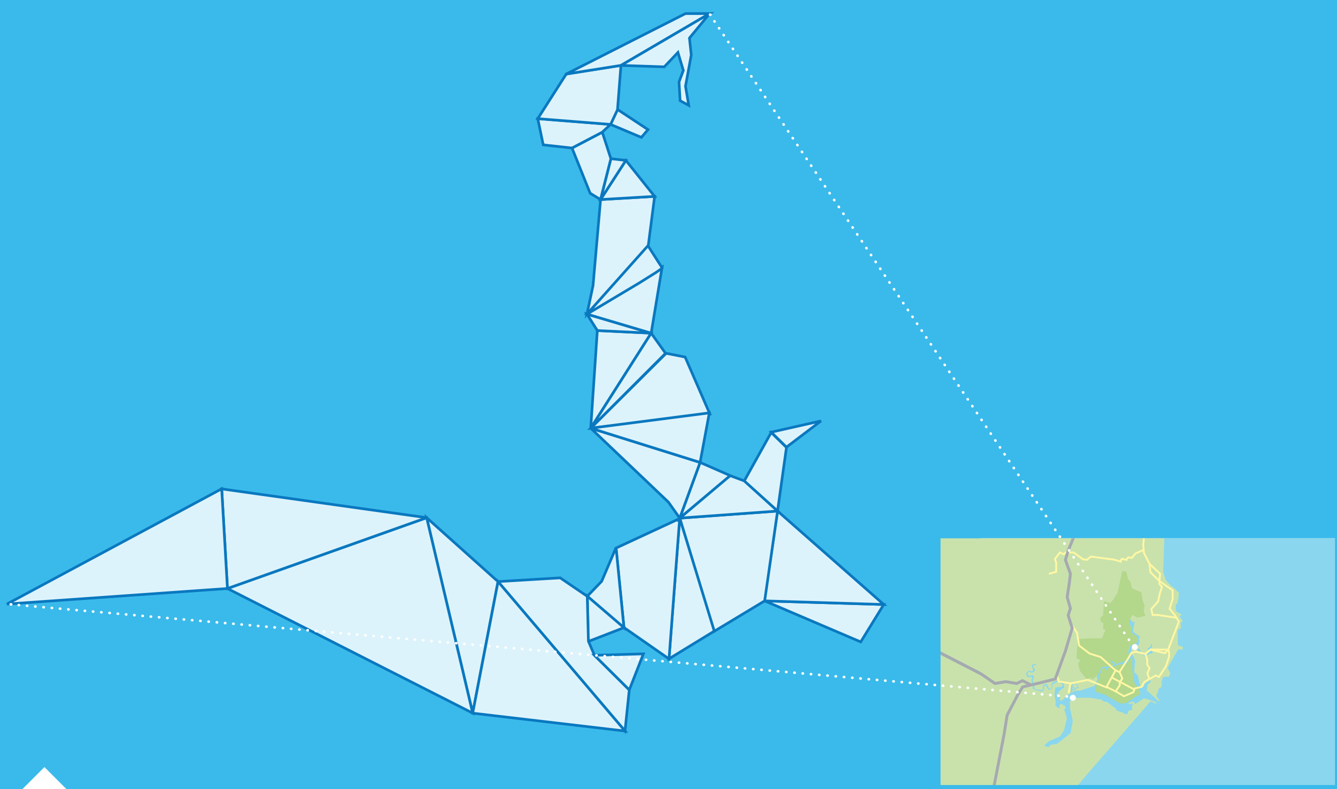
ballina
shire council

long term financial plan (LTFP)

2018/19 - 2027/28

ADOPTED 28 JUNE 2018

our community our future



Our design rationale for this document is based on a conceptual interpretation of its contents. To symbolise the strategic community approach, we have used segmented shapes to represent the elements of the community that fit into the geographic focus – Ballina. Together, the shapes form the Ballina River map. Every element impacts on the challenges, direction and ultimately the future of its entire form – our community. We hope you enjoy the journey and the view.

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1. Introduction

Councils are required to prepare a ten-year Resourcing Strategy to identify the resources needed to implement their Community Strategic Plan, Delivery Program and Operational Plan. The Resourcing Strategy consists of the Asset Management Plan, Workforce Plan and Long Term Financial Plan (LTFP). This document provides an overview of Council's LTFP. The LTFP is based on a financial planning period of ten years. The information in this document provides a summary of the LTFP including:

- Overview of methods for monitoring financial performance
- major assumptions used to develop the LTFP
- projected income and expenditure, cash movements and balance sheets and
- financial modelling for different scenarios.

What is a LTFP and what is its purpose?

A LTFP is a financial decision making tool. It is the point at which long-term community aspirations are tested against financial realities. It consists of expenditure and revenue projections, based on a number of assumptions.

The LTFP is a tool for stakeholders (Council and the community) in deciding what resources Council needs to deliver on the outcomes contained within the Community Strategic Plan.

The primary purpose is to inform financial decision-making and to monitor Council's financial performance, along with balancing the short, medium and long term expectations of the community. The LTFP seeks to answer the following questions:

- Can we survive the financial pressures of the future?
- What are the opportunities for future income and economic growth?
- Can we afford what the community wants?
- How can we go about achieving these outcomes?

The LTFP is updated annually in conjunction with the annual review of Council's Delivery Program and Operational Plan.

2. Long Term Financial Sustainability

The international Public Sector Accounting Standards Board defines financial sustainability as "the ability of the entity to meet service delivery and financial commitments both now and in the future".

This means that a financially sustainable council is one that has the ability to fund ongoing service delivery and the renewal and replacement of assets, without incurring excessive debt or rate increases.

