District Council of Kimba

Long Term Financial Plan 2013/14 – 2022/23

April 2014

1. Introduction

The purpose of the long-term financial plan (LTFP) is to express, in financial terms, the activities that the District Council of Kimba (Council) proposes to undertake over the medium to longer term to achieve its stated objectives as outlined in its Strategic Plan.

It is a guide for future action based on the longer-term impact of revenue and expenditure proposals. The aggregation of future intended outlays and anticipated revenues enables the accumulating overall financial implications to be readily identified and if warranted, for proposed future activities to be revised.

Long-term financial plans are particularly important for local governments as they are responsible for managing a high level of long-lived assets relative to their income base. A council may have long-periods with modest levels of asset renewal requirements and then other periods when very significant outlays are necessary. All councils need to generate revenue in an equitable manner over time and ensure they have capacity to finance peaks in asset management and other outlays when, and including by way of borrowings where, necessary.

The preparation of a LTFP generates improved information to guide decisions about the mix and timing of outlays on operating activities and additional assets and the funding implications of these. Without a soundly based LTFP & IAMP (Infrastructure & Asset Management Plan) an organisation with significant asset management responsibilities is unlikely to have sufficient data to determine sustainable service levels and affordable asset stockholding strategies, appropriate revenue targets or optimal treasury management.

The Long Term Financial Plan 2013/14– 2022/23 was adopted by Council at its meeting on 8th April, 2014.

2. Key assumptions

The following assumptions have been built into the forecast calculations:

- The content of the LTFP is based on real (2013-14) dollar values for all future years to facilitate comparisons between years;

- That rate revenue will increase in real terms by 2.5%. This means inflation was 2% the rates would increase in total by 4.5%.

- Investment revenue has been calculated on the assumed rate of 4% per annum;

- Finance Charges have been calculated on the assumed rate of 6% per annum;

- Initially Council expenditure on annual renewal for the road network is based on Sealed Road Data and unsealed road depreciation. From 2018-19 Council will spend an amount on asset renewal equal to the annual road network depreciation amount in relation to its roads network;

- Plant & Equipment Renewal and Replacement is based on the District Council of Kimba 10 year Plant and Equipment Replacement Program.

- Council will fully fund asset renewal expenditure as equal to the depreciation for all other categories of assets from 2014-15;

- Wages will continue to increase in real terms by 1% per annum;

- A zero growth or decline in population is assumed;

- Maintenance costs are maintained at current levels;

- Service range & standards are maintained at current levels;

- A pool of funds approach to financing is encouraged. Accordingly any accumulations of cash may be offset against any debt that may exist;

- Forecast debt and cash reserves in future years have been discounted by 2% p.a. in recognition of the fact that inflation reduces the real value of financial assets and liabilities;

- Commonwealth Financial Assistance Grant (FAGs) revenue is not expected to vary over the planning period

- Minimal new assets will be constructed once current projects have been completed in 2013-14;

- Commonwealth Roads to Recovery funding is maintained at current levels throughout the planning period;

- A new waste initiative commenced in January, 2014. Whilst costings have been projected based on initial estimates these may change once more prudent costings are available through actual expenditure.

- This Plan has been prepared with the data Council has available at the time. Once further data becomes available or changes Council intends to review the Plan accordingly.

3. Financial Strategy

The LTFP projects a Council's financial position and performance over time will remain steady. This is based on the continued achievement of the financial strategy described below.

- Significant quantities of debt will not be incurred until a strategy has been identified that will highlight how Council will repay the additional debt. This will be reflected in an updated LTFP to be prepared at that time;

- The ceiling target for net financial liabilities will be sufficient enough to allow Council flexibility should unforeseen circumstances lead to a shortfall in funding;

- It is intended to increase rates in real terms by 2.5% throughout the life of this plan. Council's LTFP is heavily dependent on rating as a source of income.

