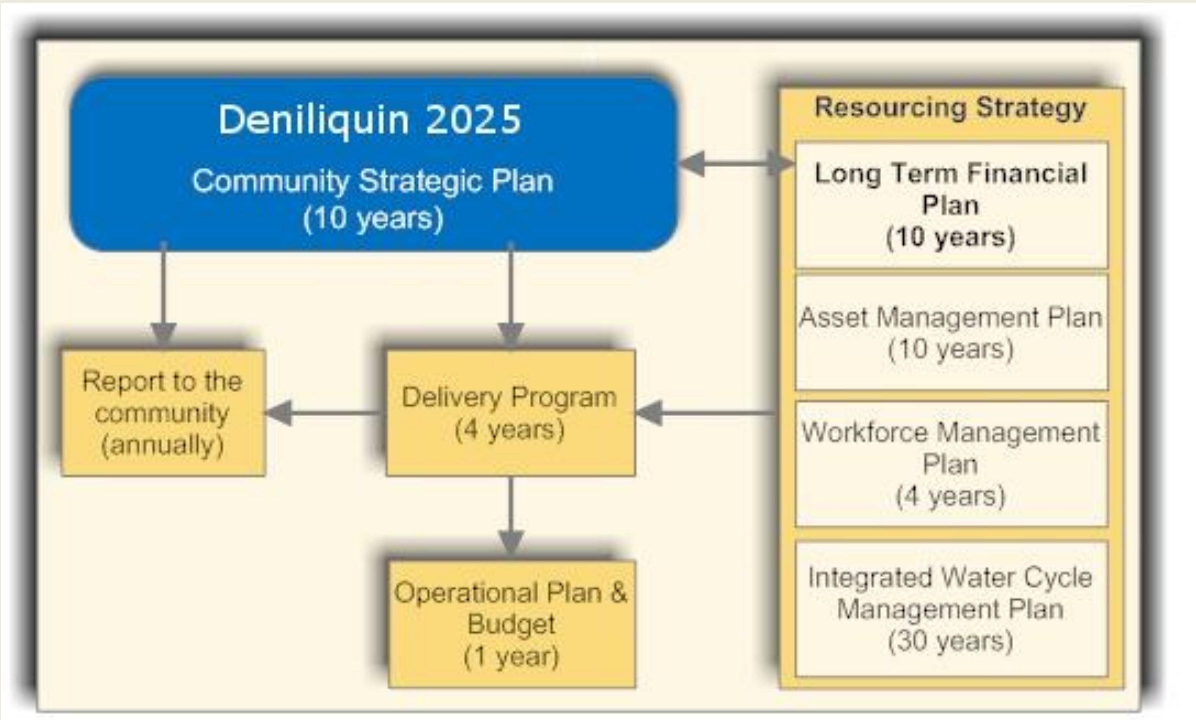
DLG Manual, 2013

The transition to the new Integrated Planning and Reporting Framework mandates each newly elected council to review the Long Term Financial Plan within nine months of its election. The nine month overlap period enables the new council to undertake the required community engagement and to prepare the new Delivery Program for its term of office.

The Long Term Financial Plan has been reviewed and updated as required under the Integrated Planning and Reporting Framework that requires the newly elected Council to undertake a review of the plan before May 2013.

The Long Term Financial Plan is designed to be both a decision making and problem solving tool, acting as a guide for future action, rather than being set in concrete.

The following diagram illustrates the relationship between this plan and other plans under the Integrated Planning & Reporting framework



OVERVIEW

OUR COUNCIL

Deniliquin is the third largest centre in the Riverina and is situated along the Edward River, 200kms west from Wagga Wagga and covers an area of 143.2km^2

With both dry-land and irrigated regions within its farming land, Deniliquin is one of the most successful highly productive irrigation areas in New South Wales. With rice proving to be one of the more lucrative irrigation crops grown locally, the largest rice mill in the southern hemisphere operates at Deniliquin (the fourth largest rice mill in the world).

Historically, Deniliquin hosted a large sawmill processing industry for the processing of redgum that was felled in the Edward and Murray River floodplains. This industry was altered in 2010 through the designation of approximately 100,000 hectares of River Red Gum reserves in the Murray and Riverina areas as National Parks. This range of reserves now forms the largest conservation area of river red gums in the world and will provide a new opportunity for Deniliquin through its appeal to tourists.

The population is approximately 7,360 with the largest age group being between 25-54 years of age. There are 1,115 registered Businesses within Deniliquin with the three top occupations being Technicians/Trade Workers, Professionals and Labourers.

Today Deniliquin is perhaps better known for its annual World Record Ute Muster than its sheep farming, yet the town continues to support and service the agricultural industries.

OUR VISION, MOTTO AND VALUES

OUR VISION

Our Community will be vibrant, diverse and friendly, a leader in the region.

OUR MISSION

Working together for a better quality of life

OUR VALUES

- Selflessness
- Respect
- Integrity
- Honesty
- Openness
- Continuous Improvement
- Accountability
- Responsibility
- Team Work

This Long Term Financial Plan is part of the Deniliquin Council Resourcing Strategy, and has been developed in accordance with the State Government's Integrated Planning and Reporting Framework governed by the Division of Local Government (DLG), Department of Premier and Cabinet.

As a part of the Resourcing Strategy, the Long Term Financial Plan should be read in conjunction with the Asset Management Strategy, the Workforce Management Plan, and the Integrated Water Cycle Management Plan.

These individual documents should be viewed as constituent elements of an overall strategy and will be under continuous review and adjustment as annual budgets and operating plans are developed and refined.

BACKGROUND

Over recent years, financial sustainability in local government has been a major cause for ongoing concern as requests from communities for expanded services have increased beyond those traditionally provided by local government.

This demand for expanded services has not always been matched by revenue streams and improved operational efficiencies, as resources have been diverted from traditional areas of local government expenditure.

Rate pegging constraints, uncertainty over grant income, and increased maintenance due to an ageing infrastructure network all contribute to limit the ability of a council to plan for its future with high levels of certainty.

Deniliquin Council recognises that strong financial management is critical to the continued success, sustainability and growth of the Council and the community it serves. Accordingly, Council places significant emphasis on sound financial policies and long term financial planning as a key driver of sustainability.

This Long Term Financial Plan is a summary of the detailed long term financial plans prepared for the wide range of services and assets that Council is responsible for on behalf of its community. Both this plan and the asset management plans are dynamic living documents and will be reviewed in line with updates that reflect our increasing maturity. At times we have made "best assumptions" based on currently accessible information and this is stated in the plan where this has been applied.

Council provides a broad range of services and infrastructure in ensuring the well-being, sustainability and growth of its community. Council has on a continuing basis sought to deliver the financial resources necessary to provide for the efficient and effective delivery of quality services and infrastructure to its community, within its community's capacity to pay. Accordingly, Council seeks to maximise the quantum of financial resources available to it through sound financial management practices. Council has adopted industry best practice in the development and implementation of its financial management policies, systems and procedures for the benefit of its community.

Local Government responsibilities and community expectations regarding the range of services provided by Councils have increased over many years. Reasons for the increase of these services and responsibilities include:

- The reduction of federal/state funding leaving local government to fund a greater proportion of services
- Increased community expectations where Councils are expected to expand their service provision
- Continued changing of legislation putting greater emphasis on local government to fill the gap in service provision.

Due to limited increases in the revenue base of local government, councils have needed to be proactive in the minimisation of costs and the maximisation of efficiencies in order to maintain an increasingly diverse service delivery.

For Deniliquin Council financial sustainability is seen as being able to manage likely developments and unexpected financial shocks in future periods. These outcomes need to be achieved without having to introduce substantial and economically significant or socially destabilising income or expenditure adjustments at some stage.

The sustainability of Council’s long term financial performance and position translates to a degree of stability and predictability in the overall rate burden and allows for equitable distribution of Council’s resources between current and future ratepayers. Financial sustainability is also essential to the community in terms of the continuation of essential services and the efficient operation of infrastructure.

