Scenic Rim Regional Council

Financial Sustainability Strategy
2019 - 2028

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Date Strategy was endorsed by ET	27 April 2015
Date Strategy was approved by Council	24 June 2015; 23 June 2016; 15 June 2017; 13 June 2018
Strategy Review Date	30 June 2019

1 Executive Summary

The Financial Sustainability Strategy provides Council with an agreed roadmap for managing its financial resources and processes and is aligned with the objectives and priorities of the Corporate Plan. This strategy establishes the framework under which sound and sustainable financial decisions can be made, outlines the economic environment that Council operates in and identifies the major challenges to be addressed by the strategy.

Within the framework of this strategy, guidance is provided to support decision making with respect to capital and operating revenue and expenditure, asset and service management levels and procurement operations.

Council measures the effectiveness of its strategy through its long term financial forecast (LTFF) that is governed by a series of strategies, planned responses and associated financial stability and sustainability targets to measure performance. This strategy will be implemented though the alignment of Council's LTFF to the strategy deliverables.

It must also be recognised that financial sustainability cannot occur without a strong underlying system of asset management. The alignment of asset management and financial sustainability outcomes will be critical to the success of this strategy as will the identification of appropriate service levels to support the community.

Financial sustainability is a legislative requirement of the *Local Government Act 2009*. A strategy is considered necessary to ensure that Council acts responsibly in the allocation of scarce resources and avoids a situation in which financial and infrastructure capital are not maintained at appropriate levels thereby leaving a liability for future generations.

2 Strategy Background

2.1 Scenic Rim Profile

Scenic Rim Location
The Scenic Rim region is located in South East Queensland approximately an hour south of the Brisbane CBD and 30 minutes west of the Gold Coast. Covering an area of 4,256km^2 the region consists of a diverse range of landscapes including rich agricultural and grazing land, world heritage listed national parks, and urban and rural living environments.

The region has three main townships at Beaudesert, Boonah and Tamborine Mountain as well as many unique rural townships and villages.

Scenic Rim Demographic
There were approximately 41,735 persons residing in the Scenic Rim Region in 2017, representing an increase of 760 persons or 1.85% from the level in 2016. The five year average annual growth rate for Scenic Rim is 1.8%, slightly above the Queensland average of 1.6% for the same period.

Scenic Rim's relatively low population density means that it has a lower rate base than city-based regions from which to raise revenues to maintain infrastructure and provide services.

Future population growth is likely to increase as a result of general Queensland population growth trends and development in the Bromelton State Development Area (BSDA).

Scenic Rim Economy
Key drivers of the Scenic Rim economy are agriculture, construction and retail trade, which represented approximately 47% of total industry turnover in the region in 2016. Smaller, but important, industries operating in the region include manufacturing, wholesale trade, tourism, transport and professional services along with many others.

Council expects growth to occur in all industries into the future with emphasis on industrial development, residential housing construction and rail freight transport. The first rail freight transport depot was constructed in the BSDA in 2016-17 representing an important step to significant future development of the BSDA and the generation of both direct and indirect new jobs in the region. The announcement of funding for inland rail in the 2017 Federal Government's budget will also benefit the BSDA.

Key issues that have impacted the economic development of the region include:
- Limited local employment opportunities;
- Lack of road and rail transport infrastructure to support the development of industry, particularly the BDSA;
- Lack of public transport options leaving people living in the region reliant on car transport;
- The Scenic Rim local government area has the lowest average wages in South East Queensland and is also lower than the Queensland average;
- Urban settlements are spread across a large and dispersed area and located close to city areas; this leads to people living in the region looking outside the region for more attractive shopping options and strong competition from these areas limits the ability for local business to grow and diversify.

While these issues will continue to be evident, development of the BSDA and the associated economic growth will assist to alleviate some impacts. Council is also investing in social infrastructure programs to assist with attracting new residents and retaining existing residents in the region.

2.2 Scenic Rim Regional Council

Scenic Rim Regional Council was formed in 2008 by the amalgamation of Beaudesert and Boonah Shire Councils, with the transfer of a substantial area to Logan City Council and a small area from Ipswich City Council. This ‘amalgamation’ was unique in that the population of the resulting council was significantly smaller than the larger of the former councils. This meant that the new council had to scale back its workforce. At the time it was identified that this was to be one of the most challenging amalgamations resulting from the local government reform in Queensland.

The resulting council was left with the responsibility of a large rural road network and the same level of shared services that were previously spread across a larger number of ratepayers. At the time high population growth was expected to occur by the State Government due to the development of the BSDA; however, actual population growth has been well below expectations due to the both global and national economic conditions resulting in the BSDA not progressing as forecast.

Council is governed by a popularly-elected Mayor and one Councillor for each of the region's six electoral divisions. Council employs approximately 363 full time equivalent employees who work within four directorates being:
1. Chief Executive Office
2. Finance and Information Services
3. Infrastructure Services
4. Regional Services

The main public services that Council provides include:

- Animal control and regulation
- Building and plumbing inspection services
- Cultural centres at Beaudesert and Boonah
- Customer service centres at Beaudesert, Boonah and Tamborine Mountain
- Disaster management functions
- Economic development and tourism
- Environmental programs and services
- Healthy and active programs
- Maintenance of community buildings including public halls and public toilets
- Maintenance of parks, reserves, sporting areas and cemeteries
- Planning and development services
- Public infrastructure maintenance and construction including roads, bridges footpaths and drainage
- Public libraries at Beaudesert, Boonah, Canungra, Tamborine Mountain and a Mobile Library
- Recreation and leisure services including the provision of public pools
- Regulatory control enforcement
- Street cleaning
- Waste management including domestic waste kerbside collection

The Financial Sustainability Strategy is influenced by the environment Council operates within:

External Environment		**Internal Environment**
National & Regional Demographics	**Local Government Industry & Market Drivers**	**Council's Forecast Needs & Wants**
Economic Growth	Legislative Requirements	Community Expectations
Environmental Issues	Government Policy	Financial Capacity
Population Growth	Technology Trends	Services & Service Levels
Income Levels	Industry Cost Drivers	Infrastructure Requirements
Unemployment Levels		Quality of Assets & Resources
Age Dispersion		Capability of Organisation
Diversity of Local Economy		Risk Management
Natural Disasters		

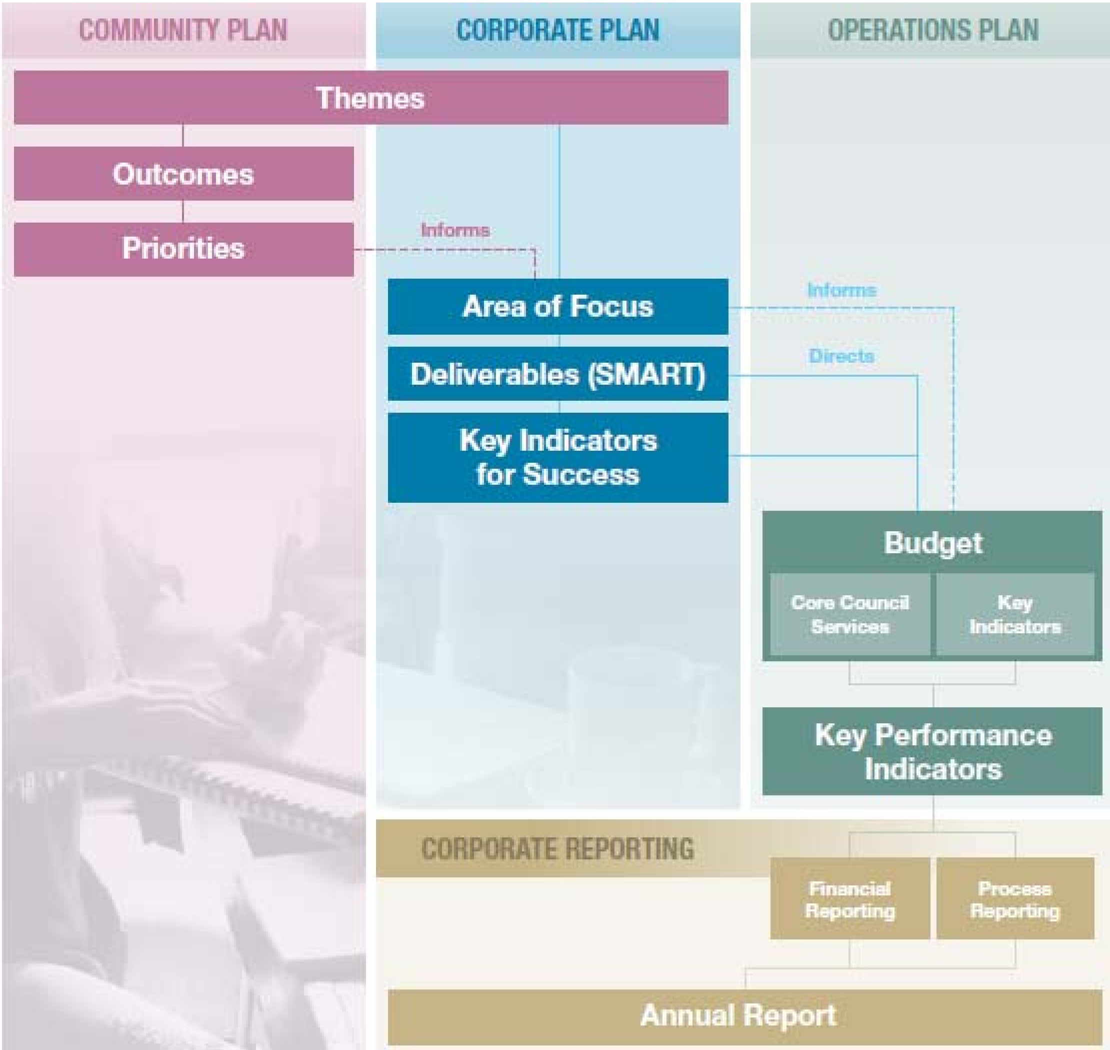
2.3 Link to Strategic Plans

Council is guided by the *Scenic Rim Community Plan 2011-2026* which provides a shared vision and plan for the Scenic Rim region's future. The Community Plan guides Council, other levels of government and the community on issues including the environment, economic development, social wellbeing, infrastructure and governance. Council then has developed the *Scenic Rim 2023*, Council's Corporate Plan for 2018-2023 to articulate the approach that Council will use over the nominated timeframe to achieve the vision for the region. The Corporate Plan is structured into seven themes that are aligned with the themes of the Community Plan.