- Community Wastewater Management Schemes (CWMS) service charges will be increased in real terms gradually over time to bring the Council into line with the average equivalent rate charged by Water SA for sewage in order to help fully offset long-run average costs associated with provision of such services;

- Grant revenue will be targeted in a strategic manner. This means that grant revenue to build new assets would only be pursued and accepted if the new assets were deemed to be warranted particularly if additional funding was to be contributed by Council. Where an operating grant is sought and additional Council funds are required to be contributed, then careful consideration will be given to long-term benefits and costs. This will ensure activities that may better fit Council's strategic objectives are not being delayed in lieu of the activity being funded by the grant;

- Revaluation of assets will be undertaken in a timely and appropriate manner to allow for increase accuracy with the IAMP and Asset Register and subsequently to ensure accurate depreciation figures can be determined;

- Depreciation will be reviewed on an ongoing basis to ensure it is not over or understated;

4. Financial Sustainability – Key Indicators

The financial sustainability evaluation of a Council is undertaken with reference to a properly developed and complete LTFP. The financial plan includes the forecast achievement of projected performance against agreed financial sustainability targets. By achieving these targets Council can claim to be operating in a financially sustainable manner.

In order to demonstrate that the financial strategies above are being achieved Council needs to monitor the operating surplus ratio. A sensitivity analysis has been undertaken and a comparison has been made in this ratio in regards to Financial Assistance Grants – Supplementary Road Funding. In the first instance this funding has been removed from the LTFP for the 2014-15 financial year onwards as this funding is not guaranteed beyond that date. The second graph shows the Operating Surplus should these funds continue.

Further to this two additional ratios will be reported on to demonstrate that assets are being replaced in line with the requirements of the infrastructure and asset management plan whilst maintaining sensible debt levels. These ratios are:

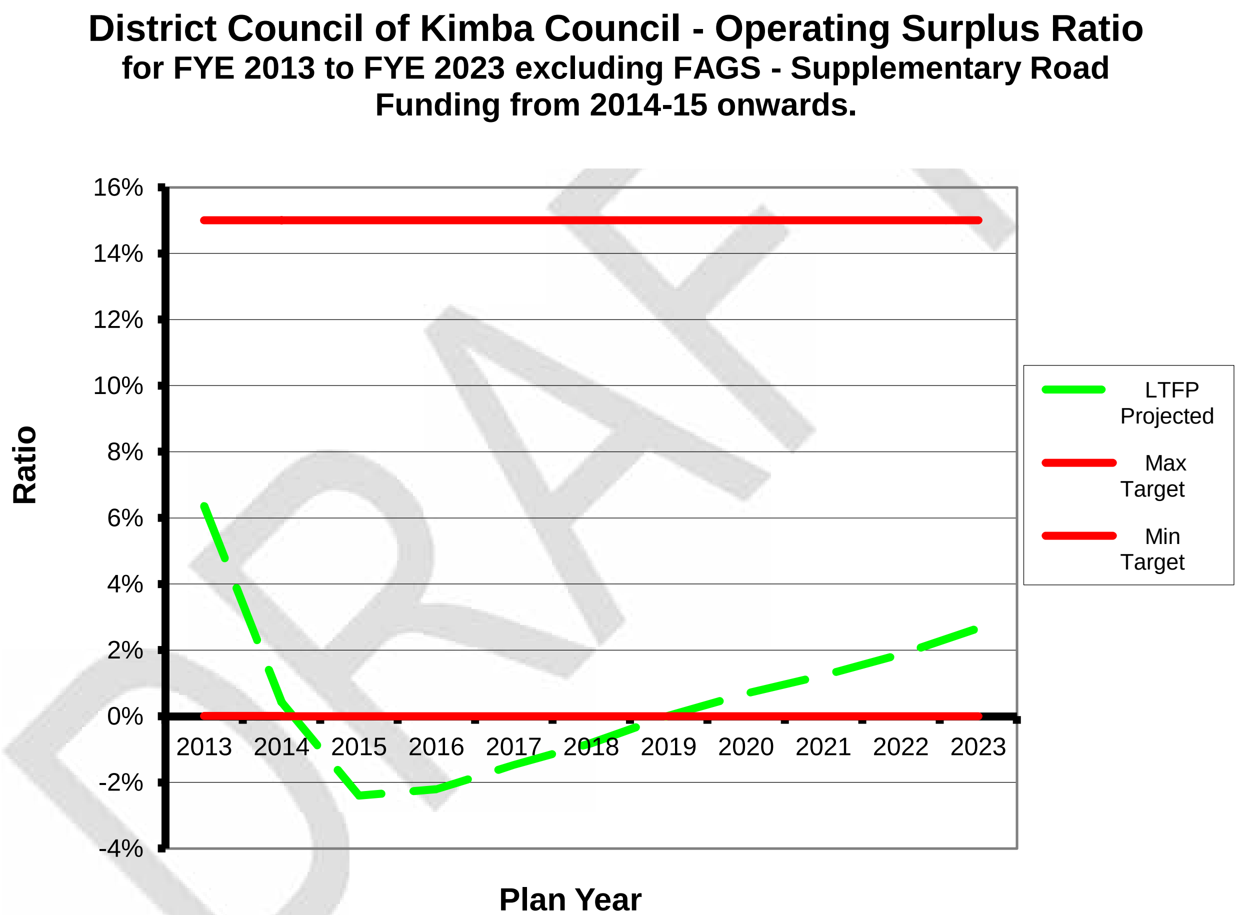
- Net financial liabilities ratio
- Asset renewal ratio