Sustainability can be translated into four key financial objectives:

1) Council must aim for a fully funded operating position, reflecting that Council collects enough revenue to fund operational expenditure, repayment of debt and depreciation
2) Council must maintain sufficient cash reserves to ensure that it can meet its short-term working capital requirements
3) Council must have a fully funded capital expenditure program, where the source of funding is identified for capital renewal and new capital works
4) Council must maintain its existing asset base by renewing ageing infrastructure in a timely manner.

How do we measure our Financial Sustainability?

The indicators for measuring financial sustainability can be divided between short, medium and long term performance indicators.

a) Short and Medium Term Performance Indicators – Quarterly Budget Review

Within two months of the end of each quarter, a report must be submitted to the elected Council that complies with the Quarterly Budget Review Statement Guidelines set down by the NSW Office of Local Government (OLG). These guidelines identify three key financial performance indicators that measure our short and medium term financial sustainability. The indicators are outlined in the following table.

Short and Medium Term Performance Indicators – Quarterly Budget Review

Ratio	Calculation	What is Being Measured?	Target and Indicator Source
Operational Liquidity - Short Term Focus			
Unrestricted Current Ratio	Unrestricted Current assets divided by unrestricted current liabilities. Measured as a ratio.	Council's ability to meet its short term liabilities with its short term assets.	>1.5:1 (NSW TCorp)
Fiscal Responsibility - Medium Term			
Operating Performance Ratio	Net operating result from continuing operations (excluding capital items) as a percentage of operating revenue (excluding capital items).	Measures whether the Council is sustainable in terms of its operating result.	>0% (OLG)
Debt Service Ratio	Loan principal and interest payments divided by revenue from continuing operations excluding capital items and specific purpose grants and contributions. Measured as a percentage.	A measure of whether Council has excessive debt servicing costs, relative to operating revenue.	<12% (Local Govt Managers Assoc Health Check)

b) Medium and Long Term Performance Indicators - Fit for the Future Program

The NSW State Government has stated that councils must be "Fit for the Future" to ensure that we have "strong councils providing the services and infrastructure communities need". A Fit for the Future council is one that is:

- Sustainable
- Effectively managing infrastructure and delivering services for communities
- Efficient and saves money on bureaucracy and administration, freeing up funds for front-line services and community facilities

- Of a scale and capacity that can contribute to projects and tackle issues that impact on its residents and extend beyond the council boundary; and has credibility and influence across councils, across government, and with industry.

The OLG has developed seven financial criteria, including targets and benchmarks, for a Fit for the Future Council, as per the following table.

Medium and Long Term Performance Indicators – Fit for the Future

Objective / Ratio	Rationale for Criteria from OLG	Rationale and calculation for Benchmark	Benchmark
Objective – Sustainability **Definition - Generate sufficient funds over the longer term to provide the agreed level and scope of services and infrastructure for communities**			
Operating Performance Ratio	Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements. Ongoing operating deficits are unsustainable. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.	NSW Treasury Corporation (TCorp) recommended that all councils should at least have a break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a three year period. This indicator is the annual operating result, being operating revenues less operating expenses.	Greater than or equal to break even over three years
Own Source Revenue Ratio	Measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges. Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.	TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All councils should aim to meet or exceed this benchmark over a three year period. This indicator is calculated from Total Continuing Operating Revenue less all grants and contributions divided by Total Continuing Operating Revenue inclusive of capital grants and contributions.	Greater than 60% of total operating revenue averaged over three years
Building and Infrastructure Asset Renewal Ratio	Represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration. A higher ratio is an indicator of strong performance.	This indicator is calculated based on Expenditure on Asset renewals (building and infrastructure) divided by the total of depreciation, amortisation and impairment (building and infrastructure) expenses	Greater than 100% averaged over three years
Objective - Effective Infrastructure and Service Management **Definition - Maximise return on resources and minimise unnecessary burden on the community and business, while working strategically to leverage economies of scale and meet the needs of communities**			
Infrastructure Backlog Ratio	Indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability. High infrastructure backlog ratios and an inability to reduce this ratio in the near	This ratio is calculated by dividing the total estimated cost to bring the assets to a satisfactory condition, divided by the total value (written down value) of infrastructure, buildings, other structures and depreciable land improvement assets.	Less than 2%

Objective / Ratio	Rationale for Criteria from OLG	Rationale and calculation for Benchmark	Benchmark
	future indicate an underperforming Council in terms of infrastructure management and delivery.		
Asset Maintenance Ratio	The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council. The ratio provides a measure of the rate of asset degradation (or renewal) and has a role in informing asset renewal and capital works planning.	The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.	Greater than 100% averaged over three years
Debt Service Ratio	Prudent and active debt management is a key part of a council's approach to both funding and managing infrastructure and services over the long term. Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.	Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management. This indicator is calculated by the cost of debt service (interest expense and principal repayments) divided by total continuing operating revenue (excluding capital grants and contributions)	Greater than 0% and less than 20% (this target is higher than that recommended by the Local Govt Managers Assoc Health check as outlined earlier)
Objective - Efficiency **Definition - Efficient service and infrastructure delivery, achieving value for money for current and future ratepayers**			
Decrease in Real Operating Expenditure Per Capita over time.	The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover. It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively councils: • can realise natural efficiencies as population increases • can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs). Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).	The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a five year trend.	Decrease in real operating expenditure based on a five year trend

The Operating Performance Ratio is one of the key benchmarks for the Fit for the Future Program. The LTFP forecasts that the general fund will generate an operating surplus, inclusive of depreciation, from 2020/21 onwards. Further information on this is outlined later in this document.

