



Corowa Shire

...the choice

LONG TERM FINANCIAL PLAN 2015 - 2025

1. BACKGROUND

The Long Term Financial Plan (LTFP) is an important part of Council's Strategic Planning process. This tests the long-term community aspirations and goals against financial realities.

The purpose of this plan is not to provide specific detail about individual works or services. It is intended as a planning and decision making tool in order to ensure Council can deliver services to the community within a framework of financial sustainability.

Council Shire Council has prepared this Long Term Financial Plan (LTFP) as part of Integrated Planning and Reporting requirements. This document has helped to guide Council in relation to its future capacity to manage its assets together with community aspirations.

This process has considered the cost to properly manage Council's existing infrastructure and delivery of services to the community. It has considered the future aspirations of the community in relation to new and improved services and has provided a guide for Council in regard to its long term financial capacity.

2. OVERVIEW

Corowa Shire is a regional Council with a low rate base that serves a growing area. Council has maintained very low general rate charges over many decades. This has been due to rate pegging, strong consideration towards the rural rate base and economic factors.

Corowa Shire is a retirement destination with the median age some 9 years older than the State median. As a result of this 21% of Corowa Shire's rate base receive pension rebates which has places strain on available general rate income.

Some excellent achievements have been made the Council given limited rate revenue and the high level of infrastructure and service demands.

In February 2015, the NSW Government released a set of criteria which would measure the Council's ability to achieve 'Fit for the Future'. The criteria is based on the achievement of financial performance ratios.

For the 2013/14 financial year, Corowa Shire has achieved three of the seven improvement ratio targets set by the Office of Local Government.

Council has established an organisational improvement program focused on improving the long term sustainability of the Shire. As a result of a number of changes, it is expected that Corowa Shire Council will achieve most of the Fit for the Future performance targets in the short to medium term period.

Council's Long Term Financial Plan which has been informed with asset modelling - indicate that Council is unable to meet the targets set for the Infrastructure Backlog Ratio, although significant improvements are being achieved in the long term. The extent of Council's existing infrastructure backlog is too great. It would place an unreasonable burden on the community to address this performance measure in the short/medium term.

The improvement program is available from Council's website www.corowa.nsw.gov.au

Attached to this document is the projected income and expenditure, balance sheet and cash flow statements for the LTFP.

3. OBJECTIVES

The objectives of the Corowa Shire Council LTFP are:

- Understand the cumulative effects of Council's asset management commitments and community aspirations
- Identify the financial opportunities and threats confronting Council
- Provide a basis for sound and strategic decision making
- Ensure that Council's decision making processes are undertaken within a framework of financial sustainability
- Meet the requirements of the Division of Local Government (DLG) Integrated Planning and Reporting (IP&R) framework.

4. PLANNING ASSUMPTIONS

In order to prepare the LTFP it has been necessary to make a number of assumptions to allow long term expenditure and income to be estimated.

The LTFP will be reviewed on an annual basis and in more detail every four years, in conjunction with the preparation of new Delivery Programs.

The following is an overview of key assumptions which have been in the preparation of the LTFP:

Levels of Service

Existing levels of service and current asset maintenance standards are generally assumed to be satisfactory and have therefore been used as a baseline for the costing to financial projections.

Strategic Asset Modelling

This LTFP has been informed by strategic asset modelling which has been prepared in the form of "**Core**" **Asset Management Plans** in accordance with the requirements of the National Framework and [NSW Division of Local Government](#) mandates. It is prepared to meet minimum legislative and organisational requirements for sustainable service delivery and long term financial planning and reporting. Core Asset Management is a "top down" approach where analysis is applied at the "system" or "network" level.

Maintenance Costs

Maintenance budgets have been reviewed by respective management areas, and scrutinised through the review of project budgets and quotes. Inflationary pressures on maintenance budgets have generally been kept to less than a 3% increase over the LTFP. While it is acknowledged that inflationary pressures are likely to exceed this - it is expected this will be constrained through increased capital renewal expenditure which will in time reduce maintenance pressures.

Capital Works Projects - Renewal vs Upgrade and Expansion

The preparation of the LTFP has included a review of all future capital works projects. Council have adopted a key strategy to address its financial position for all capital expenditure - renewal will be prioritised over upgrade or expansion.

