District Council of KIMBA

EST. 1924

Long Term Financial Plan 2017-2026

Public Consultation Draft - August 2016

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.

2. Key assumptions

The following assumptions have been built into the forecast calculations:

- The content of the LTFP is based on real (2016-17) dollar values for all future years to facilitate comparisons between years;
- That rate revenue will increase in real terms by 2% p.a. for the financial years ending 2018 through to 2023. This means that rates would increase by CPI plus 2% for 6 years and then by CPI only after that;
- Investment revenue has been calculated on the assumed rate of 2% per annum;
- Capital renewal expenditure for Road Infrastructure, CWMS and Buildings has been funded at the levels identified in Councils Asset Management Plan 2017-2026;
- A capital contingency of $120k p.a. has been funded in recognition of yet to be committed to additional capital projects that will eventuate from the recently updated Council Strategic Management Plan;
- Plant & Equipment replacement is based on the Councils' 10 year Plant and Equipment Replacement Program;
- Wages have been assumed to increase in line with CPI;
- 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 has been assumed. Accordingly any accumulations of cash have been offset against any debt that may exist;
- Forecast debt and cash reserves in future years have been discounted by 1% 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;
- No new assets have been funded from the year ending 30 June 2018 onwards;
- Commonwealth Roads to Recovery funding is maintained at normal levels from the year ending 30 June 2018 onwards;

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.

- Management will target efficiency savings for the next 3 years of at least $14k per annum in material, contractors & other expenses;
- Rates will be increased by 2% plus CPI from the financial year ending 30 June 2018 to the 30 June 2023 inclusive;
- A comprehensive review of depreciation be undertaken as well as a review of asset service standards with a view to reducing annual depreciation by $120k per annum;
- 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;
- Community Wastewater Management Schemes (CWMS) service charges will be increased in line with CPI;
- 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 increased accuracy with the IAMP and Asset Register and subsequently to ensure accurate depreciation figures can be determined;
- The long term financial plan will be updated on an annual basis. At this stage the plan indicates Council will continue to operate in a deficit position due to the large volume of cash reserves built up and expected to be maintained in future. This may well change in future iterations of the plan depending upon the strategic direction Council takes.

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.

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.

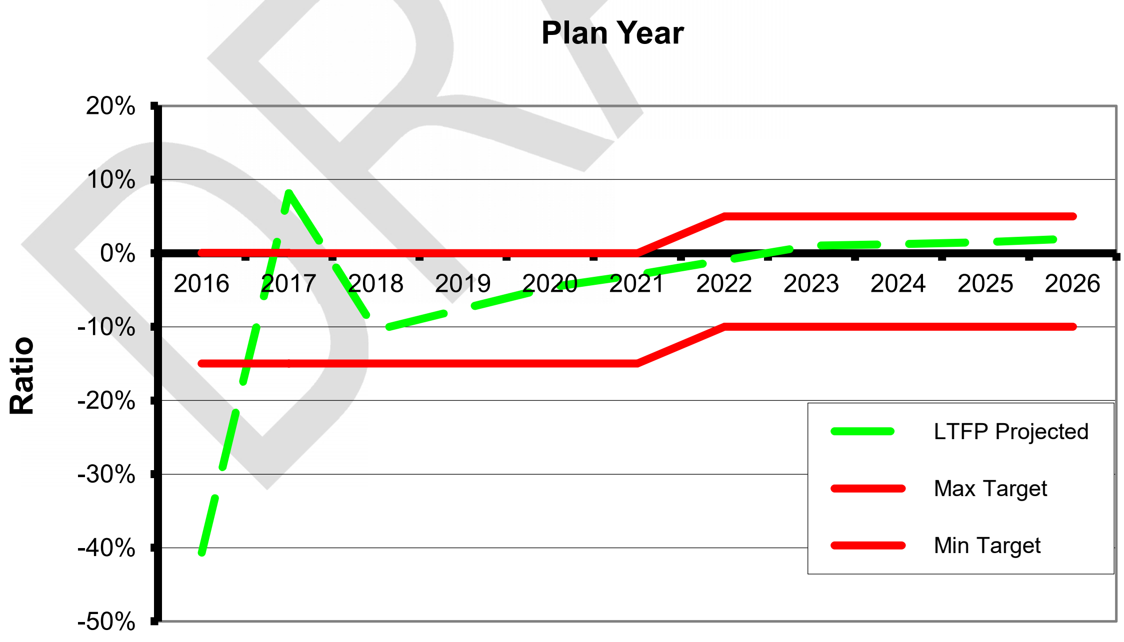
These ratios are:

- Net financial liabilities ratio
- Asset renewal funding ratio

4.1 Operating surplus ratio (OSR)

The operating surplus ratio expresses the operating surplus (deficit) as a percentage of general and other rates.

Calculated as: Operating revenue minus operating expense divided by rate revenue.



4.1 Operating surplus ratio (OSR) con't

Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Operating Surplus	(649)	136	(179)	(133)	(84)	(43)	(8)	21	22	26	29
Total Rate Revenue	1,596	1,676	1,710	1,744	1,779	1,814	1,850	1,887	1,887	1,887	1,887
OSR	(41%)	8%	(10%)	(8%)	(5%)	(2%)	0%	1%	1%	1%	2%

The OSR is used to confirm that Council can cover its operating expenditure and depreciation charge from its operating revenue. A negative result indicates that Council is not doing so.

The above information forecasts that Council will be operating with a manageable and reducing deficit until 2023. From this year onwards Council is forecasting to operate with a small surplus.

Council could move into a breakeven situation sooner by increasing rates by more than 2% per annum for 2018 to 2023 currently planned; however Council believes it is not necessary to do this as there are sufficient cash reserves on hand to fund the forecast short term deficits.

The target range has been set at (15%) to 0% for the financial years ending 30 June 2018 to 2022 and then from (10%) to 5% after that.

It should be noted that for the first two years of the plan Council is operating outside of the target range.

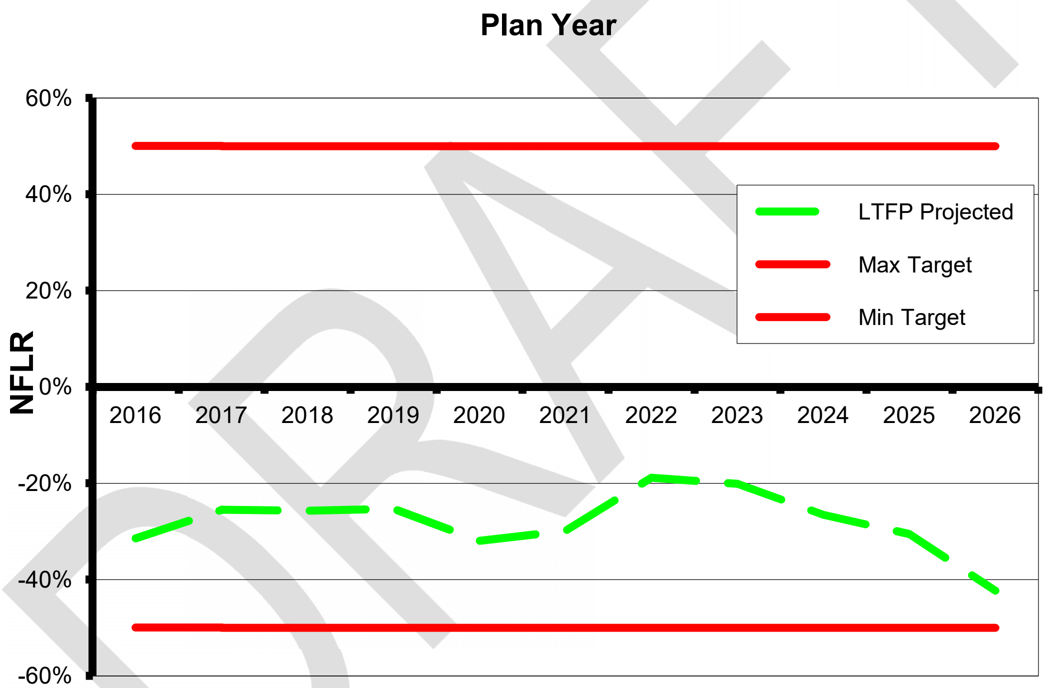
The deficit forecast for the 2015-16 financial year has occurred as 50% of the Financial Assistance Grants (FAG) for that year were paid in advance and hence reported in the 2014-15 financial year. Accordingly the operating result for the 2014-15 year was overstated with the subsequent effect of understating the 2015-16 operating deficit. Had the FAG grant not been paid early then the OSR for 2015-16 would have been in the vicinity of (11%) in line with future forecasts.