The Corporate Plan themes are:

- Spectacular scenery and healthy environment
- Sustainable and prosperous economy
- Open and responsive government
- Relaxed living and rural lifestyle
- Vibrant towns and villages
- Accessible and serviced regions
- Healthy, engaged and resourceful communities

Integrated Planning & Reporting Framework
Council's integrated planning and reporting framework is shown below:



2.4 Background

The report commissioned by the Local Government Association of Queensland on local government financial sustainability *Factors Impacting Local Government Financial Sustainability* noted that there is a long history of poor financial sustainability outcomes in local government. In recent times, no less than thirteen state and national based inquiries into local government financial sustainability have been undertaken, with the general conclusions being that the local government sector is financially stressed, with anywhere from one third to 50% of local governments deemed to be unsustainable, weak or distressed. A 2016 report by the Queensland Audit Office *Forecasting long-term sustainability of local government* found that most Queensland councils plan poorly for the long term and that many councils cannot reliably conclude whether they are financially sustainable.

Council has had a strategy around financial sustainability since its formation in 2008 through application of the budget parameters contained in the LTFF. This document outlines Council's strategy to ensure long-term financial sustainability to ensure that key outcomes are recognised and improvements are made to the existing framework. While Council recognises that a significant amount of effort and discipline has gone into achieving the current state of financial sustainability, it is also cognisant that the information that it has available to it in order to evaluate financial sustainability is constantly evolving and that it is a process of continuous improvement.

Financial Sustainability Reviews

In 2008 the Local Government Reform Commission stated in its report that Beaudesert Shire Council was likely to be rated at best as Weak in terms of financial sustainability and the new council would also likely be Weak. The former Boonah Shire Council was assessed by Queensland Treasury Corporation (QTC) as being Weak with a Developing (uncertain) outlook.

According to QTC Weak was defined as:

A local government with an acceptable capacity to meet its financial commitments in the short to medium term and a limited capacity in the long term. It is unlikely to be able to manage unforseen financial shocks and any advertise changes in its business and in general economic conditions without the need for significant revenue or expense adjustments. It may experience difficulty in managing core business risks.

Upon formation in 2008, Council undertook an independent review of financial sustainability using Orion Consulting Network as part of the development of the 2009-10 budget and LTFF. Orion provided advice to Council on the indicators and assumptions in the LTFF to assist Council in setting its budget parameters.

This review demonstrated that, provided Council continued with the recommended budget parameters contained in the LTFF, the financial sustainability indicator targets recommended by QTC could be achieved from 2011-12 onwards.

Since that time Council has continued to keep financial sustainability as its focus. As a consequence, the Department of Local Government rated Council in a strong financial position for the 2010-11 financial year.

For the 2011-12 budget and LTFF Council again engaged Orion Consulting Network to provide advice to Council on the indicators and assumptions to be used and provide an opinion on whether the forecast was financially sustainable. Between these two reviews three significant things occurred:

1. Queensland Urban Utilities was formed on 1 July 2010 and took over the Council's water and wastewater distribution and retail responsibilities;
2. Substantial flooding occurred through December 2010 and January 2011 triggering the National Disaster Relief and Recovery Arrangements (NDRRA), which resulted in restoration works identified to be carried out over the following two years; and
3. Council adopted a new organisational structure as part of an organisational review.

The review found that Council had remained within the recommended budget parameters and was achieving the financial sustainability indicator targets recommended by QTC from 2011-12 onwards.

Further substantial flooding occurring after 2010-11 in 2012 and 2013 also triggered NDRRA and has resulted in a total flood restoration program of over $100 million being spent in the Scenic Rim region.

Council has undertaken a further three independent financial sustainability reviews with the latest conducted by Orion Consulting Network in April 2016. This review found Council was on track to achieve long term financial sustainability, with no sustainability issues that required immediate addressing.

Long Term Financial Forecast

Council is required by Section 104 of the *Local Government Act 2009* (the Act) and Section 169 of the Local Government Regulation 2012 (the Regulation) to prepare a LTFF. The LTFF is a ten year financial forecast which includes income, expenditure, related cash flow projections, liabilities and equity and the value of assets.

The primary purpose of the LTFF is to guide and inform decision-making. The LTFF is reviewed quarterly following revised budget forecasts and is used to support resource allocation decision making. The LTFF contains details of the assumptions used to estimate growth rates, price increases, general rates and charges increases, and also provides the financial outputs and financial sustainability measures for each of the ten years.

The LTFF establishes the framework for sound financial decisions, as well as a financial modelling tool used to:

- Assess revenue for building capacity to resource implementation of the Corporate Plan;
- Establish Council's transparency and accountability to the community in managing the Council's finances;
- Provide an opportunity for early identification of financial issues and any likely impacts in the longer term; and
- Confirm that the Council can remain financially sustainable in the longer term.

Financial Sustainability

Financial sustainability is a core requirement of local government in Queensland. Section 104 of the Act contains the following definition:

A local government is financially sustainable if the local government is able to maintain its financial capital and infrastructure capital over the long term.

Both the Act and the Regulation contain numerous references to financial sustainability.

Financial sustainability for local governments is critical as they are responsible for directly providing the community with a wide range of public services and community infrastructure and facilities. This requires local governments to hold and maintain a significant base of infrastructure assets, which necessitates not only substantial initial investments but also continued expenditure to maintain and renew assets over the course of their respective useful lives.

The concept of financial sustainability not only encompasses the idea of Council ensuring that it adequately maintains financial and infrastructure capital but also that, in doing so, it does not require significant future adjustments to revenue and/or expenditure policies. The LTFF is the tool Council uses to determine whether significant future adjustments are required and this allows Council to take mitigating action beforehand so that it can avoid such situations. Of course, this is only successful where unexpected events do not occur.

Financial sustainability is a strategy and ratios are used as point-in-time measurements to assess the outcomes of the strategy. The Department of Infrastructure, Local Government and Planning (DILGP) has developed financial sustainability indicators to assist in the assessment of the long-term financial sustainability of councils.

Financial Sustainability Indicators

Section 169(5) of the Regulation and the Financial Management (Sustainability) Guideline 2013 contain the following measures of financial sustainability:

a) Asset Sustainability Ratio
b) Net Financial Liabilities Ratio
c) Operating Surplus Ratio

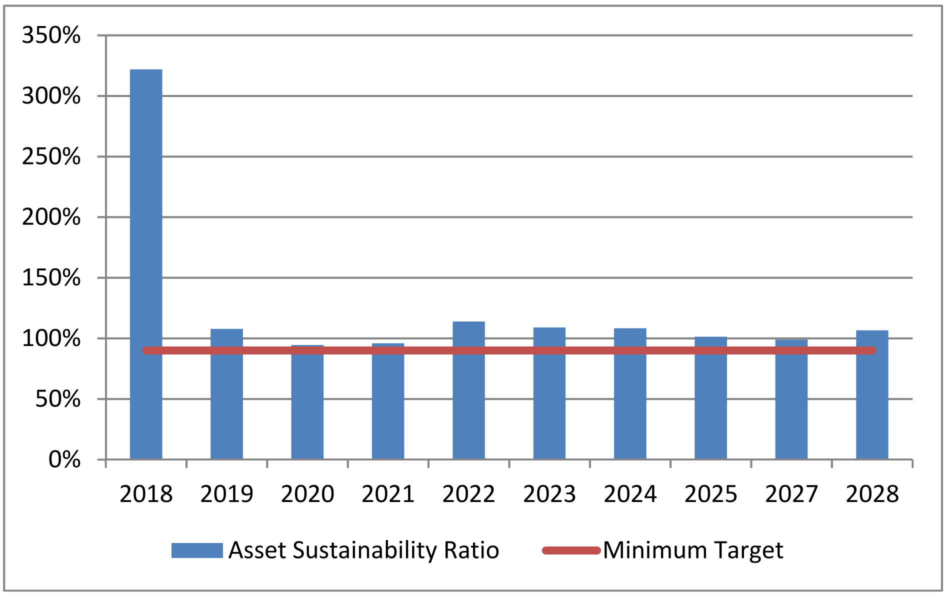
In accordance with legislative requirements, the above measures of financial sustainability must be reported as part of the LTFF and the annual financial statements. The indicators reported with the annual financial statements are reviewed and reported on by the Queensland Audit Office and Council receives a sustainability risk rating that is reported to the Queensland Parliament based on these results.