Current calculations, ratio definitions and recommended target ranges will be discussed in the sections to follow.

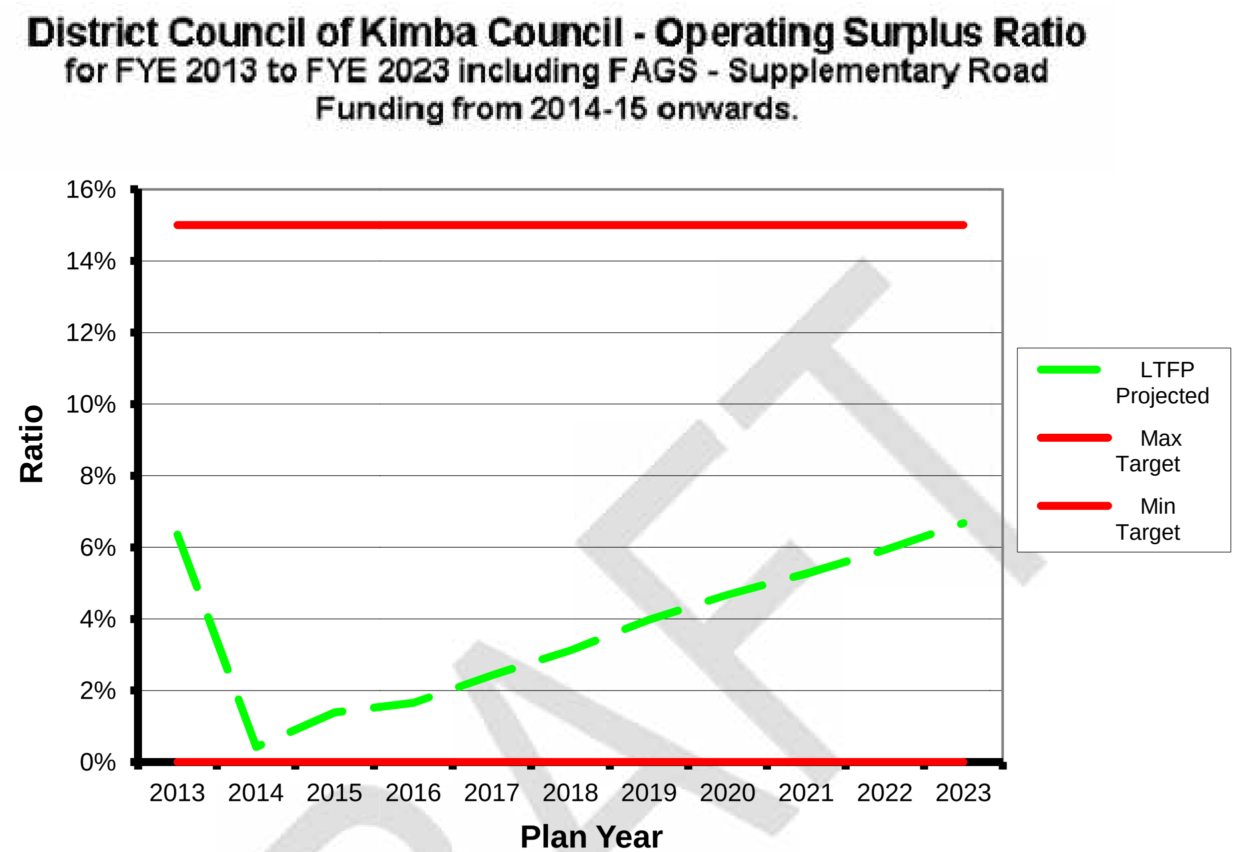
4.1 Operating surplus ratio

The operating surplus ratio is calculated by dividing the operating result by total operating income.

