District Council of Franklin Harbour

Long Term Financial Plan 2023-32

Adopted: 10 August 2022

Resolution #: 73/08/22

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1. INTRODUCTION

The purpose of this Long Term Financial Plan ("LTFP") is to express, in financial terms, the activities that the District Council of Franklin Harbour ("Council") proposes to undertake over the medium to longer term to achieve its stated objectives as outlined in its Strategic Management 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, 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. RELEVANT LEGISLATION

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.*

(3) A statement under sub-regulation (2) must be expressed in plain English and must avoid unnecessary technicality and excessive detail.

The information that follows satisfies the above regulations.

3. FINANCIAL STRATEGY

The LTFP is based on Councils current operating service levels as well as projected capital renewal expenditure obtained from Councils Asset Management Plan.

- Community Wastewater Management Schemes ("CWMS") charges are set at an appropriate level to ensure whole of life costs are recovered.

  There are currently two types of charges designed to achieve this, being:

  - A service charge of $150 per unit per annum
  - A capital charge of $367 per unit per annum

  The capital charge is aimed at recouping the original construction cost of the Cowell CWMS and is being used to repay the debt incurred at the time of construction.

  The service charge is aimed at recouping the whole of life costs of running and renewing the Cowell CWMS as it wears out. In 2018-19 the service charge was reduced from $442 per unit per annum to $150 in recognition of the out of pocket expenses being incurred by rate payers required to enable them to connect to the system. The intention was for this to be a short term arrangement with the service charge to be reinstated to the previous level in due course.

  Council have discussed this matter at length and feel that a phasing in strategy needs to be employed to return the service charge to the level required to recoup the whole of life costs of the Cowell CWMS. The Local Government Act requires this to happen. If the service charge were not increased to the previous level, then this would mean the shortfall in revenue required to cover the whole of life costs of the CWMS would be covered most likely from general rate revenue which would be seen as unfair to those ratepayers who do not receive the benefits of the CWMS.

  Accordingly, the long term financial plan has been prepared on the understanding that the service charge will be increased by $50 per annum plus CPI for each year within the five year period commencing 30 June 2023 and ending 30 June 2027.

- Additional revenue is included in the LTFP as a result of a number of initiatives that are outlined in the following table:

Revenue Stream/ FYE	**2023-24**	**2024-25**	**2025-26**
Rate increase due to growth	10	10	10
Marina rent/berth sales	24	30	36
Marina Café rent	15	15	15
Port Gibbon Cabins x2	52	54	57
Camping fees	25	25	25
Additional camping Point Gibbon/ Rangeview	15	18	20
Per Annum	**141**	**152**	**163**

  These estimates are believed to be conservative with the possibility existing that even larger revenue streams may eventuate once the foreshore redevelopment project is completed.

- Waste management user charges are set at an appropriate level to ensure the full cost of providing these services is recovered from those who benefit from the service.

3. FINANCIAL STRATEGY con't

- Council will continue to review service delivery to the community to identify any further opportunities to reduce operating costs due to operating efficiencies. This will be an ongoing objective for management to ensure the maximum benefit to the community per dollar of rates.
- Council will critically evaluate proposed new works over the next 10 years. Priority will be given to revenue generating assets. Given the nature of Council business this will not always be possible. By committing to this strategy, Council will be able to allocate resources to replacing existing assets in a timely manner as well as minimising any increases in operating costs associated with additional assets. Should an upgrade program be agreed to, then a complete re-work of the LTFP will be undertaken to confirm Council will remain in a financially sustainable position after the completion of these works.
- 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 have strategic significance, particularly, if additional funding was to be contributed by Council. Where an operating grant is sought and additional Council funds are required to be contributed, then careful consideration will be given to long-run 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.
- The LTFP will be revised as part of the Annual Business Planning process each year.

4. KEY ASSUMPTIONS

The following assumptions have been built into the forecast calculations:

- The content of the LTFP is based on real (2022-23) dollar values for all future years to facilitate comparisons between years.
- Forecast debt and cash reserves in future years have been discounted by between 5% p.a. down to 2% p.a. in the later years in recognition of the fact that inflation reduces the real value of financial assets and liabilities.
- Commonwealth Financial Assistance Grant ("FAGs") revenue is not expected to vary over the planning period. Timing of receipt of FAGs revenue has been assumed to be quarterly four times each year.
- Capital and maintenance expenditure on road renewal and plant and equipment matches expenditure requirements from the 10 year renewal programs.
- Capital expenditure renewal levels have been set to ensure assets are renewed in a timely manner that is consistent with Councils Asset Management Plan.
- Commonwealth Roads to Recovery funding is maintained at current levels throughout the planning period.
- Investment income has been calculated at 2% p.a. on the previous year's closing cash balance.
- Borrowing costs have been calculated at 5% p.a. on variable loans where relevant

5. LONG TERM FINANCIAL SUSTAINABILITY – KEY FINANCIAL INDICATORS

Indicator 1 – Notional Operating Surplus Ratio ("OSR")

The operating surplus ratio expresses the operating surplus (deficit) as a percentage of operating income.

