

**DISTRICT COUNCIL OF
TUMBY BAY**



LONG TERM FINANCIAL PLAN

2014/15 TO 2023/24

REVIEW TWO

2017/18 to 2023/24



Adopted 2nd June 2015
Reviewed 14th February 2017
Reviewed 13th March 2018



PURPOSE OF THE LONG TERM FINANCIAL PLAN

The Long Term Financial Plan has been developed in accordance with the requirements of the Local Government Act 1999, and forms part of Council's Strategic planning documents.

The purpose of the plan is to measure the Council's capacity to fund the projects and services as set out in the Strategic Plan, and to ensure that the Council is adequately providing for Asset renewal as identified in the various Asset Management Plans.

The plan also includes various financing options for a number of proposed new capital works which have been identified in Council's Asset Management Plans. The majority of these works have been staged over a number of years due to the size and scope of work required.

The ten year plan has been set based on the premise that Council wishes to be financially sustainable over the ten year period, and takes into consideration Council's position in relation to the three key financial indicators adopted by Council.

ASSUMPTIONS

The following assumptions were used in the formulation of the Long Term Financial Plan: -

REVENUE

General Rates

General rate revenue has been increased by a greater percentage early in the plan to ensure the long term sustainability of the Council, in doing this the Council will reach a point of sustainability mid way through the planning period. Proposed rate increases are detailed below:

<u>Adopted Plan</u>		<u>Review Two</u>	
2015/2016	4.5% Increase	2015/2016	4.5% Increase
2016/2018	4.0% Increase	2016/2018	4.0% Increase
2018/2021	3.5% Increase	2018/2021	3.5% Increase
2021/2024	3.0% Increase	2021/2024	3.0% Increase

Over this period the plan has allowed for a sizeable increase in ratable properties in 2015/2016 (Kiebrox Development) with continued modest growth for the remainder of the plan.

Review Two – Comment

Residential Growth has been revised to correlate with anticipated land sales over the remaining term of the plan.

Other Revenues

Council also receives revenue from several other sources including statutory charges, user charges, reimbursements and other revenues; these items have been increased by the following amounts to mirror estimated Local Government cost increases:-

<u>Adopted Plan</u>		<u>Review Two</u>	
2015/2017	2.5% Increase	2015/2017	Completed
2017/2019	3.0% Increase	2017/2019	2.0% Increase
2019/2024	3.0% Increase	2019/2024	3.0% Increase

Operating Grants

Roads to Recovery grants of \$188,600 have been included for the entire plan. While the current program expires after the 2018/2019 year it is anticipated that the program will continue in a similar format.

Review Two – Comment

Council has received 3 significant extra payments under the Roads to Recovery Program and is now anticipating an increase in allocations for the final five years of the plan. Indexation was restored on both the General Purpose and Road Grant components of the financial assistance grants in 2017/2018. Council has also been advised that the Supplementary Road grant funding previously provided to South Australian Council's has been restored. Grant income within the Long Term Financial Plan has been amended to reflect these changes for the remainder of the plan.

Investment Income

Interest earned on investments has been calculated at variable interest rates ranging from 2.5% to 4.5% over the period of the plan.

Review Two – Comment

Interest calculations on investments have been reviewed to range from 2% to 3% for the remainder of the plan.

EXPENDITURE

Operating Expenditure

Operating expenditure has been based on the following estimated Local Government cost increases:

<u>Adopted Plan</u>		<u>Review Two</u>	
2015/2017	2.5% Increase	2015/2017	Completed
2017/2019	3.0% Increase	2017/2019	2.0% Increase
2019/2024	3.0% Increase	2019/2024	3.0% Increase

Wages

In determining likely increases in annual wage payments the following items have been taken into consideration:-:

- Implementation and adjustments in line with new **Draft** Enterprise Bargaining Agreement
- Anticipated wage increases in new **Draft** Enterprise Bargaining Agreement
- Executive Staff Contracts

On this basis the following increases have been applied within the plan.

<u>Adopted Plan</u>		<u>Review Two</u>	
2015/2016	3.0%	2015/2016	Completed
2016/2017	2.0%	2016/2017	Completed
2017/2019	2.0%	2017/2019	2.0%
2019/2021	2.0%	2019/2021	2.5%
2021/2024	2.0%	2021/2024	3.0%

Review Two – Comment

Wage indexation has been amended to reflect the current EB Agreement which includes CPI Increases with a minimum annual increase of 2% and wage rate pegging for some employees.

Finance Charges

Finance Charges have been calculated at variable interest rates ranging from 4.75% to 6.75% over the period of the plan, and include both fixed term and cash advance loan facilities with the LGFA.

Review Two – Comment

Finance Charges have been calculated at variable interest rates ranging from 4.25% to 5.25% for the remainder of the plan.