A surplus of $136k has been forecast for the 2016-17 year which also includes some abnormal activity in grant revenue however this time Council has been given additional Road to Recovery funding of approximately $450k. The expenditure that relates to this income is capitalised to the balance sheet and not reported as expenses in the statement of comprehensive Income. Accordingly the underlying operating result is overstated by this amount. Had this not occurred then a deficit in line with future years would also have been achieved in 2016-17.

4.2 Net Financial Liabilities Ratio (NFLR)

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.

The NFLR answers the question - Does Council have a manageable level of debt and other liabilities when considering its available revenue and other cash reserves? The following graph and table shows that Council can answer "Yes" to this question.



Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Net Financial Liabilities	(1,020)	(1,035)	(923)	(915)	(1,169)	(1,104)	(703)	(757)	(998)	(1,151)	(1,596)
Total Operating revenue	3,244	4,059	3,592	3,623	3,658	3,699	3,734	3,763	3,764	3,769	3,772
NFLR	(31%)	(25%)	(26%)	(25%)	(32%)	(30%)	(19%)	(20%)	(27%)	(31%)	(42%)

4.2 Net Financial Liabilities Ratio (NFLR) con't

The District Council of Kimba is currently in a net cash situation, accordingly the net financial liabilities ratio is showing a negative amount (effectively Council has net financial assets). In dollar terms cash on hand is forecast to range from between $1M to $1.9M (10yr Ave of $1.4M) at different stages throughout this plan.

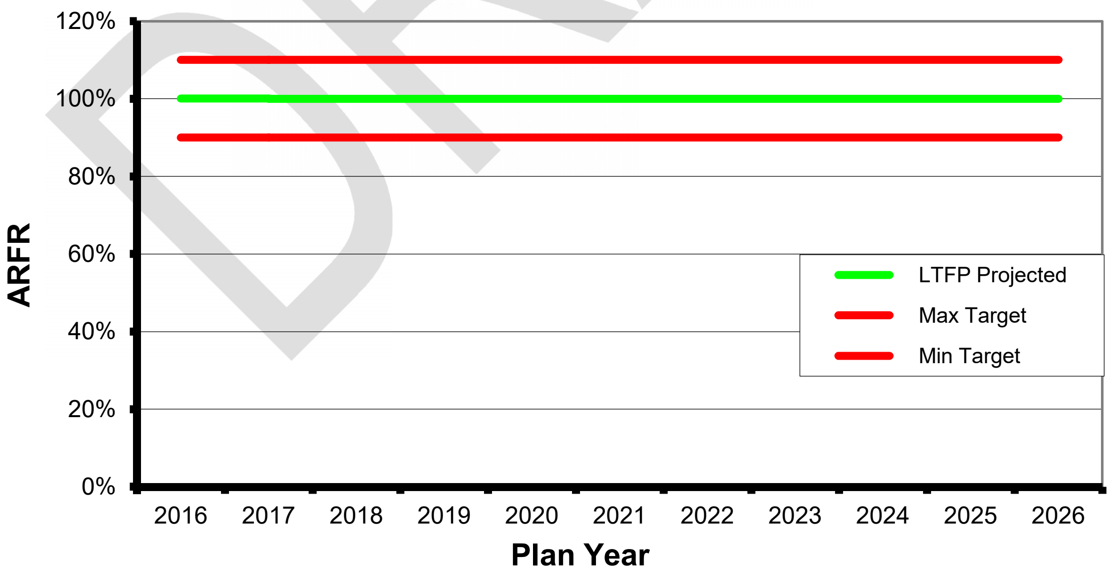
Council has decided to take a conservative approach in relation to setting an operating range from between (50%) to 50% as it is conscious of the fact that it has a very small rate base with limited other sources of revenue.