A target has been set for the 2015/16 financial year of 80% renewal projects and limited to 20% expansion or upgrade projects. Modelling has then been applied to these targets for the LTFP which will see the percentage of upgrade or expansion capital projects limited to 14% within the ten year period.

Workforce Levels

Workforce levels are assumed to remain at the current level.

Consumer Price Index (CPI) Forecasts

An annual 2.5% increase in CPI has been built into the Long LTFP. The Reserve Bank target for inflation is for it to remain between 2% and 3%.

Depreciation

Depreciation expenses have been derived using a 20 year asset model so amounts vary according to projected costs and allowance for capital works (including upgrade and expansion expenditure) over the course of the financial plan.

Revenue – Non Capital

Rate Income

Corowa Shire has acknowledged that it is almost the lowest rated Council in New South Wales. Council has already commenced addressing its financial position through a number of measures including special rate variations which commenced during 2012/2013. Approval is currently in place following IPART approval for increases above the rate peg until 2018/2019. As part of Councils Fit for the Future proposal, a further special rate variation proposal has been made to allow Council to quickly achieve the requirements of Fit for the Future whilst meeting the expectations of the community.

The following forecasts in rate income have been included as assumptions to the LTFP:

Year	General Rate Increase
2015/2016	7%
2016/2017	11.5%
2017/2018	11.5%
2018/2019	7%
2019/2020	7%
2020/2021	7%
2021/2022	7%
2022/2023	7%
2023/2024	7%
2024/2024	7%

Council completed an extensive program of consultation during March and April 2015. This included six public meetings, surveys sent to every household, print, media, online including the development of a you tube video and pop up stalls throughout the Shire.

The purpose of the consultation was to present improvement proposal options with regard to ensuring Council becomes more sustainable and is able to achieve 'Fit for the Future. Community priorities on Council amalgamations were surveyed.

Support for further increases to general rates was gained through this consultation process. The general preference was for the introduction of the option as shown below:

Year	General Rate Increase
2015/2016	7%
2016/2017	11.5%
2017/2018	11.5%
2018/2019	7%
2019/2020	7%

Water and Sewer Fees and Charges

Council has implemented a long term savings program for major water and sewer capital works projects, such as new Corowa and Howlong Sewerage Treatment Plants.

For the 2014/2015 financial year Council reduced the water access base charge of \$200 to \$100 and increased water usage charges from \$1.11 per kl to \$1.60 per kl. Differential pricing was also be introduced for residential usage over 450 Kl/pa with a charge of \$2.40 per kl.

These changes were made to comply with NSW Office of Water guidelines which require 75% of water income to be from user charges and 25% from access charges. The 2015/16 financial plan does not propose to increase these charges and the LTFP estimates that water access charges will now increase in accordance with CPI.

From July 2015 Council introduced three water meter reads per year as an improvement measure and to comply with NSW Office of Water guidelines.

During the 2015/16 financial year, Council plan to implement new electronic water meters which are expected to record higher volumes of water usage due to improved accuracy. Due to this, there will be almost no increase in water charges for the 2015/16 financial year and 3% increases are currently forecast in future years. This will be re-assessed when the actual performance of the new water meters is known.

Sewer charges have generally increased only by 3% during 2015/16 and for the remaining period of the LTFP.

Fees and Charges

Corowa Shire Council apply a range of fees and charges for services provided to the community. These are reviewed annually and set as part of Council's Revenue Policy.

Regulatory fees have been increased in accordance with legislation.

Council discretionary fees have been reviewed based on the cost for Council to provide respective services and benchmarking comparisons being made. There have been varying levels of increases throughout Councils fees and charges as a result of this.

While additional revenue is now forecast throughout the LTFP following this review, fees and charges account for a small portion of Council's total revenue - if these assumptions are proved to be incorrect, it is not expected to have a significant impact on LTFP.

Interest Income from Investments

Future investment earnings have been conservatively estimated based on current cash levels and future expected earnings of between 3% and 4%.

Grants Provided for Operational Purposes

This source of revenue includes Financial Assistance Grants (FAGS) from the Australian Government. This is a major source of Councils revenue and is a scheme which has existed for decades.

The amount of the FAGS grant provided to Council each year has varied significantly over the past 10 years with variations ranging from a decrease of .78% to an increase of 10.38%. Council has confirmation that there will be no CPI increases to this funding for the following two years. This has a significant impact on Councils LTFP.