Depreciation

Depreciation has been calculated using the ‘Straight Line Method’ based on the Current Replacement Cost (CRC) of an asset and its expected life. In applying depreciation amounts to the various assets CRC has been indexed in line with anticipated asset revaluations to ensure depreciation rates are keeping pace with the increased cost of asset provision and renewal. These rates therefore vary from asset to asset – see chart below for details.

Adopted Plan

<u>Year</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>	<u>22/23</u>	<u>23/24</u>
Buildings	0.0%	14.2%	0.0%	0.0%	0.0%	0.0%	16.0%	0.0%	0.0%
Plant	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Infrastructure	0.0%	0.0%	8.2%	0.0%	0.0%	9.3%	0.0%	0.0%	9.3%

Review 2

<u>Year</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>	<u>22/23</u>	<u>23/24</u>
Buildings	0.0%	36.4%	0.0%	0.0%	0.0%	0.0%	16.0%	0.0%	0.0%
Plant	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Infrastructure	0.0%	16.6%	2.0%	0.0%	0.0%	9.3%	0.0%	0.0%	9.3%

Review Two - Comment

Depreciation on Council buildings and structures has risen significantly following re-valuation of these assets on 1 July 2016. Further due to the requirement to remove residual values from several of Council’s infrastructure assets, depreciation has also increased more than anticipated within this asset class.

CAPITAL EXPENDITURE

Renewal

The Capital Renewal requirements as estimated in the Asset Management Plans have been included in the Long Term Financial Plan. The plan aims for a 100% renewal program at the optimum time to ensure assets do not deteriorate to a point where additional works are required. In the case of long lived assets such as CWMS, bridges and urban stormwater systems, funds will be set aside to offset future renewal programs.

New Assets

The plan includes the provision of a number of new assets identified within the Council’s Asset Management Plans. Due to the size and nature of these assets it is envisaged that a combination of grant and loan funds along with accumulated reserves will be utilized in their provision. Dependence on varying degrees of grant funding may dictate at what time during this planning period several of these projects are able to proceed.

SELF FUNDED ACTIVITIES

Funding for the Tumby Bay and Port Neill Community Wastewater Management Schemes has been included within the LTFP and includes future asset renewal in line with Asset Management Plans. As per legislative requirements any funds raised through service charges applied for the schemes must be quarantined for future use within the scheme. These funds are managed by Council through the provision of reserve accounts, with any excess funds allocated to reserve and available for future asset renewals as required.

LOAN BORROWING

Council enters this planning period with relatively few loan borrowings and with a number of these loans in the category of self servicing loans. It is envisaged that new borrowings will be required to fund some of the new major works including the Port Neill CWMS and sections of the Tumby Bay Stormwater Management Plan. Council will continue to use a cash advance loan to fund its plant replacement program with capital cost repaid over a period of 4 years from acquisition.

Review Two – Comment

The reviewed plan includes four new fixed term loans:

- *\$100K for the Port Neill Foreshore Project;*
- *\$275K for land purchase for the Tumby Bay Stormwater Management Project;*
- *1.3M for the construction of the Tumby Bay Stormwater Management Project;*
- *1.62M for the replacement of Graham Smelt Causeway Bridge.*

FINANCIAL INDICATORS

South Australian Councils have recently moved towards a nationally-consistent approach of measuring their financial sustainability by using three key indicators:

- Operating Surplus Ratio
- Net Financial Liabilities Ratio
- Asset Sustainability Ratio

Operating Surplus Ratio

The operating surplus ratio is the operating surplus (deficit) expressed as a percentage of general and other rates, net of rate rebates and revenues from the NRM Levy.

“This indicator is by far the most important indicator for Councils. If a Council consistently achieves a modest positive operating surplus ratio, and has soundly based projections showing that it can continue to do so in the future, having regard to asset management and its community’s service level needs, then it is financially sustainable.” – LGA Financial Sustainability Paper 9.

The Local Government Association suggests Councils should be targeting “To achieve, on average, an operating surplus ratio of between 0% and 15%”.

In Council Policy 5.25 Revenue and Financiering, Council has set itself a target to achieve an operating break even position, or better, over any five year period. This LTFP provides Council the opportunity to reach this target in the final 4 years of the plan. (See Chart – Page 9)

Review Two – Comment

The operating surplus ratio has been amended and is now the operating surplus expressed as a percentage of total operating revenue.

The reviewed plan highlights that with significantly increased depreciation expenses, Council will no longer reach a break even ratio during the course of the current plan.

Net Financial Liabilities Ratio

The net financial liabilities ratio is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating revenue for the year.

“Net financial liabilities ratio is a broader and more appropriate measure of indebtedness than the level of borrowings, because it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account of a Council’s cash and investments” – LGA Financial Sustainability Paper 9.

The Local Government Association suggests a Council’s net financial liabilities ratio is greater than zero but no more than 100% of total operating revenue.