The Queensland Audit Office's report to State Parliament on the outcomes of local government audits for 2016-17 rated Scenic Rim Regional Council as having a low risk of financial sustainability concerns.

Council's forecast performance against the key financial sustainability indicators is outlined on the following pages.

<u>Asset Sustainability Ratio</u>

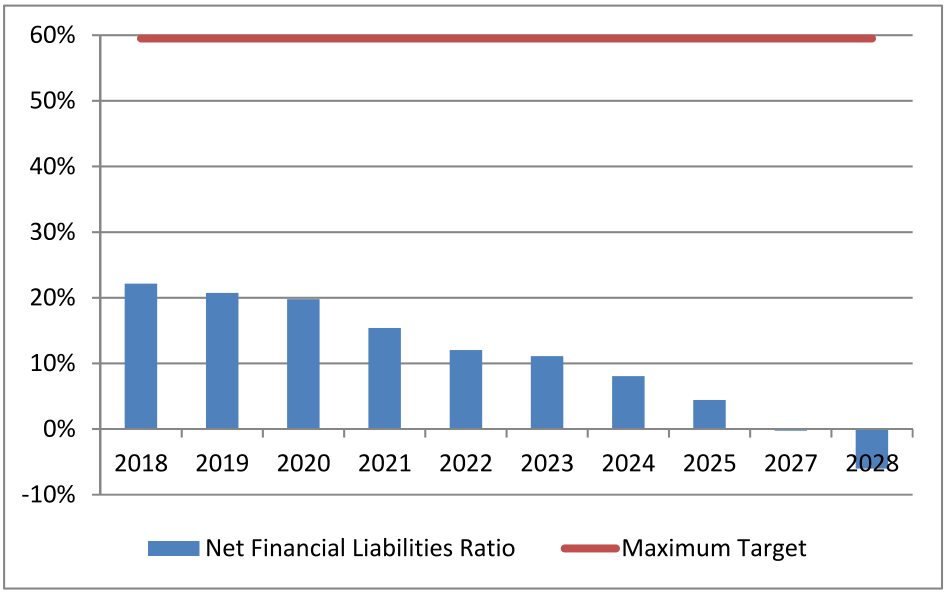
Definition	An approximation of the extent to which the infrastructure assets managed by Council are being replaced as they reach the end of their useful lives
How is it calculated?	Capital expenditure on replacement of assets (renewals) divided by depreciation expenditure
Why is it important?	Assists in identifying Council's asset base consumption and renewal levels and capacity to fund the level of investment needed over the long-term
Target	Greater than 90% per annum (on average over the long-term)



Council's asset sustainability ratio is forecast to remain above 90% over the next ten years. This means that Council is likely to be sufficiently maintaining, replacing or renewing existing infrastructure assets as they reach the end of their useful life. Council's asset sustainability ratio for 2018-19 appears high compared to other years due to the impact of the NDRRA flood restoration program on capital renewal expenditure.

Net Financial Liabilities Ratio

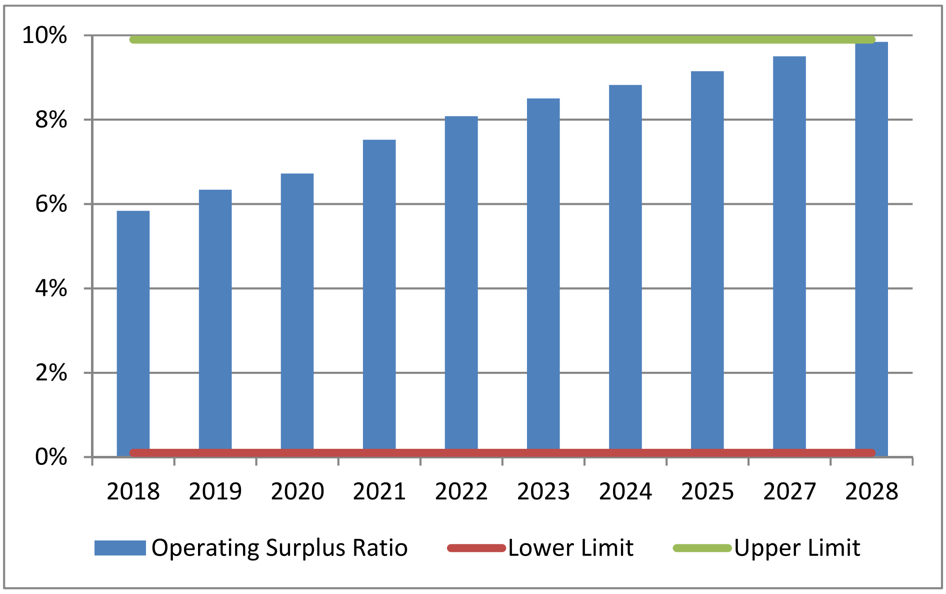
Definition	An indicator of the extent to which the net financial liabilities of Council can be serviced by its operating revenues
How is it calculated?	Total liabilities less current assets divided by total operating revenue (excluding capital items)
Why is it important?	Assists in identifying Council's financial capacity and the ability to fund ongoing operations over the long-term
Target	Less than 60% per annum (on average over the long-term)



Council's net financial liabilities ratio is forecast to remain less than 60% over the next ten years. This means that Council has the capacity to comfortably fund its liabilities. A negative indicator means that current assets exceed total liabilities and that Council has the capacity to increase loan borrowings if required.

Operating Surplus Ratio

Definition	An indicator of the extent to which revenue raised covers operational expenses only or are available for capital funding purposes or other purposes
How is it calculated?	Net result (excluding capital items) divided by total operating revenue (excluding capital items)
Why is it important?	Assists in identifying Council's financial capacity and the ability to fund ongoing operations over the long-term
Target	Between 0% and 10% per annum (on average over the long-term)



Council's operating surplus ratio is forecast to remain between 0% and 10% over the next ten years. This means that Council is expecting to generate healthy levels of revenues that can be used to fund proposed capital expenditure and debt repayments, and is less likely to compromise the levels of service expected by ratepayers.

Long Term Asset Management Plan

Council is required by Section 167 of the Regulation to prepare a long term asset management plan for a period of at least ten years, which must:

a) provide for strategies to ensure the sustainable management of the assets mentioned in the local government's asset register and the infrastructure of the local government;
b) state the estimated capital expenditure for renewing, upgrading and extending the assets for the period covered by the plan; and
c) be part of, and consistent with, the LTFF.

Local Government Infrastructure Plan

Council is required by the *Sustainable Planning (Infrastructure Charges) and Other Legislation Amendment Act 2014* to prepare a Local Government Infrastructure Plan (LGIP). An LGIP is that part of the planning scheme and identifies Council's plans for trunk infrastructure necessary to service urban development at the desired standard of service in a coordinated, efficient and financially sustainable manner.

The purpose of an LGIP is to:

- integrate infrastructure planning with the land use planning identified in the planning scheme;
- provide transparency regarding a local government's intentions for the provision of trunk infrastructure;
- enable a local government to estimate the cost of infrastructure provision to assist its long term financial planning;
- ensure that trunk infrastructure is planned and provided in an efficient and orderly manner; and
- provide a basis for the imposition of conditions about infrastructure on development approvals.

Asset Management

Council has a comprehensive system and strong culture of asset management embedded into the organisation through the following documents, structures and systems.

<u>Documentation</u>

- Asset Management Policy
- Asset Management Strategy
- Asset Management Plans
- Asset Management Improvement Plan
- Ten Year Capital Expenditure Forecasts

<u>Structures</u>

- Asset Management Steering Committee
- Asset Management Working Group
- Asset Management Section

<u>Systems</u>

- Capital Expenditure Prioritisation Models
- Alignment of asset management system with international standard *ISO 55001:2014, Asset Management - Management systems: Requirements*
- Regular asset condition assessments and valuations

A strong asset management system is essential for financial sustainability. A weak system of asset management will not produce outputs that Council can have confidence in. These outputs are used to evaluate the success of the LTFF in funding asset management plan (AMP) funding requirements. If this was not able to occur with a reasonable level of confidence then Council would not be able to evaluate its financial sustainability.

2.5 Factors Impacting Financial Sustainability

Factor	Implications/ Opportunities for Council
Being a provider of public goods	Public goods are assets and services that one individual can consume without reducing its availability to another individual and from which no one is excluded. The majority of Council's services fall into the category of public goods including roads, bridges, footpaths, public parks and libraries. In addition, some services cannot be operated on a full user pays service because the resulting fees would be too high and people would not be able to afford them. Public facilities such as swimming pools and community services such as leisure and sporting programs are run on the basis that they are partly subsidised by rates and charges. Council must raise rates from the community to cover the cost of public goods therefore rates are a tax similar to goods and services tax and income tax. However, this concept is not well understood by the community who still view rates as a 'fee for service' and not a tax. This creates challenges for Council as the community has high expectations about what they should receive in return for paying rates and does not understand why Council must increase rates in order to provide increased funding for public goods each year.
Borrowings	It has been widely recognised that the Local Government sector has traditionally had low levels of borrowings. In recent years there have been some major changes in the level of borrowings that Local Government is responsible for and borrowing levels are greater than they have ever been. This is largely due to the change in perception around borrowings whereby traditionally borrowings have been viewed negatively by councils themselves and the general public. A working paper prepared by John Comrie for the Australian Centre of Excellence for Local Government suggests that borrowings should be considered where there are significant asset renewal backlogs. The cost of using borrowings in such instances should be considered against the eventual cost of allowing assets to deteriorate without intervention and the likely impacts to the community and local economy by allowing this to occur. However, while there are strong arguments to be made for using borrowings, decisions regarding using borrowings as a source of funding must not be made lightly. Borrowings will cost more in the long term and the community will be paying for the asset over a long period of time. Interest must also be repaid and unfavourable movements in interest rates can have detrimental impacts on the budget. Council must also ensure that the long term benefits to be gained from using borrowings justify the overall cost. The net financial liabilities ratio developed by the DILGP suggests a target of less than 60% per annum is acceptable; however, this is a one size fits all approach. Council should be mindful of issues such as what financial capital is needed to fund infrastructure for future growth forecasts and what impacts would be felt from unfavourable movements in interest rates before determining what is an appropriate level of borrowings in the LTFF.
Capping of infrastructure charges	Changes introduced by the Queensland Government to cap infrastructure charges has reduced the ability for Local Government to obtain the required financial capital to fund infrastructure associated with development from developers. In addition to this, the introduction of fair value charges has further reduced this capacity.

