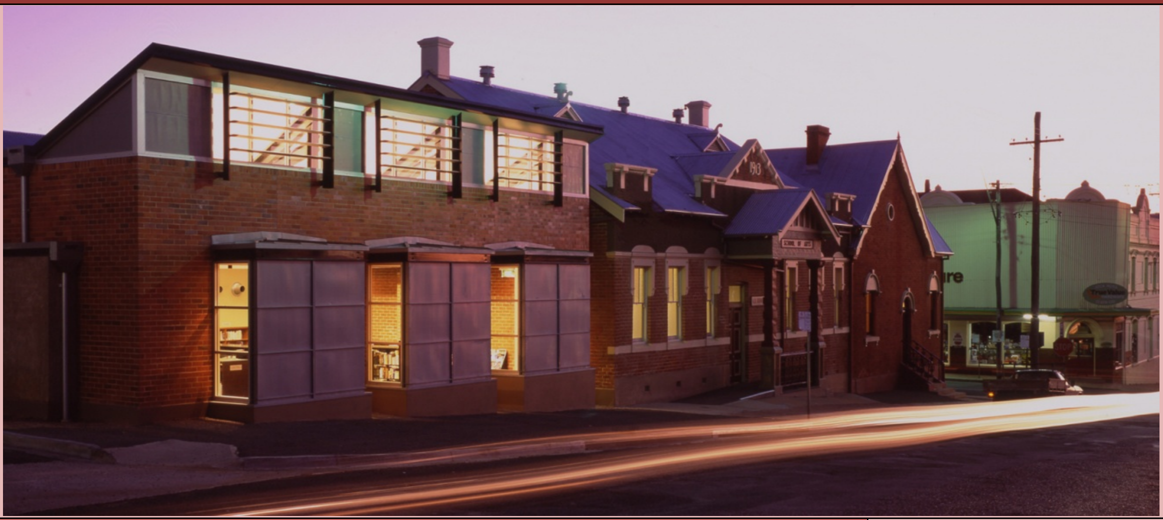
Tenterfield Shire Long Term Financial Plan 2013 to 2023

"Planning for our Future"



This document describes the long term financial plan over the next ten (10) years.

Adopted 26 June 2013

This document was produced and is available from Tenterfield Shire Council.

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Table of Contents

Section 1 –

Introduction

1.0 Introduction

1.1 Executive Summary

Council is required to comply with the following principles of sound financial management –

1. Prudently manage financial risks relating to debt, assets and liabilities.

2. Consider the financial effects of Councils decisions on future generations.

3. Provide full, accurate and timely disclosure of financial information.

A key component of sound financial management is the preparation of the Long Term Financial Plan. Council has prepared forward budgets for the next ten years 2013/14 to 2022/23. The Long Term Financial Plan provides a strategic framework on which to build our annual and longer term business plans. The objective is to provide a number of programs and services at desired levels in a financially sustainable manner.

The key longer term financial strategic performance targets are to:

1. Achieve consistent underlying operating surpluses.

2. Achieve strengthening underlying working capital and liquidity positions.

3. Reduce reliance on borrowings.

4. Progressively increase funding for asset maintenance / capital renewal expenditure.

These initiatives will enhance the longer term financial sustainability of Council to:

1. Achieve the strategic objectives documented in the Community Strategic Plan.

2. Address the infrastructure funding gap issues of Council.

3. Achieve long term financial sustainability by having an adequate level of funding for the services in the current and forward budgets.

1.2 Message from the General Manager

Tenterfield Shire Council has developed a Resourcing Strategy (Long Term Financial Plan, Asset Management Plan and Workforce Plan) to meet the needs of the 2013 – 2017 Delivery Plan.

The Division of Local Government has set the minimum timeframe for the Long Term Financial Plan at ten (10) years. Tenterfield Shire Council's Long Term Financial Plan covers 2013/2014 – 2022/2023.

Tenterfield Shire has based its Long Term Financial plan on the six foundations outlined in the Division of Local Government's Integrated Planning and Reporting (IRP) manual. The foundations are;

1. Planning Assumptions
2. Revenue Forecasts
3. Expenditure Forecasts
4. Asset Management
5. Performance Measures
6. Sensitivity Analysis / Financial Modelling

Lotta Jackson
General Manager

Section 2 –

Our Mission, Vision and Corporate Values

2.0 Our Mission, Vision and Corporate Values

2.1 Our Mission

Tenterfield Shire Council provides local civic leadership and a wide range of community services and facilities.

Our mission statement "Quality Nature, Quality Heritage and Quality Lifestyle" provides focus and direction in the manner in which we provide leadership and services.

Quality Nature

Quality Heritage

Quality Lifestyle

2.2 Our Vision

- To establish a shire where the environment will be protected and enhanced to ensure sustainability and inter-generational equity,
- To recognise and actively develop our cultural strengths and unique heritage,
- To establish a prosperous shire through balanced, sustainable economic growth managed in a way to create quality lifestyles and satisfy the employment, environmental and social aims of the community,
- To establish a community spirit which encourages a quality lifestyle, supports health and social well-being, promotes family life and lifestyle choices,
- To establish a community spirit which promotes opportunities to participate in sport and recreation, promotes equal access to all services and facilities, and
- To encourage all people to participate in the economic and social life of the community with a supportive attitude towards equal life chances and equal opportunity for access to the Shire's resources.

2.3 Our Corporate Values

At Tenterfield Shire Council we value our staff and recognise that they are central to the success of our organisation. Our Workforce Plan "Investing in our Employees" provides a strategic framework for developing our workforce so that it is appropriately skilled and flexible to best meet the challenges ahead.

At the individual level we focus on developing the skills, knowledge and motivation of all staff. At the organisational level we are building capability by focusing on recruitment, selection, learning and professional development, career development, performance management and workforce planning. We aim to achieve a reputation as a workplace of choice that attracts, develops and retains quality staff.

In keeping with our leadership in principles of social justice, we are committed to equal opportunity in employment. We aim to foster a culture that values and responds to the diversity of our staff, providing a workplace that is based on equity and merit and free from discrimination and harassment. To achieve this aim we have policies and procedures in place to ensure that we protect the rights of individuals and promote ethical behaviour.