In Council Policy 5.24 Treasury, Council has set itself a limit of 100%. This LTFP shows Council’s ratio peaking at 62% early in the planning period and closing out at 10%, well below Council’s accepted position. (See Chart – Page 10)

Review Two – Comment

The reviewed plan has Council’s ratio peaking at 49% early and then closing out at 23%.

Asset Sustainability Ratio

The asset sustainability ratio is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in a Council’s asset management plans.

“If capital expenditure on renewing or replacing assets is at least equal to the level proposed in the asset management plans, then a Council is ensuring the value of its existing stock of physical assets is maintained.” – LGA Financial Sustainability Paper 9.

The Local Government Association suggests capital outlays on renewing/replacing assets net of proceeds from sale of surplus assets are greater than 90% but less than 110% of the level proposed in the asset management plans.

In Council Policy 5.27 Asset Management, Council has set itself a target of 80%. This LTFP enables Council to maintain a far more sustainable ratio of 100% throughout the plan period. (See Chart – Page 11)

Review Two – Comment

The reviewed plan maintains a 100% ratio with the exception of the current financial year with a ratio of 150%.

STRATEGIC PLAN

It is recognized that the Long Term Financial Plan does not necessarily cover off on all actions and activities mentioned in Council's Strategic Plan, however every endeavor has been made to include all information considered relevant to the plan at this time. Future review of the plan will be carried out on an annual basis and will need to incorporate changes made following the review of Council's Strategic Plan in coming months.

The current plan includes the following major projects:

- Port Neill Foreshore Open Space Project
- Tumby Bay Stormwater Management Plan
- Tumby Bay Township Master Plan Project
- Sealing Balumbah / Kinnaird Road

Review Two – Comment

The reviewed plan includes all projects listed above; with the Balumbah/Kinnaird Road Sealing completed in 2016/2017 and stage one of the Port Neill Foreshore Open Space Project to commence this financial year. The replacement of the Graham Smelt Causeway Bridge has now been included in the plan for replacement in 2020/2021.