AIMS AND OBJECTIVES

The aim of the Long Term Financial Plan is to place a structure for financial decision making at a high level by providing guiding principles for the short, medium and long term. The process is built on five foundations:

- Planning assumptions
- Revenue and Expenditure Forecasts
- Sensitivity Analysis
- Financial Modelling
- Monitoring Financial Performance

The objectives of Deniliquin Council’s Long Term Financial Plan are to:

- Provide a transparent account of Council’s financial position to the community
- Analyse the cumulative financial effects of Council’s high level plans and policies
- Identify the financial opportunities and challenges confronting Council
- Provide a basis for sound and strategic decision making
- Achieve a balanced budget over the long term
- Meet the requirements of the Division of Local Government (DLG) Integrated Planning and Reporting (IP&R) framework

CURRENT FINANCIAL SITUATION

OPERATING RESULTS

The following table details Councils operating results for each of the last five years.

DENILIQUIN COUNCIL INCOME STATEMENT (Consolidated)					
Year Ending June 30th	**2008**	**2009**	**2010**	**2011**	**2012**
	$'000	$'000	$'000	$'000	$'000
Operating Revenue					
Rates & Annual Charges	$6,994	$7,209	$7,492	$7,572	$8,019
User Charges & Fees	$1,759	$1,504	$1,372	$1,715	$1,613
Interest	$837	$490	$1,260	$1,166	$658
Grants & Contributions (Op)	$2,568	$3,226	$4,491	$3,841	$5,466
Other Operating Revenue	$504	$423	$760	$427	$330
Net gain/loss Disposal of Assets	$108	$0	$74		$88
Profit from interests in Joint Ventures & Associates	$68	$15	$29		$
Total Revenue	**$12,838**	**$12,867**	**$15,478**	**$14,721**	**$16,174**
Operating Expenses					
Employee Costs	$6,455	$5,839	$6,278	$6,346	$5,504
Materials & Contracts	$1,644	$1,118	$2,004	$2,602	$3,009
Interest Charges	$147	$179	$229	$244	$250
Depreciation & Amortisation	$3,294	$3,562	$3,454	$4,052	$4,289
Other Operating Expenses	$1,668	$1,836	$3,682	$2,750	$2,726
Loss on Disposal		$401		$204	
Joint Ventures				$27	
Investment Losses	$1,432	$788			$2
Total Expenses	**$14,640**	**$13,723**	**$15,647**	**$16,225**	**$15,780**
Capital Grants & Contributions	$1,433	$1,106	$833	$966	$1,083
OPERATING RESULT	**($369)**	**250**	**$664**	**($538)**	**$1,477**

BALANCE SHEET RESULTS

The following table details the consolidated Balance sheet results for the past 5 years.

DENILIQUIN COUNCIL BALANCE SHEET (Consolidated)					
Year Ending June 30th	**2008**	**2009**	**2010**	**2011**	**2012**
	$'000	$'000	$'000	$'000	$'000
Current Assets					
Cash on Hand and at Bank	$4,575	$7,685	$6,794	$6,416	$7,555
Investments	$500	$600	$414	$481	$1,005
Receivables	$1,505	$1,488	$1,350	$1,871	$1,783
Inventories	$194	$188	$98	$74	
Real Estate Assets held for resale		$0	$0	$0	
Other	$372	$360	$278	$323	$488
Current Assets	**$7,146**	**$10,321**	**$8,934**	**$9,164**	**$10,831**
Non-Current Assets					
Investments	$3,917	$2,029	$1,933	$1,565	$716
Receivables	$52	$95	$12	$13	
Property, Plant & Equipment	$79,118	$79,837	$122,830	$124,307	$128,937
Investments accounted for using the equity method	$221	$236	$258	$231	$229
Non-Current Assets	**$83,308**	**$82,197**	**$125,033**	**$126,116**	**$129,882**
Total Assets	**$90,454**	**$92,518**	**$133,967**	**$135,280**	**$140,713**
Current Liabilities					
Creditors	$917	$975	$868	$1,472	$1,906
Provisions	$2,153	$1,931	$1,891	$2,082	$1,551
Borrowings	$548	$718	$786	$240	$442
Current Liabilities	**$3,618**	**$3,624**	**$3,545**	**$3,794**	**$3,899**
Non-Current Liabilities					
Provisions	$0	$0	$0	$0	$3
Borrowings	$2,130	$3,059	$2,274	$2,575	$2,137
Other	$0	$0	$0	$0	$102
Non-Current Liabilities	**$2,130**	**$3,059**	**$2,274**	**$2,575**	**$2,242**
Total Liabilities	**$5,748**	**$6,683**	**$5,819**	**$6,369**	**$6,141**
NET ASSETS	**$84,706**	**$85,835**	**$128,148**	**$128,911**	**$134,572**
Restrictions					
External restrictions	$8,198	$8,487	$6,670	$6,113	$6,654
Internal restrictions	$794	$1,253	$1,994	$1,841	$2,531
Unrestricted cash	**$0**	**$574**	**$377**	**$508**	**$91**
Capital expenditure	$4,745	$3,402	$4,798	$4,228	$4,945
Total Cash	**$8,992**	**$10,314**	**$9,041**	**$8,462**	**$9,276**

CURRENT FINANCIAL YEAR – REVENUE PROJECTIONS

The following charts depict Councils Revenue and Expenditure budgets for the 2012-13 financial year.

CURRENT FINANCIAL YEAR – EXPENDITURE PROJECTIONS

PLANNING FOUNDATIONS

PLANNING ASSUMPTIONS

Council has considered the following strategies in the preparation of the LTFP;

- Continuous improvement in financial position
- Maintaining a fair and equitable rating structure
- Maintaining where possible service level standards
- Maintaining a sustainable reliance on debt
- Progressively increasing funding for asset maintenance and renewal
- Full cost recovery for the provision of services

These strategies should enhance the long term financial sustainability of Council and help it achieve the strategic objectives documented in the Community Strategic Plan.

The prime influence in the development of the LTFP is the ever increasing expectation of our community. The quality and quantity of services that Council provides to its citizens continues to grow despite an income that, in real terms, is decreasing. We are not alone in facing this predicament, but that does not lessen the size of the issue.

Despite these constraints, Council is determined to provide quality services at a level the community expects and at a price they are willing to pay. This will involve working closely with our community to provide services that best suit their needs.

In preparing this Long Term Financial Plan consideration was given to a range of economic and political factors that affect our finances and in turn our capability to maintain existing levels of service and long term financial sustainability.

The following assumptions have been used in the development of the Long Term Financial Plan:

Consumer Price Index and Inflation

The rate of inflation has a significant impact on Council's finances annually from both a revenue and expenditure perspective. The inflation rate for the past five years has averaged 2.92% and Council has budgeted for a 2.5% annual increase across the life of the LTFP.

Rate Revenue

Rate capping will continue to limit our ability to raise necessary income to maintain levels of service to the community. Council will continue to raise rates by the full allowable percentage increase because of its limited ability to raise alternative income. Rates income represents approximately 47% of all income received by Council. Rate pegging increases for the past five years have averaged 3.18%. The rate increase for the 2013/14 financial year has been set at 3.4%. Council expects rate increases to be in the vicinity of 3.0% per annum after that.

Employee Benefits & On-costs

Employee benefits and associated on-costs are approximately 36% of Council's operating costs with approximately 73 Full Time Equivalent Staff (FTE). The LTFP has factored in an estimated overall average annual increase of 3.5% to the employee costs budget. This forecast is primarily attributable to known and predicted award increases and continued increased superannuation contributions, the impact on Workers Compensation, Employee Leave Entitlements and staff progressing through the salary system.

Grants

Council receives a number of operating grants on an annual basis and they have been increased by inflation rates throughout the model

Investment Revenues

Council invests its surplus funds in term deposits. The average interest rate for the past five years has been 5.00% and Council expects this to decrease to approximately 4.75% for at least the next four years.