The local government sector considers that by achieving a result of between 0% to 15% Council is fully funding its operating services and deprecation from operating revenue. This target range has been adopted for this indicator.



The graph above indicates that Council is not operating within the target range from 2014-15 until 2017-18 of the plan. The main reason for this change can be attributed to the omission of the FAGS – Supplementary Road Funding from 2014-15 onwards. The deficit created by this reduction in income is gradually reduced in the following years. Should this funding no longer be received it is unlikely Council would allow the deficit to occur instead targeting the reduction of road maintenance expenditure currently offset by this income.



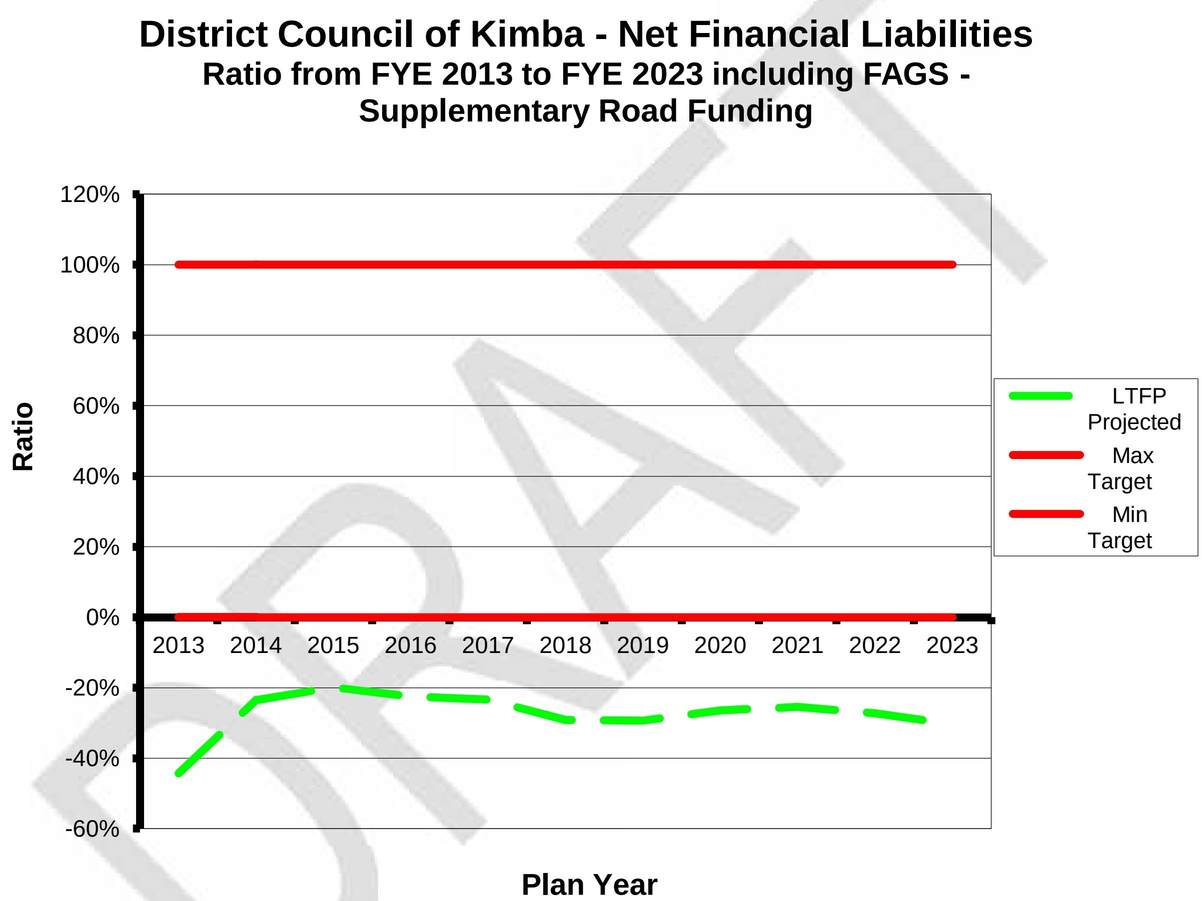
The graph above indicates that Council is operating within the target range over the course of the Plan.