4.3 Asset Renewal Funding Ratio (ARFR)

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.

Council have adopted a range that is consistent with the rest of the Local Government Sector for this ratio of between 90% to 110%.



4.3 Asset Renewal Funding Ratio con't

Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Net Asset Renewal Expenditure per LTFP	1,003	865	677	669	1,007	792	779	652	518	418	418
Net Asset Renewal Expenditure per AMP	1,003	865	677	669	1,007	792	779	652	518	418	418
ARFR	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

The above information indicates that the ARFR is targeted to be 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 can claim to be operating in a financially sustainable manner even though it is not fully funding its operating expenses from operating revenue in the short term. The strong level of cash reserves and forecast continuing cash inflows indicates that Council can afford to operate small deficits for a short period of time whilst the financial strategy outlined in section 4 impacts on Councils financial position.

6. Planned Capital Renewal Expenditure Funded In This Plan

Year Ending 30 June:	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000
Plant & Machinery	370	305	100	340	705	290	290	380	90
Office Equipment & Furniture	8	8	8	8	8	8	8	8	8
Buildings	107	107	107	107	107	107	107	107	107
Transportation Assets	245	245	245	361	361	361	175	175	175
CWMS	0	7	0	0	7	0	0	0	0
Contingency	120	120	120	120	120	120	120	120	120
Total	**850**	**792**	**580**	**936**	**1,308**	**886**	**700**	**790**	**500**

This LTFP does not fund the construction or purchase of any new assets. No new assets construction has been identified in Councils asset management plan. Future iterations may include new assets depending upon the strategic direction taken by Council.

8. Summary of Financial Performance & Position Statement

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:	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000
Operating Revenues	3,244	4,059	3,592	3,623	3,658	3,699	3,734	3,763	3,764	3,769	3,772
less Operating Expenses	3,893	3,923	3,771	3,756	3,742	3,742	3,742	3,742	3,742	3,742	3,742
Operating Surplus/(Deficit) before Capital Amounts	**(649)**	**136**	**(179)**	**(133)**	**(84)**	**(43)**	**(8)**	**21**	**22**	**26**	**29**
LESS: Net Outlays on Existing Assets											
Capital Expenditure on Renewal or Replacement of Existing Assets	1,003	865	850	792	580	936	1,308	886	700	790	500
less Depreciation, Amortisation & Impairment	(1,050)	(1,050)	(930)	(930)	(930)	(930)	(930)	(930)	(930)	(930)	(930)
less Proceeds from Sale of Replaced Assets	0	0	0	0	0	0	0	0	0	0	0
Net Outlays on Existing Assets	**(47)**	**(185)**	**(80)**	**(138)**	**(350)**	**6**	**378**	**(44)**	**(230)**	**(140)**	**(430)**
LESS: Net Outlays on New or Upgraded Assets											
Capital Expenditure on New/Upgraded Assets	254	306	0	0	0	0	0	0	0	0	0
less Amounts Specifically for New/Upgraded Assets	0	0	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	**254**	**306**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EQUALS: Net Lending / (Borrowing) for Financial Year	**(856)**	**15**	**(99)**	**5**	**266**	**(50)**	**(387)**	**64**	**252**	**166**	**459**