Interest on Borrowings

The average interest rate of Council's current loans is 5.17%. Council renegotiated all existing loans that averaged over 8% at 5.17% for a period of 10 years. All new borrowings were fixed at 5.17% for 10 years in the 2012-13 financial year.

Service Levels

Council's future financial position has been forecast on the basis of a continuance of "normal" service levels. This is difficult to define but can be regarded as the provision of services to stakeholders at levels of service that they have come to expect on a regular basis. Levels of service however may not remain the same given Council's financial challenges in future years of the plan.

Council's existing infrastructure assets are generally in good condition, and Council is in a position whereby it can maintain the current levels of service in the medium term (5-10 years). However the longer term outlook is for decline of both condition and service potential.

Climate Change

Although climate change and its existence and causes are still being debated, many international agencies and businesses, such as insurance companies, are factoring climate change into their planning. Climate change impacts could affect the engineering standards applied to Council infrastructure and therefore associated costs to Council. It has been assumed that environmental conditions will not significantly change over the next 10 years.

Growth & rate revenue

The anticipated growth of Deniliquin Council over the life of the LTFP is a significant assumption for the model and impacts in the potential rating income available to Council and any corresponding increase in the cost of providing expanded services to the community.

The LTFP assumes minimal population change within Deniliquin Council Local Government Area over the period of the plan. The Council is actively working to facilitate increased economic growth through its economic development strategies and economic development assumptions underpinning future revisions to the LTFP and will be reflected appropriately.

Growth over the last five years has averaged -0.4%. This can be attributed to drought conditions and the previous closure of the Rice Mill. However, the Rice Mill has reopened and it is anticipated that some growth may occur in the next 10 years.

The number of new Dwellings approved each year averages to approximately 5 with this situation not expected to change over the life of the LTFP.

This anticipated growth to provide the following average additional income:

- General Rates - $40,000 per annum.
- Domestic Waste Management - $14,500
- Water Access Charges - $18,400
- Sewer Access Charges - $37,500

Summary of planning assumptions used in the Long Term Financial Plan

		CPI & Inflation	Rates	Employee Costs	Grants	Interest on investments	Interest on borrowings	Growth
Best Case	**2013/14**	2.5.%	3.60%	3.50%	3.00%	5.00%	5.17%	0%
	Future	2.50%	3.00%	3.50%	3.00%	5.00%	5.17%	0.5%
Preferred Case	**2012/13**	3.00%	3.60%	3.50%	3.00%	5.00%	5.17%	0.5%
	Future	3.00%	3.00%	3.50%	3.00%	5.00%	5.17%	0.5%
Worst Case	**2012/13**	3.00%	3.60%	4.50%	3.00%	4.00%	5.17%	-0.4%
	Future	3.00%	3.00%	4.50%	3.00%	4.00%	5.17%	-0.4%

REVENUE FORECASTS

The major sources of revenue for Council are:

- Rates and Annual Charges
- User Charges and Fees
- Interest
- Grants and Contributions
- Other Revenue

Rating and Annual Charges

The total income that can be raised from levying rates on property is capped by the State Government via the Independent Pricing and Regulatory Tribunal. The current rate structure for Deniliquin Council will be maintained; rate assessments will be based entirely upon property valuations (ad valorem) but with base rates applying where appropriate. The continuing constraint of rate pegging imposed by the State Government limits Council's ability to provide additional services or borrow additional funds and has focused considerable attention to the need for and efficiency of each service provided.

For rating purposes land in Deniliquin is categorised as residential, farmland or business. Each of these categories has a number of sub-categories. The current rates structure is as follows:

Farmland	Business	Residential
• Dry Land • Irrigable	• Business • Mixed Development	• Residential • Residential Rural • Residential – Mixed Development

Domestic Waste Management Charges

Domestic waste management charges are provided on a full cost recovery basis and are determined each year pursuant to Section 496 of the Local Government Act, 1993. The charge is based on a 240 litre capacity mobile garbage bin. Additional charges are made in the event that householders require additional capacity for general waste.

Water and Sewer

The pricing of water and sewerage services is guided by the State Government Best Practice Pricing Guidelines. Council has adopted a two part tariff for water supply to residential properties, consisting of an access charge and a usage charge. Access charges are related to the size of the water meter for non-residential properties. The guidelines require that at least 50% of revenue for residential customers should be generated through the usage component. Council will be working towards best practice on a transitional basis over a number of years. Sewerage tariffs adopted by Council consist of a uniform sewerage charge for all relevant properties. Non-residential properties are charged on a one part tariff and appropriate fees and charges for liquid waste discharges.

Pensioners who hold a Pensioner Concession card and own and occupy rateable property in Deniliquin receive a mandatory rebate on their rates and annual charges. The State Government funds 55% of the rebate.

Interest charges on unpaid rates and charges will accrue on a daily basis at the rate advised in accordance with Section 566 of the Local Government Act, 1993.

User Charges & Fees

Many of the services provided by Council are offered on a user pays basis. Fees and charges relate mainly to the recovery of service delivery costs through the charging of fees to users. All fees in this category are annually reviewed and some of the general considerations for setting these fees include:

- Cost of the service or operation
- Consumer Price Index
- Other revenue sources which may fund the service
- Laws and Regulations
- Ability of the persons/groups using the service to pay
- Benefit to the community (possible subsidy)
- Benchmarking with others providing similar services.

Council needs to be mindful of trying to use fees and charges as an avenue to increase revenue over the life of the LTFP as it can create issues between the focus on fees and charges for driving additional revenue and maintaining equitable access to services and facilities for residents. The Council's relatively low population base does not provide a large market from which significant fees and charges can be obtained.

Statutory fees such as development assessment fees, planning certificates etc charged by Council are subject to direction through regulation and other State Government controls. Council does not set these fees and does not have the power to vary the fee set. The majority of statutory charges do not provide for annual increase in line with CPI or the cost of providing the service and therefore excluding development related income, no growth in these fees has been included in the LTFP.

Interest on Investments

Council has an investment portfolio that varies in size from year to year however it is projected to average between $5m and $12m over the life of the LTFP. These funds are a mixture of unspent grants, reserve funds and general revenue. All investments are placed in accordance with the Minister's Order and Councils adopted investment policy. Interest earnings form part of Council's revenue each year and are subject to fluctuations in interest rates as they respond to economic conditions.

Grants & Contributions

Council receives an annual Financial Assistance Grant from the Commonwealth as well as various grants from other State and Commonwealth Government departments. Council has assumed that it will continue to receive these grants, however, should these grants and subsidies be reduced Council's ability to provide the same level of service will be impacted.

Council will continue to seek grant and partnership funding for a range of well-aligned projects and programs, which will be reflected in budgets and the LTFP as and when specific arrangements are confirmed. While we expect to continue to have reasonable success in this area, we have adopted the prudent position of making no assumption that this source of funds can be relied upon for the purpose of forward forecasting of resources and financial sustainability. Successful increases in revenue through grants and partnerships will be treated as windfalls.

Council does not collect monetary contributions from developers as a condition of consent on Development Applications other than contributions to Headworks for Water and Sewer. Authority to do this is provided by Section 94 of the Environmental Planning and Assessment Act, 1979. This form of revenue is difficult to predict and Council has adopted the prudent position of making no assumption that this source of funds can be relied upon for the purpose of forward forecasting of resources and financial sustainability. Successful increases in revenue through developer contributions will be treated as windfalls.

Other Revenue

Miscellaneous revenue is obtained from a variety of sources including insurance recoveries, property rentals, etc. It is anticipated that other revenue will be maintained at current levels with an increase for CPI factored in.

Council may carry out work on private land, either on request or arrangement with the land owner or under relevant legislation. The amount or rate to be charged will be the appropriate commercial rate, being the actual cost of the works and standard on-costs to provide full cost recovery plus a return to Council.