We have a strong focus on providing a safe workplace and encouraging best practice safe working habits.

Our corporate values express how we as Council wish to conduct ourselves as an organisation and reflects the manner in which Council desires to engage with its community. They provide a reference point for all staff. Our five corporate values are I CARE:

1. **Integrity** – ensuring openness and honesty in all our activities
2. **Community focus** – delivering prompt courteous and helpful service
3. **Accountability** – accepting responsibility for providing quality services and information
4. **Respect** – treating people with courtesy, dignity and fairness regardless of our personal feelings about the person or issue
5. **Excellence** – being recognised for providing services and programs that aim for best practice.

Section 3 –

Foundation One – Planning Assumptions

3.0 Foundation One – Planning Assumption

The Long Term Financial Plan consolidates each Departments annual service program and associated financial resource requirements. These financial requirements have been determined using a number of planning assumptions –

1. Demographics of the local government area.
2. Economic growth / development of council.
3. Economic growth from a local government / area / state country view point.
4. Service delivery
5. Service levels
6. Rate pegging
7. Major planned expenditure

3.1 Demographics of the Local Government Area

A population increase index of 0.8% per annum has been used in the development of this plan. More specific information on the demographic profile of Council is provided in the Community Strategic Plan (Section 3 – Tenterfield Shire Profile). The proximity of Tenterfield to high population areas in South East Queensland and the North Coast of NSW and the relative affordability of housing and land indicate that this growth could be expected to continue. The number of dwellings and units constructed in Tenterfield increased by 32% between 2005 and 2009.

3.2 Economic Growth / Development of Council

In response to consistent growth Council has invested in a new sewerage treatment works in Tenterfield and water plant at Urbenville. A new industrial estate has been developed in Tenterfield to meet an expectation for demand. A Business Services Officer and Community Development Officer is now employed by Council.

There are proposed borrowings of $6.1m in the Long Term Financial Plan for the following projects –

1. Replacement water supply dam wall (Tenterfield) 2014/15 – project cost $4.5m; borrowings $2.25m.
2. Tenterfield main street project 2014/15 – project cost $2.2m; borrowings $1.2m
3. Replacement water treatment plant (Tenterfield) 2017/18 – project cost $5.5m; borrowings $2.75m.

The largest demographic profile in Tenterfield is now age groups under the age of 25 which accounts for nearly 40% of the population. Council is endeavouring to encourage business development to provide opportunities for members of this demographic profile who have traditionally had to leave the area to find employment. Tenterfield has an unemployment rate of 6.5%, 1.6% above the national average of 4.9%.

Council has also invested in providing facilities for families by operating a cinema and heavily subsidising the operation of recreational facilities such as the swimming pool and sporting grounds. The Long Term Financial Plan reflects continued subsidisation of community services.

Council is implementing Strategic Planning with a focus on increasing the population. Council has adopted a new LEP and is taking a strategic look at land use planning to promote development.

There is an increased focus on economic development and tourism strategies. An Economic Development Strategic Plan was recently adopted by Council following a number of public meetings held throughout the Shire.

Council has adopted the Tenterfield Main Street Masterplan following a process of community engagement though public meetings and the establishment of an office in the main street manned by the consulting architect to allow the community direct input into the plan.

Council has staff with the necessary financial and asset management skills and a properly qualified chief financial officer to help ensure fiscal responsibility.

3.3 Economic Growth (From a Local Government Area/State/Country Viewpoint)

The Reserve Bank has forecast inflation of 2.25% by the end of the year however underlying inflation is expected to increase from 2.25% to 2.5%. A CPI index of 2.5% has been used in the Long Term Financial Plan.

3.4 Service Delivery

The Community Strategic Plan describes the communities' aspirations and priorities it would like to achieve over the next 10 years in the following focus areas -

1. Towns Villages and Economic Growth
2. Infrastructure
3. Environment
4. Community
5. Sports, Recreation and Culture

6. Government Leadership

The achievement of the strategies detailed in the plan relies on partnership with a number of government agencies at state and federal level. These partnerships are detailed in the plan.

3.5 Service Levels

Council completed a "road show" presenting the challenges facing the Tenterfield Shire in maintaining and improving assets in Nov/Dec 2012. As part of this process, and through subsequent surveys mailed to every Tenterfield Shire Resident (also available online), the service expectations and level of understanding regarding asset management were determined.

The Long Term Financial Plan is based on providing agreed levels of service. The levels of service Council proposes to provide are detailed in Council's Asset Management Plan's. They reflect a standard that meets legislative and technical requirements, as well as the reasonable expectations of the community. The Asset Management Plans have been linked to the Long Term Financial Plan.

Council has made severe cuts to expenditure in 2013/14 that flows into subsequent years of the Long Term Financial Plan as recommended by NSW Treasury Corporation (TCorp).

3.6 Rating Pegging

Rate pegging limits the amount of money a Council can raise from ordinary or special rates by setting an increase on these limits from previous years.

Rate pegging limits are determined by the Independent Pricing and Regulatory Tribunal (IPART). This year Council has increased its general rates by 3.40% which is the maximum allowed.

The development of comprehensive Asset Management Plans (AMP's), discussed further in this report, has identified that more investment in the maintenance and renewal of assets is required to meet agreed service levels. The AMP's have renewal projects to meet service level requirements.

Council has prioritised these projects and has developed strategies for funding them. Council's principal funding sources for capital works are government grants, Section 94 Plan contributions, rates, and user charges and fees. In the water, sewerage and waste undertakings which are not funded from general rates revenue, Council has been able to increase user charges and fees above the CPI index to provide funding that cannot be sourced from grants or borrowing.

Council has increased its user charges and fees significantly above the CPI index to provide additional revenue.

It will be necessary for Council to apply to IPART to increase Council general rates by 10% per annum for 4 years from 2014/15 for Council's Main Street Project, buildings and parks and for roads infrastructure renewal across the Shire, with the increase to form a permanent part of Council's rates base. The community has been engaged in the process of the discussion of a Special Rates Variation (SRV) at meetings held in eight (8) locations across the Shire during the period 22 to 29 May, 2013. There was an overwhelming understanding of the need for, and support for, a special rates variation at each of the meetings.