From the 17/18 financial year, the LTFP currently estimates that CPI increases of 3% will again be received.

Revenue – Capital

Grants

A number of grants have been assumed within the LTFP in order to make projects viable. Grants are a competitive process; therefore no guarantee can be made as to Council's success.

Council has set an annual performance target of \$1,000,000 in competitive grant funding being gained for the duration of the LTFP.

Expenditure – Non Capital

Employee Benefits and On Costs

Employee costs include salaries, wages, superannuation, workers compensation, staff training, allowances and employee leave entitlements.

Employee costs are forecast to increase by 2.7% during 2015/16, 2.8% during 2016/17 and then 3% thereafter. Increases in employee costs have been estimated at 2.5% for the period of the LTFP. However an agreement Workers compensation has been factored by the same rate. Superannuation has been factor by the rate as per the Super Guarantee levy.

Materials and Contracts

Local government is characterised by relatively high levels of materials and contract expenses due to the large number of assets held, constructed and maintained by Council. This places Council under considerable pressure from rising materials and construction costs.

Generally, material and contracts costs will be constrained to annual increases of 2.5% for the term of the LTFP to account inflationary pressures. Irrespective of the known inflationary pressures. Council will need to constrain this expenditure through reviews of service levels with the community over the coming years.

Insurance Costs

One of the key challenges for Council in the future will be the resources required to effectively manage Council's risk management and public liability requirements. Insurance costs are expected to continue to rise into the future. The LTFP has allowed for a 2.5% increase in insurance costs. Ongoing reviews will need to be undertaken to continually review insurance needs. Insurance costs include policies such as property, public liability, professional indemnity and vehicles.

Some insurance savings have been estimated based on a reduction in coverage such as the removal of schemes such as accumulated sick leave or an increase in property excess amounts. Decisions to change these policies have been made based on analysis and the expectation that this will in the long term reduce Council's overall costs, however there is no guarantee of this as the future is not known and therefore this may expose Council to increased levels of risk.

Energy

The increasing costs of energy are expected to have a significant financial impact on Council and its community. Council's current electricity bill has been reduced to less than \$900,000 representing savings of almost \$200,000 per annum.

Significant work has been undertaken by Council to manage these costs over the past 12 months. This has included the tendering of all of Council's electricity requirements which resulted in new electricity supply contracts being established for a period of four years. Council completed a large scale Solar PV project - with solar electricity now being generated on 14 Council sites.

Expenditure – Capital

Capital Works Program

Council's Capital Works Program will largely be governed by the outcomes of major asset strategies. The proposed Capital works program is aimed at delivering on a number of community priorities as expressed in Council's Community Strategic Plan but predominately include the renewal of existing assets.

It is apparent from the LTFP that one of the key strategies Council will need to apply in order to remain financially sustainable is asset consolidation, not expansion.

Council has formally adopted a focus on asset renewal instead of upgrade or expansion. For the 2015/16 financial year a ratio of 80% capital renewal will be achieved (20% upgrade or expansion). The amount of upgrade or expansion has then been reduced in the LTFP to 14%.

The Capital Works Program is assumed to already include CPI cost increases.

Depreciation and Amortisation

Corowa Shire Council will continue to undertake a revaluation program on all Council assets as prescribed by the Office of Local Government.

Depreciation costs used in the LTFP relate to existing assets and any proposed capital works. The results of future asset revaluations may result in depreciation estimates being revised.

Depreciation expenses have been derived using a 20 year asset model so amounts vary according to projected costs and allowance for capital works (including upgrade and expansion expenditure) over the course of the financial plan.

Borrowing Costs

Interest rates for future borrowings have been estimated at 5% fixed per annum. All loans terms will be 5 years or more.

5. SENSITIVITIES

Long term financial plans are inherently uncertain. As outlined above they contain a wide range of assumptions, some of these assumptions will have a relatively limited impact if they are wrong. Others can have a more significant impact on future financial plans.

Council's LTFP includes an additional Special Rate Variation which will be subject to IPART approval. The below table demonstrates the impact of this not being approved.