EXPENDITURE FORECASTS

The major sources of expenditure for Council are:

- Employee Expenses
- Borrowing Costs
- Materials & Contracts
- Depreciation
- Other Expenditure

Employee Expenses

Employee expenses comprise approximately 36% of Council's operating costs with approximately 73 Full Time Equivalent Staff (FTE). The salaries and wages budget calculation includes an assumption that staff will take four weeks annual leave. Throughout any year salary savings resulting from staff vacancies and efficiencies will occur naturally.

The superannuation Guarantee Levy will be increased to 9.25% in 2013-14 and will progressively increase to 12% by 2019-20. Council has a number of staff in the defined benefit scheme and have been paying significantly increased contribution rates to fund this scheme.

Council Employee Leave Entitlements reserve is used to fund unanticipated changes in termination payments each year. The number of staff who might leave is difficult to predict and the LTFP modelling has a provision added to represent the projected levels of retirements, to accommodate the challenges of an ageing workforce.

Council's policy is to partly fund the leave entitlements of staff in the Employee Leave Entitlements Reserve. In recent years the reserve has been used to assist in the funding of costs associated with the resignation/retirement of a number of long serving employees. Council has not been fortunate in recent years and unable to fully fund this reserve but will endeavour to fully fund this Reserve in the near future.

Workers Compensation premiums increase and decrease significantly with claims history. Council continues to be proactive in order to minimise any potential for claims.

Borrowing Costs

Deniliquin Council is currently holding debt of $5.5m with further intended borrowings of $11m for Sewer Infrastructure between 2012 and 2021. Principal and interest repayments have been built into the LTFP. The use of loan funding is a critical component of the funding mix to deliver much needed infrastructure to the community. The beneficiaries of these projects will assist in their funding as their rates will be applied in part to repaying the loans.

Debt is seen as a method of more fairly spreading capital costs to deliver intergenerational equity. Keeping this in mind there are limits to the amount the Council can borrow without impacting on its financial sustainability and Council is mindful of not wanting to impose excessive debt on current or future generations.

Council's borrowing strategy projected in the LTFP is to restrict the debt service ratio to less than the industry benchmark of 10% before embarking on any new debt.

Council will consider the following:

- Debt financing is only to be used for clearly identifiable major projects and the Capital Works Program
- Debt finance will not be used to meet operational shortfalls
- The period of repayment of debt finance shall not exceed the period over which the benefits are received from a project, or the life of the asset whichever is lesser
- The principles of intergenerational equity are supported in respect of the Council contribution to the funding of major projects, the benefits of which will be shared by future generations
- Loans shall only be raised after taking into consideration future known specific capital funding requirements and, when raised, shall only fund the specific project or purpose approved.

Materials and Contracts

Materials and contracts represents the principal costs used to deliver services to the community and are forecast to increase in line with the Consumer Price Index. Materials and contracts are subject to variations in the market, and particularly to petroleum prices. Such fluctuations impacts on the price of petroleum and petroleum-based products (such as asphalt) and makes forecasting difficult. Furthermore there is a general expectation that energy will be more expensive with the introduction of the new carbon tax.

The following capital expenditure and major projects have been identified for inclusion over the life of the LTFP:

Road Upgrades/Renewals	$ 4 ,300,000
Fibre Optic – Depot to PHC	$ 60,000
Landfill Resource Recovery Centre	$ 800,000
Roads to Recovery works	$ 1,200,000
Local Government System	$ 800,000
West Deniliquin Stormwater	$ 500,000
Aerodrome Works	$ 3 5 0 ,000
Plant Replacement	$ 2 ,335,000
Storm Water Drainage Improvements	$ 660,000
Public Conveniences upgrade	$ 50,000
Waring Gdns Lighting Upgrade	$ 30,000
Public Wharf areas & Boat Ramps	$ 6 0,000
Radio System Upgrade	$ 80,000
Works Depot Shed Refurbishment	$ 20,000
Saleyards Upgrade	$ 5 0,000
Library Books etc.	$ 401,200
Swimming Centre Works	$ 117,700
PAMPS /Footpaths	$ 540,000
Four Post Quarry Expansion	$ 25,000
Beach to Beach Completion	$ 6 0,000
Kerb & Gutter Replacements	$ 600,000
Town Entrance Sign	$ 75,000
Augustus St road edge and widening	$ 60,000
Chippenham Pk acquisition	$ 10,000
Napier Street Heavy Patching	$ 6 0,000
Cemetery Works	$ 115,000
Memorial Park Upgrade	$ 92,500
Sports Stadium Refurbishment	$ 5 0,000
Equipment & IT Support	$ 928,000
Asset Capture System	$ 35,000
Traffic Island – Charlotte Street	$ 60,000
Traffic Island – Napier Street	$ 20,000
Local Roads – Wyatt Street	$ 35,000
Truckwash Refurbishment	$ 30,000
Water Infrastructure Renewals	$ 7,185,000
Sewer Infrastructure Renewals	$ 15,235,000
Town Hall Refurbishment	$ 4,750,000
Total	**$41,779,400**

Depreciation

Depreciation reflects the fact that an asset's cost is proportionally expensed over the time during which it used. Depreciation has been based on the estimated useful life of assets and will be reviewed every year. In the LTFP, depreciation in future years is increased by an average of 2.5-3% with additions to account for the depreciation expected for planned renewal of major assets.

Other Expenses

Other expenses include items such as audit fees, valuation fees, office expenses, software licences, insurances, electricity costs etc. These costs count for approximately 14% of Councils operating expenditure and have been forecast to increase by CPI each year except for insurances, electricity costs and State Government Emergency Services levy.

Capital Expenditure Program

The LTFP's projections for capital expenditure assumes a continuation of Council's 2013-14 capital program with minor changes made to reflect the aspirations of the community as identified in the Community Strategic Plan.

It is likely that the total actual capital expenditure will be higher than that stated and the LTFP will be updated as project estimates become available.

The majority of the additional expenditure will have associated funding sources such as reserve transfers or special grants or will have a particular funding strategy to enable their admission into the budget.

The impact of all ongoing operational and maintenance costs for these projects has been included in the LTFP. As new projects are identified and included the allocation for these increased costs will be adjusted accordingly.

Asset Management

Deniliquin Council is responsible for a large and diverse asset base. These assets include roads, footpaths, drains, halls, parks, sporting facilities, water, and sewerage infrastructure. The infrastructure assets owned or controlled by Council are required for service delivery, not for profit making. The key objective therefore in assessing infrastructure assets is that a specific level of service can be provided now and into the future.

Service provision and, in particular, service levels ultimately determine the infrastructure asset requirements of a council. In turn all assets that are utilised for service provision require proper maintenance and replacement, over a period of time, to guarantee that the specific service levels are actually achieved.

In order to manage this asset base, strategies and plans have been developed which are designed to address issues regarding asset life cycles and risk. The Asset Management Plans that have been developed include information on existing asset condition, deemed acceptable base condition and any associated funding shortfalls together with revised financial models providing affordability data.

The data from these plans has been used to populate the LTFP and as a guide to assist Council in its decision making processes and is based on best available financial data and assumptions regarding projected movements in future years. It is expected that, as these plans evolve, projected indicators may look decidedly different as further knowledge and expertise is developed.

The development of the asset management plans has confirmed that Council's infrastructure, while in good condition, is deteriorating, and that current levels of maintenance and renewals fall well short of that required to maintain the assets in a satisfactory condition.

This infrastructure challenge places further pressure on Council's ability to remain financially sustainable in the long term. If left unaddressed, Council's infrastructure assets will continue to deteriorate at an increasing rate. This will ultimately result in assets failing, the withdrawal of facilities and services, increased maintenance costs as well as increased exposure to risk.

FINANCIAL MODELLING

The LTFP modelling has been devised with scenarios that include and exclude a Special Rates variation to address asset renewal and maintenance challenges as identified in Council's Asset Management Plans.