Council has among the lowest rates in NSW. The Comparative Information Return prepared by the Department of Local Government shows the following differences between Tenterfield's general rates and other comparable Councils (2010/11 data)

Rate	**Tenterfield**	**Average**	**Difference**
Residential	$319.40	$495.63	$176.23
Farmland	$992.21	$2,035.49	$1,043.28
Business	$706.38	$1,091.96	$385.58

Council currently has 34.8% non-rateable land (National Parks, State Forest and other non-rateable land) and this needs to be addressed and negotiated into the future with the State and Federal Governments. The total area of Tenterfield Shire is 7,333 km2 with the non-rateable area being 2,554 km2.

3.7 Major Planned Expenditure

The following major items of planned expenditure are proposed during the period of the Long Term Financial Plan –

1. Replacement water supply dam wall (Tenterfield) 2014/15 – Project cost $4.5m
2. Tenterfield main street project 2014/15 – Project cost $2.2m
3. Replacement water treatment plant (Tenterfield) 2017/18 – Project cost $5.5m
4. Rebuild the Mt Lindesay Road between Legume & Woodenbong 2014/15 to 2018/19 - $20m (subject to availability of grant funding).

Section 4 –

Foundation Two – Revenue Forecasts

4.0 Foundation Two – Revenue Forecast

The mains sources of Councils income are –

1. Rates and Annual Charges
2. User Charges and Fees
3. Grants
4. Borrowings
5. Net Gain from the Disposal of Assets

Councils' Revenue Policy detailing Councils rates and charges is contained in the Community Strategic Plan (see Section 4 – Resourcing Strategy).

4.1 Rates and Annual Charges

Income from rates and annual charges represents approximately 26% of Councils total revenue. This compares to the Group 10 average of 30.52% (2010/11 data).

Council	Percentage of total revenue
Tenterfield	26%
Average	31%

Rate income is limited by rate pegging which restricts the percentage by which the total income raised from rates can be increased. Annual charges are represented by service charges for water, sewerage, waste management and stormwater management.

It is planned to apply to IPART for a special rate variation (SRV) to increase rates in 2014/15 by 15% and then 10% the following 3 years (this increase to include the rate peg amount not additional to it). This is proposed to be a permanent variation with the increase being retained in the rates base. The further development of Council's Asset management Plans has identified the need to invest significantly in the renewal of infrastructure, particularly roads and plant assets.

In 2014/15, subject to the approval of a SRV, the minimum rates and charges for the general and waste funds will entitle all eligible pensioners to the maximum available pension rebate of $250 for the first time. The maximum rebate for water and sewerage charges of $87.50 is currently available to all pensioners. The dollar amount of pensioner rate and charge abandonments has been increased by 1.02% in 2014/15 with an additional 0.80% population index applied used in the plan applying to all funds.

Council expects a small but consistent increase in population based on census information.

This year the overall rate yield will increase by the maximum 3.4%, and for the purposes of the Long Term Financial Plan 3% has been used for future years as the CPI index.

For the purposes of the Long Term Financial Plan the following percentage increases have been applied to annual charges.

Year	General	Waste	Water	Sewerage	Stormwater
2013/14	3.4%	10%	5%	5%	Nil
2014/15	15%	10%	7%	5%	Nil
2015/16	10%	10%	7%	5%	Nil
2016/17	10%	5%	7%	5%	Nil
2017/18	10%	5%	7%	5%	Nil
2018/19	3%	5%	7%	5%	Nil
2019/20	3%	5%	7%	5%	Nil
2020/21	3%	5%	7%	5%	Nil
2021/22	3%	5%	7%	5%	Nil
2022/23	3%	5%	7%	5%	Nil

The water and sewerage funds are required to achieve operating surpluses and also have large capital expenditure programs to finance. The Waste Management Fund faces on-going costs related to the remediation of landfills.

4.2 User Charges and Fees

User charges and fees are represented by specific user charges for water, sewerage and waste management (non-domestic services). They may also include cemetery fees, library fees and administration charges on grant works. User charges and fees represent 9% (2012) of Councils income. This compare to the Group 10 average of 18.18% (2010/11 data). Council has decided to increase fees and charges by 10% per annum over each of the next 4 years to increase revenue from fees and charges. Statutory and regulatory fees have been budgeted to increase at the CPI index of 2.5%; these fees are often not set by Council.

Council	Percentage of total revenue
Tenterfield	9%
Average	18%

Councils "Fees and Charges" are detailed in Councils Revenue Policy (refer Delivery Plan 2013-17 Section 4 – Resourcing Strategy). The "Fees and Charges" document contains pricing codes which indicate whether full recovery is obtained, whether a subsidy is provided or whether the charge is statutory (among various options).

4.3 Interest and Investments

Surplus funds are invested in accordance with Councils investment Policy. The investment policy considers the preservation of capital, liquidity and the return on investment. Council has decided that investments will only be placed with the following banks, Commonwealth, National Australia Bank, Westpac or ANZ.

For the purpose of the Long Term Financial Plan Council has used an interest rate of 4.25% for 2013/14 as an average based on the current cash rate of 2.75%. From 2014/15 this has been forecast to increase to 4.50%.

The level of outstanding rates as indicated by the "Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage" shown in Note 13 of the General Purpose Finance Statements has fluctuated but has averaged 10.26% over the last 3 years. A change in billing practices for non-residential water and sewerage charges will reduce the level of outstanding annual charges from 2013/14. Non-residential water and sewerage charges will be included on the rates notice from 2013/14. Previously non-residential annual charges were included with the consumption accounts issued in December and June each year.

Council will continue to apply the maximum interest rate to overdue rates and annual charges as allowed by the Division of Local Government, currently 9%. This figure has been used for the purposes of the Long Term Financial Plan.