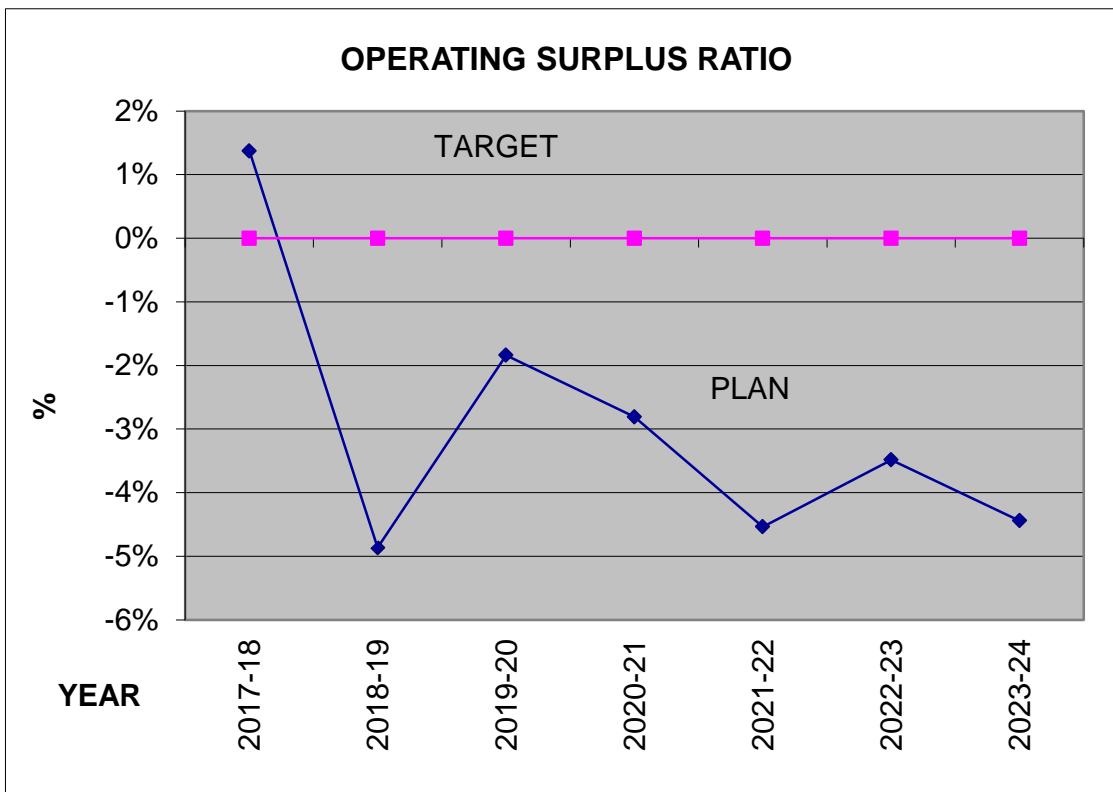
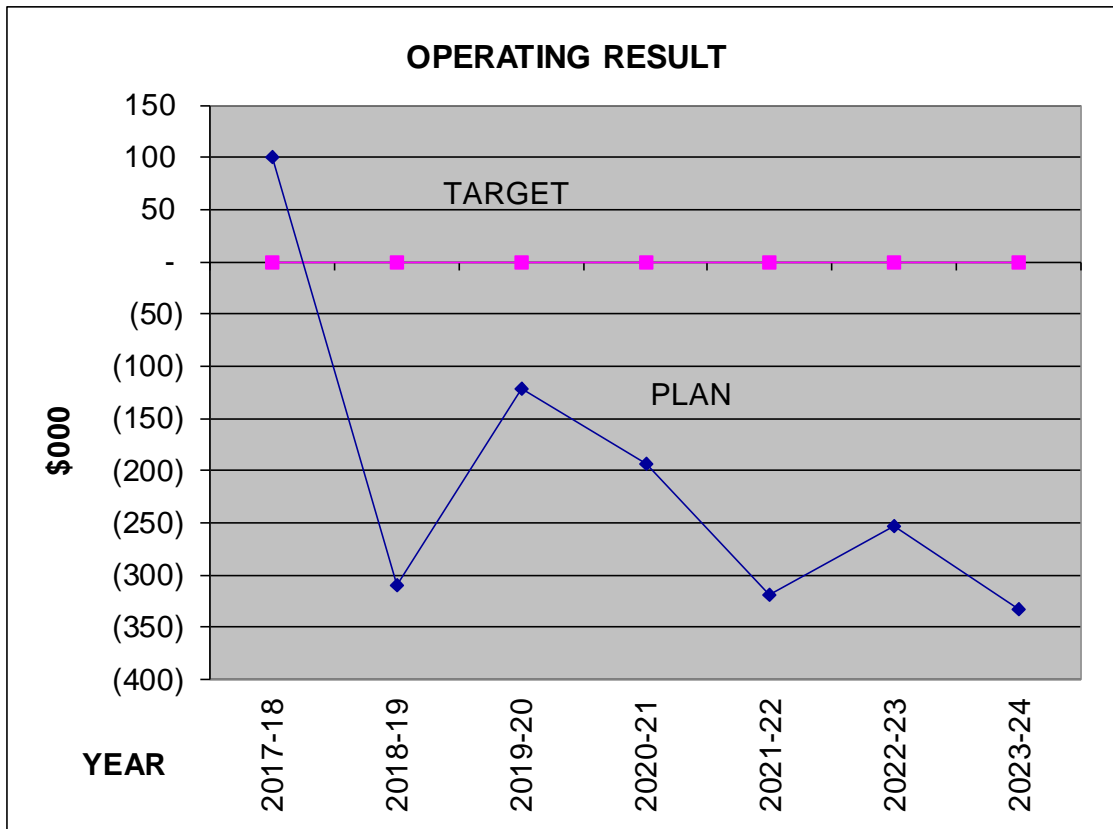
ANALYSIS OF LONG TERM FINANCIAL PLAN

Council has endeavored to approach the formulation of its Long Term Financial Plan with two clear objectives; sustainability of essential service delivery and sound infrastructure management. However in achieving this it is also paramount that Council provides adequate funds within its "Future Projects Reserve" to firstly safeguard against unexpected financial impacts; and secondly, provide funding for future improvements within our communities. Council strongly believes the LTFP provides a degree of certainty in both areas, whilst maintaining an acceptable level of projected rate increases across the plan.