The modelling has been used to create the scenarios as outlined below. Each scenario provides an alternative financial result subject to a number of key assumptions. The scenarios were developed by varying:

- Revenue
- Capital Expenditure
- Loan Funding
- Decrease in land values
- Operating Expenditure

BASE CASE SCENARIO

Base case scenario projections

This is based on Council's 2012-2013 budget and assumes that Council will continue to operate as planned.

Budget revenue assumptions remain the same.

Ordinary Rates will continue to increase annually in line with State Government rate capping policy

General User Fees and Charges will rise annually by forecasted CPI

Regulatory Fees and Charges will stay the same with any increase attributable to extra service provision

There are no new grants forecasted and income will rise by forecasted CPI.

Surplus cash levels increase slightly with investment income to remain at similar levels.

Budgeted expenditure assumptions remain the same. Constraints over existing services and community expectations/requirements.

Employee costs will increase by forecasted 3.50% per annum. There is no increase in staff numbers forecasted.

Materials and contracts will increase annually by forecasted CPI.

Operating expenditure will increase by forecasted levels

Deterioration in asset condition over the ten years of the plan with an asset renewal ratio of 45% by 2021-2022

No economic efficiencies applied

Rate capping and minimal growth assumed.

Council has adopted a conservative approach to asset management as it works on improving its capacity in this area. Council needs to identify those assets that are surplus to requirements in order to make savings in future operations and maintenance costs.

It is likely that Council will be able to sustain current asset service levels during this 10 year period, however, if the situation was to change it is likely that Council will have to plan to reduce service levels in some areas. This current strategy will require Council to prioritise its renewal program in order to maintain existing service levels.

Council has identified an improvement plan in order to improve its efficiency in operating, maintaining and replacing existing and constructing new assets.

PREFERRED SCENARIO

Preferred scenario projections

This scenario uses the 2012-13 budget as its base and has continued along the same theme as that budget but has also incorporated those objectives identified within the Community Strategic Plan.

Budgeted revenue assumptions applied

Ordinary Rates will continue to increase annually in line with State Government rate capping policy

Growth of 3% per annum for 2014/15 onwards. This growth is expected to generate an extra $3,000,000 in rates and annual charges revenue over the course of the plan.

General User Fees and Charges will rise annually by forecasted CPI

Regulatory Fees and Charges will stay the same with any increase attributable to extra service provision

There are no new grants forecasted and income will rise by forecasted CPI.

Surplus cash levels increase substantially as a result of extra revenue generated from growth projections. Investment income to remain at similar levels.

New borrowings used to help fund critical new infrastructure

Budgeted expenditure assumptions are applied. Productivity initiatives focussing on cost constraints and reductions implemented. Community expectations in respect of asset and operational services satisfied.

Employee costs will increase by forecasted 3.50% per annum. Council has increased staffing levels to better position itself to meet the future expectations of the community.

Materials and contracts will increase annually by forecasted CPI.

Operating expenditure will increase by forecasted levels

Asset condition levels remain stable over the ten years of the plan with an asset renewal ratio of 68% by 2021-2022

Council has adopted a conservative approach to asset management as it works on improving its capacity in this area. Council needs to identify those assets that are surplus to requirements in order to make savings in future operations and maintenance costs.

It is likely that Council will be able to sustain current asset service levels during this 10 year period, however, if the situation was to change it is likely that Council will have to plan to reduce service levels in some areas. This current strategy will require Council to prioritise its renewal program in order to maintain existing service levels.

Council has identified an improvement plan in order to improve its efficiency in the operational areas and the maintenance areas, and when replacing existing and constructing new assets.

WORST CASE SCENARIO

Worst case scenario projections

Extends from the preferred scenario but looks at the effect that the following events will have on sustainability of Deniliquin Council:

Council loses Roads to Recovery Funding from 2019

The uncertainty surrounding the possible loss of Water & Sewer operations as a consequence of the State Government Inquiry.

The adoption of the Murray Darling Basin Plan

Budgeted revenue assumptions applied

Ordinary Rates will continue to be increased annually in line with State Government rate capping policy

General User Fees and Charges will rise annually by forecasted CPI

Regulatory Fees and Charges will stay the same with any increase attributable to extra service provision

There are no new grants forecasted and income will rise by forecasted CPI.

Surplus cash levels decrease marginally as a result of lost revenue from a reduction of rating revenue. Investment income will remain at similar levels.

New borrowings used to help fund critical new infrastructure

Budgeted expenditure assumptions are applied.

Employee costs will increase above the forecasted 3.50% per annum.

Materials and contracts will increase annually by above forecasted CPI.

Operating expenditure will increase by above forecasted levels

Loss of Roads to Recovery Funding will result in deterioration in asset condition over the ten years of the plan with an asset renewal ration of 30% by 2022-23.

No economic efficiencies applied at this stage but would need to be investigated if this scenario were to ever eventuate.

The recent announcements regarding the outcome of the inquiry into Local Government will take effect during the four year delivery term with potential impacts to occur during the five to nine year horizon. In this scenario we expect this to occur at the start of the 2016/2017 financial year.

Council expects that the loss of Water and Sewer will result in the loss of at least 12 full time staff. This will also result in lost Rates revenue of $4.6m.

While the full effect of the Murray Darling Basin Plan does not come into effect until 2019 Council is estimating that it will start to see the plans effect from 2014/15.

It is expected that property values will start to decline due to the implementation of the plan. We expect to see the first indication of this in 2014/15 financial year after the next round Valuer-General revaluations. The impact of the implementation of the Plan will be reduction in agricultural outputs, loss of business and resultant loss of population. It is estimated that the cumulative effect of this over the last six years of the plan could be as much as $1,000,000 in lost revenue.

The loss of Roads to Recovery funding of $125,000 will result in Council unable to keep up with its asset renewal targets for its road network. As a result Council will be forced to consider the following options:

> Reallocate funds from other programs into the road renewal program, this will result in other projects being scrapped or a severe reduction in service levels as Council endeavours to find the extra funds from within its existing revenue base.

If Council is unable to find the extra funds from within its existing revenue base it may be required to apply for a permanent 20.00% special rates variation in the 2014/15 financial year to raise the extra revenue required to run Council operations.

Council accepts that it is not feasible to do either of the above options and takes the position of reducing service levels in its road network in order to fit its road renewal program into the new capital expenditure allocations.

For Deniliquin Council Financial sustainability is seen as being able to manage likely developments and unexpected financial shocks in future periods. These outcomes need to be achieved without having at some stage to introduce substantial and economically significant or socially destabilising income or expenditure adjustments.

SENSITIVITY ANALYSIS

Although the assumptions used are our current informed estimate based on a range of reliable sources, long term financial plans are inherently uncertain. They contain a wide range of assumptions, including assumptions about interest rates and the potential effect of inflation on revenue and expenditures which are largely outside our control.

Some of these assumptions will have a relatively limited impact if they are wrong. Others can have a major impact on future plans. Accordingly the development of the long term financial plan has included financial modelling taking account of different scenarios, because our ability to maintain financial sustainability depends on it.

While planning for resourcing capacity and project priorities for the immediate period is more certain, the latter period of the LTFP is subject to greater potential variation due to unforeseen external factors, changes to LTFP assumptions and the requirement that successive elected Councils must review the Community Strategic Plan and respond to changing community demands and aspirations.

The following may affect the outcome of the above scenarios in the following way

Rate and Annual Charges

Rates and annual charges make up approximately 46% of projected operating revenue. Council cannot set the rate of increase but can only accept the rate pegging imposed on it by the Minister for Local Government. The LTFP assumes annual rates increases of 3.00% and an annual 0.15% increase in assessments, if these increases are not achieved, it could impact Councils revenue an average of $15,000 per year over the life of the plan.