Factor	Implications/ Opportunities for Council
Changes in legislation	Council must operate in accordance with legislation and is governed by a number of Acts, Regulations and Guidelines. Changes in legislation can have significant impacts on Council due to the resources required to implement changes resulting in additional costs. Often changes are for the better, however, will always involve time and resources. This can create challenges for Council in trying to balance the requirement to amend or provide new services on top of existing services.
Cost shifting from other levels of government	From time to time the Commonwealth and Queensland Governments amend their responsibilities and this can result in the cost of those responsibilities shifting to other levels of government including Local Government. Often while the responsibility is shifted to another level of government no corresponding funding is provided. A recent example is the transfer of the responsibility for monitoring fruit bat activity from the Queensland Government to Local Government. Implementing activities to deter fruit bats away from urban living environments has resulted in significant increased costs to Council.
Disaster management	Across Australia Local Government plays a crucial role in disaster management and in Queensland Local Government have significant responsibilities under the *Disaster Management Act 2003* in coordinating disaster management resources during flood and storm events, which are the most common disaster events to occur in Queensland. The cost of these responsibilities is significant. Many councils employ dedicated disaster management personnel and must also provide coordination centre facilities. Access to trained personnel and the necessary infrastructure must occur year round regardless of whether a disaster event occurs or not. No external funding is made available to cover these activities. It should be noted that the cost of disaster management through the above activities is in addition to the financial support that Local Government is required to provide to the State Emergency Service and Rural Fire Service.
Duplication of services and assets	Having a population base spread over a large area means that Council is in the position of providing a number of smaller services spread across the region rather than one larger centralised service. This is the case in the provision of customer service centres, libraries, swimming pools and waste disposal facilities. Often these services have significant fixed overhead costs regardless of the level of utilisation. The issue for Council is that it incurs a much higher cost of service provision per head of population than urban councils. It cannot therefore offer the same level of service provision as urban councils as the cost of doing so would be unaffordable.

Factor	Implications/ Opportunities for Council
Inability to fund asset maintenance and renewal	Council's physical non-current assets have a total value of $820 million. Over 90% of Council's assets are referred to as infrastructure assets. These are assets with long useful lives whose value is measured at replacement cost. The majority of Council's assets cannot be sold to generate funding as they are used to provide services or are public goods. The challenge for Council is that these assets must be maintained at a certain level in order to provide a satisfactory level of service provision to the community. Council must allocate its scarce resources over the vast network of assets that it is responsible for in order to achieve this in all areas. Council measures how well it is doing this by evaluating the AMP outcomes for each major asset class. AMPs can tell Council whether the level of resources allocated to assets is keeping them at the level required to achieve satisfactory service provision. Where AMPs produce unsatisfactory outcomes i.e. they identify significant funding gaps between what is needed and what is made available then Council must evaluate what options it has available to address the funding gap. This can include increasing revenues, changing the level of service provided, reprioritising available funding and, in some circumstances, providing additional funding through borrowings. Recent natural disasters in the form of repeated flooding in the Scenic Rim region have increased this challenge. While funding has been made available through the NDRRA to fix the worst affected areas of Council's road network much of the remainder of the network has also experienced repeated inundation, which has resulted in overall deterioration of the road network. The effect on the network is still being measured and any detrimental impacts will be evident in future AMPs prepared for roads. The inability to source appropriate levels of funding for effective infrastructure renewal and replacement is one of the top two issues identified by Local Government in Queensland and is probably the most critical issue facing Local Government across Australia. It is generally acknowledged that assistance is unlikely to be received from the Queensland or Commonwealth Governments in addressing this challenge. Therefore, Council must have a focus on asset renewal and replacement and this should represent a higher priority than the creation of new assets where decisions regarding the scarce allocation of resources have to be made.
Limited opportunities to increase revenue	Council is classified in the rural/regional council category and this category must maintain a high rating effort compared to other categories of councils in order to maintain service levels. This is in addition to the challenges that the rural/regional category has of low average household incomes and being the highest out of all categories to experience mortgage and rental stress. Council is predominantly reliant on rates and charges revenue for funding and this presents challenges in balancing the ability for ratepayers to absorb rate increases against the need for funding to maintain service levels. Council's rate base is also predominantly residential and this limits Council's ability to diversify the rate base and achieve rate revenue growth.

Factor	Implications/ Opportunities for Council
Low population density/large service area	Urban settlements are spread across a large and dispersed area creating challenges in relation to service delivery. Council's population spread is approx. 9 persons per km^2. Neighbouring urban Local Government areas have population spreads in excess of 300 persons per km^2. A more intensive population spread makes it easier to raise required funding from the rate base and also diversify funding sources.
Natural Disaster Relief and Recovery Funding Arrangements	The Productivity Commission have recommended significant changes to the share of disaster management funding required from the Commonwealth, Queensland and Local Governments. These recommendations would have significant detrimental financial impacts on Council if implemented and potentially result in unacceptable asset management outcomes. The estimated cost of damage to Council's assets from natural disasters has been approx. 92% of general rate revenue from 2009 to 2014.
Pressure on level of funding required from rates	A significant issue for Local Governments is the reduction in funding sources it receives other than from rates and utility charges. This has occurred for a range of reasons but key reasons for Scenic Rim include the downturn in the economy that affected a number of different revenue sources and the reduction of government grants, which is an issue for all Local Government and included the freezing of financial assistance grant funding levels. As a result, many of Council's revenue sources have remained at static levels or even reduced since it formed in 2008. This places an unsustainable burden on the level of funding required to be generated from rates and utility charges, which must be generated through effecting rate increases on the community.
Reduced funding from other levels of government	In the 2013-14 budget Council had grant funding of over $1 million reduced due to a reduction in the general purpose financial assistance grant allocation and the withdrawal or reduction of capital grants and subsides by the Queensland Government. This has meant Council has had to replace this funding either through alternative sources of revenues such as rates and charges or reductions in expenditure. Council's analysis on the general purpose financial assistance grant allocation has identified that it receives far less per capita than similarly classed councils such as Lockyer Valley Regional Council and Somerset Regional Council. The higher level of funding received by other councils enables them to provide a higher level of subsidy per ratepayer. Council has pushed for a change in the grant allocation methodology to occur in order to address this inequity. In 2014-15 the Commonwealth Government announced that it was freezing the level of financial assistance grant funding for a period of three years. This decision is estimated to reduce grant funding to Local Government by $925 million by 2017-18.
Vertical fiscal imbalance	This refers to the situation where revenue collection at different levels of Government does not match expenditure requirements. In 2015-16 the share of taxation revenue by sphere of government was broken down as follows: Federal 79.6% State 16.8% Local 3.6% Local government only collects 3.6% of all government taxes but is responsible for 36% of non-financial assets held by all spheres of government.

Factor	Implications/ Opportunities for Council
Horizontal fiscal imbalance	This refers to different abilities to raise revenue and different expenditure requirements at the same level of government. Local Governments have different capacities to raise revenues as well as expenditure needs. Whilst this is partly addressed through financial assistance grant allocation methodologies, the maintenance of these is outside the control of Local Government.

3 Strategy Vision

Consistent with Council's theme of Organisational Sustainability contained in the Corporate Plan, the vision of the financial sustainability strategy is:

To ensure Scenic Rim Regional Council remains financially sustainable in the short, medium, and long term.

3.1 Objectives of the Strategy

The objectives are to:

- Maintain key financial sustainability indicator results in line with DILGP targets;
- Provide sufficient funding to meet AMP requirements over the long term where agreed and affordable service levels are identified;
- Provide sufficient funding to meet capital expenditure requirements identified in the LGIP to support future development and population growth;
- Ensure adequate funding is available to provide efficient and effective services to the community;
- Ensure key financial risks have been considered and are reflected in financial forecasts;
- Achieve and maintain fair and equitable revenue structures that consider the cost of providing services and the level of subsidy provided from rates;
- Address key inter-generational infrastructure and service issues, which allows any significant financial burden to be spread over a number of years and not impact adversely on current or future ratepayers.
- Ensure prudent management of investments and loan borrowings;
- Ensure that Council considers the full lifecycle cost of all proposals prior to making commitments for expenditure; and
- Ensure robust systems remain in place around the development and management of budgets and the LTFF.