3. Fund Management

Ballina Shire Council is a general purpose local government authority, undertaking a wide range of activities including the provision of water and wastewater (sewer) services. All revenues raised from charges levied for the provision of water and wastewater services must be expended on those activities.

To ensure a high level of accountability Council operates its water and wastewater functions as separate business activities. This is often referred to as Fund Accounting (i.e. Water Fund and Wastewater Fund). This process ensures that the income and expenses from these activities is not mixed with Council's general purpose activities. All the remaining Council activities are referred to as the General Fund.

4. Revenues

A council's ability to raise revenues is outlined in Chapter 15 of the Local Government Act (LGA), with Section 491 identifying the major sources of income as:

- rates
- annual charges
- fees
- grants
- borrowings
- investments

Rates Income (Sections 492 to 495 of the LGA)

Rate income is one of the main sources of revenue for Council, representing approximately 23% of our total operating revenues. Council has the following rating categories of rateable land, as prescribed in the LGA, with each rateable property categorised based on its dominant use:

- Residential
- Farmland
- Business

Council's rating structure consists of a base charge and a rate in the dollar on the land value. The base charge is a standard amount which is applied to all properties. The rate in the dollar is a distribution of the residual rating income, calculated as a proportion of property land valuations. The land valuation calculated for each property is determined by the NSW Valuer General.

Council calculates its rating charges with the intention of generating 50% (or as close thereto as possible) of the total rate levy for residential properties from the base charge. That base charge amount is then applied to the other rating categories (i.e. farmland and business).

Council considers a rating structure that maximises revenue from the base charge, as the fairest and most equitable distribution of the rate levy, as it reduces the impact of land valuations and more accurately reflects the level of service received by properties.

Council has also set a benchmark that 20% of the total rate levy will come from business properties. This benchmark was set, as prior to this, Council's average business rates were one of the lowest in the State for similar sized councils. This change has resulted in Council's average business rates becoming commensurate with similar sized councils and our neighbouring councils.

Once the rate in the dollar and the base charge is confirmed for the business properties, based on the 20% benchmark, the rate in the dollar for farmland and residential properties is calculated, with farmland being set at a proportionate level below residential, based on historical rating structures (approximately a 20% discount).

The rate income yield for NSW councils has been constrained for many years by NSW State Government rate pegging. This is a legislative instrument whereby the maximum increase in rate revenue is set by the Independent Pricing and Regulatory Authority (IPART).

This is referred to as the rate peg limit.

Council has a relatively low average residential rate levy per property, as compared to similar councils and the majority of our neighbouring councils. This provides Council with the opportunity to apply to IPART for special variations above the rate pegging limit, to fund additional projects and provide additional services, where those projects and services are identified as a priority by Council and the community.

Annual Charges (Sections 496, 496A, 496B, 501 and 611 of the LGA)

Annual charges are statutory charges that Council is allowed to levy on properties for the provision of particular services, even if the property owner elects not to receive that service.

Revenue raised from these charges can only be expended on the services to which they relate.

The annual charges levied by Council are as follows:

- Domestic Waste Collection – Levied on all properties where the domestic waste collection service, including vacant land, is available. This charge raises revenue to finance the collection service along with waste disposal charges.
- Stormwater - Levied on identified business properties for stormwater improvements.
- Water Access – This represents a fixed annual access charge where the water service is available. A water consumption charge is also applied based on water usage. The revenue from these charges assists in financing Council's water operations.
- Wastewater (Sewerage) Access – This represents a fixed annual access charge where the service is available. For business properties the wastewater charge includes a component based on water usage. This revenue assists in financing Council's wastewater operations.
- On-site Septic Management – Levied on all properties with on-site septic management systems (OSSMs) with the revenue funding an inspection and compliance program for Council to progressively check those systems.

Income from these charges represents approximately 36% of our total operating revenues.

User Charges, Discretionary and Regulatory Fees (Sections 502 and 608 of the LGA)

Council has the ability to raise revenues through the adoption of a fee for the provision of services or facilities. The fees Council charges can be split into two categories:

1) Usage Charges (Section 502) – Section 502 of the LGA allows council to set usage charges for items such as water consumption, waste management services and wastewater usage. The revenues raised from these usage charges must be expended on the services to which they relate.

2) Regulatory and Discretionary Fees – Regulatory fees are typically set by State Government legislation and relate mainly to building, development or compliance activities, whereas for discretionary fees Council has the capacity to determine a fee for any discretionary works or services, such as the use of community facilities or access to Council services. Typically revenues from regulatory or discretionary fees can be expended on any council activity.

The principles under which Council sets its fees and charges take into account the works and services provided, the comparable commercial value of the works and services provided, and the ability of residents to pay, at the pricing level determined appropriate. Income from fees and charges represents approximately 23% of Council's total operating revenues.

Section 94 and Section 64 Developer Contributions

Development contributions are a charge that Council can impose on development consents to help fund the delivery of infrastructure that is needed for that development. They can only be imposed as a condition of consent. They are usually payable when a linen plan is released for subdivision purposes, or alternatively prior to a development commencing.

In order to levy a contribution, Council must first adopt a Contributions Plan. The plan sets out what infrastructure is needed, the likely timing of its construction, the cost of the works and how the cost is to be shared by developers and Council. Council can only levy a contribution if it is in accordance with an adopted Contributions Plan.

The Environmental Planning and Assessment Act sets out the rules for development contributions. The Minister for Planning issues Directions that can provide further detail to the rules, such as imposing a cap on the contributions.