	Planned	Existing SRV
Operating Result before Capital grants		
Financial Yr	Surplus or (Deficit)	Surplus or (Deficit)
2015/2016	62,977	62,977
2016/2017	61,472	(188,048)
2017/2018	589,084	66,330
2018/2019	932,859	110,882
2019/2020	1,399,564	250,857
2020/2021	1,789,870	284,832
2021/2022	2,424,563	531,349
2022/2023	2,959,023	643,395
2023/2024	3,576,067	801,203
2024/2025	4,082,813	809,140

A key strategy for Council is placing a priority on the renewal of its infrastructure instead of upgrade and expansion. While the upgrade and expansion of infrastructure will always be necessary to maintain acceptable levels of service - Council's financial models have placed a limit of 20% upgrade or expansion, with 80% of expenditure to be targeted each year towards renewal of existing infrastructure.

This is a key sensitivity because our asset models show that based on this limit increasing to 30% upgrade or expansion - the following would occur:

- The total replacement value of our depreciable assets after ten years jumps from \$294M to \$315M (increasing \$21M), however the written down value of these same assets only increases \$1.3M in this time
- If we assume condition is straight line, the condition (or written down value to replacement value ratio) drops by approximately 5% across the board
- Over the ten years our average capital renewal budget is decreased by \$660,000 per year
- Over the ten years our average maintenance expense increases by \$100,000 per year
- Over the ten years our average depreciation expense increases by \$110,000 per year
- The net result of increasing our upgrade/expansion budget to 30% of the total is that nearly \$900,000 is lost from the budget every year (decreased renewal budget + increased maintenance cost + increased depreciation)

6. METHODS OF MONITORING KEY FINANCIAL PERFORMANCE (KPI'S)

A critical component of the LTFP is the ability to monitor the financial performance of Corowa Shire Council within the parameters of the plan. To achieve this, Council will closely monitor the financial performance of outcomes of the plan in accordance with the requirements of Fit for the Future performance measures..

Key Performance Indicators which will be reported on include:

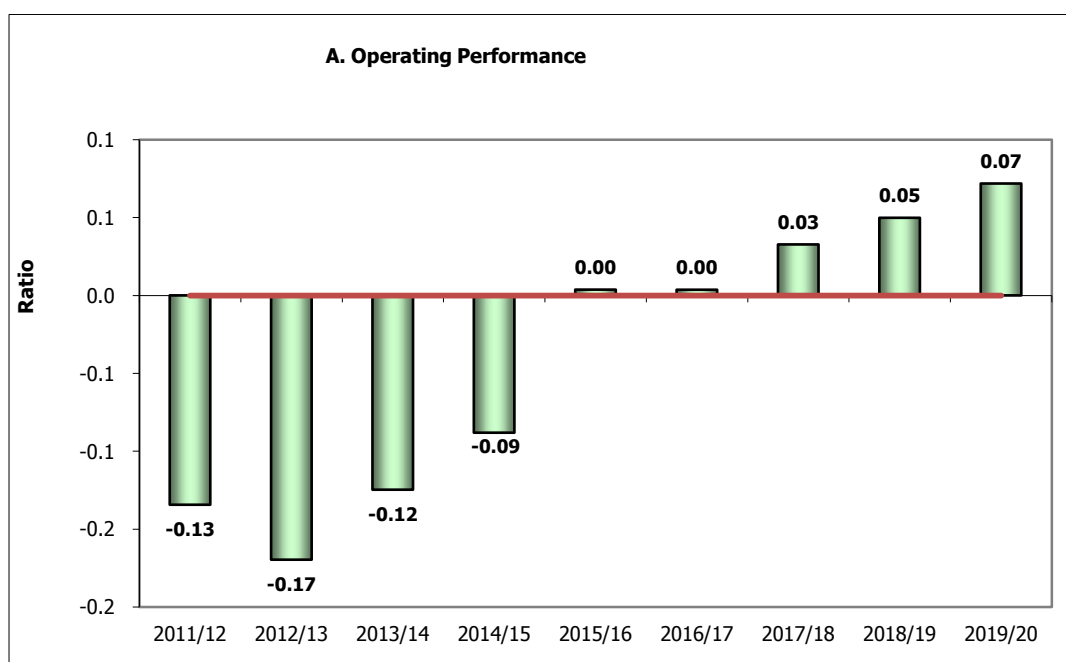
- A) Operating Performance Ratio
- B) Own Source Revenue
- C) Building and Infrastructure Asset Renewal
- D) Infrastructure Backlog
- E) Asset Maintenance Result
- F) Debt Service
- G) Real Operating Expenditure per Capita

Council will review the LTFP each year as part of the development of Council's 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 LTFP compared to the actual results. Evaluation will include reviewing and amending estimates and scenarios where long-term goals are not being achieved or where changes have affected set goals and strategies. Assumptions will also be revisited to improve the accuracy of the plan over time.

