

Long Term Financial Plan 2019 - 2029

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Executive Summary

Purpose of the Long Term Financial Plan

An Integrated Planning Framework is used by all NSW councils to plan for the future. Lismore City Council has adopted the *Imagine Lismore* Community Strategic Plan (Plan) to integrate its strategic planning, implementation and reporting framework.

The Plan identifies the community's priorities and aspirations as they emerged from our detailed engagement process with community members and other relevant stakeholders, and its subsequent review in 2016/17. It builds on the social justice principles of equity, access, participation and rights, addressing social, environmental, economic and civic leadership issues while giving due regard to *NSW 2021* and other relevant state and regional plans.

The Plan is supported by a Resourcing Strategy comprising a Long Term Financial Plan (10-year outlook), a Workforce Management Plan (four-year outlook) and an Asset Management Plan (10-year outlook).

There are five basic challenges to achieve *Imagine Lismore* vision. These are summarised into:

- Financial
- Community
- Environmental
- Economic
- Services and infrastructure

The key objective of the Long Term Financial Plan (LTFP) is to address these challenges by providing a road map to long-term financial sustainability.

Financial Sustainability

What is financial sustainability?

Financial sustainability is broadly defined as Council's financial ability to deliver acceptable, affordable and ongoing services to its community.

Council's long-term financial sustainability and level of infrastructure maintenance funding has been challenged. To respond effectively to the challenge, changes in what and how works, services and programs are funded and delivered by Council is required. Rather than an ad-hoc approach, Council has developed the LTFP as part of the *Imagine Lismore* Community Strategic Plan, and in conjunction with Asset Management Plans and Workforce Management Plans. This is to ensure the maximum integration between the strategic planning and the creation of community expectations that are deliverable.

The road to financial sustainability

In the past councils have managed their finances based on a balanced cash position. Thankfully these days are behind us. By ignoring the ongoing deterioration of Council assets such as roads, treatment plants and buildings, reporting on a cash position failed to ensure enough money was on hand to maintain these assets. Whilst this system worked well in the short term we are now faced with ageing infrastructure that we don't have the money to fix. This is not a problem just for Lismore but for many other public asset owners in and outside of Australia.

The key objective of the LTFP reflects Council's strategy to increase Asset Management funding over time to a level that will maintain Council's infrastructure to agreed standards while working towards achieving community goals and financial sustainability.

Preparation of the plan

The LTFP has been prepared in accordance with the NSW State Government Integrated Planning and Reporting guidelines.

The LTFP uses a range of financial information from Council's *Imagine Lismore* Community Strategic Plan, Delivery Program and Operational Plan. The LTFP is simply a financial assessment of the activities and projects that Council proposes to undertake in the short, medium and long term.

Council's financial structure is divided into three separate funds: General, Water and Wastewater. The LTFP is presented in an annual financial statement format on a consolidated and individual (General, Water and Wastewater) basis comprising:

- Income Statement – Presents the operating result and change in net assets from operations for the year.
- Balance Sheet – Discloses the assets, liabilities and equity of Council.
- Cash Flow Statement – Shows the cash flows associated with Council's operating, financing and investing activities.
- Performance Indicators snap shot

Estimates, projections and assumptions have then been applied to develop a picture of how Council's finances will look over a 10 year period. This includes quantifying revenue growth, expenditure commitments, and funding capacity.

The LTFP will be reviewed and updated yearly to reflect the changes in economic assumptions, better information and revised forecasts. The first version was the Long Term Financial Plan 2013-2023. The current version is the Long Term Financial Plan 2019-2029.

Monitoring financial performance

A range of Key Performance Indicators (KPI's) for performance management have been included in the LTFP. The purpose of the KPI's is to provide a snapshot of financial performance over time.

Financial performance will be assessed against the following KPI's on both an individual fund level and single consolidated level:-

From a Sustainability perspective

- | | |
|-----------------------------------------------------------------------------|------------------------------|
| • Operating Performance Ratio | Benchmark – Greater than 0 |
| • Own Source Operating Revenue Ratio | Benchmark – Greater than 60% |
| • Unrestricted Cash Ratio | Benchmark – Greater than 1.5 |
| • Debt Service Cover Ratio | Benchmark – Greater than 2 |
| • Rates, Annual Charges, Interest
& Extra Charges Outstanding Percentage | Benchmark – Less than 10% |
| • Cash Expense Cover Ratio | Benchmark – Greater than 3 |

From an Infrastructure Management perspective

- | | |
|---------------------------------------------|-------------------------------|
| • Infrastructure Backlog Ratio | Benchmark – Less than 2% |
| • Asset Maintenance Ratio | Benchmark – Greater than 100% |
| • Building and Infrastructure Renewal Ratio | Benchmark – Greater than 100% |

Long Term Financial Plan Goals

The LTFP is simply a financial assessment of the activities and projects that Council proposes to undertake in the short, medium and long term.

