Long Term Financial Plan 2022-31

Annual Update
December 2021

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 (2021-22) dollar values for all future years to facilitate comparisons between years;
- That rate revenue will not increase in real terms this means that only CPI increases have been considered in this plan;
- Investment revenue has been calculated on the assumed rate of 0.5% per annum;
- Capital renewal expenditure for Road Infrastructure, CWMS and Buildings has been funded at the levels identified in Councils Asset Management Plan
- Plant & Equipment replacement is based on the Councils' 10 year Plant and Equipment Replacement Program;
- A contingency fund of $200k per annum has been factored in to match grant funding opportunities that are expected to arise due to the Community Support Projects that will eventuate in the region due to the creation of a nuclear waste facility;
- 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 1.0% p.a. in recognition of the fact that inflation reduces the real value of financial assets and liabilities;
- Commonwealth Financial Assistance Grant (FAGs) revenue has been evened out such that the plan reflects a stable four payments across each year;
- Supplementary Local Road grant funding will cease in the year ending 30 June 2024;
- Commonwealth Roads to Recovery funding is maintained at normal levels from the year ending 30 June 2022 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.

- 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 a 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.

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 total operating revenue.

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

4.1 Operating surplus ratio (OSR) con't

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.

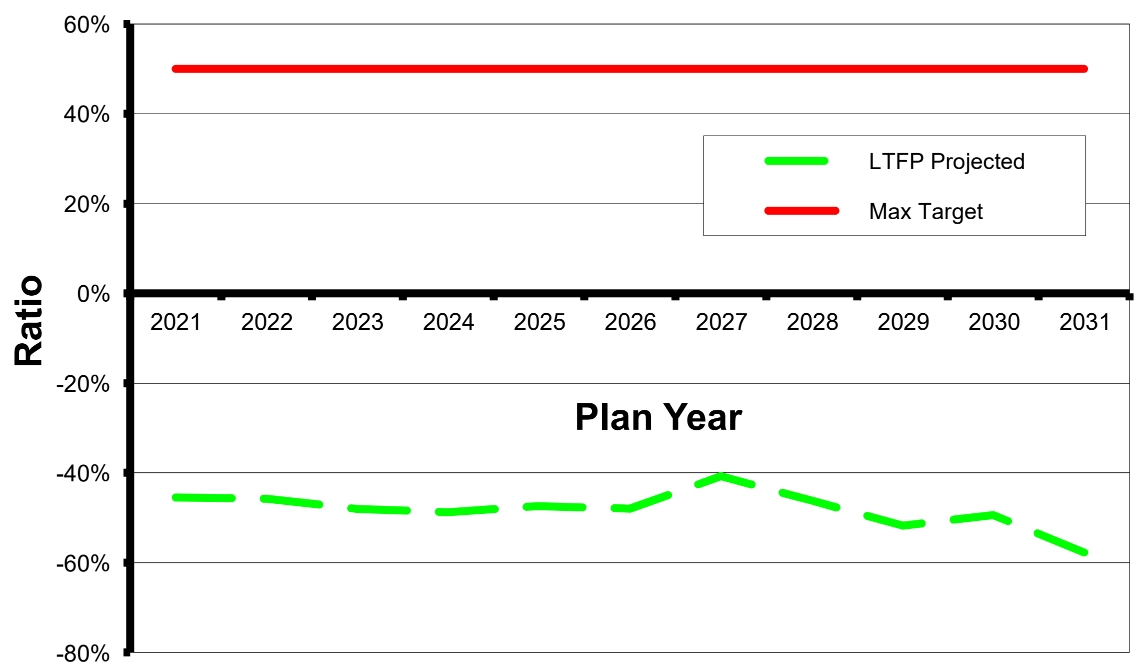
The above information forecasts that Council will be operating with a small surplus throughout the life of this plan.

The target range has been set at 0% to 10% for the duration of the plan; this is in line with LGA Financial sustainability information papers.

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.



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 $2.3M to $2.9M (10yr Ave of $2.6M) at different stages throughout this plan.

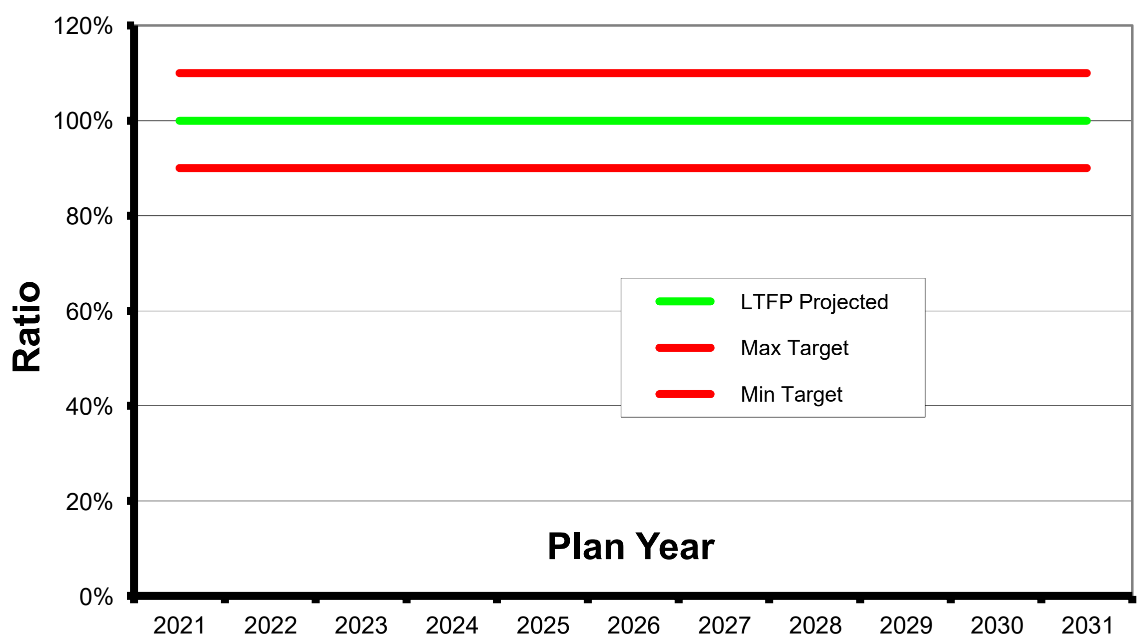
Council has decided to take a conservative approach in relation to setting a ceiling for Net Financial Liabilities of 50% as it is conscious of the fact that it has a very small rate base with limited other sources of revenue.