In 2013-14 there was a significant drop in the Operating Surplus Ratio in respect to 2012-13. This decrease is due to an increase in capital expenditure in 2012-13 meaning less funds were expended for operating purposes thus increasing the Operating surplus Ratio. The following years reflect this expenditure being reduced in line with normal council expenditure.

4.2 Net Financial Liabilities Ratio

Net financial liabilities is a comprehensive measure of the indebtedness of the Council as it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account of the level of Council's available cash and investments. Specifically Net Financial Liabilities equals total liabilities less financial assets, where financial assets for this purpose includes cash, cash equivalents, trade and other receivables, and other financial assets, but excludes equity held in Council businesses, inventories and land held for resale.

It is generally accepted across the Local Government sector that appropriate level of net financial liabilities should range from between 0% to 100% of operating revenue. Council's with sound projected financial performance could well operate satisfactorily with even higher net financial liabilities if so needed (e.g. to finance assets associated with rapid growth or generation of future income).



Based on the implementation of the financial strategies outlined earlier in this document the forecast net financial liabilities ratio will be well below the ceiling of 100%.

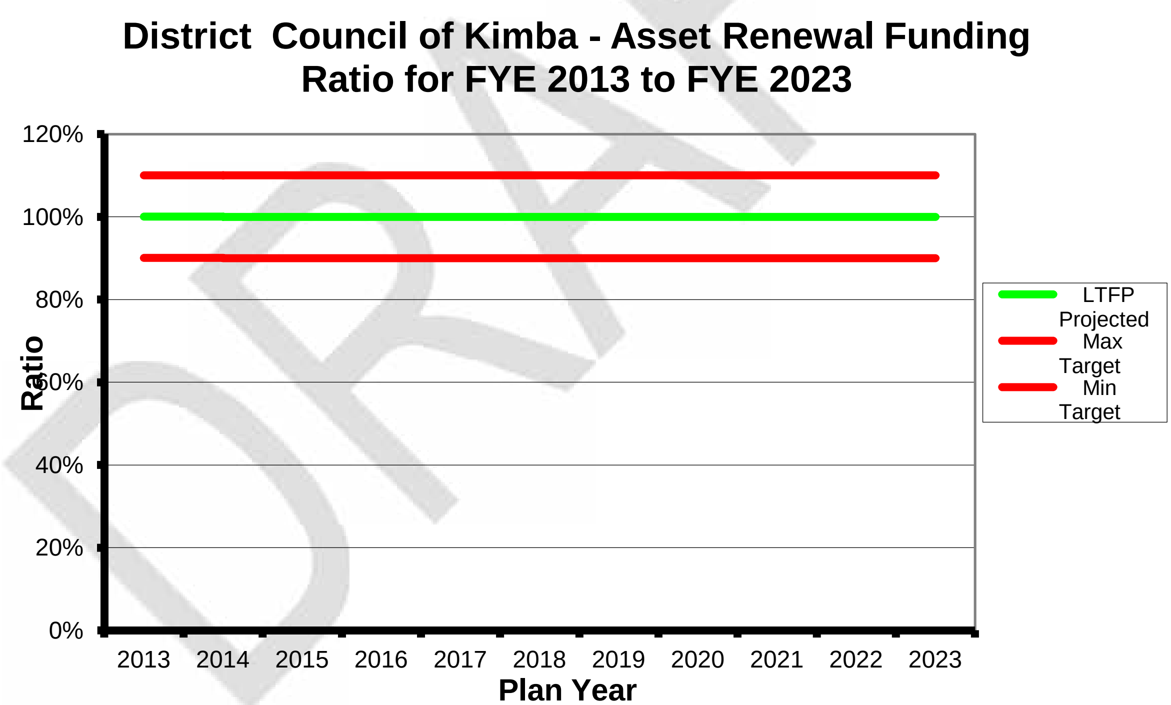
It should be noted that just because the ceiling is 100% does not mean Council need borrow this money it is just a safeguard for Council to be able to borrow to this level should circumstances ever warrant it. The financial strategy requires an income stream be identified to repay any significant increases in debt prior to taking the additional debt on.

4.3 Asset Renewal Funding Ratio

This ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with what is needed to cost-effectively maintain service levels. It 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 plan.