The LTFP has been projected on the premise that current rating income collection patterns are maintained. Any financial shocks or changed economic conditions have the ability to impact ratepayer capacity to pay and in doing so will affect the Council cash flows. Annual charges, particularly domestic waste management charges, are susceptible to significant cost increases as a result of legislative change in this area of operation.

Grants and Contributions

Given that the Financial Assistance Grant is based on the population of the Local Government Area, the Council's current stagnating population could affect the level of funding available through the Financial Assistance Grant in the future. There has been some level of debate in respect of changing the Financial Assistance Grant funding formula yet Council has ignored this in the financial plan, however the LTFP is sensitive to any adjustments.

The current Roads to Recovery Funding is scheduled to be extended to 2019 but could cease after that date. In preparing the LTFP Council has assumed that the program will continue in its current form, however any changes to how the program is funded or if the program ceases will have a significant effect on Councils ability to renew and maintain its road infrastructure at current levels.

Employee Costs

Employee costs make up approximately 31.4% of projected 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 determined through industry wide award negotiations and market forces, the council is sensitive to unplanned changes in employee costs. The LTFP assumes annual increases of 3.50% to employee costs.

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

- The rising cost of employment
- Skills shortage
- Staff turnover
- Attraction and retention capacity of Council

External challenges include:

- An increase in the defined benefits superannuation scheme contribution rate
- Award salary increase above CPI and rate pegging
- Changes in service levels in response to community priorities

Any significant changes in this expenditure line will have major impacts on the Council LTFP 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 approximately 24.5% of projected 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. Any major unplanned rises in these costs will impact the LTFP. Any new unplanned assets or major projects will also increase materials and contracts due to increased maintenance requirements.

Interest Revenue

The downturn in the investment market due to the global financial crisis and the continued uncertainty over the European, American and Asian economies will continue to place pressure on the investment function and has affected interest income returns. Council's current policy approach is that interest earnings are used to fund the operational budget and to contribute to the contingency reserve for major projects. This source of revenue however, is impacted by the various fluctuations of the investment market and is not necessarily a reliable source of revenue. The potential for the use of interest income as a source of revenue to balance the operational budget may in turn be impacted. Councils LTFP is extremely sensitive to any further developments that may affect the return of its investment portfolio.

PERFORMANCE MONITORING

Council is committed to ensuring that Council and its community are sustainable and able to continue to grow in the long term. Accordingly, it will measure its financial performance on a continuing basis. It will ensure that its financial management policies and procedures are reviewed and updated as circumstances change, to ensure its long term financial sustainability and growth are not compromised. A set of Key Performance Indicators will be included in each scenario. The key performance measures which will be utilised are as follows:

Unrestricted Current Ratio

Aims to measure Council's liquidity, and more importantly, Council's solvency is calculated as the ratio of Council's Current Assets less external restrictions against Current Liabilities less specific purpose liabilities. It is a more rigorous ratio than the current ratio as it excludes assets and liabilities that are externally restricted and only includes assets that can be easily liquidated and are available for Council to use. Industry best practice requires a ratio that is greater than 2:1.

Debt Service Ratio

Measures debt servicing costs against operating revenues excluding grants and contributions received for specific purposes. It is designed to assess the impact of loan principal and interest payments on the discretionary revenue of Council. Industry best practice requires a ratio that is less than 10%

Rates and Annual Charges Ratio

This ratio measures rates and annual charges income against revenue from continuing operations. It is designed to assess the degree of Council's dependence on revenue from rates and annual charges as well as to assess the security of Council's income. Due to Council's small rates base it has a high reliance on other sources of revenue.

Rates Outstanding Ratio

This ratio measures Council's collectible outstanding rates. It is designed to assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts. Industry best practice for Rural Councils requires a ratio that is less than 10%

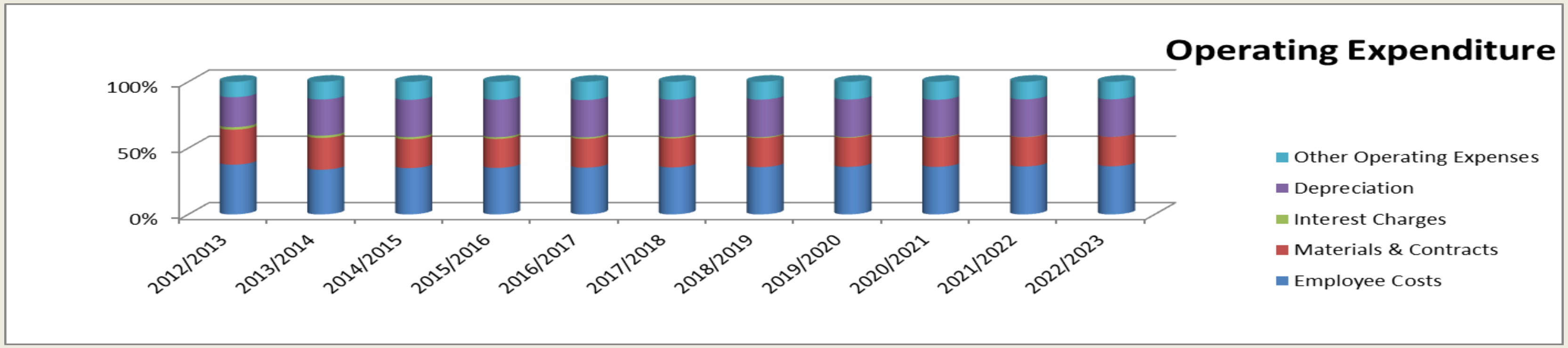
Asset Renewal Ratio

Measures the rate at which Council is renewing its infrastructure assets compared to the annual depreciation expense. It is designed to assess the adequacy of renewal of infrastructure assets compared to the rate at which those assets are depreciated. Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets that increase capacity/performance. Industry best practice requires a ratio of 100%