Implications of Section 94 and Section 64 Contributions on the LTFP include:

1. In 2010 the State Government introduced a cap of $20,000 on the amount of money councils could collect for each residential lot under a Section 94 plan. This impacts on Council's ability to fund the works required to build new communities. Any shortfall must be financed by Council.

2. The works within the Section 94 and Section 64 Plans must be continually reviewed to ensure that cash flow projections and the value of works remain accurate.

3. The timing of Section 94 and Section 64 cash flows cannot always be matched with the timing of when the work is required. Where a cash shortage is identified as a result of timing, Council will consider forward funding the works, subject to budgetary constraints.

Grants

Council receives a variety of grants for recurrent services such as libraries and rural fire services, with the major discretionary grant being the Federal Government's Financial Assistance Grant (FAG).

The FAG is initially distributed to the State Governments, who then distribute the funding to all NSW councils based on a formula that applies horizontal equalisation principles; i.e. the formula is based on the perceived needs of each council.

The FAG is currently $4.28m per annum and the income from this grant is able to be distributed on any services, as determined by Council.

Income from grants can be for operating purposes or for capital works.

Operating grants represent approximately 10% of our total operating revenues, whereas capital grants for capital projects varies from year to year dependent on Council's success in obtaining grants.

Loan Borrowings

Council's strategy on funding expenditure through loan borrowings is:

1. Funds will only be borrowed for capital projects

2. Council will consider the use of loans to ensure existing residents are not burdened with the cost of infrastructure, which will be enjoyed by future generations. This is known as inter-generational equity

3. Loan borrowings will only be considered, after all other potential funding strategies have been investigated, including the use of existing cash reserves and external funding opportunities

4. The use of loans to fund operational shortfalls or service expansion is not supported

5. Council must ensure there is capacity to service the debt from recurrent revenues

6. Council's debt ratios should always remain within industry defined benchmarks.

Cash Reserves, Investment Principles and Interest Income

Council has a number of cash reserves, which are established by either a legislative requirement (externally restricted) or by a Council decision (internally restricted). Externally Restricted Reserves can only be used for the purpose for which the funds were collected, whereas Internally Restricted Reserves are allocated by Council.

Council has an adopted Investment Policy that outlines how Council will invest any surplus cash monies held.

The overall objective of this policy is to ensure that Council invests its available cash funds:

1. in accordance with the requirements of the LGA and

2. to maximise the return on investments after taking into account the level of risk attributable to the type of investment made, and the level of funds required to ensure that Council meets its budget obligations.

Council has control over the interest it earns on General Fund revenues and internally restricted reserves however the interest earned on all externally restricted reserves (i.e. Section 94 and Section 64 developer contributions, domestic waste management reserve, water and wastewater reserves) must be allocated to those reserves, as the use of those funds is restricted by external legislation.

The following table outlines the major reserves held by Council, the purpose of that reserve, along with the closing balance as at 30 June 2017.

Major Cash Reserve Balances – Actual as at 30 June 2017

Reserve Title	Reserve Purpose	($'000)
Externally Restricted		
Domestic Waste Management	Funds held from domestic waste operations	1,863
Section 94 Contributions	Contributions collected and unexpended	6,384
Section 64 Conts – Water	Contributions collected and unexpended	7,601
Section 64 Conts – Wastewater	Contributions collected and unexpended	6,395
Water Infrastructure	Funds held from Council's water operations	6,018
Wastewater Infrastructure	Funds held from Council's wastewater operations	5,822
Internally Restricted		
Employee Leave Entitlements	Funds held to finance employee leave liabilities as taken	3,013
Property – Community Infrastructure	Funds sourced from Council's property development activities set aside for the provision of community infrastructure	571
Property – Property Development	Funds sourced from Council's property development activities set aside for further property development investments	2,983
Airport	Funds held from the operation of the Ballina Airport	(497)
Quarry Operations	Funds held from the operation of the Council owned quarries	1,015
Plant Replacement	Funds set aside to finance plant and equipment replacement	879
Waste Management	Funds sourced from the operation of the Ballina landfill	3,000
Bypass Funding	Funds held to finance repair and maintenance of bypass assets	3,962
Financial Assistance Grant	Financial assistance grant funding for operations received in advance	2,108

The management of Council's reserves is considered annually as part of the budget process and the need for new reserves forms part of Council's long term financial planning.

Other Revenues - Property Management

The majority of Council's property assets are held to deliver on services such as:

- Transport infrastructure such as land for roads, footpaths etc
- Environmental services, such as stormwater and waste management
- Community facilities
- Operational assets, including administration buildings
- Utility infrastructure such as water and wastewater pumping stations and treatment plants
- Commercial property to generate current and future revenues.

As per the last dot point, Council is somewhat unique in that we hold a major property portfolio that assists in generating non-standard revenues for Council.

The major commercial properties owned by Council are industrial land holdings within the Southern Cross Industrial Estate, Ballina and the Russellton Industrial Estate, Alstonville, along with residential land holdings in Wollongbar and Lennox Head. Council also owns four commercial buildings in Ballina (i.e. Wigmore Arcade, 89 Tamar Street, 2-6 Cessna Crescent, Fawcett Park Cafe) and the land on which the Shelly Beach café is located.

We also generate income from Crown Lands managed by Council, including Cafes at the Ballina Surf Club and the Northern Rivers Community Gallery.

In respect to the industrial and residential land holdings, funds surplus to any particular project are directed to either major community infrastructure projects or reinvested into further property development activities.

In respect to the commercial property holdings, sale of these properties has not been supported as the rental revenue provides recurrent funds for community infrastructure investment and the recurrent revenues help to improve our overall financial sustainability.