Calculated as: (operating revenue minus operating expense) divided by operating revenue.

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.

Throughout the life of the plan, Council aims to achieve an operating result of within the range of 0% to 10% of operating revenue.

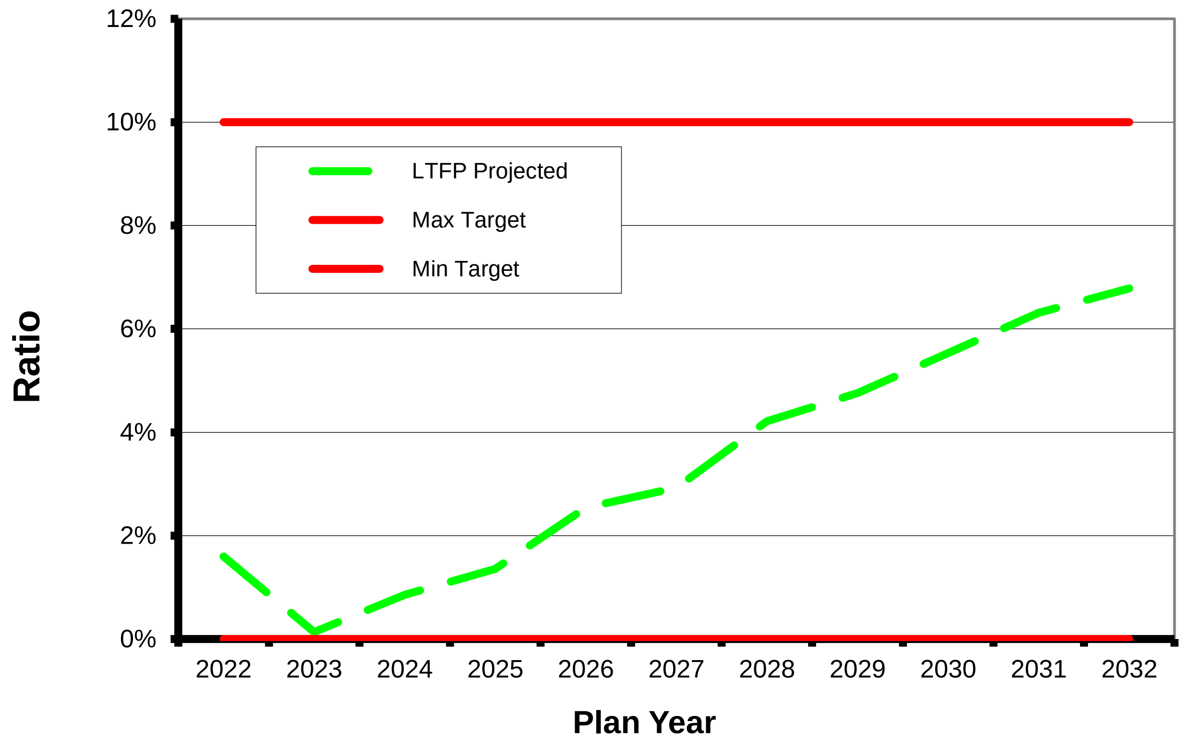
The 2022, 2023 & 2024 financial years are distorted due to the accounting treatment of the Disaster Recovery Program reported on in section 7.4 of Councils Infrastructure & Asset Management Plan 2023-32.

The following table outlines the abnormal impact this program has on Councils Operating Result:

Impact on Operating Result	2021-22 $,000	2022-23 $,000	2023-24 $,000	Total $,000
Reimbursement	1,000	1,749	691	3,440
Operating Expenditure	160	521	368	1,049
Operating Result overstated by:	**841**	**1,227**	**324**	**2,392**

The following adjusted ratio analysis shows what the true underlying operating result is once the impact of the DRP is removed from the operating activities of the LTFP.