4.4 Other Revenues

A major contributor to Councils revenue in this category is rental of Council property which provides 38% of the total revenue. Rental arrangements are indexed by the CPI in most cases and for the purposes of the Long Term Financial Plan a rate of 2.5% has been used. However Council is currently reviewing the rent paid by tenants of all Council properties to ensure that Council maximizes its return on capital.

Interest from Other Revenues represents 2.52% (2012) of Councils total operating revenue; this compares to the Group 10 average of 2.96% (2010/11 data).

Council	Percentage of total revenue
Tenterfield	2.52%
Average	2.96%

Insurance rebates and other reimbursements also provide approximately 45% of the income in this category and while their amount is difficult to predict from year to year, an indexation rate of 2.5% has also been used across all funds.

4.5 Grants

Operating and capital grants make up a significant proportion of the Council's income. Operating and capital grants comprise 56% (2012) of Councils income against the Group 10 average of 37.15% (2010/11 data).

Council	Percentage of total revenue
Tenterfield	56%
Average	37%

The nature, amount and timing of these grants are not generally in the control of Council and as such assumptions need to be made about future years. The assumption for operating grants which have been received in the past on an annual basis is that they will continue from year to year and have been indexed at 2.5%. Where Council is required to provide a contribution to receive a grant then this contribution has been provided for in the Long Term Financial Plan and has been indexed at 2.5%.

The following grants will provide a major source of funding to Council during the next 10 years -

<u>Financial Assistance Grant</u>

Funding provided by the Financial Assistance Grant (FAGS) can be used for any purpose. The FAGS grant has been increased by 2.2% in 2012/13 due to some uncertainty about funding levels following a reduction in the grant in 2012/13 but in the following years of the plan an indexation rate of 2.5% has been applied.

Roads to Recovery Grant

The Roads to Recovery Grant is an important funding source for Councils road network. The Roads to Recovery program started in 2001 and in 2014/15 commences its 4th round of funding. In this round the grant has been capped at prior funding levels and consequently in real terms the value of the grant has been substantially eroded. The grant has been indexed for the following round to reflect a 2.5% annualised indexation. In contrast to many capital grants, Council is not required to provide any co-contribution to this grant but is required to maintain expenditure on its road network funded from non-grant sources. Funding provided by the Roads to Recovery Program is not intended to replace council spending on roads or State Government assistance to Councils for local road construction or maintenance.

Year	Grant Amount
2013/14	$745,609
2014/15	$745,609
2015/16	$745,609
2016/17	$745,609
2017/18	$745,609
2018/19	$745,609
2019/20	$850,000
2020/21	$850,000
2021/22	$850,000
2022/23	$850,000

Regional Roads Repair Program

The current Regional Roads Repair Program concludes in 2014/15; the assumption has been made that the Roads & Maritime services (RMS) will continue to fund the program beyond the lifecycle of the current program. Council will continue to utilise the Regional Roads Supplementary Grant and the Regional Roads Block Grant to provide the matching contributions. An annualised indexation of 2.5% has been applied to each 5 year program.

The funding of the Repair program is detailed in the table below.

Year	Repair Grant	Supp. Grant	Block Grant
2013/14	$250,000	$120,000	$130,000
2014/15	$250,000	$120,000	$130,000
2015/16	$300,000	$130,000	$170,000
2016/17	$300,000	$130,000	$170,000
2017/18	$300,000	$130,000	$170,000
2018/19	$300,000	$130,000	$170,000
2019/20	$350,000	$130,000	$170,000
2020/21	$350,000	$150,000	$170,000
2021/22	$350,000	$150,000	$200,000
2022/23	$350,000	$150,000	$200,000

Over the 5 years between 2014/15 and 2018/19 Council proposes to allocate its Repair Grant funding toward rebuilding the Mt Lindesay Road between Legume and Woodenbong. This project will cost in the order of $20m and requires a funding commitment from higher levels of government before it can proceed. The proposed program from 2019/20 for the following 3 years is to seal the remaining sections of the Mt Lindesay Highway.

<u>Flood Restoration Grants</u>

Grants for flood restoration works have been included in the Long Term Financial Plan. Flood events in 1996, 1997, 1998, 1999, 2001, 2008. 2009, 2011, 2012 and 2013 provide the historical basis for this assumption. An amount of $250,000 indexed by 2.5% has been included on an annual basis. This is considered conservative based on previous events. Grants since 2000 are detailed below –

Year	Grant Amount
2013	$543,483
2012	$277,260
2011	$4,281,222
2009	$541,255
2008	$480,970
2001	$694,131

Water Infrastructure Grants

Council will be constructing a new dam wall at its water supply in Tenterfield commencing in 2014/15 with 50% funding being provided by the NSW Office of Water. Construction of a new water treatment plant for the Tenterfield supply will commence in 2017/18 with 50% subsidy provided by the NSW Office of Water.

Other operating and capital grants have been reviewed individually. Council has previously been able to meet the project milestones and funding requirements for the receipt of grants.

4.6 Borrowings

Tenterfield Shire Council has low levels of debt and proposes to use debt funding in future for large non-recurrent capital works projects that will deliver economic benefits to future generations.

New borrowings are proposed in the Long Term Financial Plan for the following purposes –

1. Replacement water supply dam wall (Tenterfield) 2014/15 – project cost $4.5m; borrowings $2.25m.
2. Tenterfield main street project 2014/15 – project cost $2.2m; borrowings $1.2m.
3. Replacement water treatment plant (Tenterfield) 2017/18 – project cost $5.5m; borrowings $2.75m

4.7 Net Gain from the Disposal of Assets

The Long Term Financial Plan includes profit from the sale of surplus property, and from the sale of land at the Industrial Estate in Tenterfield. In respect of the Industrial Estate, profit calculations have been based on a recent independent professional assessment of the market value of the properties. A marketing campaign including television advertising commenced in May 2013. Council will continue to review its property holdings and continue to dispose of surplus property.

Council will routinely continue to trade plant and equipment and the LTFP assumes that this will be generally on a cost recovery basis and no significant gain/loss will be made.

Council is presently undertaking an audit of all Council land and buildings with the potential to sell or lease including rationalization of facilities such as road reservations, open spaces and community halls.