If capital expenditure on renewing or replacing existing assets is at least equal to the level proposed in the AMP, then a Council is ensuring optimal timing of replacement of physical assets to maintain service levels. Any material underspending on renewal and replacement over the medium term is likely to adversely impact on the achievement of preferred, affordable service levels and could potentially progressively undermine a Council's financial sustainability.

The sector has adopted a range of between 90% to 110% for this ratio.



The above graph is at 100% for the life of the plan indicating that asset renewal directly reflects the requirements of Councils available data and subsequent depreciation.

4.6 Conclusion

Council is operating in a financially sustainable manner as it is, in the long term, funding it is operating services from operating revenue as well as fully funding its asset renewal requirements without the need to incur high levels of debt.

5. Projects & services not currently included

There are a number of potential projects that Council may or may not undertake in the near future. The plans have been prepared based on the current situation as accurate costings have not been available on the list of projects that follow. It is clear however that Council has significant capacity to take these projects on, however as each project is approved and costed out the impact on the current long term financial plan needs to be determined.

The following projects have not been included:

- Replacement of the Toilet Block at the Gums and the development of the Garden and Surrounds.
- Funding of School Based Apprenticeships.
- Development of Lot 5 Ferry Street.
- Building of a connecting footpath from the new KDFNC Clubrooms to the main gates.
- Erection of shades over the Apex and Recreation Reserve Playgrounds.
- The Re-development of the Playing Courts area.

6. Planned Capital Renewal Expenditure

Capital Expenditure on Renewal or Replacement of Existing Assets:											
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Roads & Footpaths	230	-	271	407	464	378	476	476	476	476	476
Storm water	-	-	6	6	6	6	6	6	6	6	6
Wastewater	-	-	4	4	4	4	4	4	4	4	4
Buildings	-	-	142	142	142	142	142	142	142	142	142
Sports & Recreation Facilities	-	-	-	-	-	-	-	-	-	-	-
Plant & Equipment	69	207	355	105	145	50	205	365	315	215	180
Other Non Current Assets	-	-	42	42	42	42	42	42	42	42	42
Total	**299**	**207**	**820**	**706**	**803**	**622**	**875**	**1,035**	**985**	**885**	**850**

7. Planned Expenditure on New Assets

Capital Expenditure on Renewal or Replacement of Existing Assets:											
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Roads & Footpaths	1,716	830	31	32	33	34	35	36	37	38	39
Storm water	-	-	-	-	-	-	-	-	-	-	-
Wastewater	-	20	-	-	-	-	-	-	-	-	-
Buildings	173	50	30	31	32	33	34	35	36	37	38
Sports & Recreation Facilities	-	90	100	-	-	-	-	-	-	-	-
Plant & Equipment	68	-	-	-	-	-	-	-	-	-	-
Other Non Current Assets	-	-	-	-	-	-	-	-	-	-	-
Total	**1,957**	**990**	**161**	**63**	**65**	**67**	**69**	**71**	**73**	**75**	**77**

8. Summary of Financial Performance & Position Statement (SFPPS)

The Summary of Financial Performance & Position statement together with the results of the Key Financial Indicators provides a summarised report that focuses on Council's finances at a strategic level.

Readers are strongly encouraged to take the time to comprehend how this report is structured and what the implications of the various lines of this report are for the Key Financial Indicator calculations.

The Summary of Financial Performance & Position report highlights the operating surplus / (deficit) measure which is considered the most critical indicator of a Council's financial performance.

The last line or rather the result of this report is the movement in Net Financial Liabilities (Net Lending / Borrowing) for the year based on Council's planned capital and operating budgets for that year.

Achieving a zero result on the net lending / (borrowing) measure in any one year essentially means that the Council has met all of its expenditure (both operating and capital) from the current year's income (with income including amounts received specifically for new / upgraded assets).

8.1 Explanation / Examples of Components of Summary of Financial Position

Operating Revenue and Expenditure: Represent the totals from the relevant lines of the Statement of Comprehensive Income (operating statement) for the year being reported on.

Capital Expenditure on renewal and replacement of Existing Assets: e.g. Roads reseals, replacement tractor, building renovations, replacement computer hardware.

Proceeds from sale of replaced assets: e.g. trade in value of a tractor or motor vehicle being replaced.

Capital Expenditure on New & Upgraded Assets: e.g. constructing a new building, constructing a new catchment pond, purchasing a piece of machinery that was not previously on hand.