4 Strategy Outcomes and Performance Measures

Strategy Statement:	Long-term performance against key financial sustainability indicators maintained in LTFF	
Outcome:	Define a set of key financial sustainability indicators, identify targets for each indicator and maintain forecast financial performance in accordance with identified targets	
Performance Measure:	Long-term performance in LTFF to remain in accordance with identified targets	
Key Actions to Achieve Strategy:		
Maintain key financial sustainability indicator results in line with DILGP targets	Operating surplus ratio Net financial liabilities ratio Asset sustainability ratio	Between 0% and 10% Less than 60% Greater than 90%
Maintain other financial sustainability indicator results in line with Council targets	Cash holdings ratio Current ratio Debt service cover ratio	Greater than 3 months Greater than 1.1 Greater than 5
Quarterly budget reviews to remain consistent with financial sustainability indicator results in the LTFF	Capture quarterly budget reviews in the LTFF and ensure financial sustainability ratios remain in accordance with LTFF results	
Refinement of financial sustainability indicators and targets	Review of financial sustainability indicators and targets annually as part of development of budget and LTFF	

Strategy Statement:	Funding requirements identified in AMPs are provided for in the LTFF at agreed and affordable levels of service
Outcome:	Community assets are maintained and remain fit for purpose with current and future generations benefitting from effective financial and asset management
Performance Measure:	Provisions for renewal capital expenditure in LTFF consistent with AMP funding requirements
Key Actions to Achieve Strategy:	
Infrastructure capital works programs are consistent with AMPs	Infrastructure ten year capital works programs are developed based on the capital works prioritisation model and are consistent with AMP forecasts
Asset management improvement plan will improve level of confidence in AMPs	Progress the deliverables contained in the asset management improvement plan
Asset management steering committee to play key role in long-term alignment of AMP forecasts and LTFF	Asset management steering committee to play a key role in review of AMP assumptions including service levels to ensure reasonable level of confidence in AMP forecasts

Strategy Statement:	Provision for developer contributions and capital expenditure in LTFF is consistent with LGIP forecasts
Outcome:	Ensure Council is able to afford capital expenditure associated with development and population growth
Performance Measure:	Provision for developer contributions and capital expenditure in LTFF consistent with LGIP funding requirements over the long-term
Key Actions to Achieve Strategy:	
Developer contributions accurately forecast over the long-term	Process developed for estimating developer contributions in accordance with LGIP forecasts and incorporated into LTFF
Provision for capital expenditure in LTFF consistent with LGIP	Process developed for estimating capital expenditure in accordance with LGIP forecasts and incorporated into LTFF
Developer contributions linked to development funded	Process developed for linking funding provided by developer contributions to the associated infrastructure expenditure and incorporated into LTFF
Developer contributed assets recognised in LTFF	Process developed for estimating value of developer contributed assets and associated ongoing maintenance costs over the long-term and incorporated into LTFF
Sustainable planning and development	Council's planning scheme reflects sustainable planning practices ensuring land and infrastructure are used as efficiently as possible

Strategy Statement:	Service levels funded by the LTFF remain sustainable and affordable
Outcome:	Planning is integrated and effective and there is a clear linkage between community expectations and service delivery within affordable limits
Performance Measure:	Existing and forecast service levels can be funded in the LTFF without requiring significant increases in funding
Key Actions to Achieve Strategy:	
Service levels remain efficient and effective	Continued assessment of core business and service level reviews through Executive Strategy Workshops
Increases to existing services or new services must undergo a formal approval process	All discretionary operational projects require a business case and must undergo a prioritisation peer review through development of the annual budget
Efficient staffing levels are maintained	Any vacant position is evaluated on the basis of need and new staff positions must undergo a formal approval process
Encourage business innovation that produces efficiency and productivity improvements	Business cases that demonstrate a reasonable payback period or produce immediate efficiencies are given priority ahead of other discretionary projects
Develop partnerships with business and neighbouring councils	Maintain and develop partnerships that contribute to the effectiveness and efficiency of Council's operations

Strategy Statement:	Financial risks are appropriately managed and their potential effect on the LTFF is considered	
Outcome:	Financial risks remain within acceptable tolerance thresholds	
Performance Measure:	Financial risks are identified and monitored and control methods remain effective	
Key Actions to Achieve Strategy:		
Strategic financial risks are recognised and appropriate control methods are in place	Reviews of strategic risks, including financial risks, are conducted by Council's Risk Reference Group along with an assessment of the effectiveness of existing controls and identification of further treatment details	
The LTFF is reviewed to determine if forecasts remain consistent with actual performance	Second year of LTFF is used as basis for next year draft budget and performance against financial sustainability ratios is compared to previous forecast	
Refinement of LTFF assumptions	Ongoing refinement of LTFF assumptions to be undertaken through development of annual budget	
Impact of changes in assumptions to LTFF results are considered	LTFF sensitivity analysis to be developed based on changes in key assumptions	
Ensure Council remains adequately insured	Council reviews insurance requirements annually and manages insurance in accordance with the Insurance Policies and Claims Policy	

Strategy Statement:	Revenue structures remain fair and equitable and consider the cost of providing services and the level of subsidy provided from rates
Outcome:	The level of rates, fees and charges remains affordable yet provides sufficient funding to deliver services identified in the LTFF
Performance Measure:	Rates, fees and charges increases are sustainable and reflect an appropriate level of subsidy provided from rates
Key Actions to Achieve Strategy:	
Ensure the level of rates and charges set in the Revenue Statement reflects the capacity of ratepayers to pay	Continuing with rating reform including applying user pays principles where it is appropriate to do so through development of the annual budget
Ensure user pays fees and charges reflect an appropriate level of subsidy provided from rates	Fees and charges reviewed annually through development of the annual budget and activities subject to national competition policy reviewed to ensure appropriate level of cost recovery
Continue to identify sources of revenue other than rates and charges	Continue to undertake recoverable works and explore business opportunities that are likely to produce positive returns to Council
Opportunities to dispose of surplus assets are identified and investigated	Strategic reviews of assets continue to occur with opportunities to dispose of surplus assets identified and recommended for consideration
Continue to lobby for change in financial assistance grant allocation (general purpose)	Continue to analyse general purpose financial assistance grant allocation and lobby for change in grant allocation methodology

Strategy Statement:	Borrowings are appropriately managed and only undertaken where it can be clearly demonstrated that it is an appropriate source of funding and financial sustainability indicators remain within identified targets	
Outcome:	Council will only borrow to finance future capital works based on intergenerational, risk management or accelerated infrastructure needs and not for recurrent or operational expenditure, and on terms appropriate to the reasonably expected life of the relevant capital assets	
Performance Measure:	Borrowings are only undertaken to finance capital works that provide long-term community benefits	
Key Actions to Achieve Strategy:		
New borrowings are only undertaken where it is an appropriate source of funding	Borrowings only identified as a source of funding for capital works that provide long-term community benefits and after all other sources of funding have been considered	
New borrowings are only undertaken where financial sustainability indicators remain within identified targets	Actual borrowings are subject to the maintenance of approved financial ratios and targets	
New borrowings undertaken must be in accordance with Council Policy	All new borrowings must be undertaken in accordance with Council's Debt Policy	
Exposure to interest rates is effectively managed	Scenario analysis is performed on the LTFF on unfavourable movements in interest rates and any negative impacts managed appropriately	

Strategy Statement:	Cash and investments are managed effectively and surplus funds are invested in accordance with liquidity requirements
Outcome:	Council maintains sufficient cash reserves to meet its short-term working capital requirements and investment returns are optimised
Performance Measure:	Investments are managed in accordance with Council Policy and an appropriate level of liquidity is maintained to support Council's operations
Key Actions to Achieve Strategy:	
Management of forecast cash flows ensuring sufficient liquidity to support Council's operations	Daily cash flow analysis is performed and timing of investments is in accordance with working capital requirements
Investments are managed in accordance with Council Policy	Funds surplus to requirement are invested in accordance with Council's Investment Policy and compliance with the Policy is monitored through monthly reporting to Council
Creditors are managed to optimise cash flows	Creditor payments are made in accordance with Council's standard payment terms or contract terms
Debtors are managed to optimise cash flows	Rate notices and invoices are issued in a timely manner and enforcement of recovery actions occurs in line with Council's Revenue Policy

Strategy Statement:	New capital projects are only undertaken where consideration has been given to the full lifecycle cost of the proposal	
Outcome:	Council will only commit to new capital projects where the full lifecycle cost has been considered, including the future servicing and maintenance costs, and any impact on the rate increase required to provide a source of ongoing funding	
Performance Measure:	New capital projects are only undertaken if it can be shown they will not adversely affect Council's financially sustainability	
Key Actions to Achieve Strategy:		
New capital projects only undertaken after consideration of full lifecycle costs has occurred	The financial analysis for major new capital projects (+$100k) must be prepared using a whole of life costing tool and LTFF scenario analysis before endorsement from Council can occur	
All projects are managed using Council's project management framework	Council has an endorsed project management methodology, which must be used in the management of all projects	