Section 5 –

Foundation Three – Expenditure Forecasts

5.0 Foundation Three – Expenditure Forecasts

The main areas of Council expenditure are as follows –

1. Employee Costs
2. Borrowing Costs
3. Materials and Contracts
4. Depreciation
5. Other Expenses
6. New Expenditure Items

5.1 Employee Costs

Councils long term forecast relating to staffing is contained in detail within the Workforce Management Plan. For the purpose of this document, employee costs have been indexed at 3.5%. (CPI index 2.5% + 1%) Approximately 15% of staff are over 60 years of age and the expectation is that these staff will retire in the next 10 years. The ELE (Employee Leave Entitlements) reserve is cash funded at 40% of the actual liability. The ELE Reserve has been reduced by $150,000 in 2013/14 to fund operational requirements. Council's auditors have previously reviewed the ELE reserve and have noted that it is more than adequate given the existing staff levels and age profiles.

For wages staff, on-costs are assigned to labour hours to recover fixed employment costs such as workers compensation, superannuation premiums, annual leave, long service leave, sick leave, public holidays and training costs.

For salaried staff, fixed employment costs are not recovered and are direct charged to the appropriate cost heading except to the extent that they can be accurately recovered.

The appropriate share of organisation support costs (finance, human resources, information technology and administration) are divided between funds and service functions (within funds) based on an agreed set of cost drivers. The water, sewerage and waste management funds will contribute over $1,000,000 to general fund in 2013/14 toward administration costs.

5.2 Borrowing Costs

There are new projects to be funded by borrowing in the Long Term Financial Plan as detailed below –

1. Replacement water supply dam wall (Tenterfield) 2014/15 – project cost $4.5m; borrowings $2.25m. Interest Rate 7%.
2. Tenterfield main street project 2014/15 – project cost $2.2m; borrowings $1.2m. Interest Rate 6%.
3. Replacement water treatment plant (Tenterfield) 2017/18 – project cost $5.5m; borrowings $2.75m. Interest Rate 7%.

Council will apply for any interest rate subsidies for which it is eligible. Possible interest rate subsidies are not included in the Long Term Financial Plan.

New loans will increase total borrowing costs during the period of the plan however during the term of the plan some existing debt will be retired.

5.3 Materials and Contracts

For the purposes of the Long Term Financial Plan, 2.5% has been used as the CPI index for materials and contracts costs.

5.4 Depreciation

In accordance with the requirements of the Division of Local Government Council has revalued a number of asset classes in recent years. Assets will continued to be revalued at a frequency of approximately 5 years. In 2012/13 Road assets were revalued after a review of service levels and replacement cost unit rates. While the revaluation is still subject to audit approval, it will result in a reduction in depreciation for road assets of $1.3m in 2013/14. The impact of future revaluations has not been factored into depreciation calculations.

Depreciation costs for each year in the Long Term Financial Plan have been indexed by 2.5%.

5.5 Other Expenses

For the purposes of the Long Term Financial Plan, 2.5% has been used as the CPI index for other expenses. This indexation percentage has been used for all other expenses including payments/grants to other organisations.

There are no outstanding or forthcoming legal cases to be determined.

5.6 New Expenditure Items

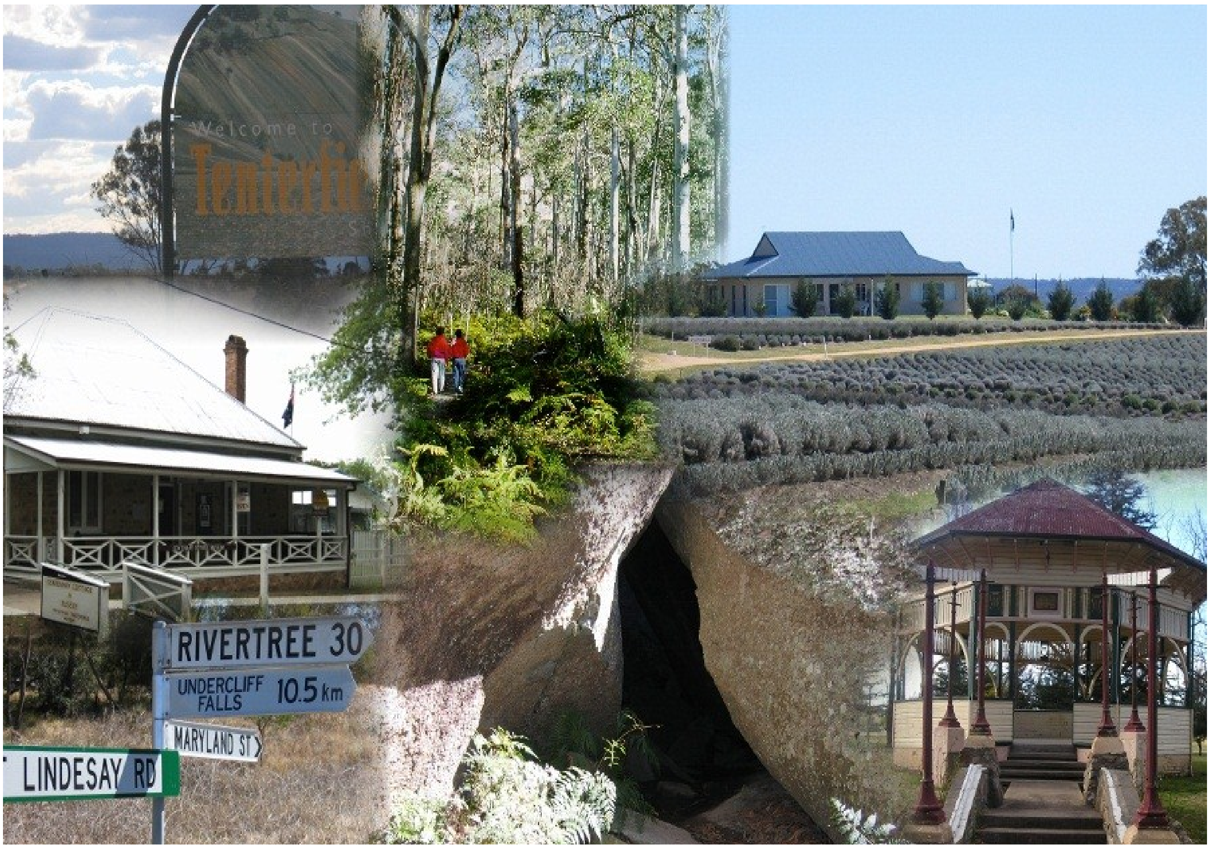
The Capital Works Program for 2013/14 included as an appendix to the Revenue Policy shows that in general fund the majority of Councils capital works are funded by grants.