Indicator 1 – Adjusted Operating Surplus Ratio ("OSR") – Underlying / True Operating Result:



Year Ending 30 June:	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Operating Surplus	907	1,234	361	62	117	135	196	221	257	293	315
Total Operating Revenue	5,191	6,272	5,189	4,541	4,583	4,614	4,646	4,646	4,646	4,646	4,646
Notional Operating Surplus Ratio	**17%**	**20%**	**7%**	**1%**	**3%**	**3%**	**4%**	**5%**	**6%**	**6%**	**7%**
Underlying / True Operating Surplus Ratio	**2%**	**0%**	**1%**	**1%**	**3%**	**3%**	**4%**	**5%**	**6%**	**6%**	**7%**

The above table and graph indicates that by implementing the financial strategy included in section 3, Council is in a strong operating position with operating income exceeding operating expenses (including depreciation) throughout the life of the plan.

The forecast surplus funds are a significant contributor to the reduction in the forecast net financial liabilities as demonstrated in the section that follows.

Indicator 2 - Net Financial Liabilities Ratio (NFLR)

Net financial liabilities are 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 minus 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.

Council have set a maximum debt level of 200% of operating revenue for the first two years of the plan. Subsequent years upper limits have been progressively reduced at a rate consistent with the impact the financial strategy will have on the reduction of Net Financial Liabilities.

The following table of data is illustrated by the green line in the above graph:

Year Ending 30 June:	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Net Financial Liabilities	8,762	8,897	8,988	8,408	8,381	7,712	7,101	6,301	5,591	5,138	4,372
Total Operating revenue	5,191	6,272	5,189	4,541	4,583	4,614	4,646	4,646	4,646	4,646	4,646
Net Financial Liabilities Ratio	**169%**	**142%**	**173%**	**185%**	**183%**	**167%**	**153%**	**136%**	**120%**	**111%**	**94%**

At first glance it appears that Council has an excessive level of Net Financial Liabilities (NFL) forecast for the year ending 30 June 2023 when NFL peaks at $8.9M

There are a number of mitigating circumstances that need to be understood when assessing the manageability of such a high level of liabilities, being:

- The level of debt included in NFL that specifically relates to the construction of the Cowell CWMS in 2016-17. This has a dedicated revenue stream that is repaying this component of NFL.
- A notional provision of $2M is carried in the liabilities section of Councils balance sheet included in relation to deposits held on 17 licenses to occupy issued to various parties residing in the Cowell Cottages complex. The provision is carried to reflect the unlikely event where every resident leaves the complex at the same time and Council were required to repay all of the deposits at once. In reality this would never happen. Further to this there is an unrecognised financial asset being the actual license which would be available for resale should a resident leave.
- Finally, the current written down value of the land and buildings included in the non-current assets section of the balance sheet is $2.5M. In reality should this property ever need to be sold the market value would likely be well in excess of this amount.

The following analysis will demonstrate that the forecast level of NFL is manageable and that the financial strategy outlined in section 3 of this plan is consistently reducing NFL over time.

<u>Break down of NFL as of 30 June 2023:</u>

CWMS related Borrowings	$2.6M
Cowell Cottages Notional Provision	$2.0M
Other Borrowings	**$4.3M**
Total NFL	$8.9M

Other Borrowings as a percentage of Operating Revenue = 68%

<u>Break down of NFL as of 30 June 2032:</u>

CWMS related Borrowings	$800k
Cowell Cottages Notional Provision	$2.0M
Other Borrowings	**$1.5M**
Total NFL	$4.3M

Other Borrowings as a percentage of Operating Revenue = 32%

When assessing the level of other borrowings, even when NFL peak at $8.9M the underlying real level of borrowings to be repaid is $4.3M or 68% of operating revenue. This is lower that the accepted ceiling level of NFLR of 100% used as a guideline by the local government sector in more normal circumstances.