Strategy Statement:	Budgets are managed effectively and actual performance to budget is closely monitored
Outcome:	A strong budget management culture is established and maintained
Performance Measure:	Budget variances remain within identified tolerances and management action is undertaken where this does not occur
Key Actions to Achieve Strategy:	
Actual performance to budget is closely monitored	Monthly budget packs are used to identify budget variances that have exceeded identified tolerances and capture explanations provided by management where this occurs
Report actual performance against budget to Executive Team and Council	A monthly financial report containing budget variance analysis is prepared and reported to the Executive Team and Council's Finance Committee
Quarterly budget reviews are undertaken	A minimum of four budget reviews occur per year and budget review adjustments must be in accordance with Council's Budget Review Policy
Internal controls are maintained for financial delegations and purchasing	Financial delegations are managed using the Technology One system and purchasing must be performed in accordance with Council's Purchasing Policy

Strategy Statement:	Financial asset systems support core asset management outcomes	
Outcome:	Financial asset outcomes align with asset management outcomes	
Performance Measure:	Financial asset data is consistent with asset management data and systems used by both areas complement each other	
Key Actions to Achieve Strategy:		
Capital expenditure is captured in the accounting system	Capital expenditure is separately identified using Project Ledgers in the Technology One system and separately identified for budgeting purposes	
Ensure expenditure meets the criteria for capital expenditure before capitalising	Expenditure must meet the definition provided for in Council's Recognition of Non Current Assets Policy before being capitalised	
External asset valuations undertaken in accordance with accounting standards	Undertake external asset valuations in accordance with timeframes required by the accounting standards	
Asset valuation assumptions reviewed annually	Asset valuation assumptions are reviewed annually in consultation with asset management and infrastructure staff	
Ensure financial asset records align with asset management records	Wherever possible, finance and asset management use the same asset data sets and differences are identified and investigated in order to improve consistency	

Key actions to be progressed during the next financial year can be found in Council's Operational Plan and are reported in Council's Annual Report.

5 Abbreviations

Act	Local Government Act 2009
AMP	Asset Management Plan
BSDA	Bromelton State Development Area
DILGP	Department of Infrastructure, Local Government and Planning
LGIP	Local Government Infrastructure Plan
LTFF	Long Tem Financial Forecast
NDRRA	Natural Disaster Relief & Recovery Arrangements
PPE	Property, Plant & Equipment
QTC	Queensland Treasury Corporation
Regulation	Local Government Regulation 2012

6 Long Term Financial Forecast

6.1 Foreward

The LTFF links directly to Council's Community and Corporate Plans and sets the framework to provide cost effective services within available resources for the duration of the forecast.

Section 171 of the Regulation requires councils to prepare a LTFF covering a period of at least ten years. The LTFF is essential for:

- Demonstrating Council's financial sustainability as required by section 104(2) of the Act; and
- Council's system of financial management as required by section 104(5) of the Act.

The Scenic Rim Regional Council LTFF covers ten years from 2018-19 to 2027-28.

The overall objective of Council's LTFF is to maintain current service levels, identify a capital works program that meets the asset renewal requirements contained in Council's AMPs and to achieve a financially sustainable position. Based on the outcome of the LTFF, it can be seen that Scenic Rim Regional Council is in a satisfactory position to sustain its operations over the life of the LTFF.

6.2 Assumptions

As with all forecasts, it must be acknowledged that things change over time and that long term forecasts are useful as a guidance tool which can identify financial issues in advance and enable a strategy or plan to be developed to deal with them. This LTFF has been prepared using a number of assumptions, which are applicable from 2019-20 onwards.

The LTFF has been developed with the overriding assumption that council will prioritise projects in accordance with available funding and will continue to maintain its current service levels with no reductions in staff numbers.

The LTFF also includes the following specific assumptions:

General Assumptions

Item	Assumption	Comment
CPI	2.0%-2.5%	The long term average CPI for Brisbane is 2.5%; however, CPI for the last couple of years has lowered to around 2%

New Initiatives
New initiatives are new projects or programs or increases in service level that are deliberately segregated from the general budget so that their effect on the budget can be separately evaluated. 2018-19 ongoing new initiatives are automatically included in the forecast and the value of 'one off' new initiatives in 2018-19 is included in that year only.

Recurrent Revenue Assumptions

Item	Assumption	Comment
Rates & Utility Charges	3% other than 2021-22 4%	These assumptions reflect Council's rating strategy outcomes but prior to setting the budget each year Council will reconsider the rate increase in line with available funding opportunities and funding requirements
	1.5% growth	Based on planning new dwelling projections converted into an estimated rates growth increase

Item	Assumption	Comment
Fees & Charges	3.0%	Fees & charges increases have been aligned with the rates & utility charges assumption
	1.5% growth	
Interest Received	N/A	Recalculated based on forecast cash levels
Sales of Contract & Recoverable Works	2.5%	Revenue assumed to increase in accordance with long term CPI
	0.75% growth	A revenue growth component is recognised in line with growth in expenditure
Share of Profit from Associate	N/A	Share of profits from Queensland Urban Utilities included as per QUU Corporate Plan
Other Revenue	2.5%	Other revenues consist of items such as rents and leases that generally increase in line with CPI
	1.5% growth	
Grants & Subsidies – Recurrent	1.9%	The main source of recurrent grants is the financial assistance grant and this was frozen at current levels by the Commonwealth Government for the last 3 years; however this freeze was removed in the most recent Federal budget and, as a result, a CPI increase has been assumed

Recurrent Expenditure Assumptions

Item	Assumption	Comment
Employee Expenses	2%	Based on estimated certified agreement increases and increment increases
	1.5% growth	The allowance for growth is to offset the increase in service level costs associated with rates growth
Materials & Services	2%	Materials, services and contracts generally increase in line with CPI
	1.5% growth	The allowance for growth is to offset the increase in service level costs associated with rates growth
Finance Costs	N/A	Included as per loan borrowings schedule
Depreciation & Amortisation	4%	Depreciation is varied in proportion to the increase in fixed asset values

Capital Assumptions

Item	Assumption
Grants & Contributions – Capital	Included as per the Ten Year Capital Works Program; assumed to increase by 2% per annum in line with the index applied to capital expenditure
Capital Expenditure	Included as per the Ten Year Capital Works Program; capital works expenditure is assumed to increase by 2% per annum
Borrowings	Repayments on the present loan are forecast in accordance with the borrowings schedule; new borrowings are assumed to be financed by 20 year loans at the current indicative borrowing rate of 4.0%
Fixed Asset Values	The value of fixed assets is based on the current value of PPE adjusted for the forecast level of purchases and disposals and adjusted by a revaluation index
Reserves	The asset revaluation reserve is adjusted in line with fixed asset values

6.3 Major Risks and Challenges

Scenic Rim Regional Council has developed a comprehensive risk management framework. The preparation of a LTFF assists Council in evaluating the impact that future decisions may have on its budget and avoid making decisions which may have long term negative impacts. This is particularly important when evaluating the impact of large projects involving borrowings and ongoing operating costs. In addition, the LTFF also allows Council to see how it may defer or bring forward projects to best suit its cash flow projections and thus smooth out planned expenditure.

Council has identified the following strategic risks:

CF2 Adoption of unrealistic corporate objectives that are beyond the financial resources of the organisation to deliver.

CF3 Utilisation of deficient or substandard financial management practices and subsequent decision making processes.

CF4 Ineffective, inefficient or poorly integrated strategic planning and monitoring.

As with many local governments, a major challenge for Council is the management of ageing assets in need of renewal and replacement. Infrastructure assets such as roads, bridges, pathways, kerbs, stormwater drains and public buildings present particular challenges as their condition and longevity can be difficult to determine. The creation of new assets also presents challenges in terms of funding for initial construction and ongoing service costs.

6.4 Budgeted Financial Statements

Budgeted Statement of Comprehensive Income

This statement outlines:

- All sources of Council's income (revenue)
- All recurrent expenditure. These expenses relate to operations and do not include capital expenditure although depreciation of assets is included.

The Net Result for the year is a measure of Council's financial performance. This figure is determined by deducting total recurrent expenditure from total income.

Budgeted Statement of Financial Position

This statement outlines what Council owns (assets) and what it owes (liabilities) at a point in time.

Council's net worth is determined by deducting total liabilities from total assets – the larger the net equity, the stronger the financial position.

Budgeted Statement of Cash Flows

This statement summarises the actual flows of cash for a period and explains the change in the cash balance held from the start of the period through to the end of the reporting period. This shows where Council received its cash from and then what it spent it on.

Budgeted Statement of Changes in Equity

This statement summarises the change in Council's real worth throughout the financial year. Council's net worth can change as a result of:

- The net result as recorded in the Statement of Comprehensive Income; or
- An increase or decrease in the net value of non-current assets resulting from a revaluation of those assets.