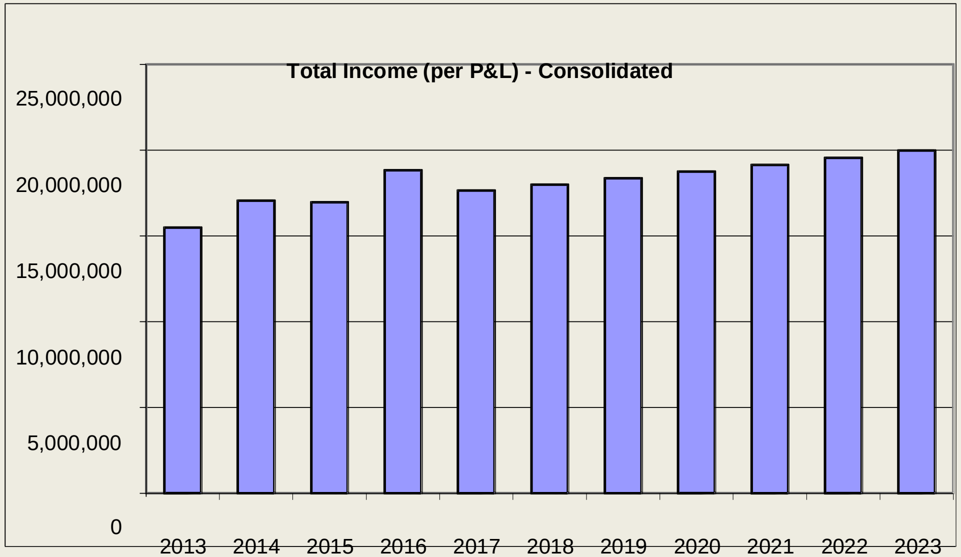
Budget Analysis

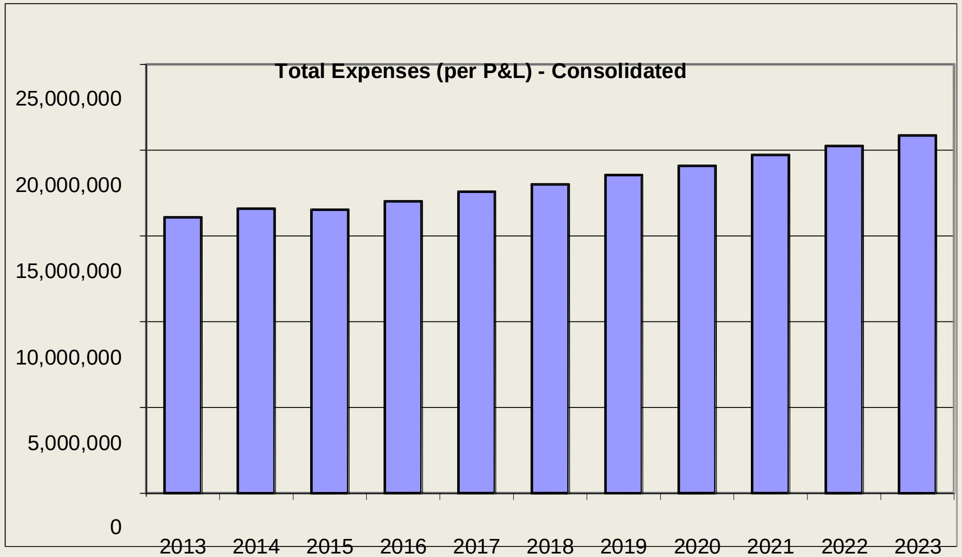
Operating Revenue	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Rates & Annual Charges	8445	8654	8819	8990	9166	9350	9539	9734	9937	10146	10362
User Charges & Fees	1888	2203	2264	2327	2390	2426	2493	2563	2635	2710	2783
Interest & Investment Revenue	380	394	397	401	404	407	411	415	419	423	427
Other Revenues	340	787	511	520	529	538	547	557	567	577	587
Grants & Contributions provided for Operating Purposes	3392	4470	4566	4664	4765	4868	4974	5083	5194	5308	5426
Grants & Contributions provided for Capital Purposes	654	537	388	1148	388	388	388	388	388	388	388
Net gains from the disposal of assets	0	0	0	0	0	0	0	0	0	0	0
Total	15099	17045	16945	18049	17642	17977	18352	18740	19140	19552	19973

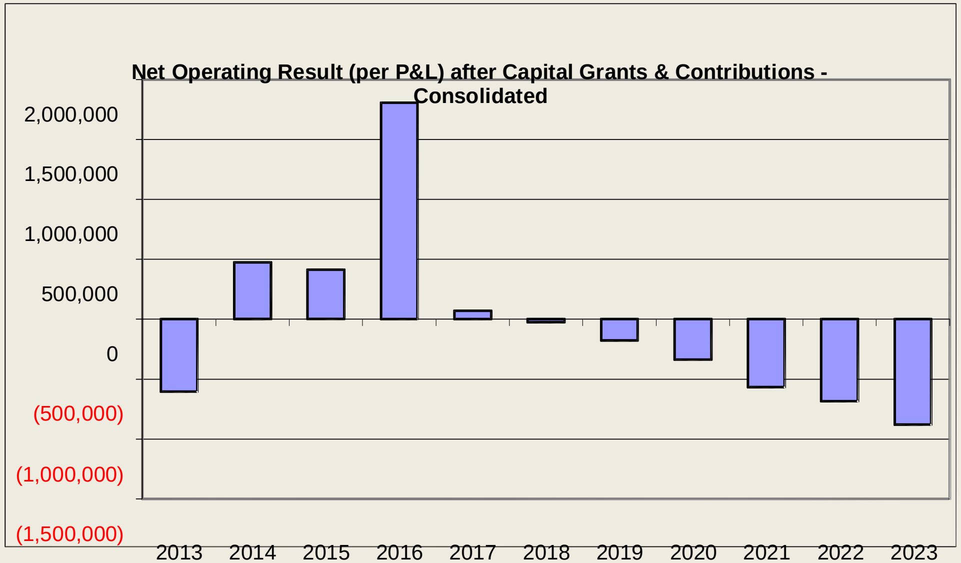
Operating Expenditure	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Employee Costs	5499	5589	5773	5967	6194	6387	6608	6836	7072	7318	7570
Materials & Contracts	3868	3977	3612	3720	3832	3951	40740	4202	4336	4475	4621
Interest Charges	274	276	244	213	182	151	121334	92	62	35	12
Depreciation	3312	4526	4662	4802	4946	5094	5247	5404	5567	5733	5906
Other Operating Expenses	1698	2202	2241	2299	2417	2419	2480	2545	2670	2678	2746
Total	14651	16570	16532	17001	17571	18002	18530	19079	19707	20239	20855
Operating Surplus/Deficit	448	475	413	1048	71	-25	-178	-339	-567	-687	-882

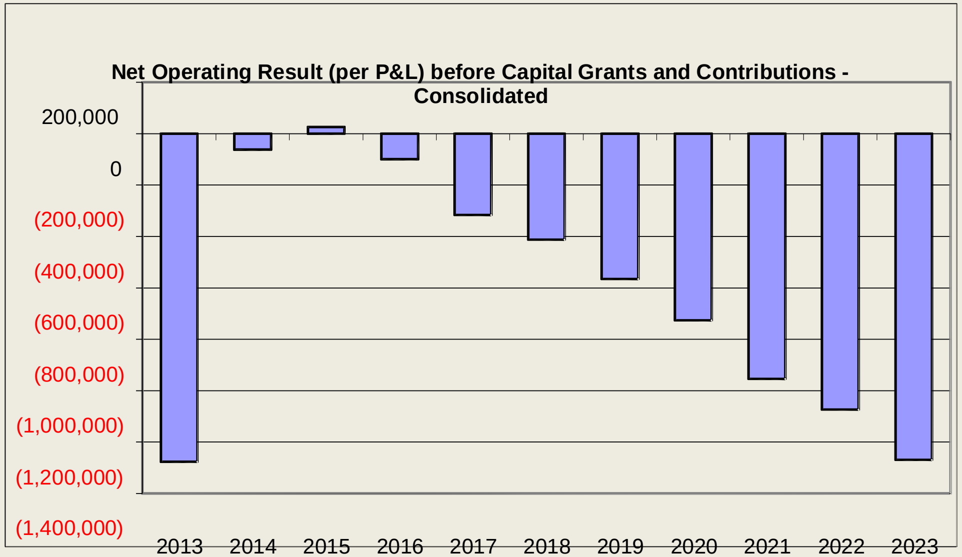


Deniliquin Council
10 Year Financial Plan for the Years ending 30 June 2023
CHARTS - ALL FUNDS (CONSOLIDATED)
Scenario: Base Case
Income Statement Charts