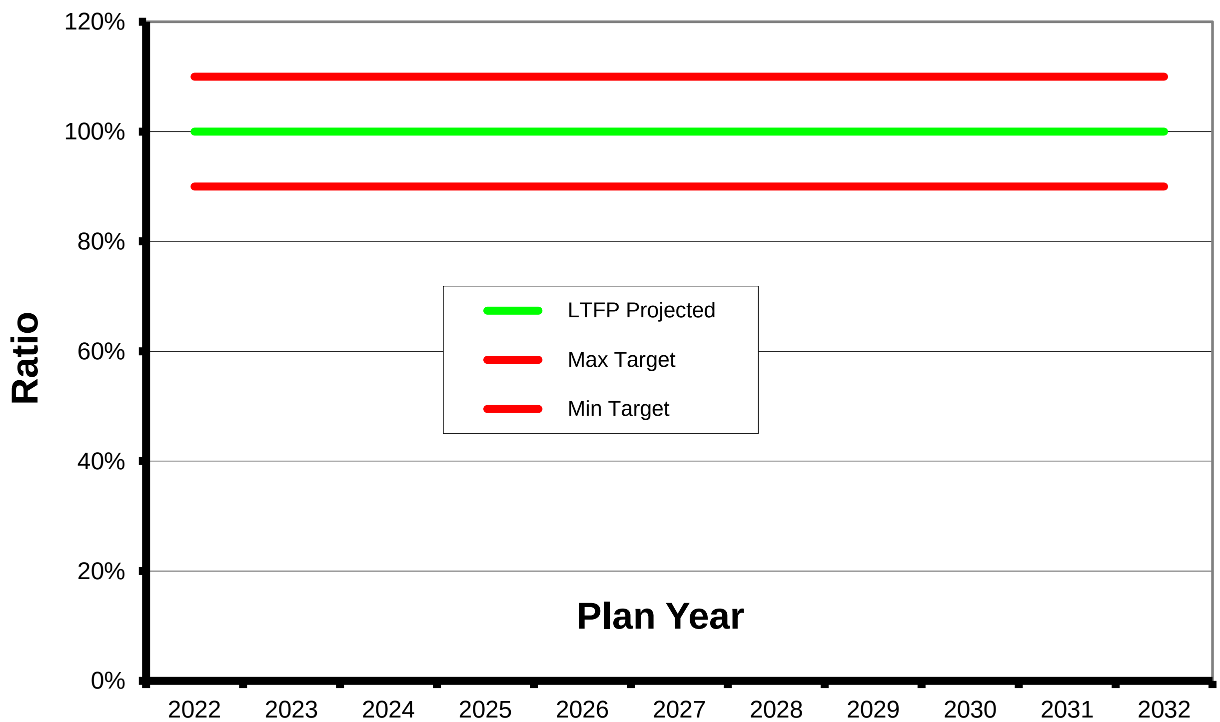
When considering NFL as of 30 June 2032 it can be seen that the financial strategy is having the desired effect as NFL reduces to $4.3M, with the other borrowings component reducing to $1.5M producing a NFLR of 28% that is well below the industry ceiling of 100%.

Indicator 3 - Asset Renewal Funding Ratio ("ARFR")

The ARFR 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 determined by Councils asset management data.

If capital expenditure on renewing or replacing existing assets is at least equal to the level proposed by Councils asset data, 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.

It is important to understand the difference between new/upgraded assets and renewal/ replacement assets. Only expenditure on renewal/replacement is included in the calculation of the asset renewal funding ratio. Refer further below for a full definition of new/upgraded assets and renewal/replacement assets.



The above graph demonstrates that Council is intending to fund capital renewals set out in the tables that follow as identified in Councils' 2023-32 Asset Management Plan.

Year Ending 30 June:	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000	2030 $'000	2031 $'000	2032 $'000
Transportation	1,705	1,036	406	780	620	565	463	425	584	500
CWMS	10	20	20	20	5	5	-	-	-	50
Buildings & Structures	338	75	75	75	75	75	75	75	75	75
Plant & Equipment	167	765	563	561	305	482	388	535	693	388
Other Assets & Infrastructure	25	25	25	25	25	25	25	25	25	25
Total	**2,245**	**1,921**	**1,089**	**1,461**	**1,030**	**1,152**	**951**	**1,060**	**1,377**	**1,038**

The 2023-32 LTFP funds the following new assets as reported in Councils 2023-32 Asset Management Plan:

Year Ending 30 June:	2023 $'000	2024 $'000	2025 $'000	2026 $'000
Upgraded Assets				
Cowell - Kimba	1,185	962	558	723
LRCIP – Phase 3 Project	607	-	-	-
Final Stage of Beach Road Upgrade	474			
	2,266	**962**	**558**	**723**

6 Chief Executive Officer report on the sustainability of the Council's Long Term Financial performance and position

The analysis undertaken above demonstrates that Council intends to implement a financial strategy that will ensure Council operates within the target ranges set for the three Key Financial Indicators. Accordingly it can be concluded that Council intends to be operating in a financially sustainable manner in the short, medium & long term.

Council has committed to ensuring the Long Term Financial Plan is continually updated when necessary to ensure that it will always have appropriate strategies in place to ensure it is operating in a financially sustainable manner.

Year 1 of the plan is based on and is consistent with the 2022-23 Annual Budget which is sufficient to fund the goals, objectives and activities as set out in Councils 2022-23 Annual Business Plan (ABP). The asset renewal allocations are consistent with Council's Asset Management Plan and the capital expenditure budget included in the 2022-23 Annual Budget. The 2022-23 ABP & 2023-32 LTFP are consistent with the strategic goals and principal activities of Councils suite of Strategic Management Plans.