A special rates variation is proposed to provide Council with additional funding to complete capital works that have broad community support. This will apply to projects from 2014/15.

If the application for a Special rate variation is successful, Council will realise an additional $9m in the period from 2014/15 to 2023/23. These funds will be allocated to capital renewal projects.

Council's Asset Management Plans provide specific information on what upgrade and renewal projects are proposed to meet agreed levels of service. Where it has not been possible to fund all proposed works priority has been given to asset renewal projects. There has been a focus on roads maintenance and renewal across the Shire in a planned way. Council recently adopted a new Road Network Management Plan.

Borrowings are proposed to fund major capital works detailed in this Long Term Financial Plan as previously outlined.



Section 6 –

Foundation Four – Asset Management Plan

6.0 Foundation Four – Asset Management Plan

Tenterfield Shire Council has developed a strategic approach to asset management and has developed asset management plans based on the total life cycle of assets.

The Asset management Plans will assist Council in predicting infrastructure consumption and asset renewal needs and identifies the cost required to renew or preserve the asset. This renewal gap is being addressed in the Long Term Financial Plan and will be the focus of future annual budgets.

Funding for the renewal of assets has been increased to ensure sustainability in the longer term. The continued allocation of funding towards the renewal of assets and funding for maintenance and upgrades will result in a positive investment for the community. Asset related expenditure identified in the Asset Management Plan has been incorporated into the LTFP.

Asset acquisitions and capital works projects are funded from either rate revenue, specific cash reserves, sales of assets, government grants or external borrowings.

Section 7 –

Foundation Five – Performance Measures

7.0 Foundation Five – Performance Measures

7.1 Financial Strategies

Council has developed a number of strategies to ensure its long term financial sustainability.

Strategy 1

Achieve at least breakeven operating position.

Council needs to achieve at least a breakeven operating position on an on-going basis.

The future sustainability of Council is dependent upon generating sufficient funds to meet the costs of maintaining and renewing assets to deliver services.

In consultation with the community Council needs to develop options for revenue increases, reductions in expenditure and reviews of existing service levels and standards.

If Council desires to provide properly funded asset management programs, maintain an acceptable level of works and services and still be able to meet increasing costs associated in the form of meeting all statutory requirements and unfunded mandates, there is the need to increase the general purpose rating base and other revenue sources, or reduce recurrent service levels, or reduce operational costs, or any combination of these options.

Council must strategically insulate itself from any unhealthy reliance on uncertain non-rating income sources in order to meet its fundamental and core statutory commitments. The necessity to increase rate income as a percentage of total income is important if Council is to strategically and prudently place itself in a position of sustainable financial strength.

Strategy 2

Review depreciation rates, expenses and methodologies to ensure that assets are depreciated at the correct rate.

The annual depreciation expense can have a major impact on the achievement of operating surpluses.

Depreciation as a proportion of infrastructure asset values needs to be analysed to ensure that Council is depreciating assets at the correct rate.

Abnormalities such as accounting gains and losses when assets are replaced can also arise if incorrect depreciation rates are used.

Strategy 3

Continue to improve Councils Asset Management Planning to provide better integration between the Asset Management Plans and Long Term Financial Plan.

It can take a number of iterations before a high level of certainty can be attached to the outputs of the Asset Management Plan. Council needs to continue to focus on the quality of its Asset Management Plans so that Council can accurately forecast its future funding requirements and put in place appropriate funding strategies.

Strategy 4

Ensure that rates and charges are consistent with the cost increases of delivering services.

Future increases in rates and annual charges should be based on the underlying cost of delivering these services. The SRV (Special Rate Variation) methodology used by IPART (Independent Pricing & Regulatory Tribunal) allows Councils to seek rate increases over and above the rate peg increases granted each year. With the community consultation process, this provides an opportunity for constituents to determine their level of satisfactory service and their capacity to pay for this.

Strategy 5

Concentrate expenditure efforts upon capital renewal to meet industry benchmarks.

There are two (2) dimensions to this strategy:

1. Spending more on capital renewal (particularly in roads, bridges, water and wastewater) and

2. Making sure that what is spent is done more cost-effectively.

The need to spend money on renewing infrastructure continues to grow. More and more into the future, Council will need to find ways of funding this burgeoning requirement through reduced operational costs and increased revenue (particularly user fees, government grants and developer contributions).

In relation to greater cost-effectiveness, emphasis is being place upon the life cycle management of assets. Better managing and maintaining infrastructure is vital to ensuring optimum results from what is spent.

Strategy 6

Water and Sewer Funds should be self-sufficient and not incur financial deficits that undermine the overall position of Council.

Water and sewer services need to be provided on the basis that they generate sufficient funds to meet ongoing operating and capital costs.

Water and sewerage services are trading operations that need to be self-sustaining. Grants for major infrastructure works may not be relied upon in the future. Funds for water and sewerage services need to be able to build cash reserves to fund future infrastructure investment.

Strategy 7

Use borrowings where appropriate to address infrastructure backlogs and to share the burden of funding major capital projects among those who will receive the benefit in the future.

The use of debt is an efficient means of addressing Backlog issues, enhancing intergenerational equity and improving asset quality and services.

Where financial analysis supports capacity to service additional debt then increased use of borrowings should be considered.

Strategy 8

Improve management of liquidity

Council maintains a cash and property portfolio which generates income.

Like any investor, Council must carefully manage these investment assets to maximise returns within acceptable risk parameters and the contribution these assets make to funding works and services in the community.