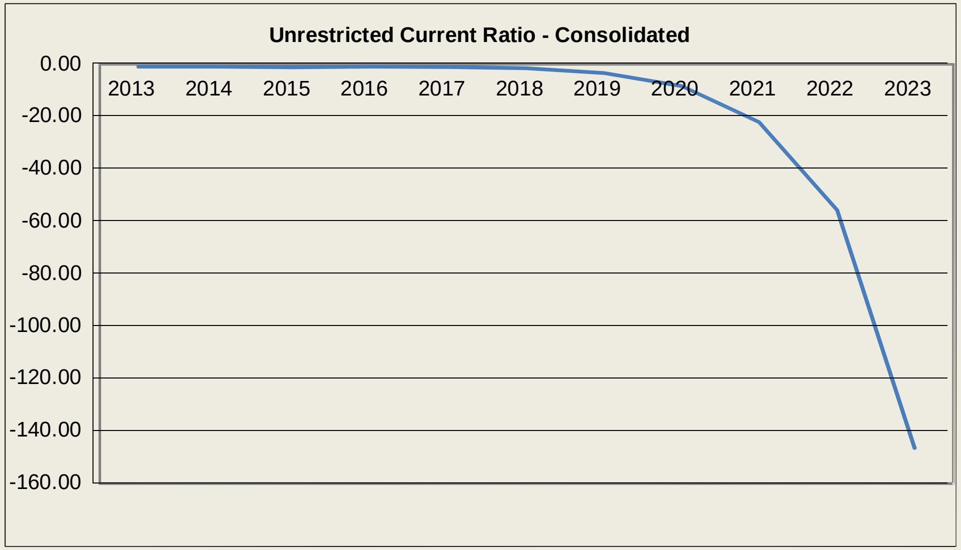


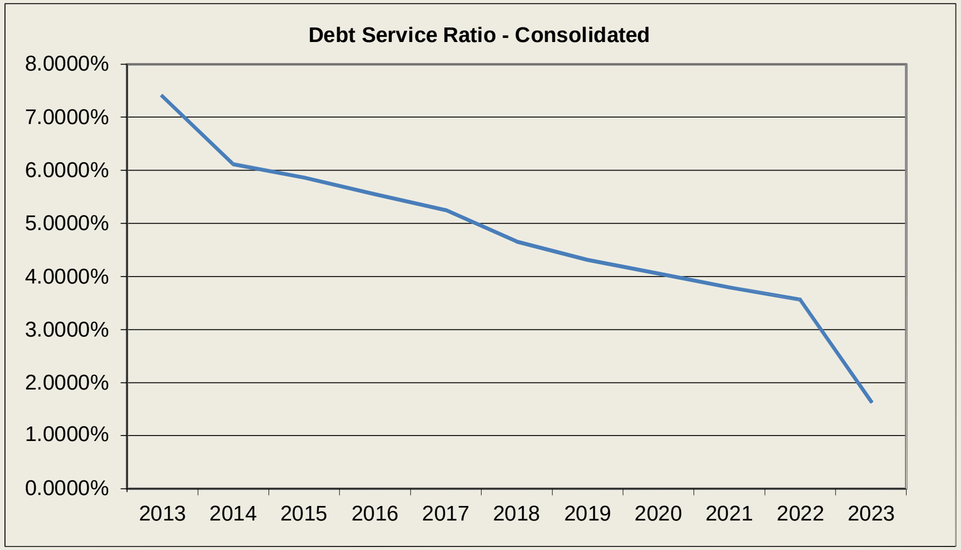


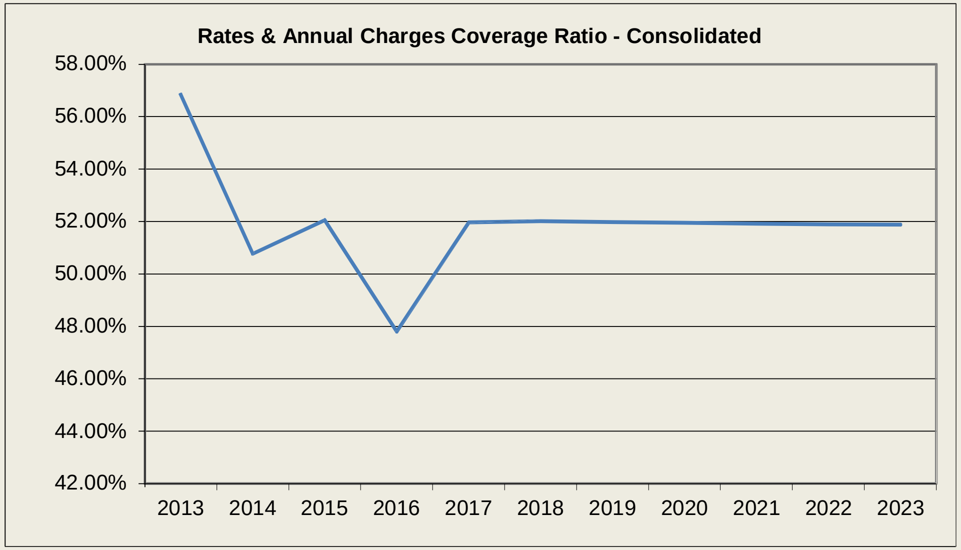


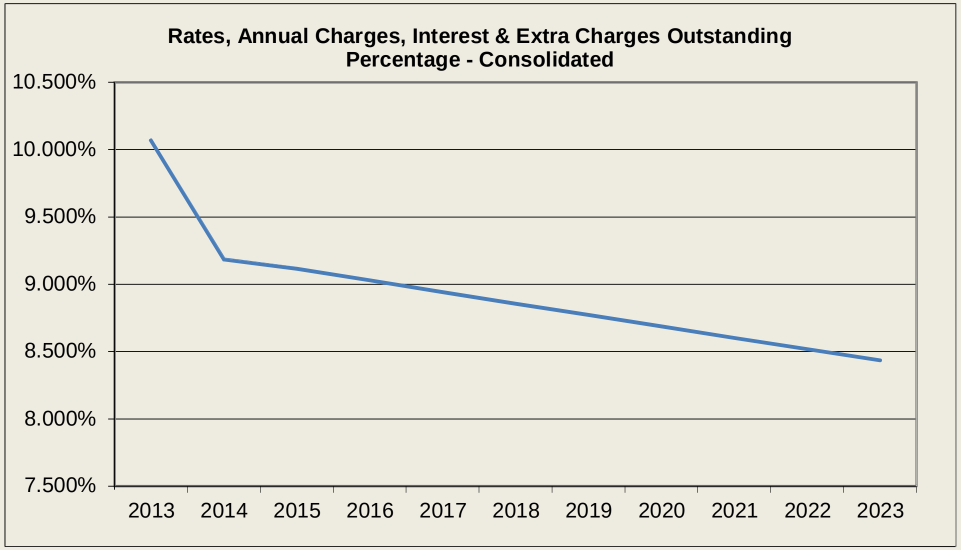


Deniliquin Council
10 Year Financial Plan for the Years ending 30 June 2023
CHARTS - ALL FUNDS (CONSOLIDATED)
Scenario: Base Case
Note 13 Ratio Charts

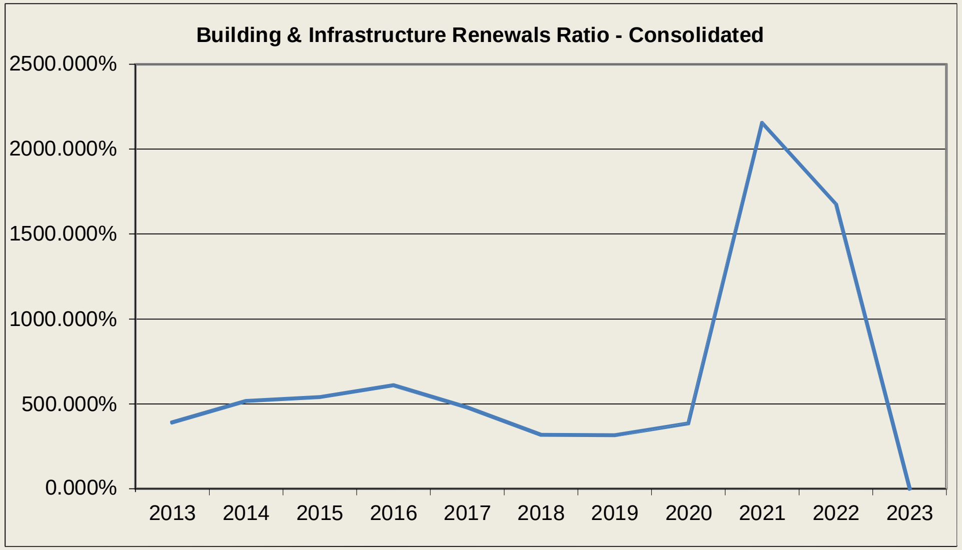








Deniliquin Council
10 Year Financial Plan for the Years ending 30 June 2023
CHARTS - ALL FUNDS (CONSOLIDATED)
Scenario: Base Case
Note 13 Ratio Charts (continued)



Base Model