The following fundamental objectives are targeted to be achieved in the LTFP:

- Progressively achieve long term financial sustainability by generating at least a balanced annual result before capital grants and contributions
- Maintain a surplus annual budget of at least \$200,000 from a "cash perspective", that is operations are cash positive
- Progressive increases to asset maintenance and renewal funding in order to maintain current asset service levels and conditions
- Committed to identifying and implementing initiatives which reduces expenditure and/or increases income and therefore improves Council's bottom line and/or its capacity to deliver services
- Eliminate borrowings as a funding source for asset renewals, as opposed to major new projects where inter-generational equity issues justify borrowing
- Maintains debt service ratio within accepted industry benchmarks

Assumptions and Forecasts

The following assumptions and estimates have been adopted as a general guide in formulating the LTFP:-

General assumptions

The LTFP is amended each year to reflect the current budget. The current budget is 2018/19. The current budget becomes the base year for all future years in the LTFP.

All financial results attributable to Water and Wastewater Funds are held in restricted funded specifically for those purposes.

Population

General – Population growth of 0.25% has been used.

Inflation

Mid-range of the Reserve Bank of Australia forecast* 2.0% to 2.5% – Applied – 2.10% 2019/20 onwards.

*Statement on Monetary Policy – November 2018

Revenue and funding assumptions and forecasts

- **Rates** – Council's ability to increase rates is determined by the NSW Independent Pricing and Regulatory Tribunal (IPART). IPART determined the maximum rate peg increase for 2019/20 at 2.70%. Council has increased rates by 2.10% for the years 2020/21 onwards.
- **Annual Charges** – Annual charges to increase by 2.70% per annum in 2019/20 and 2.10% per annum for years 2020/21 onwards.
- **Fees and other income** – All other revenues to increase by 2.70% per annum in 2019/20 and 2.10% per annum for years 2020/21 onwards.
- **Interest on investments** – 2.5% per annum.
- **Grants and subsidies:**
 - Financial Assistance Grants – 0% per annum.
 - All other recurring grants and contributions (including recurring capital grants) increase by 2.70% per annum in 2019/20 and 2.10% per annum for the years 2019/20 onwards.
- **Other revenues** – Increase by 2.70% per annum in 2019/20 and 2.10% per annum for the years 2019/20 onwards.

Expenditure assumptions and forecasts

- **Employee costs** – Wages to increase by 2.50% per annum in all years. Superannuation to increase by an average of 7.6% per annum in 2019/20 and 2.50% per annum in future years.
- **Materials, contracts and other operating costs** – increase by 2.70% in 2019/20 and 2.10% per annum for the years 2020/21 onwards.
- **Electricity costs** – Increase by 2.70% in 2019/20 and 2.10% per annum for the years 2020/21 onwards.
- **Depreciation and Amortisation** – 2.10% per annum for years 2019/20 onwards.
- **Borrowing costs** – 4% interest rate.
- **Operating costs** – Increase by 2.70% in 2019/20 and 2.10% per annum for the years 2020/21 onwards.
- **Other Expenses (Statutory) & Regulatory** – Increase by 2.70% in 2019/20 and 2.10% per annum for the years 2020/21 onwards.

Assumptions and Forecasts (cont'd)

Productivity Improvements and Cost Containment

Integral to the success of the LTFP is the identification of and implementation of productivity improvements and service efficiencies. The key elements are:-

1. Deliver better value for money in the allocation of capital renewal funds for sealed roads by
 - a) Implement the Optimised Decision Making Model to determine priorities for allocation of capital renewal funds in the sealed road network
 - b) Divert funding from reconstruction and rehabilitation of road pavements to reseals
 - c) Utilise innovative road pavement and surface treatments to renew sealed roads.
2. Target ongoing total savings of \$1,000,000 by undertaking a Service Level Review for application from 2022/23.
3. Reduce financial liability for ongoing renewal, operational and maintenance costs by disposing of infrastructure surplus to requirements.
4. Improve Service Delivery Efficiency and Productivity by progressively reviewing all services using the principles of the Australian Business Excellence Framework.
5. Develop and improve our human resources by implementing a
 - a) Senior management leadership program.
 - b) Frontline Leaders development program.
 - c) General staff development program
6. Improve Corporate Performance Management to clearly
 - a) Define corporate and service performance standards.
 - b) Define related individual staff performance standards
 - c) Complete accountability processes to ensure performance standards are met.

Borrowings

There are planned borrowings for new works over the life of the LTFP. These are clearly shown in the Cash Flow Statement. The majority of borrowings are for Water and Wastewater infrastructure. An interest rate of 5.0% has been applied to borrowings from 2019/20 with the term of loans being in line with the expected useful life of the asset.