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%.



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 10 year asset renewal plans

4.4 Conclusion

Council can claim to be operating in a financially sustainable manner as the forecast key financial indicators are within the acceptable range set by Council for each of the three key financial indicators.

5 Relevant Legislation

Local Government Act 1999

122—Strategic management plans

(4) A council may review its strategic management plans under this section at any time but must—

(a) undertake a review of—

(i) its long-term financial plan; and

(ii) any other elements of its strategic management plans prescribed by the regulations for the purposes of this paragraph,

as soon as practicable after adopting the council's annual business plan for a particular financial year;

Local Government (Financial Management) Regulations 2011

5—Long-term financial plans

(1) A long-term financial plan developed and adopted for the purposes of section 122(1a)(a) of the Act must include—

(b) a summary of proposed operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances; and

(c) estimates and target ranges adopted by the council for each year of the long-term financial plan with respect to an operating surplus ratio, a net financial liabilities ratio and an asset sustainability ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

(2) A long-term financial plan must be accompanied by a statement which sets out—

(a) the purpose of the long-term financial plan; and

(b) the basis on which it has been prepared; and

(c) the key conclusions which may be drawn from the estimates, proposals and other information in the plan.

6. Planned Capital Renewal Expenditure Funded in This Plan

Year Ending 30 June:	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000	2030 $'000	2031 $'000
Plant & Machinery	492	555	225	460	665	492	140	135	415	112
Office Equipment & Furniture	20	20	20	20	20	20	20	20	20	20
Buildings	0	20	120	25	0	270	0	0	120	0
Road Resheeting	389	473	479	400	400	400	400	400	400	400
Road Resealing	283	195	100	100	100	100	100	100	100	100
Footpath, Kerb & Guttering	0	40	40	40	40	40	40	40	40	40
Other, CWMS & Stormwater	383	80	80	80	80	80	80	80	80	80
Contingency	0	200	200	200	200	200	200	200	200	200
Total	**1,567**	**1,583**	**1,264**	**1,325**	**1,505**	**1,602**	**980**	**975**	**1,375**	**952**

The capital expenditure itemised above is consistent with the asset data used to determine the ten-year renewal programs included in Councils soon to be updated Asset Management Plan. The following New Assets / Upgraded assets are included in the LTFP. Additional new assets may be included in future updates. A contingency allocation is included above with average cash reserves of $2.6M also available for future projects.

New / Upgraded	2022 $'000
Road Sealing	338
Footways Construction	40
Medical Centre	563
KPMV Unit	230
Natures Bike Track	17
Total	**1,888**

7. Uniform Presentation of Finances

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).

7.1 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.

7.2 Uniform Presentation of Finances

Year Ending 30 June:	2021 Year 0 Actual $'000	2022 Year 1 Budget $'000	2023 Year 2 Plan $'000	2024 Year 3 Plan $'000	2025 Year 4 Plan $'000	2026 Year 5 Plan $'000	2027 Year 6 Plan $'000	2028 Year 7 Plan $'000	2029 Year 8 Plan $'000	2030 Year 9 Plan $'000	2031 Year 10 Plan $'000
Operating Revenues	4,213	4,599	4,107	3,956	3,955	3,955	3,955	3,954	3,955	3,956	3,956
less Operating Expenses	3,876	3,970	3,937	3,937	3,937	3,937	3,937	3,937	3,937	3,937	3,937
Operating Surplus/(Deficit) before Capital Amounts	**337**	**628**	**171**	**19**	**19**	**19**	**19**	**17**	**18**	**19**	**19**
LESS: Net Outlays on Existing Assets											
Capital Expenditure on Renewal or Replacement of Existing Assets	2,619	1,566	1,583	1,264	1,325	1,505	1,602	980	975	1,375	952
less Depreciation, Amortisation & Impairment	(1,112)	(1,137)	(1,164)	(1,164)	(1,164)	(1,164)	(1,164)	(1,164)	(1,164)	(1,164)	(1,164)
less Proceeds from Sale of Replaced Assets	(251)	(95)	(145)	(63)	(113)	(370)	(160)	(35)	(40)	(125)	(125)
Net Outlays on Existing Assets	**1,256**	**334**	**274**	**37**	**48**	**(29)**	**278**	**(219)**	**(229)**	**86**	**(337)**
LESS: Net Outlays on New or Upgraded Assets											
Capital Expenditure on New/Upgraded Assets	227	1,188	0	0	0	0	0	0	0	0	0
less Amounts Specifically for New/Upgraded Assets	(1,089)	(1,081)	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	**(862)**	**106**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EQUALS: Net Lending / (Borrowing) for Financial Year	**(57)**	**188**	**(104)**	**(18)**	**(29)**	**47**	**(260)**	**236**	**247**	**(67)**	**356**