Strategy 9

Meet industry performance Benchmark Ratio's as determined by NSW Treasury Corporation (TCorp)

Benchmarks do not necessarily represent a pass or fail in respect of any particular area. One-off projects or events can impact a council's performance against a benchmark for a short period. Other factors such as the trends in results against the benchmarks are critical as well as the overall performance against all the benchmarks.

Council's Delivery Plan outlines the key performance indicators (KPI's) that will be used to measure Council's financial performance and the financial sustainability of its Delivery Program and ongoing operations. Council will review and report on its progress against these Key Performance Indicators on an annual basis.

Ratio	Benchmark	2012
Operating Ratio	> (4.0%)	(30.8%)
Cash Expense Ratio	> 3.0 months	7.5 months
Unrestricted Current Ratio	> 1.50x	6.49
Own Source Operating Revenue Ratio	> 60.0%	38.4%
Debt Service Cover Ratio (DSCR)	> 2.00x	4.43x
Interest Cover Ratio	> 4.00x	7.64x
Building and Infrastructure Backlog Ratio	< 0.02x	0.04x
Asset Maintenance Ratio	> 1.00x	0.62x
Building and Infrastructure Asset Renewal Ratio	> 1.00x	0.54x
Capital Expenditure Ratio	> 1.10x	0.57x

Ratio Explanations

Asset Maintenance Ratio

Benchmark = Greater than 1.0x

Ratio = actual asset maintenance / required asset maintenance

This ratio compares actual versus required annual asset maintenance, as detailed in Special Schedule 7. A ratio of above 1.0x indicates that the council is investing enough funds within the year to stop the infrastructure backlog from growing.

Building and Infrastructure Renewals Ratio

Benchmark = Greater than 1.0x

Ratio = Asset renewals / depreciation of building and infrastructure assets

This ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation. Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance.

Cash Expense Cover Ratio

Benchmark = Greater than 3.0 months

Ratio = current year's cash and cash equivalents / (total expenses – depreciation – interest costs)*12

This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow.

Capital Expenditure Ratio

Benchmark = Greater than 1.1x

Ratio = annual capital expenditure / annual depreciation

This indicates the extent to which a council is forecasting to expand its asset base with capital expenditure spent on both new assets, and replacement and renewal of existing assets.

Debt Service Cover Ratio (DSCR)

Benchmark = Greater than 2.0x

Ratio = operating results before interest and depreciation (EBITDA) / principal repayments (from the statement of cash flows) + borrowing interest costs (from the income statement)

This ratio measures the availability of cash to service debt including interest, principal and lease payments

Building and Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

Ratio = estimated cost to bring assets to a satisfactory condition (from Special Schedule 7) / total infrastructure assets (from Special Schedule 7)

This ratio shows what proportion the backlog is against total value of a council's infrastructure.

Interest Cover Ratio

Benchmark = Greater than 4.0x

Ratio = EBITDA / interest expense (from the income statement)

This ratio indicates the extent to which a council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a council's operating cash.

Operating Ratio

Benchmark = Better than negative 4%

Ratio = (operating revenue excluding capital grants and contributions – operating expenses) / operating revenue excluding capital grants and contributions

This ratio measures a council's ability to contain operating expenditure within operating revenue.

Own Source Operating Revenue Ratio

Benchmark = Greater than 60%

Ratio = rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)

This ratio measures the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue.

Unrestricted Current Ratio

Benchmark = 1.5x (taken from the IPART December 2009 Revenue Framework for Local Government report)

Ratio = Current assets less all external restrictions / current liabilities less specific purpose liabilities

Restrictions placed on various funding sources (e.g. Section 94 developer contributions, RMS contributions) complicate the traditional current ratio because cash allocated to specific projects are restricted and cannot be used to meet a council's other operating and borrowing costs. The Unrestricted Current Ratio is specific to local government and is designed to represent a council's ability to meet debt payments as they fall due.

7.2 Factors Influencing Financial Sustainability

Council supports the following considerations:

- Bolstering the Revenue Base:
  - Remove or phase out rate-pegging (the preference of the independent review panel).
  - Deregulate Fees and charges.
  - Establish more flexible rating categories.
  - Rate valuations were based on the improved value of land

- It would help if Governments did any or all of the following:
  - Established an infrastructure fund or infrastructure bonds
  - Provided no or low interest loans for infrastructure
  - Reviewed the formula used for assessing disadvantage as part of FAGs
  - Progressively re-distributed grant funding to provide greater assistance to rural and remote councils with limited rating potential
  - Established a State-wide Local Government Agency to bring down interest costs and assist with increased borrowings
  - Created a Strategic Projects Fund for roads & bridges to help reduce the infrastructure backlog
  - Maintained the Local infrastructure Renewal Scheme

- Gave councils greater flexibility to determine how natural disaster funding can be spent in restoring damaged infrastructure
- Reviewed the extent of non-rateable land
- Reduced the overall compliance and reporting burden on councils
- Fund councils directly to provide some State or Federal services, particularly in remote and rural areas

Section 8 –

Foundation Six – Modelling and Sensitivity Analysis

8.0 Foundation Six – Modelling and Sensitivity Analysis

Long term financial plans are inherently uncertain. They contain a wide range of assumptions about interest rates and the potential effect of inflation on revenues and expenditures. Some of these assumptions will have a relatively limited impact if they are wrong. Others can have a major impact on future financial plans.

The Long Term Financial Plan has three models based on different financial assumptions –

1. Scenario 1 – Base Model SRV 15% + 10% x 3 YRS
2. Scenario 2 – SRV 10% x 4 YRS
3. Scenario 3 – No SRV

SCENARIO 1 – Base Model (SRV 15% + 10% x 3 YRS)

The base case scenario is the foundation of Council's 4 – year Delivery Program.

The base case assumes a 15% rate increase in 2014/15 following by three successive increases of 10%. The increase would be permanently factored into the rate base.

This scenario will yield Council an additional $9m to invest in capital infrastructure.

The base model also includes loan borrowings for major projects that will yield intergenerational benefits.

In this scenario Council has a surplus from Continuing Operations in each of the ten years of the LTFP. A surplus before Grants and Contributions Provided for Capital Purposes is achieved in 2022/23.