Financial Sustainability Indicators

	Revised Budget	Budget	Projected Years								
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Indicators per S169(5) of the Local Government Regulation 2012											
Operating Surplus Ratio **Target: Between 0% and 10%**	2.1%	5.8%	6.3%	6.7%	7.5%	8.1%	8.5%	8.8%	9.1%	9.5%	9.8%
Calculation: (Net result (excluding capital items) / recurrent revenue)											
Net Financial Liabilities Ratio **Target: Less than 60%**	19.1%	22.1%	20.7%	19.8%	15.4%	12.0%	11.1%	8.0%	4.4%	-0.2%	-6.0%
Calculation: ((Total liabilities less current assets) / recurrent revenue)											
Asset Sustainability Ratio **Target: Greater than 90%**	294.9%	321.9%	107.8%	94.4%	95.9%	113.8%	109.0%	108.3%	101.3%	99.0%	106.6%
Calculation: (Capital renewals on infrastructure assets / infrastructure depreciation)											
Additional indicators per Financial Sustainability Strategy 2017-2026											
Cash Holdings Ratio **Target: Greater than 3 months**	3.9	4.1	4.0	4.2	4.2	4.2	4.0	3.9	4.0	4.2	4.7
Calculation: (Cash / ((Operating Expenditure less Depreciation Expense) / 12 months)											
Current Ratio **Target: Greater than 1.1**	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.9	2.0	2.3
Calculation: (Current Assets / Current Liabilities)											
Debt Service Cover Ratio **Target: Greater than 5**	9.0	9.2	8.2	8.3	8.3	8.7	9.2	9.8	10.2	10.7	11.4
Calculation: (Operating Result + Interest Expense + Depreciation - Profit from Associate + Dividend from Associate) / (Interest Expense + Previous Year Current Loans Outstanding)											

Budgeted Statement of Comprehensive Income

	Revised Budget	Budget	Projected Years								
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income											
Recurrent Revenue											
Rates and Utility Charges	52,052	55,070	57,573	60,190	63,536	66,424	69,443	72,599	75,899	79,348	82,955
Discounts and Pensioner Remissions	-1,673	-1,758	-1,838	-1,921	-2,028	-2,120	-2,217	-2,318	-2,423	-2,533	-2,648
Fees & Charges	5,071	5,116	5,349	5,592	5,846	6,112	6,389	6,680	6,983	7,301	7,632
Interest Received	2,222	2,010	1,903	1,879	1,976	2,034	2,065	2,081	2,220	2,497	2,864
Sales of Contract and Recoverable Works	6,019	5,271	5,443	5,621	5,805	5,995	6,191	6,393	6,602	6,818	7,041
Share of Profit from Associate	2,123	2,216	2,223	2,228	2,374	2,374	2,374	2,374	2,374	2,374	2,374
Other Revenue	3,109	3,003	3,063	3,151	3,302	3,395	3,491	3,590	3,694	3,802	3,915
Operating Grants, Subsidies, Contributions and Donations	2,783	3,762	3,834	3,906	3,981	4,056	4,133	4,212	4,292	4,373	4,456
Total Recurrent Revenue	**71,705**	**74,690**	**77,550**	**80,645**	**84,792**	**88,268**	**91,869**	**95,611**	**99,641**	**103,980**	**108,589**
Capital Revenue											
Capital Grants, Subsidies, Contributions and Donations	32,331	32,467	1,662	8,628	1,368	1,396	1,424	1,453	1,481	1,511	1,541
Contributions from Developers	2,137	2,180	2,224	2,268	2,313	2,360	2,407	2,455	2,504	2,554	2,605
Total Capital Revenue	**34,468**	**34,647**	**3,886**	**10,896**	**3,681**	**3,756**	**3,831**	**3,908**	**3,985**	**4,065**	**4,146**
Total Income	**106,173**	**109,337**	**81,436**	**91,541**	**88,473**	**92,024**	**95,700**	**99,519**	**103,626**	**108,045**	**112,735**
Expenses											
Recurrent Expenses											
Employee Expenses	27,971	29,347	30,383	31,455	32,566	33,715	34,905	36,137	37,413	38,734	40,101
Materials & Services	25,057	23,051	23,605	24,438	25,751	26,660	27,701	28,878	30,198	31,664	33,282
Finance Costs	1,156	1,268	1,319	1,308	1,352	1,268	1,180	1,076	989	897	802
Depreciation & Amortisation	16,022	16,663	17,330	18,023	18,744	19,493	20,273	21,084	21,927	22,804	23,717
Total Recurrent Expenses	**70,206**	**70,329**	**72,635**	**75,224**	**78,412**	**81,136**	**84,058**	**87,176**	**90,527**	**94,099**	**97,901**
Total Expenses	**70,206**	**70,329**	**72,635**	**75,224**	**78,412**	**81,136**	**84,058**	**87,176**	**90,527**	**94,099**	**97,901**
Net Result	**35,967**	**39,008**	**8,800**	**16,317**	**10,061**	**10,888**	**11,642**	**12,343**	**13,099**	**13,946**	**14,834**
Operating Revenue (Recurrent Revenue)	71,705	74,690	77,550	80,645	84,792	88,268	91,869	95,611	99,641	103,980	108,589
Operating Expenses (Recurrent Expenses)	70,206	70,329	72,635	75,224	78,412	81,136	84,058	87,176	90,527	94,099	97,901
Operating Result (Recurrent Result)	**1,499**	**4,361**	**4,914**	**5,421**	**6,380**	**7,132**	**7,811**	**8,435**	**9,114**	**9,881**	**10,688**

Budgeted Statement of Financial Position

	Revised Budget	Budget	Projected Years								
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets											
Current Assets											
Cash & Cash Equivalents	17,595	18,243	18,623	20,068	21,096	21,555	21,322	21,731	22,807	25,175	29,105
Trade & Other Receivables	5,563	5,563	5,563	5,563	5,563	5,563	5,563	5,563	5,563	5,563	5,563
Inventories	900	900	900	900	900	900	900	900	900	900	900
Other Assets	690	690	690	690	690	690	690	690	690	690	690
Total Current Assets	**24,748**	**25,396**	**25,776**	**27,221**	**28,249**	**28,708**	**28,475**	**28,884**	**29,960**	**32,328**	**36,258**
Non-Current Assets											
Trade & Other Receivables	14,676	14,676	14,676	14,676	14,676	14,676	14,676	14,676	14,676	14,676	14,676
Property, Plant & Equipment	761,919	818,112	841,923	874,030	897,631	923,012	951,655	979,480	1,007,851	1,036,239	1,064,473
Investment in Associate	35,200	36,116	37,019	37,930	38,970	40,010	41,050	42,090	43,130	44,170	45,210
Total Non-Current Assets	**811,795**	**868,904**	**893,618**	**926,636**	**951,277**	**977,698**	**1,007,381**	**1,036,246**	**1,065,657**	**1,095,085**	**1,124,359**
Total Assets	**836,543**	**894,300**	**919,394**	**953,857**	**979,526**	**1,006,406**	**1,035,856**	**1,065,130**	**1,095,616**	**1,127,413**	**1,160,617**
Liabilities											
Current Liabilities											
Trade & Other Payables	4,435	4,435	4,435	4,435	4,435	4,435	4,435	4,435	4,435	4,435	4,435
Borrowings	1,186	1,569	1,693	1,873	1,960	2,052	2,102	2,202	2,306	2,355	2,182
Employee Benefits	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180
Total Current Liabilities	**14,801**	**15,184**	**15,308**	**15,488**	**15,575**	**15,667**	**15,717**	**15,816**	**15,921**	**15,970**	**15,796**
Non-Current Liabilities											
Borrowings	22,031	25,159	24,966	26,094	24,134	22,081	21,379	19,177	16,872	14,516	12,335
Employee Benefits	600	600	600	600	600	600	600	600	600	600	600
Provisions	986	986	986	986	986	986	986	986	986	986	986
Total Non-Current Liabilities	**23,617**	**26,745**	**26,552**	**27,680**	**25,720**	**23,667**	**22,965**	**20,763**	**18,458**	**16,102**	**13,921**
Total Liabilities	**38,418**	**41,929**	**41,860**	**43,168**	**41,295**	**39,334**	**38,682**	**36,580**	**34,378**	**32,071**	**29,717**
Net Assets	**798,125**	**852,371**	**877,534**	**910,689**	**938,231**	**967,072**	**997,174**	**1,028,550**	**1,061,238**	**1,095,341**	**1,130,900**
Equity											
Asset Revaluation Surplus	200,127	215,365	231,727	248,565	266,046	283,999	302,459	321,492	341,082	361,239	381,963
Accumulated Surplus	597,998	637,006	645,807	662,124	672,185	683,073	694,715	707,058	720,156	734,102	748,936
Total Equity	**798,125**	**852,371**	**877,534**	**910,689**	**938,231**	**967,072**	**997,174**	**1,028,550**	**1,061,238**	**1,095,341**	**1,130,900**