RATIOS

A) Operating Performance

2013/2014	\$'000	Ratio
<u>Operating Revenue (excl Capital Grants & Contributions) – Operating Expenses</u>	<u>(2,135)</u>	(0.12)
Operating Revenue (excl Capital Grants & Contributions)	17,118	

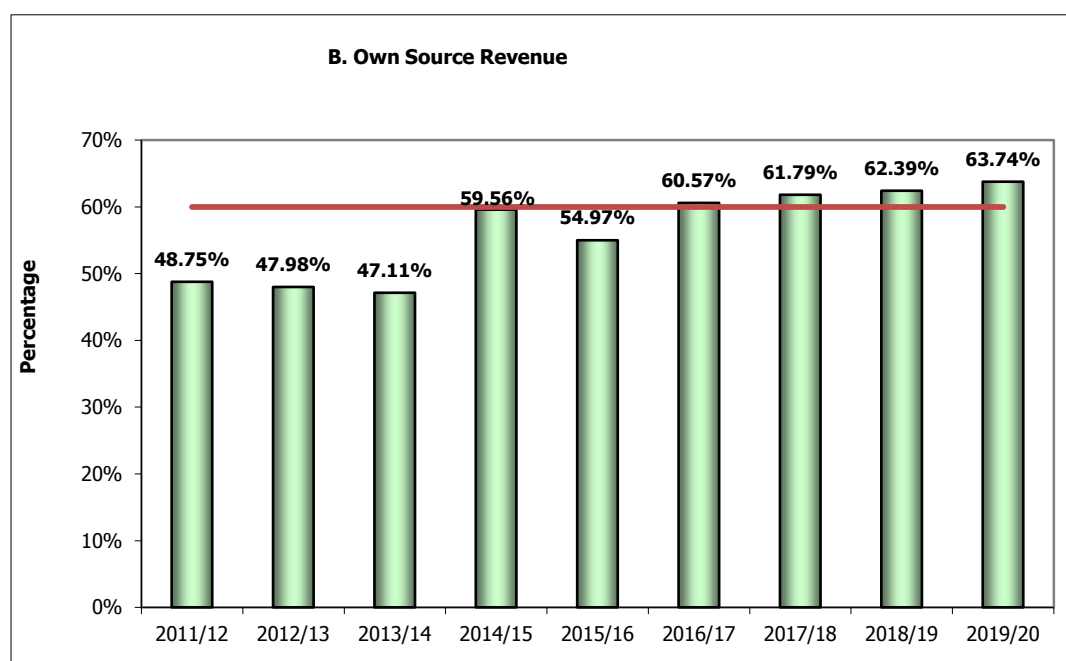


The Benchmark performance target is greater or equal to break-even over a 3 year period.

B) Own Source Revenue

2013/2014	\$'000	Ratio
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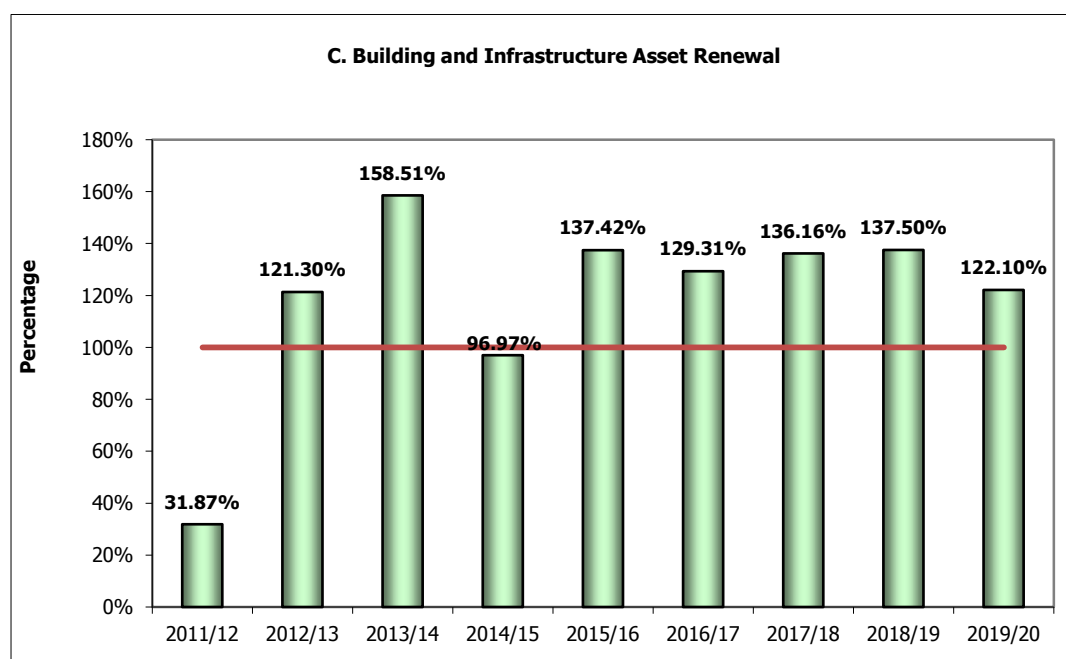
Total Continuing operating revenue less all grants & contributions	10,266	47.11%
Total Continuing operating revenue inclusive of Capital Grant	21,790	