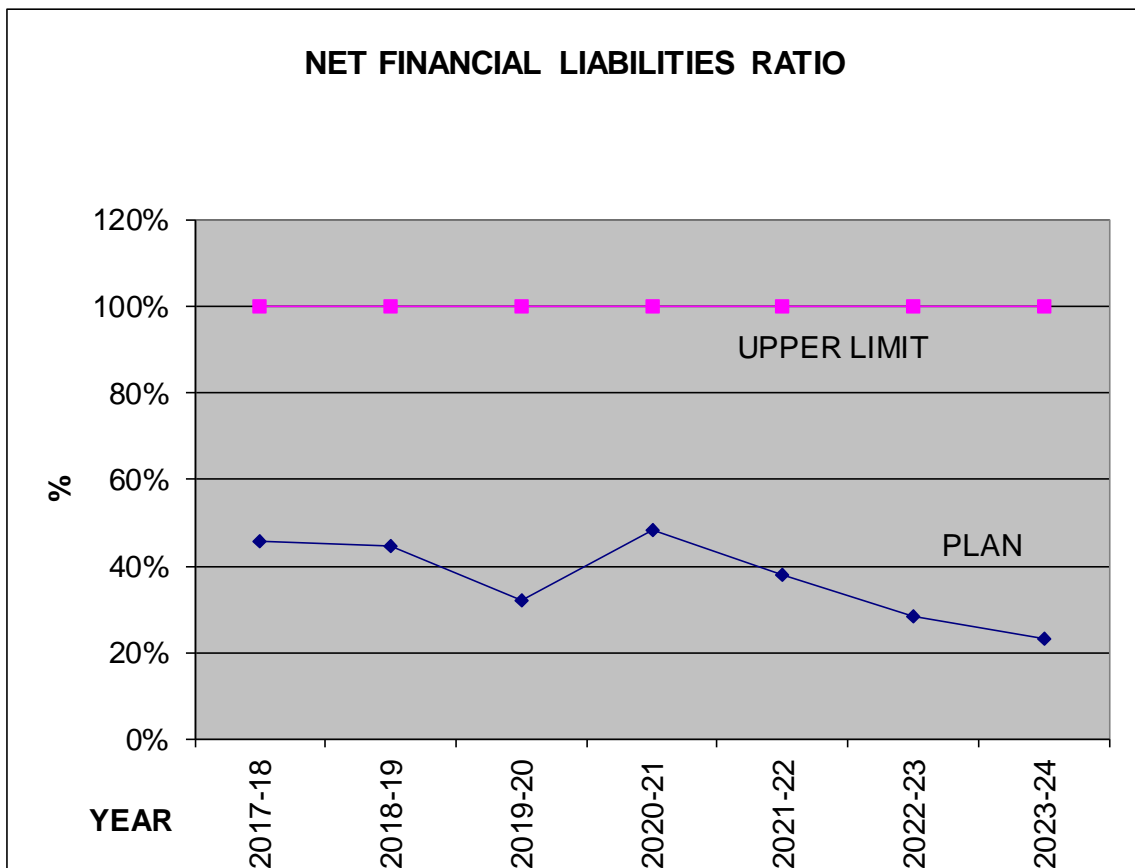
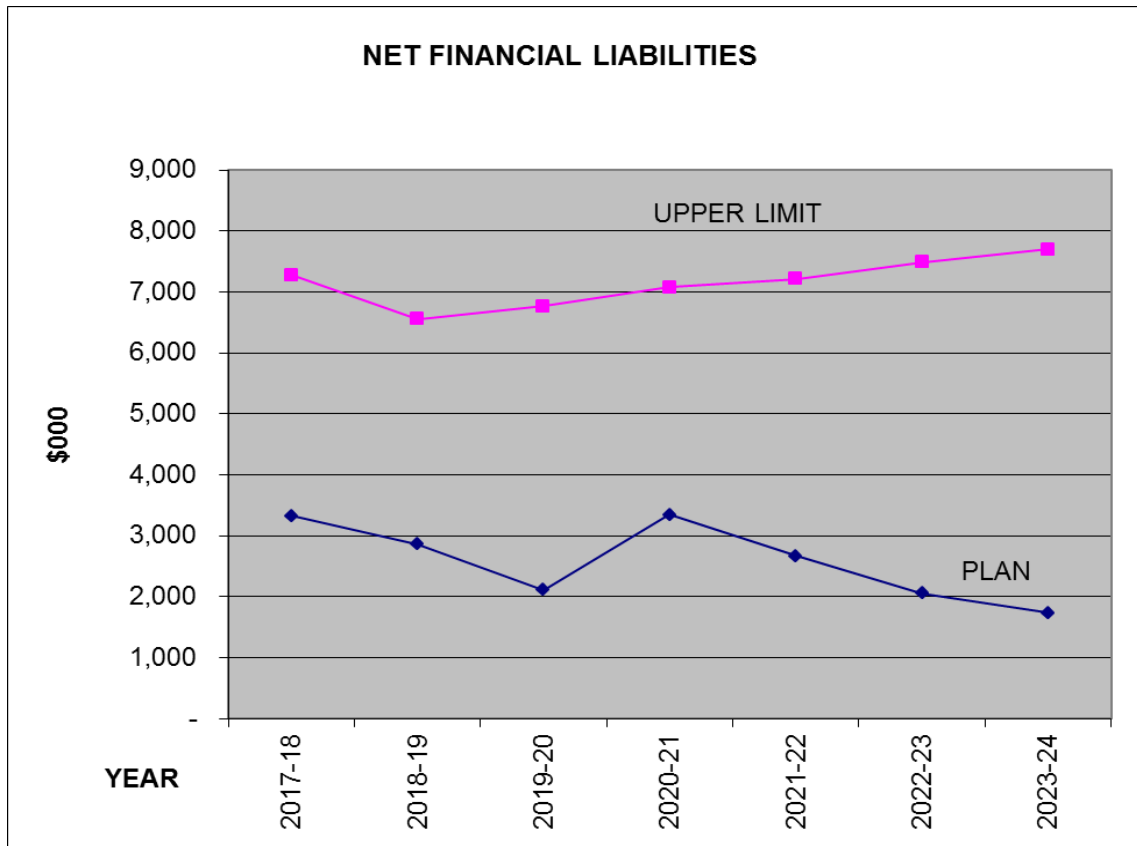
Review Two – Comment

The reviewed plan continues to support the objectives detailed above whilst maintaining an acceptable level of projected rate increases. However; increased depreciation charges have now resulted in a number of operating deficits across the remaining years; these results will need to be given significant consideration during the next major review of the plan.