A review is to be completed each year prior to borrowing to assess capacity to fund planned works from internal reserves which may result in reduced borrowings and a positive impact on borrowing costs.

Reserves

Council has cash reserves which are either a legislatively requirement (externally restricted) or held in accordance with its Reserves Policy (internally restricted).

The establishment and funding of cash reserves is a financial management strategy to provide funding of future expenditure that could not be otherwise be financed during a single year without having a material impact on the budget (e.g. local government elections are every four years so Council sets aside one quarter of the estimated cost of this activity each financial year).

Reserves are to be collected and applied as planned during the life of the LTFP.

Capital Expenditure and Sales

Major capital expenditure and sales are based on the Asset Management Plan, Water and Wastewater Strategic Business Plans and Fleet Replacement Plan. Major capital works are programmed for Water and Wastewater over the period of the LTFP and reflects Council planned renewal of existing infrastructure and to increase capacity for future growth.

The progressive development of Asset Management Plans has identified the sheer magnitude of infrastructure works necessary to achieve satisfactory and sustainable service levels.

Assumptions and Forecasts (cont'd)

Capital Expenditure and Sales

Addressing the funding shortfall in the LTFP is to be achieved over time by a number of initiatives including changes in current practices, cost efficiencies, increased user charges, reducing or eliminating lower-priority expenditure and potential special rate variation increase.

Capital expenditures for the full ten years of the LTFP for all of Council operations are to be included in the LTFP as detailed financial plans are progressively completed.

Sensitivity Analysis

The LTFP contains a number of assumptions based on various sources such as legislation, inflation, current service provisions and wage markets. Variations in these assumptions during the life of the plan may have a significant impact on the Council's future financial plans. The LTFP is reviewed annually to ensure the assumptions are continually updated with the latest information available.

Rates and Annual Charges:

Revenues from Rates and Annual Charges represent a major component of Council's total revenue and therefore movements in future years will have a significant impact on Council's ability to deliver the *Imagine Lismore* Community Strategic Plan.

Rates – Councils' ability to increase rates is determined by IPART through rate pegging. Modelling has been prepared on a 2.70% in 2019/20 and 2.10% rate peg for future years.

Commercial Operations:

As part of the preparation of the LTFP, Council has identified surplus operating funds from its Commercial Operations (Northern Rivers Quarry & Asphalt, Northern Rivers Waste Collection & Disposal and Lismore Memorial Gardens) and has assumed these will be maintained over the life of the plan. Should economic conditions deteriorate over the life of the plan the ability to for these operations to generate surplus funds may be impacted. This may also impact on the ability to deliver the projects and services identified in this plan.

Inflation:

Changes in inflation will impact both revenue and expenditure.

Employee Costs:

Changes in employee costs will impact expenditure. Wages are anticipated to increase by 2.50% per annum in future years. Staffing numbers are anticipated to remain relatively static.

Population Growth:

Lismore City Council's growth is based on 0.25% increase in assessable properties. Should the population grow faster than this rate both service levels and rating income will be impacted.

Grants:

The LTFP models include recurring grants and capital grants that have already been awarded. A number of the grants relate to specific works that may not be provided by Council if the grants were eliminated.

The general purpose grant component of the Financial Assistance Grant - no increase has been included for 2019/20 onwards. If Council's share of funding is reduced, Council would need to consider service levels and capital expenditure reductions to offset the change.

Risk Assessment and Models

In addition to LTFP model, two other financial models have been developed to demonstrate the impact of a change in a key assumption on Council's consolidated (General, Water and Wastewater Funds) financial results and reporting.

The key assumption changed is rate pegging. The two models developed are:-

- Optimistic Model 2 (Consolidated) – Assuming a 2.60 % rate peg increase from 2020/21
- Pessimistic Model 3 (Consolidated) – Assuming a 1.60 % rate peg increase from 2020/21

For each of these models the following reporting has been prepared and attached:-

1. Income Statement
2. Balance Sheet
3. Cash Flow Statement
4. Dashboard (Key Performance Indicators)

Attachments – planned scenario

Model 1 - Adopted

Fund	Attachment	No.
Consolidated	Income Statement	1
	Balance Sheet	2
	Cash Flow Statement	3
	Key Performance Indicators	4
General Fund	Income Statement	5
	Balance Sheet	6
	Cash Flow Statement	7
Water Fund	Income Statement	8
	Balance Sheet	9
	Cash Flow Statement	10
Sewer Fund	Income Statement	11
	Balance Sheet	12
	Cash Flow Statement	13

Model 2 - Optimistic

Consolidated	Income Statement	14
	Balance Sheet	15
	Cash Flow Statement	16
	Key Performance Indicators	17

Model 3 - Pessimistic

Consolidated	Income Statement	18
	Balance Sheet	19
	Cash Flow Statement	20
	Key Performance Indicators	21