The benchmark performance target is greater than 60% average over a 3 year period.

C) Building and Infrastructure Asset Renewal

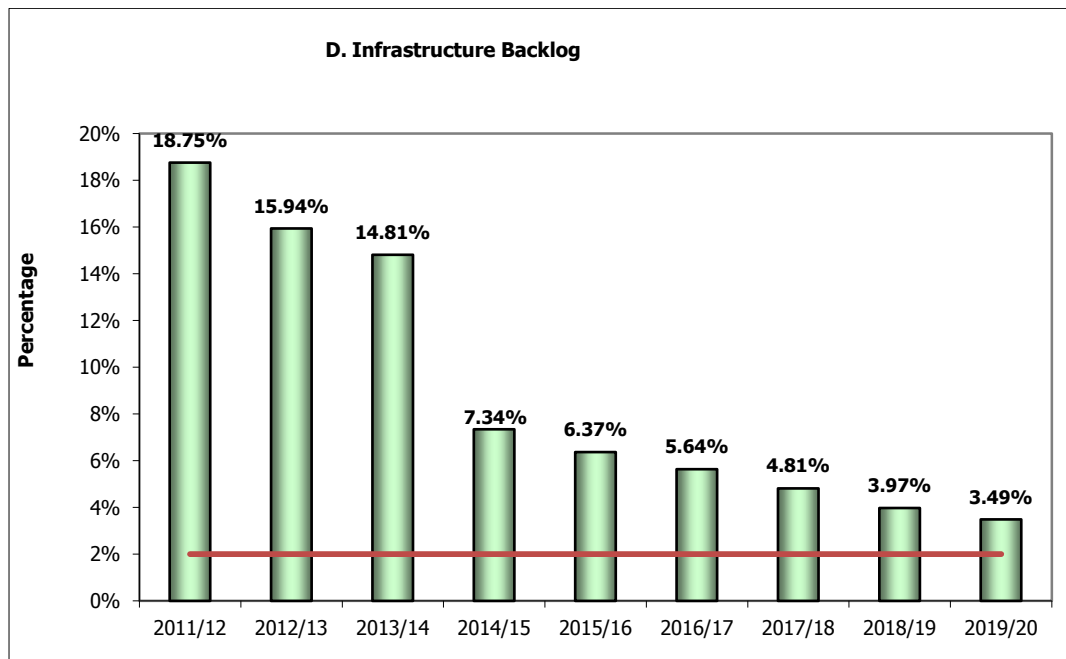
2013/2014	\$'000	Ratio
Asset renewals (building & infrastructure)	7,431	158.51%
Depreciation, amortisation & impairment (building & infrastructure)	4,688	



The benchmark performance target is greater than 100% average over a 3 year period.