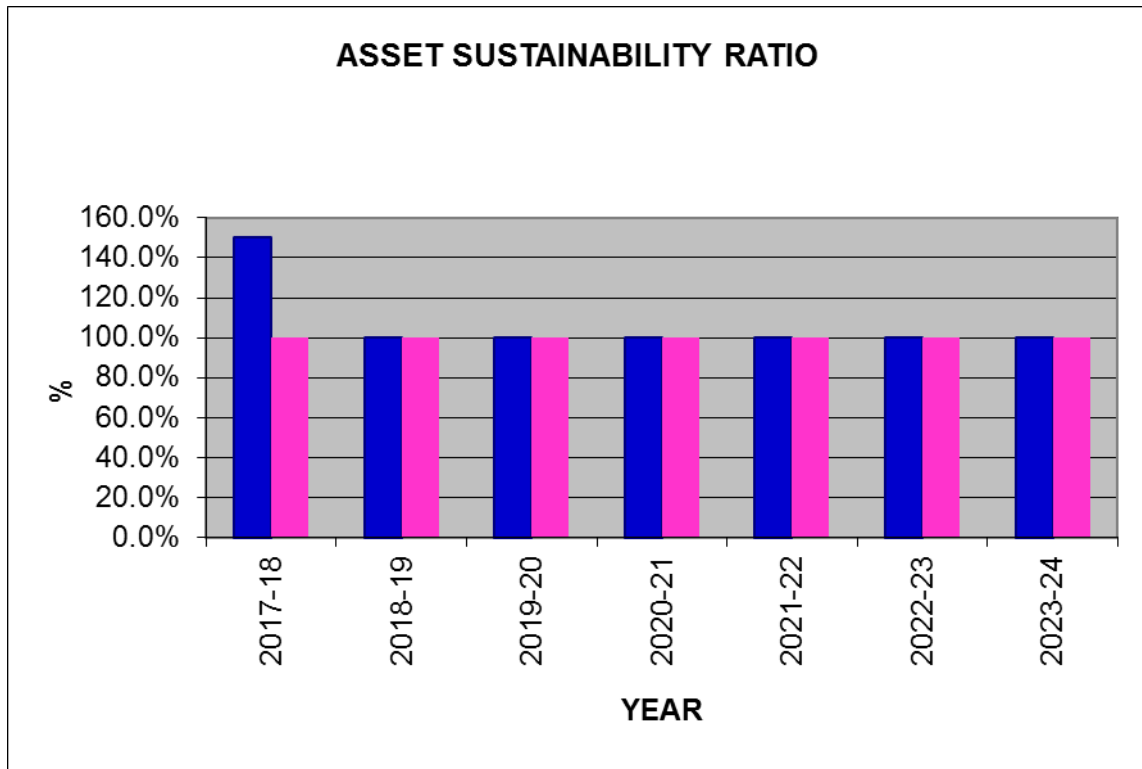
FINANCIAL CHARTS



FINANCIAL CHARTS



FINANCIAL CHARTS



TARGET - PLAN

DISTRICT COUNCIL OF TUMBY BAY - LONG TERM FINANCIAL PLAN

ESTIMATED INCOME STATEMENT - REVIEW TWO

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Review 1	Plan	Plan	Plan	Plan	Plan	Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
INCOME							
Rates	5,698	5,002	5,178	5,365	5,537	5,715	5,898
Statutory charges	65	67	69	71	73	75	77
User charges	145	148	152	157	162	167	172
Grants, subsidies and contributions	1,098	1,179	1,194	1,223	1,253	1,330	1,346
Investment Income	25	37	51	60	67	76	83
Reimbursements	23	23	24	102	26	26	27
Other Revenues	184	103	96	99	93	95	98
Share of profit – joint ventures & associates	39	-	-	-	-	-	-
Total Revenues	7,276	6,559	6,764	7,076	7,210	7,484	7,702
EXPENSES							
Employee Costs	1,853	1,835	1,897	1,941	2,053	2,085	2,178
Materials, contracts & other expenses	3,004	2,680	2,641	2,787	2,815	3,001	3,066
Finance Costs	142	171	156	188	219	203	185
Depreciation, Amortisation & Impairment	2,177	2,183	2,191	2,353	2,441	2,449	2,606
Total Expenses	7,176	6,869	6,885	7,270	7,528	7,738	8,035
OPERATING SURPLUS/(DEFICIT) BEFORE CAPITAL AMOUNTS	100	(311)	(121)	(193)	(318)	(254)	(333)
Net gain/(loss) on disposal or revaluation of assets	114	150	65	200	206	255	208
Amounts received specifically for new or upgraded assets	2,512	-	-	135	-	-	-
Physical resources received free of charge	-	-	-	-	-	-	-
NET SURPLUS/(DEFICIT)	2,725	(160)	(56)	142	(113)	1	(125)