9.1 Statement of Comprehensive Income

Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income											
Rates	1,596	1,676	1,710	1,744	1,779	1,814	1,850	1,887	1,887	1,887	1,887
Statutory charges	15	13	13	13	13	13	13	13	13	13	13
User charges	101	101	101	101	101	101	101	101	101	101	101
Grants, subsidies and contributions	1,286	2,025	1,527	1,527	1,527	1,527	1,527	1,527	1,527	1,527	1,527
Investment income	29	30	27	25	25	30	28	20	21	26	29
Reimbursements	104	127	127	127	127	127	127	127	127	127	127
Other income	113	87	87	87	87	87	87	87	87	87	87
Total Operating Revenue	**3,244**	**4,059**	**3,592**	**3,623**	**3,658**	**3,699**	**3,734**	**3,763**	**3,764**	**3,769**	**3,772**
Expenses											
Employee Costs	1,393	1,413	1,413	1,413	1,413	1,413	1,413	1,413	1,413	1,413	1,413
Material, Contractors & Other	1,435	1,442	1,428	1,413	1,399	1,399	1,399	1,399	1,399	1,399	1,399
Depreciation, Amortisation & Impairment	1,050	1,050	930	930	930	930	930	930	930	930	930
Finance Charges	15	18	0	0	0	0	0	0	0	0	0
Total Operating Expenses	**3,893**	**3,923**	**3,771**	**3,756**	**3,742**	**3,742**	**3,742**	**3,742**	**3,742**	**3,742**	**3,742**
Operating Surplus / (Deficit)	**(649)**	**136**	**(179)**	**(133)**	**(84)**	**(43)**	**(8)**	**21**	**22**	**26**	**29**

9.2 Statement of Financial Position

As at 30 June:	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000
ASSETS											
Current Assets											
Cash and Cash Equivalents	1,436	1,370	1,246	1,238	1,492	1,427	1,026	1,080	1,321	1,474	1,919
Trade & Other Receivables	130	130	130	130	130	130	130	130	130	130	130
Inventories	10	10	10	10	10	10	10	10	10	10	10
Total Current Assets	**1,576**	**1,510**	**1,386**	**1,378**	**1,632**	**1,567**	**1,166**	**1,220**	**1,461**	**1,614**	**2,059**
Non-Current Assets											
Infrastructure, Property, Plant & Equipment	40,537	40,658	40,578	40,440	40,090	40,096	40,475	40,431	40,201	40,062	39,632
Total Non-current Assets	**40,537**	**40,658**	**40,578**	**40,440**	**40,090**	**40,096**	**40,475**	**40,431**	**40,201**	**40,062**	**39,632**
Total Assets	**42,113**	**42,168**	**41,964**	**41,818**	**41,722**	**41,664**	**41,641**	**41,652**	**41,663**	**41,676**	**41,691**
LIABILITIES											
Current Liabilities											
Trade & Other Payables	110	110	110	110	110	110	110	110	110	110	110
Borrowings	81	12	0	0	0	0	0	0	0	0	0
Provisions	290	290	290	290	290	290	290	290	290	290	290
Total Current Liabilities	**481**	**412**	**400**	**400**	**400**	**400**	**400**	**400**	**400**	**400**	**400**
Non-current Liabilities											
Borrowings	12	0	0	0	0	0	0	0	0	0	0
Provisions	53	53	53	53	53	53	53	53	53	53	53
Total Non-current Liabilities	**65**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**
Total Liabilities	**546**	**465**	**453**	**453**	**453**	**453**	**453**	**453**	**453**	**453**	**453**
Net Assets	**41,567**	**41,703**	**41,511**	**41,365**	**41,269**	**41,211**	**41,188**	**41,199**	**41,210**	**41,223**	**41,238**
EQUITY											
Accumulated Surplus	11,494	11,630	11,451	11,318	11,234	11,191	11,182	11,203	11,224	11,251	11,280
Asset Revaluation Reserves	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073
Adjustment to Cash & Borrowings for effects of inflation			(13)	(26)	(38)	(53)	(67)	(77)	(88)	(101)	(115)
Total Equity	**41,567**	**41,703**	**41,511**	**41,365**	**41,269**	**41,211**	**41,188**	**41,199**	**41,210**	**41,223**	**41,238**