Budgeted Statement of Cash Flows

	Revised Budget	Budget	Projected Years								
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash Flows from Operating Activities											
Receipts from Customers	70,677	66,702	69,590	72,632	76,461	79,804	83,297	86,945	90,755	94,736	98,895
Payments to Suppliers and Employees	-53,584	-52,551	-54,143	-56,052	-58,478	-60,540	-62,774	-65,188	-67,786	-70,576	-73,565
	17,093	**14,151**	**15,447**	**16,580**	**17,983**	**19,264**	**20,523**	**21,757**	**22,969**	**24,160**	**25,330**
Receipts:											
Interest Received	2,222	2,010	1,903	1,879	1,976	2,034	2,065	2,081	2,220	2,497	2,864
Operating Grants, Subsidies, Contributions and Donations	2,783	3,762	3,834	3,906	3,981	4,056	4,133	4,212	4,292	4,373	4,456
Payments:											
Interest Expense	-1,006	-1,115	-1,163	-1,149	-1,190	-1,103	-1,011	-905	-814	-719	-619
Net Cash Inflow / (Outflow) from Operating Activities	**21,092**	**18,808**	**20,021**	**21,216**	**22,750**	**24,251**	**25,710**	**27,145**	**28,667**	**30,311**	**32,031**
Cash Flows from Investing Activities											
Receipts:											
Proceeds from Sale of PP&E	1,493	968	983	893	1,028	1,071	1,067	1,159	1,246	1,155	1,137
Dividend Received from Associate	1,231	1,300	1,320	1,317	1,334	1,334	1,334	1,334	1,334	1,334	1,334
Capital Grants, Subsidies, Contributions and Donations	34,468	34,647	3,886	10,896	3,681	3,756	3,831	3,908	3,985	4,065	4,146
Payments:											
Payments for PP&E	-71,909	-58,586	-25,761	-34,184	-25,892	-27,993	-31,523	-31,035	-31,954	-32,191	-32,363
Net Cash Inflow / (Outflow) from Investing Activities	**-34,717**	**-21,671**	**-19,572**	**-21,078**	**-19,849**	**-21,832**	**-25,291**	**-24,634**	**-25,389**	**-25,637**	**-25,746**
Cash Flows from Financing Activities											
Receipts:											
Proceeds from Borrowings	3,000	4,700	1,500	3,000	0	0	1,400	0	0	0	0
Payments:											
Repayment of Borrowings	-1,034	-1,189	-1,569	-1,693	-1,873	-1,960	-2,052	-2,102	-2,202	-2,306	-2,355
Net Cash Flow inflow / (Outflow) from Financing Activities	**1,966**	**3,511**	**-69**	**1,307**	**-1,873**	**-1,960**	**-652**	**-2,102**	**-2,202**	**-2,306**	**-2,355**
Net Increase/(Decrease) in Cash	**-11,659**	**648**	**380**	**1,445**	**1,028**	**459**	**-233**	**409**	**1,076**	**2,368**	**3,930**
plus: Cash & Cash Equivalents - beginning of year	**29,254**	**17,595**	**18,243**	**18,623**	**20,068**	**21,096**	**21,555**	**21,322**	**21,731**	**22,807**	**25,175**
Cash & Cash Equivalents - end of the year	**17,595**	**18,243**	**18,623**	**20,068**	**21,096**	**21,555**	**21,322**	**21,731**	**22,807**	**25,175**	**29,105**

Budgeted Statement of Changes in Equity

	Revised Budget	Budget	Projected Years								
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated Surplus											
Opening Balance	**562,031**	**597,998**	**637,006**	**645,807**	**662,124**	**672,185**	**683,073**	**694,715**	**707,058**	**720,156**	**734,102**
Net Operating Result for the Year	35,967	39,008	8,800	16,317	10,061	10,888	11,642	12,343	13,099	13,946	14,834
Closing Balance	**597,998**	**637,006**	**645,807**	**662,124**	**672,185**	**683,073**	**694,715**	**707,058**	**720,156**	**734,102**	**748,936**
Asset Revaluation Surplus											
Opening Balance	**185,308**	**200,127**	**215,365**	**231,727**	**248,565**	**266,046**	**283,999**	**302,459**	**321,492**	**341,082**	**361,239**
Asset Revaluation Adjustments	14,819	15,238	16,362	16,838	17,481	17,953	18,460	19,033	19,590	20,157	20,725
Closing Balance	**200,127**	**215,365**	**231,727**	**248,565**	**266,046**	**283,999**	**302,459**	**321,492**	**341,082**	**361,239**	**381,963**
Total Equity											
Opening Balance	**747,339**	**798,125**	**852,371**	**877,534**	**910,689**	**938,231**	**967,072**	**997,174**	**1,028,550**	**1,061,238**	**1,095,341**
Net Operating Result for the Year	35,967	39,008	8,800	16,317	10,061	10,888	11,642	12,343	13,099	13,946	14,834
Asset Revaluation Adjustments	14,819	15,238	16,362	16,838	17,481	17,953	18,460	19,033	19,590	20,157	20,725
Closing Balance	**798,125**	**852,371**	**877,534**	**910,689**	**938,231**	**967,072**	**997,174**	**1,028,550**	**1,061,238**	**1,095,341**	**1,130,900**

6.5 Sensitivity Analysis

Sensitivity analysis has been undertaken of the key assumptions most likely to impact the achievement of the LTFF's financial targets.

Income

Key Risks
Analysis of Council's sources of income has shown that, other than rates and charges, these have not increased in line with price increases since 2013-14. The following table demonstrates what the level of these other income sources has been over the last five years based on the original budgets from those years.

Recurrent Revenue	2013-14	2014-15	2015-16	2016-17	2017-18
Fees & Charges	$3.7M	$3.9M	$4.2M	$4.4M	$4.6M
Interest Received	$2.0M	$1.7M	$1.8M	$1.7M	$1.7M
Sales of Contract & Recoverable Works	$5.6M	$3.7M	$3.7M	$4.1M	$4.9M
Share of Profit from Associate	$1.3M	$1.3M	$1.7M	$2.0M	$2.1M
Other Revenue	$1.7M	$2.0M	$2.0M	$2.5M	$2.7M
Operating Grants, Subsidies & Contributions	$3.2M	$3.2M	$3.3M	$3.3M	$3.4M
Total Revenue	**$17.5M**	**$15.9M**	**$16.7M**	**$18.0M**	**$19.4M**

The original budget is used because rates and charges are set each year based on the original budget. Overall these other income sources have decreased over five years relative to CPI.

The reason this is important is that these other sources of income currently represent 28% of Council's recurrent funding. In 2013-14 they represented 31% of Council's recurrent funding. The proportion of recurrent funding they represent has reduced resulting in the funding shortfall created being addressed through reductions in expenditure but also increases in rates and charges.

A key risk for Council is that this pattern will continue due to circumstances outside its control. The assumption in the LTFF is that at least some of these sources of other income will increase each year.

Council has already assumed that interest received will not increase in line with any price index in the LTFF. This is due to interest being based on the level of cash held and market-based interest rates.

The sensitivity analysis performed consisted of reducing the assumption for fees and charges and other revenue to 0% instead of the assumptions used in the LTFF to evaluate the impact of these recurrent sources of revenue not increasing. As revenue from sales of contract and recoverable works is also tied to expenditure this was not changed as it was assumed that expenditure would also not increase if revenues did not increase.

The impacts on the financial sustainability indicators are as follows:

- Operating Surplus Ratio; this remains within the 0% to 10% target identified over the life of the LTFF, however, it worsens the ratio from 2019-20 onwards due to the lower level of recurrent revenue generated by the forecast.
- Net Financial Liabilities Ratio; this remains less than the 60% target identified over the life of the LTFF, however, it worsens the ratio from 2019-20 onwards due to the lower level of recurrent revenue generated by the forecast.
- Asset Sustainability Ratio; this ratio remains unchanged.
- Cash Holdings Ratio; this ratio deteriorates from 2020-21 and falls below the target of greater than 3 months in 2024-25 in the LTFF and gets progressively worse. This ratio is highly

sensitive to any change in the assumptions relating to recurrent income due to the compounding nature that any change in recurrent funding has on cash.

- Current Ratio; this ratio worsens from 2020-21 onwards.
- Debt Service Cover Ratio; this ratio remains greater than 5 over the life of the LTFF, however, it worsens from 2019-20 onwards due to the lower level of recurrent revenue generated by the forecast.

The conclusion that can be drawn from the sensitivity analysis is that, if sources of income other than rates and charges do not increase in line with price increases, Council cannot allow this to occur without undertaking a corrective change as the resulting effect on the financial sustainability ratios is unsustainable. This would likely take the form of reducing expenditure or increasing rates and charges.

Expenditure

<u>Key Risks</u>
The key risk to Council's financial sustainability is a lift in recurrent expenditure without an associated lift in recurrent sources of funding. Areas where this could occur are employee costs and materials and services. The sensitivity analysis performed consisted of increasing the assumption for employee costs and materials and services from 2% to 2.5% over the life of the LTFF to evaluate the impact of these recurrent expenditures increasing by more than what has been assumed in the forecast.

The impacts on the financial sustainability indicators are as follows:

- Operating Surplus Ratio; this remains within the 0% to 10% target identified over the life of the LTFF, however, it worsens the ratio from 2019-20 onwards due to the higher level of recurrent expenditure generated by the forecast.
- Net Financial Liabilities Ratio; this remains less than the 60% target identified over the life of the LTFF, however, it worsens the ratio from 2019-20 onwards due to the higher level of recurrent expenditure generated by the forecast.
- Asset Sustainability Ratio; this ratio remains unchanged.
- Cash Holdings Ratio; this ratio deteriorates and falls below the target of greater than 3 months in 2024-25 in the LTFF although it worsens from 2020-21 onwards. This ratio is highly sensitive to any change in the assumptions relating to recurrent expenditure due to the compounding nature that any change in recurrent expenditure has on cash.
- Current Ratio; this ratio worsens from 2020-21 onwards.
- Debt Service Cover Ratio; this ratio remains greater than 5 over the life of the LTFF, however, it worsens from 2019-20 onwards due to the higher level of recurrent expenditure generated by the forecast.

The conclusion that can be drawn from the sensitivity analysis is that, if recurrent expenditures increase by more than what is assumed in the forecast, Council cannot allow this to occur without undertaking a corrective change as the resulting effect on the financial sustainability ratios is unsustainable. This would likely take the form of increasing rates and charges.

Another key risk for expenditure is any change in disaster management funding arrangements that increases the exposure of local government. A key challenge for Council is that it does not have cash reserves to draw upon in the event that it may be required to make substantial contributions towards disaster management. If these funding arrangements were to change in future, this would present a significant funding issue.

7 Supporting References

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Local Government Regulation 2012

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