Council may consider sale where:

a) Market conditions indicate that the asset could provide a substantial return, which could be used to fund other capital investments

b) The asset is incurring a higher level of maintenance cost than would normally be expected; and

c) Council has an opportunity to leverage the sale proceeds to generate significant tangible outcomes to the community, without impacting on future service levels.

Whilst the revenues generated from the sale of commercial properties could be used to alleviate operational budget pressures, this is a financially unsustainable measure, as the funding is not re-current and only provides a short term, one-off, solution.

5. Expenditure

Expenditure in the LTFP is classified as either operating or capital.

Our operating expenditure is made up of:

- Employee Benefits and Oncosts – This figure is around 29% of our annual operating expenses, and is currently forecast at approximately $24m. This includes all salaries and wages, along with oncosts such as leave entitlements, workers compensation, superannuation, fringe benefits tax, training and development costs and payroll tax.

- Borrowing Costs – Represents all interest payable on loan borrowings.

- Depreciation – This is a non-cash item that reflects the theoretical deterioration value for the assets held by Council. The current depreciation expense is approximately $19m reflecting the magnitude of Council’s infrastructure assets, which are valued in excess of $1 billion.

- Materials and Contracts – This is the largest operating expense item with this figure normally ranging from 25% to 35% of our operating budget. Numerous Council services are delivered or supported through the use of external purchases and contracts.

Capital expenditure includes expenditure on capital projects and the repayment of loan principal. Expenditure on capital projects can vary significantly from year to year based on the timing of works and the funding sources available (i.e. grants).

As a general guide in preparing the LTFP:

- Council will try and minimise increases in operating expenses to improve the overall operating result and;

- Council will aim to increase the funding allocated to key capital infrastructure areas such as open spaces, drainage and roads, above CPI, over time, to improve our levels of asset investment and renewal.

6. Assumptions

The LTFP uses the current operating budget as its base point, then applies a number of internal and market driven assumptions to project revenue and expenditure for the following ten years.

In preparing the 2018/19 LTFP, the following underpinning principles have been adopted:

- the range and service level for existing services offered to the community is maintained
- the financial position must remain secure
- our financial performance should aim towards meeting industry benchmarks and the long term financial sustainability of Council

Population Growth

It is expected that Ballina Shire will experience population growth at a rate of around 1% per annum to 2021, with a similar growth projected beyond this timeframe to 2036. This is supported by relatively large greenfield land release areas in several localities including Cumablum, Kinvara, Lennox Head and Wollongbar as well as some infill development within existing urban centres. The following table provides an overview of key population statistics for Ballina Shire for the period 2016 to 2036 (compiled by .id for Ballina Shire Council – December 2017).

Ballina Shire – Forecast Growth

Summary	**2016**	**2021**	**2026**	**2031**	**2036**
Population	42,629	44,840	46,875	49,013	51,238
Change in population (5yrs)		2,212	2,035	2,138	2,225
Average annual change		**1.02%**	**0.89%**	**0.90%**	**0.89%**
Households	17,974	18,947	19,821	20,732	21,657
Average household size	2.33	2.33	2.33	2.32	2.32
Dwellings	19,356	20,478	21,524	22,598	23,702
Dwelling occupancy rate	92.86	92.52	92.09	91.74	91.37

Employee Costs

Increases in employee costs are determined by Local Government NSW (the NSW Local Government employer association) in conjunction with the various unions. Council has applied an increase of 2.30% for 2018/19 onwards, in line with the CPI and other increases in the LTFP.

Dividends

Council is able to source dividends from our Water and Wastewater operations and transfer funds to the General Fund, based on criteria determined by the State Government. A mandatory dividend based on this criterion of $34,000 from water and $41,000 from wastewater is included in the LTFP. These figures are set by legislation and have not changed for many years.

Council can source additional optional dividends from the Water and Wastewater operations subject to their financial position meeting defined financial criteria that ensures the activity is financially strong enough to fund the dividends. To date Council has not chosen to take optional dividends as this will result in further price increases in water and wastewater charges. There are also equity concerns in that only residents, who have access to water and wastewater services, pay those charges, whereas General Fund services are often available to all residents.

Council does source dividends from a number of General Fund activities to assist in delivering services to the community, with the Airport, Cemetery, Waste and Property Operations being the main contributors.

Water, Wastewater and Waste Charges

These three activities generate a significant percentage of our total revenues from the application of annual and usage charges. Individual business plans are formulated for these activities and the forecast increases in the relevant charges are based on modelling in the business plans.

Summary of Revenue and Expenditure Assumptions - LTFP

The following tables summarises Council's core financial planning assumptions.

Revenue Assumptions (%)	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Rate Peg Limit	2.30%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Special Variation	3.40%	3.40%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Rate Growth	0.50%	0.50%	0.75%	0.75%	0.75%	0.50%	0.50%	0.50%	0.50%	0.50%
Financial Assistance Grant	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Fees	2.30%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Domestic Waste	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Stormwater	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Water – Access	0.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Water – Consumption	2.30%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Wastewater – Access	2.30%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Wastewater – Usage	2.30%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Expenditure Assumptions (%)	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Employee Costs	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%
Recurrent Costs	2.30%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Capital Expenditure	4.00%	3.00%	3.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

7. Financial Modelling

Council's financial modelling is based on the assumptions outlined in the previous section, with the key assumption being that our total rate income will increase by 4.90% for 2017/18, 5.70% for 2018/19, 5.90% for 2019/20 and 2.50% thereafter. The 4.90%, 5.70% and 5.9% figures are calculated as follows:

Item	2017/18	2018/19	2019/20
Rate Pegging Limit %	1.50	2.30	2.30
Fit for the Future (Asset Renewal)%	1.90	3.40	3.40
Healthy Waterways %	1.50	0.00	0.00
Total	**4.90**	**5.70**	**5.90**

In respect to our total rate income, IPART approved a 4.9% rate increase for 2017/18, although the 3.4% above the rate pegging limit was approved for one year only (2017/18). Council then applied to IPART for a 9.1% increase in 2018/19 and a 5.9% increase in 2019/20, which can be summarised as follows:

Item	2018/19	2019/20
Rate Pegging Limit %	2.30	2.50
Fit for the Future (Asset Renewal) %	3.40	3.40
Fit for the Future (Asset Renewal)% (2017/18 figure)	1.90	3.40
Healthy Waterways % (2017/18 figure)	1.50	0.00
Total	**9.10**	**5.90**

This represents a cumulative increase of 15.54% for these two years, although 3.4% of this increase was actually levied by Council during 2017/18. IPART approved this application in May 2018.

Based on this modelling, the financial results, on a Consolidated basis, for the General Fund and the Fit for the Future benchmarks are as per the following tables.

Consolidated Operating Results ($)

Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Operating Revenues										
Rates / Annual Charges	49,818	51,980	53,480	55,025	56,614	58,186	59,801	61,460	63,165	64,918
User Charges and Fees	20,541	21,317	21,879	22,455	23,048	23,656	24,279	24,919	25,575	26,249
Investment Revenues	1,792	1,739	1,983	2,113	1,925	1,793	2,031	2,232	2,662	3,092
Operating Grants	8,398	7,825	7,825	7,941	8,061	8,216	8,384	8,559	8,737	8,920
Other Revenues	5,239	6,521	6,690	6,863	7,130	7,222	7,408	7,600	7,797	7,999
Sub Total	**85,788**	**89,382**	**91,857**	**94,396**	**96,778**	**99,072**	**101,904**	**104,769**	**107,937**	**111,177**
Operating Expenses										
Employee Costs	23,715	24,452	25,211	25,994	26,801	27,633	28,491	29,376	30,288	31,229
Materials and Contracts	24,136	26,693	24,312	25,434	25,799	26,151	26,260	26,595	26,644	27,124
Borrowing Costs	4,953	3,482	4,892	4,105	3,882	3,858	3,526	3,221	2,933	2,636
Depreciation	19,074	19,548	19,942	20,343	20,752	21,169	21,595	22,029	22,472	22,923
Other Expenses	11,975	12,275	12,818	12,883	13,196	13,576	14,177	14,226	14,607	14,958
Sub Total	**83,853**	**86,450**	**87,175**	**88,759**	**90,431**	**92,387**	**94,048**	**95,447**	**96,944**	**98,869**
Operating Result	**1,935**	**2,933**	**4,682**	**5,638**	**6,347**	**6,685**	**7,856**	**9,322**	**10,992**	**12,308**

General Fund Operating Results ($)

Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Operating Revenues										
Rates / Annual Charges	29,796	31,447	32,424	33,433	34,474	35,480	36,516	37,582	38,678	39,807
User Charges and Fees	11,764	12,320	12,658	13,004	13,359	13,724	14,099	14,484	14,879	15,285
Investment Revenues	1,130	990	1,339	1,444	1,303	1,197	1,383	1,542	1,748	1,943
Operating Grants	8,109	7,534	7,531	7,644	7,761	7,914	8,081	8,254	8,431	8,611
Other Revenues	3,932	5,181	5,315	5,453	5,685	5,740	5,889	6,042	6,199	6,360
Sub Total	**54,731**	**57,472**	**59,267**	**60,977**	**62,581**	**64,054**	**65,968**	**67,903**	**69,934**	**72,007**
Operating Expenses										
Employee Costs	16,945	17,472	18,015	18,575	19,152	19,746	20,359	20,992	21,644	22,316
Materials and Contracts	18,407	20,872	18,425	19,423	19,693	19,890	19,932	20,223	20,143	20,534
Borrowing Costs	1,305	48	1,693	1,109	1,081	1,252	1,121	1,016	928	830
Depreciation	13,815	14,184	14,470	14,761	15,059	15,362	15,672	15,987	16,310	16,638
Other Expenses	5,243	5,379	5,789	5,662	5,808	5,958	6,413	6,267	6,428	6,593
Sub Total	**55,715**	**57,954**	**58,391**	**59,530**	**60,794**	**62,207**	**63,496**	**64,486**	**65,453**	**66,911**
Operating Result	**(983)**	**(483)**	**876**	**1,447**	**1,788**	**1,847**	**2,472**	**3,418**	**4,481**	**5,096**

Fit for the Future Benchmarks (**green** = pass, red = fail)

Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Infrastructure Backlog (< 2.0%)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Asset Maintenance (three year average > 100%)	100%	102%	100%	100%	100%	100%	100%	100%	100%	100%
Debt Service (three year average < 20%)	8.4%	7.6%	16.0%	15.6%	15.9%	6.8%	6.1%	5.1%	4.4%	3.9%
Own Source Operating Rev (three year average > 70%)	65.0%	68.2%	70.7%	75.7%	75.9%	76.1%	75.1%	75.3%	75.4%	76.6%
Real Operating Expenditure Per Capita (Decreasing in real terms)	92.7%	94.4%	90.9%	90.6%	88.4%	88.5%	86.4%	85.7%	83.2%	83.1%
Asset Renewal (three year average > 100%)	164%	147%	113%	131%	154%	146%	125%	104%	120%	107%
Operating Performance (three year average > 0%)	-2.4%	-1.8%	0.0%	1.4%	2.6%	3.1%	3.5%	4.2%	5.4%	6.5%

8. Conclusion

The modelling highlights that Council is generating operating surpluses on a consolidated basis for all years and for the General Fund from 2021/22 onwards. All Fit for the Future benchmarks are met from 2020/21 onwards.