Amounts specifically for new or upgraded Assets: e.g. Capital grants to partly fund a new CWMS, funds received to build new footpaths that did not previously exist.

Proceeds from Sale of Surplus Assets: Proceeds from the sale of a council building that was no longer required, sale of surplus land.

8.3 Summary of Financial Position and Performance

Year Ending 30 June:	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000
Operating Revenues	3,463	3,543	3,457	3,492	3,527	3,562	3,604	3,640	3,674	3,712	3,755
less Operating Expenses	3,243	3,504	3,516	3,545	3,554	3,565	3,577	3,588	3,600	3,613	3,626
Operating Surplus/(Deficit) before Capital Amounts	**220**	**39**	**(60)**	**(53)**	**(52)**	**(3)**	**27**	**52**	**74**	**99**	**128**
LESS: Net Outlays on Existing Assets											
Capital Expenditure on Renewal or Replacement of Existing Assets	299	207	820	706	803	622	875	1,035	985	885	850
less Depreciation, Amortisation & Impairment	(767)	(777)	(804)	(810)	(812)	(813)	(815)	(817)	(818)	(820)	(822)
less Proceeds from Sale of Replaced Assets	0	0	0	0	0	0	0	0	0	0	0
Net Outlays on Existing Assets	**(468)**	**(570)**	**17**	**(104)**	**(9)**	**(191)**	**60**	**218**	**167**	**65**	**28**
LESS: Net Outlays on New or Upgraded Assets											
Capital Expenditure on New/Upgraded Assets	1,957	990	161	63	65	67	69	71	73	75	77
less Amounts Specifically for New/Upgraded Assets	(534)	(530)	0	0	0	0	0	0	0	0	0
less Proceeds from Sale of Surplus Assets	0	0	0	0	0	0	0	0	0	0	0
Net Outlays on New or Upgraded Assets	**1,423**	**460**	**161**	**63**	**65**	**67**	**69**	**71**	**73**	**75**	**77**
EQUALS: Net Lending / (Borrowing) for Financial Year	**(735)**	**149**	**(237)**	**(12)**	**(83)**	**121**	**(102)**	**(237)**	**(165)**	**(41)**	**23)**

This table shows the summary of financial position and performance of the District Council of Kimba from the financial year ending 2012-13 to 2022-23 if the FAGS – Supplementary Road Funding is excluded from the 2014-15 year onwards.

Year Ending 30 June:	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000
Operating Revenues	3,463	3,543	3,591	3,630	3,669	3,708	3,753	3,793	3,831	3,873	3,919
less Operating Expenses	3,243	3,504	3,516	3,545	3,554	3,565	3,577	3,588	3,600	3,613	3,626
Operating Surplus/(Deficit) before Capital Amounts	**220**	**39**	**74**	**85**	**115**	**142**	**177**	**205**	**231**	**260**	**293**
LESS: Net Outlays on Existing Assets											
Capital Expenditure on Renewal or Replacement of Existing Assets	299	207	820	706	803	622	875	1,035	985	885	850
less Depreciation, Amortisation & Impairment	(767)	(777)	(804)	(810)	(812)	(813)	(815)	(817)	(818)	(820)	(822)
less Proceeds from Sale of Replaced Assets	0	0	0	0	0	0	0	0	0	0	0
Net Outlays on Existing Assets	**(468)**	**(570)**	**17**	**(104)**	**(9)**	**(191)**	**60**	**218**	**167**	**65**	**28**
LESS: Net Outlays on New or Upgraded Assets											
Capital Expenditure on New/Upgraded Assets	1,957	990	161	63	65	67	69	71	73	75	77
less Amounts Specifically for New/Upgraded Assets	(534)	(530)	0	0	0	0	0	0	0	0	0
less Proceeds from Sale of Surplus Assets	0	0	0	0	0	0	0	0	0	0	0
Net Outlays on New or Upgraded Assets	**1,423**	**460**	**161**	**63**	**65**	**67**	**69**	**71**	**73**	**75**	**77**
EQUALS: Net Lending / (Borrowing) for Financial Year	**(735)**	**149**	**(103)**	**126**	**59**	**267**	**48**	**(84)**	**(8)**	**120**	**187**

This table shows the summary of financial position and performance of the District Council of Kimba from the financial year ending 2012-13 to 2022-23 if the FAGS – Supplementary Road Funding is included.