DISTRICT COUNCIL OF TUMBY BAY - LONG TERM FINANCIAL PLAN

ESTIMATED BALANCE SHEET - REVIEW TWO

	2017-18 Review 1	2018-19 Plan	2019-20 Plan	2020-21 Plan	2021-22 Plan	2022-23 Plan	2023-24 Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Current Assets							
Cash & cash equivalents	843	977	1,373	1,657	1,980	2,247	2,224
Trade & other receivables	500	509	523	538	553	568	584
Inventories	26	26	26	26	26	26	26
Total Current Assets	1,369	1,512	1,922	2,221	2,559	2,842	2,834
Non-current Assets							
Financial Assets	160	119	76	42	27	11	(6)
Equity accounted investments in Council	-	-	-	-	-	-	-
Infrastructure, Property, Plant & Equipment	67,447	66,818	66,015	67,388	66,603	65,988	65,546
Total Non-current Assets	67,607	66,937	66,091	67,430	66,630	65,998	65,540
Total Assets	68,976	68,449	68,013	69,652	69,189	68,840	68,373
LIABILITIES							
Current Liabilities							
Trade & Other Payables	275	281	289	298	307	316	325
Borrowings	1,403	1,403	1,403	1,403	1,403	1,403	1,403
Short-term Provisions	498	508	521	534	550	566	583
Sub-total	2,176	2,191	2,213	2,234	2,259	2,285	2,311
Liabilities relating to Non-current Assets held for							
Total Current Liabilities	2,176	2,191	2,213	2,234	2,259	2,285	2,311
Non-current Liabilities							
Long-term Borrowings	2,623	2,240	1,837	3,312	2,936	2,559	2,190
Long-term Provisions	32	33	33	34	35	36	37
Total Non-current Liabilities	2,655	2,273	1,871	3,346	2,971	2,596	2,228
Total Liabilities	4,831	4,464	4,083	5,580	5,230	4,881	4,539
NET ASSETS	64,145	63,985	63,929	64,071	63,959	63,959	63,834
EQUITY							
Accumulated Surplus	10,256	9,968	9,525	9,390	8,966	8,710	8,621
Asset Revaluation Reserve	53,201	53,201	53,201	53,201	53,201	53,201	53,201
Other Reserves	688	816	1,203	1,480	1,792	2,048	2,012
TOTAL EQUITY	64,145	63,985	63,929	64,071	63,959	63,959	63,834

DISTRICT COUNCIL OF TUMBY BAY - LONG TERM FINANCIAL PLAN

ESTIMATED STATEMENT OF CHANGES IN EQUITY - REVIEW TWO

	2017-18 Review 1	2018-19 Plan	2019-20 Plan	2020-21 Plan	2021-22 Plan	2022-23 Plan	2023-24 Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ACCUMULATED SURPLUS							
Balance at end of previous reporting period	5,238	7,832	7,541	7,355	7,367	7,127	7,000
Net Result for Year	2,725	(160)	(56)	142	(113)	1	(125)
Transfers to Other Reserves	(132)	(131)	(130)	(129)	(128)	(127)	(126)
Transfers from Other Reserves	-	-	-	-	-	-	-
Balance at end of period	7,832	7,541	7,355	7,367	7,127	7,000	6,749
ASSET REVALUATION RESERVE							
Balance at end of previous reporting period	53,201	53,201	53,201	53,201	53,201	53,201	53,201
Gain on revaluation of infrastructure, property,	-	-	-	-	-	-	-
Balance at end of period	53,201	53,201	53,201	53,201	53,201	53,201	53,201
OTHER RESERVES							
Balance at end of previous reporting period	2,981	3,113	3,243	3,373	3,503	3,631	3,758
Transfers from Accumulated Surplus	132	131	130	129	128	127	126
Transfers to Accumulated Surplus	-	-	-	-	-	-	-
Balance at end of period	3,113	3,243	3,373	3,503	3,631	3,758	3,884
TOTAL EQUITY AT END OF REPORTING PERIOD	64,145	63,985	63,929	64,071	63,959	63,959	63,834