D) Infrastructure Backlog

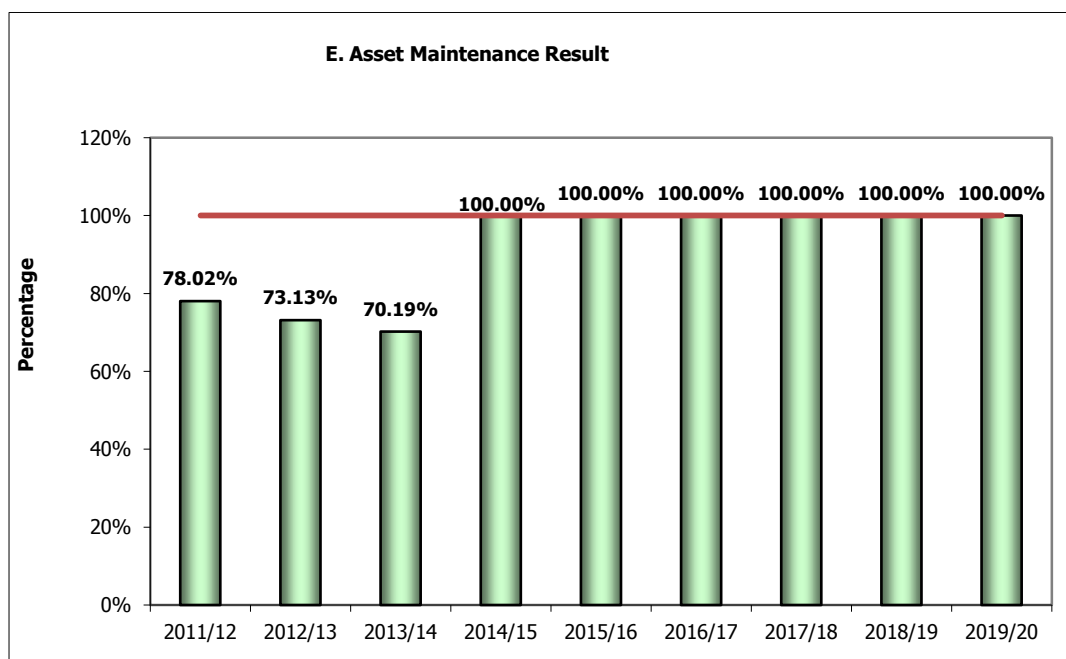
2013/2014	\$'000	Ratio
Estimated cost to bring assets to a satisfactory condition	24,102	14.81%
Total WDV of infrastructure, building, other structures & land improvements	162,747	



The benchmark is less than 2%. Council does not achieve this ratio within the LTFP.

E) Asset Maintenance Result

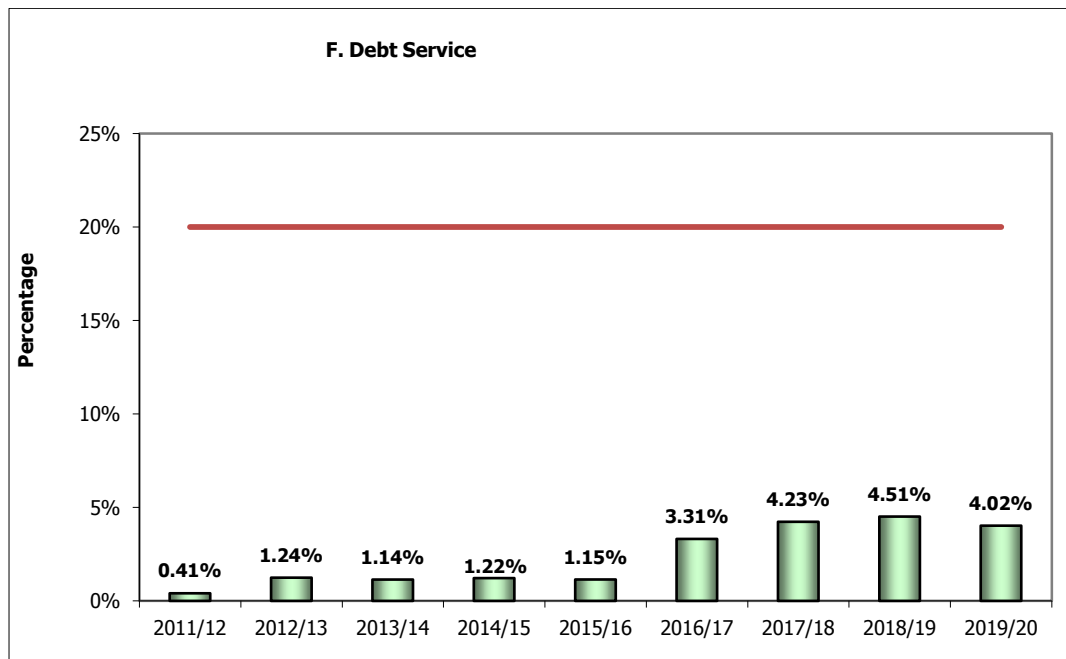
2013/2014	\$'000	Ratio
Actual Asset Maintenance	1,778	70.19%
Required Asset Maintenance	2,533	



The benchmark is greater than 100% average over a 3 year period.