Financial Year	Operating Result from Continuing Operations	Net Operating Result Before Grants & Contributions Provided for Capital Purposes
2013/14	$ 879,955	($2,210,577)
2014/15	$4,602,955	($1,892,022)
2015/16	$4,737,174	($1,369,193)
2016/17	$5,156,483	($ 993,253)
2017/18	$5,195,192	($ 543,147)
2018/19	$5,760,891	($ 284,191)
2019/20	$2,622,892	($ 143,271)
2020/21	$2,558,050	($ 295,954)
2021/22	$1,925,462	($ 156,142)
2022/23	$2,553,336	$ 148,866

SCENARIO 2 – SRV 10% x 4 YRS

This scenario reduces the initial SRV request to 10%.

While this model may not seem significantly different to the base model (Scenario 1) the impact is very significant. By 2017/18 it will be necessary to cut renewal programs for the remainder of the life of the LTFP.

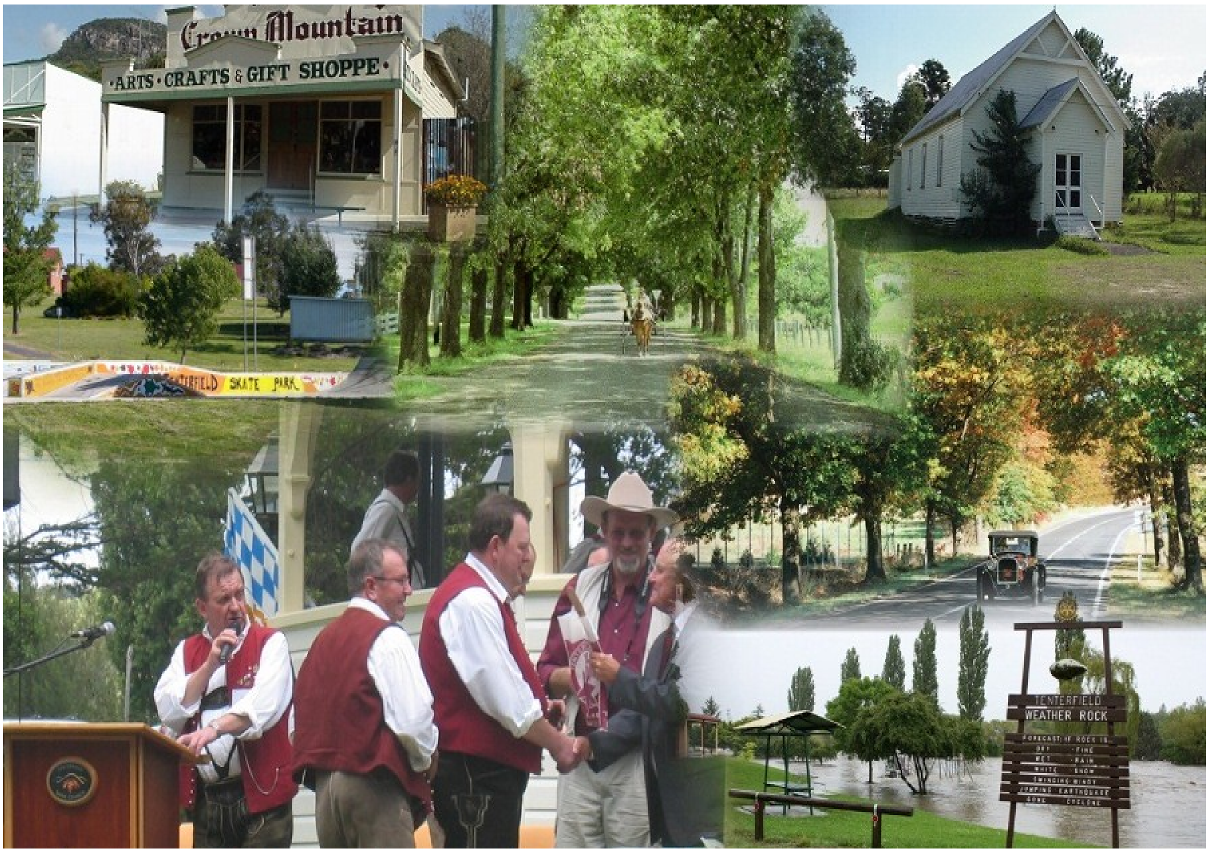
Financial Year	Operating Result from Continuing Operations	Net Operating Result Before Grants & Contributions Provided for Capital Purposes
2013/14	$ 879,955	($2,210,577)
2014/15	$4,463,018	($2,031,959)
2015/16	$4,583,243	($1,523,124)
2016/17	$4,987,159	($1,162,577)
2017/18	$5,008,935	($ 729,404)
2018/19	$5,569,047	($ 476,135)
2019/20	$2,425,293	($ 340,870)
2020/21	$2,354,523	($ 499,481)
2021/22	$1,715,829	($ 365,775)
2022/23	$2,337,413	($ 67,056)

SCENARIO 3 – No SRV

This scenario considers what will occur if there is no special rate variation application.

In this scenario there is effectively no nexus between funding agreed service levels and the LTFP. In this model Council would be incapable of funding an effective capital works program.

Financial Year	Operating Result from Continuing Operations	Net Operating Result Before Grants & Contributions Provided for Capital Purposes
2013/14	$ 879,955	($2,210,577)
2014/15	$4,267,106	($2,227,871)
2015/16	$4,165,950	($1,940,417)
2016/17	$4,320,954	($1,829,442)
2017/18	$4,061,306	($1,677,033)
2018/19	$4,592,989	($1,452,194)
2019/20	$1,419,952	($1,346,210)
2020/21	$1,319,022	($1,534,982)
2021/22	$ 649,263	($1,432,341)
2022/23	$1,238,851	($1,165,619)



Section 9 – Appendices

Appendices

A. LTFP – Scenario 1 - Base Model SRV 15% + 10% x 3 YRS

B. LTFP – Scenario 2 – SRV 10% x 4 YRS

C. LTFP – Scenario 3 – No SRV