DISTRICT COUNCIL OF TUMBY BAY - LONG TERM FINANCIAL PLAN

ESTIMATED CASH FLOW STATEMENT - REVIEW TWO

	2017-18 Review 1	2018-19 Plan	2019-20 Plan	2020-21 Plan	2021-22 Plan	2022-23 Plan	2023-24 Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
<u>Receipts</u>							
Operating receipts	7,212	6,513	6,698	7,002	7,128	7,393	7,603
Investment receipts	25	37	51	60	67	76	83
<u>Payments</u>							
Operating payments to suppliers and employees	(5,141)	(4,841)	(4,828)	(5,081)	(5,281)	(5,465)	(5,587)
Finance payments	142	171	156	188	219	203	185
Net Cash provided by (or used in) Operating Activities	2,239	1,880	2,078	2,168	2,134	2,207	2,284
CASH FLOWS FROM INVESTING ACTIVITIES							
<u>Receipts</u>							
Amounts specifically for new or upgraded assets	2,512	-	-	135	-	-	-
Sale of replaced assets	114	150	65	200	206	255	208
Sale of surplus assets	-	-	-	-	-	-	-
Repayments of loans by community groups	44	41	43	33	16	16	17
<u>Payments</u>							
Expenditure on renewal/replacement of assets	(1,362)	(1,540)	(1,378)	(1,823)	(1,645)	(1,827)	(2,156)
Expenditure on new/upgraded assets	(5,548)	(13)	(10)	(1,904)	(11)	(7)	(8)
Loans made to community groups	-	-	-	-	-	-	-
Net Cash provided by (or used in) Investing Activities	(4,241)	(1,362)	(1,279)	(3,358)	(1,435)	(1,563)	(1,939)
CASH FLOWS FROM FINANCING ACTIVITIES							
<u>Receipts</u>							
Proceeds from Borrowings	1,675	-	-	1,887	93	107	114
<u>Payments</u>							
Repayments of Borrowings	(1,138)	(383)	(403)	(412)	(469)	(483)	(483)
Net Cash provided by (or used in) Financing Activities	537	(383)	(403)	1,475	(376)	(377)	(369)
Net Increase (Decrease) in cash held	(1,465)	135	395	285	323	267	(24)
Cash & cash equivalents at beginning of period	660	(805)	(670)	(275)	10	333	600
Cash & cash equivalents at end of period	(805)	(670)	(275)	10	333	600	576

DISTRICT COUNCIL OF TUMBY BAY - LONG TERM FINANCIAL PLAN

SUMMARY STATEMENT INCLUDING FINANCIAL TRANSACTIONS - REVIEW TWO

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Review 1	Plan	Plan	Plan	Plan	Plan	Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Revenues	7,276	6,559	6,764	7,076	7,210	7,484	7,702
<i>less Operating Expenses</i>	(7,176)	(6,869)	(6,885)	(7,270)	(7,528)	(7,738)	(8,035)
Operating Surplus / (Deficit) Before Capital Amounts	100	(311)	(121)	(193)	(318)	(254)	(333)
Less: Net Outlays on Existing Assets							
Capital Expenditure on Renewal/Replacement of Existing Assets	(1,362)	(1,540)	(1,378)	(1,823)	(1,645)	(1,827)	(2,156)
<i>less Proceeds from Sale of Replaced Assets</i>	114	150	65	200	206	255	208
<i>less Depreciation, Amortisation & Impairment</i>	2,177	2,183	2,191	2,353	2,441	2,449	2,606
Net Outlays on Existing Assets	929	793	878	731	1,002	877	657
Less: Net Outlays on New and Upgraded Assets							
Capital Expenditure on New/Upgraded Assets	(5,548)	(13)	(10)	(1,904)	(11)	(7)	(8)
<i>less Proceeds from Sale of Surplus Assets</i>	-	-	-	-	-	-	-
<i>less Amounts received specifically for new or upgraded</i>	2,512	-	-	135	-	-	-
Net Outlays on New and Upgraded Assets	(3,037)	(13)	(10)	(1,769)	(11)	(7)	(8)
Equals: Net Lending / (Borrowing) for Financial Year	(2,007)	470	747	(1,232)	673	616	317

In any one year, the financing transactions identified below are associated with either applying surplus funds stemming from a net lending result or accommodating the funding requirement stemming from a net borrowing result.

FINANCING TRANSACTIONS	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Review 1	Plan	Plan	Plan	Plan	Plan	Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
New Borrowings	1,675	-	-	1,887	93	107	114
Principal Repayments on Borrowings	(1,094)	(342)	(360)	(379)	(453)	(467)	(466)
(Increase)/Decrease in Cash and Cash Equivalents	1,465	(135)	(395)	(285)	(323)	(267)	24
(Increase)/Decrease in Receivables	-	(9)	(14)	(15)	(15)	(15)	(16)
Increase/(Decrease) in Payables and Provisions	-	16	22	23	26	27	28
Other – including movement in inventories	-	-	-	-	-	-	-
Equals: Financing Transactions	2,046	(470)	(747)	1,232	(673)	(616)	(317)