7. STATEMENT OF UNIFORM PRESENTATION OF FINANCES

The Statement of Uniform Presentation of Finances 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 Statement of Uniform Presentation of Finances 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).

New / Upgraded vs Renewal / Replacement of Assets

A clear understanding of the difference between expenditure incurred to renew or replace existing assets and expenditure incurred to create new or upgraded assets is essential in order to understand the strategic relevance of the Statement of Uniform Presentation of Finances.

A **new asset** is additional to Council's previous asset complement.

For example, roads constructed as part of a Council owned subdivision are new assets. Similarly, laying footpaths in areas where they did not previously exist are also new assets.

An **upgraded asset** replaces a previously existing asset with enhanced capability or functionality.

Renewal or replacement of an asset occurs where a previously existing asset is replaced without enhancement of the service capability except where this is incidental and unavoidable.

It is possible for capital expenditure to be a combination of renewal as well as upgrade. This is particularly prevalent in this Council region due to the increased volume of B-double traffic experienced in recent times. This has required existing roads to be rebuilt to higher standards.

For example, the replacement of a road that was initially a 6 metre wide sheeted surface with an 8 metre width sheeted surface can be considered part replacement and part upgrade.

The important point to understand is that if Council is not able to replace its existing assets in a timely manner, then new assets should not be built unless essential. By building new assets Council is effectively building new liabilities as the assets usually do not generate revenue (e.g. roads), cannot be sold and will need to be maintained and eventually replaced.

Uniform Presentation of Finances	2022 Year 0 Actual $'000	2023 Year 1 Budget $'000	2024 Year 2 Plan $'000	2025 Year 3 Plan $'000	2026 Year 4 Plan $'000	2027 Year 5 Plan $'000	2028 Year 6 Plan $'000	2029 Year 7 Plan $'000	2030 Year 8 Plan $'000	2031 Year 9 Plan $'000	2032 Year 10 Plan $'000
Operating Revenues	5,191	6,272	5,189	4,541	4,583	4,614	4,646	4,646	4,646	4,646	4,646
less Operating Expenses	4,284	5,038	4,828	4,479	4,467	4,480	4,450	4,425	4,389	4,353	4,331
Operating Surplus/(Deficit) before Capital Amounts	907	1,234	361	62	117	135	196	221	257	293	315
LESS: Net Outlays on Existing Assets											
Capital Expenditure on Renewal or Replacement of Existing Assets	1,781	2,245	1,921	1,089	1,461	1,030	1,152	951	1,060	1,377	1,038
less Depreciation, Amortisation & Impairment	(1,157)	(1,279)	(1,305)	(1,315)	(1,322)	(1,330)	(1,330)	(1,330)	(1,330)	(1,330)	(1,330)
less Proceeds from Sale of Replaced Assets	(242)	(39)	(176)	(166)	(145)	(119)	(135)	(110)	(108)	(146)	(108)
Net Outlays on Existing Assets	382	926	440	(392)	(6)	(419)	(313)	(489)	(378)	(99)	(400)
LESS: Net Outlays on New or Upgraded Assets											
Capital Expenditure on New/Upgraded Assets	5,699	2,266	962	558	723	0	0	0	0	0	0
less Amounts Specifically for New/Upgraded Assets	(4,095)	(1,641)	(645)	(374)	(455)	0	0	0	0	0	0
less Proceeds from Sale of Surplus Assets	0	0	0	0	0	0	0	0	0	0	0
Net Outlays on New or Upgraded Assets	1,603	625	317	184	268	0	0	0	0	0	0
EQUALS: Net Lending / (Borrowing) for Financial Year	(1,078)	(317)	(396)	270	(146)	554	508	710	634	392	715

Conclusion

The ‘Net Lending / (Borrowings) for the Financial Year’, represents the movement in Councils’ net financial liabilities from one year to the next.

If the result for any given year is in brackets, then this identifies the amount of cash that is required to fund the capital and operating expenditure budgets after considering all available cash inflows for the year. Such a result would lead to an increase in borrowings.

Alternatively, any amounts that are not in brackets identify the amount of money that is surplus to Councils needs for the year as the forecast cash inflows would be greater than the forecast operating and capital expenditure requirements. Such a result would lead to a decrease in borrowings.

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 reseal, 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 and 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.

REFERENCE MATERIAL

IPWEA Practice Note 6 – Long-term Financial Planning.

LGA Information Paper 9 – Local Government Financial Indicators

LGA Information Paper 12 – Targets for Local Government Financial Indicators

South Australian Local Government Model Financial Statements