This modelling places Council in a reasonable financial position and ensures Council is financially sustainable in the long term as operating surpluses are consistently being generated on a consolidated basis and for the General Fund. This is the preferred approach and the impact on ratepayers of this proposal is outlined in Appendix One.

Despite these operating surpluses the overall result for the General Fund is a relatively small surplus and savings will continue to be pursued in operating expenditure to minimise increases in costs.

This will not be easy to achieve as when expenditure (and revenue) benchmarks are compared to industry averages Council typically rates favourably with lower costs and lower revenues. With lower expenditure in many areas than other councils, every effort needs to be made to secure additional revenues from increased rates, extra dividends or grants to achieve all necessary benchmarks, particularly with respect to asset renewal.

Long term, Council is working towards financial sustainability, but this will also be difficult due to the high value of Council's asset base and our comparatively low rate yield. This means every effort must be made to reduce expenses and minimise increases in service levels.

It is essential that Council complies with this financial modelling, whilst reviewing our performance against that model each year, to ensure we achieve the Fit for the Future and financial sustainability benchmarks.

Finally balance sheets are provided in appendix two for this financial model.

Appendix One – Impact of Special Rate Variation on Ratepayers

There are a number of ways we can look at the financial impact on ratepayers and the following tables help to explain this proposal. Table One is based on the standard rate peg increase without any special variations.

Table One - Rate Peg Only Comparison

Item	2017/18 Levy Less 3.4%	2018/19 Actual	2019/20 Forecast	Cumulative Change
Rate Peg Percentage Increase	1.5%	2.3%	2.5%	4.86%
Average Residential Rate Levy ($)	953	974	998	45
Average Business Rate Levy ($)	3,191	3,276	3,358	167
Average Farmland Rate Levy ($)	1,465	1,496	1,533	68

Two key items of information in this table are:

(1) The 1.5% and the 2.3% rate peg percentage increases for 2017/18 and 2018/19 are the actual rate peg figures determined by IPART for those financial years. The 2.5% applied for 2019/20 is an estimated rate peg increase based on verbal advice provided by IPART.
(2) For 2017/18 we have had to reduce the average rate figures actually levied by Council as the additional 3.4% increase IPART approved for 2017/18 is a temporary approval only. This means that the actual rates levied by Council were higher than these figures. This also means that any increases approved for 2018/19 onwards are applied to the 2017/18 figures without the 3.4% included.

Table Two provides details of the SRV as compared to the 2017/18 figures in Table One.

Table Two - Proposed SRV (for 2018/19 and 2019/20) compared to 2017/18

Item	2017/18 Levy Less 3.4%	2018/19 SRV Levy	2019/20 SRV Levy	Cumulative Change
Rate Peg Percentage Increase	1.5%	9.1%	5.9%	15.54%
Average Residential Rate Levy ($)	953	1,039	1,100	147
Average Business Rate Levy ($)	3,191	3,494	3,700	509
Average Farmland Rate Levy ($)	1,465	1,595	1,689	224

Table Three then highlights that Council did levy the 3.4%, approved as a temporary increase for 2017/18, therefore a comparison of the increase in the actual average rates levied for 2017/18, and proposed to be for 2018/19 and 2019/20 is as follows.

Table Three - Proposed SRV (for 2018/19 and 2019/20) compared to 2017/18 Levy

Item	2017/18 Actual Levy	2018/19 9.1% SRV	2019/20 5.9% SRV	Cumulative Change
Average Residential Rate Levy ($)	985	1,039	1,100	115
Average Business Rate Levy ($)	3,298	3,494	3,700	402
Average Farmland Rate Levy ($)	1,514	1,595	1,689	175