9.3 Statement of Equity

Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ACCUMULATED SURPLUS											
Balance at end of previous reporting period	12,143	11,494	11,630	11,451	11,318	11,234	11,191	11,182	11,203	11,224	11,251
Net Result for Year	(649)	136	(179)	(133)	(84)	(43)	(8)	21	22	26	29
Balance at end of period	**11,494**	**11,630**	**11,451**	**11,318**	**11,234**	**11,191**	**11,182**	**11,203**	**11,224**	**11,251**	**11,280**
ASSET REVALUATION RESERVE											
Balance at end of previous reporting period	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073	30,073
Gain on Revaluation of Property Plant & Equipment	0	0	0	0	0	0	0	0	0	0	0
Balance at end of period	**30,073**	**30,073**	**30,073**	**30,073**	**30,073**	**30,073**	**30,073**	**30,073**	**30,073**	**30,073**	**30,073**
Adjustment to Cash & Borrowings for effects of inflation	0	0	(13)	(26)	(38)	(53)	(67)	(77)	(88)	(101)	(115)
TOTAL EQUITY AT END OF REPORTING PERIOD	**41,567**	**41,703**	**41,511**	**41,365**	**41,269**	**41,211**	**41,188**	**41,199**	**41,210**	**41,223**	**41,238**

9.4 Statement of Cash Flows

Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash Flows From Operating Activities											
Receipts											
Operating Receipts	3,215	4,029	3,565	3,599	3,634	3,669	3,705	3,742	3,742	3,742	3,742
Investment Receipts	29	30	27	25	25	30	28	20	21	26	29
Payments											
Operating Payments to Suppliers & Employees	2,828	2,855	2,854	2,839	2,824	2,827	2,826	2,822	2,823	2,825	2,827
Finance Payments	15	18	0	0	0	0	0	0	0	0	0
Net Cash provided by (or used in) Operating Activities	**401**	**1,186**	**738**	**785**	**834**	**872**	**907**	**940**	**941**	**943**	**945**
Cash Flows From Investing Activities											
Payments											
Expenditure on renewal/replaced assets	1,003	865	850	792	580	936	1,308	886	700	790	500
Expenditure on new/upgraded assets	254	306	0	0	0	0	0	0	0	0	0
Net cash provided by (used in) Investing Activities	**(1,257)**	**(1,171)**	**(850)**	**(792)**	**(580)**	**(936)**	**(1,308)**	**(886)**	**(700)**	**(790)**	**(500)**
Cash Flows From Financing Activities											
Payments											
Repayment of Borrowings	0	81	12	0	0	0	0	0	0	0	0
Net Cash Provided by (used in) Financing Activities	**0**	**(81)**	**(12)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Increase / (Decrease) in Cash	**(856)**	**(66)**	**(124)**	**(7)**	**254**	**(65)**	**(401)**	**54**	**241**	**153**	**445**
Cash and Cash Equivalents at start of reporting period	2,292	1,436	1,370	1,246	1,239	1,492	1,428	1,027	1,081	1,321	1,475
Cash & Cash Equivalents at the end of the reporting period	**1,436**	**1,370**	**1,246**	**1,239**	**1,492**	**1,428**	**1,027**	**1,081**	**1,321**	**1,475**	**1,919**