F) Debt Service

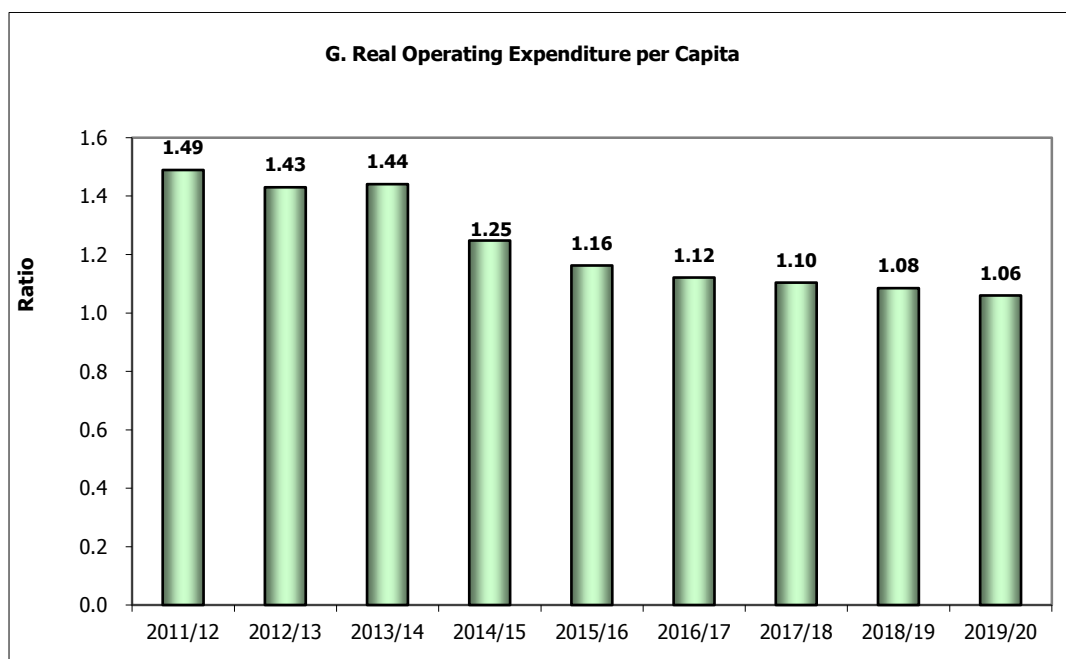
2013/2014	\$'000	Ratio
Cost of debt service (interest expenses & principal repayments)	195	1.14%
Total continuing operating revenue (ex capital grants & contrib.)	17,086	



The benchmark is greater than 0 and less than or equal to 20%.

G) Real Operating Expenditure per Capita

2013/2014	\$'000	Ratio
<u>Real Operating Expenditure</u>	<u>16,437</u>	1.44
<u>Population</u>	<u>11,410</u>	



The benchmark is a decreasing in Real Operating Expenditure per capita over time.

7. CONCLUSION AND NEXT STEPS

The LTFP is an invaluable planning and decision making tool that should help guide the future direction of Council.

Prudent financial management is critical if Council is to remain sustainable. An improvement program has been established by the Council and it is important that a strong focus is placed on the achievement of these actions.

Ongoing improvements are expected in Council's financial performance. Council expects to achieve most of the Fit for the Future improvement targets set by the NSW State Government - through the implementation of its improvement proposal. However, Council has a large infrastructure backlog which has accumulated over decades. The LTFP together with asset models anticipate that it will take Council until 2022/23 in order to adequately fund and 'catch up' with infrastructure renewal needs.

Council will carry out a complete review of the LTFP every 4 years in line with the review of the Community Strategic Plan. This will take place up to nine months after each Local Government election. The Resourcing Strategy, including the LTFP, will be reviewed and updated during this process.

Performance outcomes identified within the LTFP will be regularly monitored by Council and the senior management team by way of the quarterly review of the Operational Plan and Delivery Program.