Appendix Two – Balance Sheets

Consolidated Balance Sheet

Item	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
ASSETS										
Current Assets										
Cash and Investments	54,750	71,330	80,000	73,680	72,680	86,520	92,970	110,700	125,240	144,520
Receivables	8,660	8,890	9,130	9,370	9,610	9,870	10,130	10,390	10,670	10,950
Inventories	2,520	2,590	2,660	2,730	2,800	2,870	2,950	3,030	3,110	3,190
Other	1,830	1,890	1,950	2,010	2,070	2,130	2,190	2,250	2,320	2,390
Sub Total	**67,760**	**84,700**	**93,740**	**87,790**	**87,160**	**101,390**	**108,240**	**126,370**	**141,340**	**161,050**
Non Current Assets										
Investments	6,194	6,194	6,194	6,194	6,194	6,194	6,194	6,194	6,194	6,194
Receivables	360	390	420	450	480	510	540	570	600	630
Inventories	1,750	1,800	1,850	1,900	1,950	2,000	2,050	2,110	2,170	2,230
Infrastructure, Property, Plant and Equipment	1,219,850	1,235,730	1,239,620	1,265,540	1,279,580	1,277,410	1,288,600	1,283,870	1,284,030	1,283,850
Investment Property	22,880	23,460	24,050	24,660	25,280	25,920	26,570	27,240	27,930	28,630
Sub Total	**1,251,034**	**1,267,574**	**1,272,134**	**1,298,744**	**1,313,484**	**1,312,034**	**1,323,954**	**1,319,984**	**1,320,924**	**1,321,534**
TOTAL ASSETS	**1,318,794**	**1,352,274**	**1,365,874**	**1,386,534**	**1,400,644**	**1,413,424**	**1,432,194**	**1,446,354**	**1,462,264**	**1,482,584**
LIABILITIES										
Current Liabilities										
Payables	10,120	10,480	10,850	11,220	11,600	11,980	12,370	12,770	13,180	13,590
Borrowings	6,882	20,396	6,234	6,376	5,848	5,786	5,370	5,673	5,943	0
Provisions	8,500	8,730	8,960	9,290	9,620	9,950	10,280	10,610	10,940	11,270
Sub Total	25,502	39,606	26,044	26,886	27,068	27,716	28,020	29,053	30,063	24,860
Non Current Liabilities										
Payables	0	0	0	0	0	0	0	0	0	0
Borrowings	80,707	69,151	66,035	67,921	62,073	56,287	50,917	45,244	39,302	21,855
Provisions	5,030	5,440	5,850	6,260	6,670	7,080	7,490	7,900	8,410	8,920
Sub Total	**85,737**	**74,591**	**71,885**	**74,181**	**68,743**	**63,367**	**58,407**	**53,144**	**47,712**	**30,775**
TOTAL LIABILITIES	**111,239**	**114,197**	**97,929**	**101,067**	**95,811**	**91,083**	**86,427**	**82,197**	**77,774**	**55,635**
NET ASSETS	**1,207,555**	**1,238,078**	**1,267,945**	**1,285,467**	**1,304,833**	**1,322,341**	**1,345,767**	**1,364,157**	**1,384,490**	**1,426,949**
EQUITY										
Retained Earnings	712,055	730,078	747,145	751,467	757,433	761,041	770,367	774,257	779,690	806,849
Revaluation Reserves	495,500	508,000	520,800	534,000	547,400	561,300	575,400	589,900	604,800	620,100
TOTAL EQUITY	**1,207,555**	**1,238,078**	**1,267,945**	**1,285,467**	**1,304,833**	**1,322,341**	**1,345,767**	**1,364,157**	**1,384,490**	**1,426,949**

General Fund Balance sheet

Item	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
ASSETS										
Current Assets										
Cash and Investments	30,200	44,100	48,700	42,500	38,700	48,000	52,000	62,600	69,600	82,100
Receivables	5,090	5,220	5,360	5,500	5,640	5,790	5,940	6,090	6,250	6,410
Inventories	2,520	2,590	2,660	2,730	2,800	2,870	2,950	3,030	3,110	3,190
Other	1,700	1,750	1,800	1,850	1,900	1,950	2,000	2,050	2,110	2,170
Sub Total	**39,510**	**53,660**	**58,520**	**52,580**	**49,040**	**58,610**	**62,890**	**73,770**	**81,070**	**93,870**
Non Current Assets										
Investments	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Receivables	90	100	110	120	130	140	150	160	170	180
Inventories	1,750	1,800	1,850	1,900	1,950	2,000	2,050	2,110	2,170	2,230
Infrastructure, Property, Plant and Equipment	923,550	932,330	933,920	954,540	965,080	963,510	971,300	971,270	976,030	981,050
Investment Property	22,900	23,480	24,070	24,680	25,300	25,940	26,590	27,260	27,950	28,650
Sub Total	**951,790**	**961,210**	**963,450**	**984,740**	**995,960**	**995,090**	**1,003,590**	**1,004,300**	**1,009,820**	**1,015,610**
TOTAL ASSETS	**991,300**	**1,014,870**	**1,021,970**	**1,037,320**	**1,045,000**	**1,053,700**	**1,066,480**	**1,078,070**	**1,090,890**	**1,109,480**
LIABILITIES										
Current Liabilities										
Payables	9,760	10,010	10,270	10,530	10,800	11,070	11,350	11,640	11,940	12,240
Borrowings	3,347	17,680	3,314	3,262	2,539	2,275	1,659	1,763	1,833	0
Provisions	7,800	8,000	8,200	8,500	8,800	9,100	9,400	9,700	10,000	10,300
Sub Total	**20,907**	**35,690**	**21,784**	**22,292**	**22,139**	**22,445**	**22,409**	**23,103**	**23,773**	**22,540**
Non Current Liabilities										
Payables	0	0	0	0	0	0	0	0	0	0
Borrowings	31,550	22,711	22,515	27,515	24,977	22,701	21,042	19,280	17,447	0
Provisions	4,800	5,100	5,400	5,700	6,000	6,300	6,600	6,900	7,300	7,700
Sub Total	**36,350**	**27,811**	**27,915**	**33,215**	**30,977**	**29,001**	**27,642**	**26,180**	**24,747**	**7,700**
TOTAL LIABILITIES	**57,257**	**63,500**	**49,700**	**55,507**	**53,115**	**51,447**	**50,051**	**49,282**	**48,520**	**30,240**
NET ASSETS	**934,043**	**951,370**	**972,271**	**981,813**	**991,885**	**1,002,254**	**1,016,429**	**1,028,788**	**1,042,370**	**1,079,240**
EQUITY										
Retained Earnings	559,643	567,570	578,871	578,513	578,485	578,454	582,029	583,488	585,870	611,240
Revaluation Reserves	374,400	383,800	393,400	403,300	413,400	423,800	434,400	445,300	456,500	468,000
TOTAL EQUITY	**934,043**	**951,370**	**972,271**	**981,813**	**991,885**	**1,002,254**	**1,016,429**	**1,028,788**	**1,042,370**	**1,079,240**