Gloucester Shire Council

Long Term Financial Plan 2015 - 2025

Contents

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This Financial Plan has been prepared by Gloucester Shire Council to support the implementation of its Community Strategic Plan and should be read in conjunction with that Plan.

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About this plan . . .

The Long-Term Financial Plan (the Plan) for Gloucester Shire Council is the key strategic document that aligns the financial resources required to deliver the community's long-term strategic goals as articulated in the Community Strategic Plan. It considers key issues such as the financial sustainability of Council, its capacity to maintain expected service levels and the provision of adequate maintenance and replacement of its asset base over the next 10 years.

The Plan forms part of a suite of integrated plans and should be read in conjunction with these documents.

The Plan has been developed through integration of available financial information and is based on a number of assumptions, including service levels, standard of infrastructure and assets as well as the level of future grants and income.

It is made clear in The Plan that Council does not have the capacity to deliver its strategic objectives - particularly in terms of infrastructure management - within the scope of its current resources. A number of options for increasing Council's resource base are explored.

The Plan has been prepared based on current data and this review includes the results of an extensive project to assess our asset conditions and values. Where final data is not known, we have endeavoured to include our best estimate at the time of preparing the Plan.

Council has conducted a wide and lengthy consultation and information process on the financial challenges we face and options to address them, including the introduction of a special variation. We will continue this engagement to inform and consult as to our strategy for financial sustainability.

Financial sustainability: Council's current position

In the 2012/2013 financial year NSW Treasury Corporation or TCorp, undertook a financial sustainability and benchmarking assessment of all 152 NSW general purpose councils.

As part of the project TCorp arrived at a definition of financial sustainability that a *Council "will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community"*.

The following are excerpts from TCorp's assessment of Gloucester Shire Council:

- Council's financial position has been deteriorating over the review period……….. Council has been unable to achieve operating surpluses when capital grants and contributions are excluded during the review period and the deficits have grown year on year.
- Operating deficits are projected to remain and increase over the forecast period under the 'Status Quo' scenario
- Based on Council's LTFP, Council has forecast increasing operating deficits which is Unsustainable. The current service levels cannot be maintained with the existing revenue and expense base.
- The current forecast LTFP will likely lead to a deterioration of Council's asset base
- It is important that Council reviews all the possible options to raise revenues and decrease expenses in order to improve their future financial position
- Council should continue to explore the viability of a SRV application that will increase rates revenue to assist the objective of becoming financially Sustainable in the long term

TCorp allocated a Financial Sustainability Rating to each Council for its current position and for the near term or outlook.

With this assessment in mind the Independent Review Panels financial sustainability rating for Gloucester was 'Very Weak with a Neutral outlook' and that Gloucester has significant financial constraints which need to be addressed in the short term.

Delivering our Long Term Goals

These financial constraints have a direct impact on Council's ability to achieve the goals set out in the 10 year community strategic plan. The greatest impacts are documented as follows:

Maintaining services

From responses and input to the Community Strategic Plan, residents do not want to see a reduction in the range of services currently offered by Council. Facilities such as the local library, sporting fields, swimming and hydro pools, recreation areas and community programs are considered important and the community believes Council is currently doing a good job of maintaining these facilities within the limited resources available.

The LTFP does not aim to reduce the operational services of Council; however the financial outcomes are based on grants and contributions being obtained to maintain maintenance service levels in many of its assets such as swimming pool, recreation centre, parks & gardens and cemetery's. Although these grants have not been included in the LTFP, it is predicted their effect would have little consequence on the key performance indicators given their proportionate value compared to that of Council's road network.

Council has deemed this situation not to be acceptable and a review of service levels has begun, and will continue to be completed alongside the Special Variation application.

Stronger environmental focus (relevant for all scenarios)

Another clear message was the need for Council to strengthen its focus on environmental management. Community members placed a strong emphasis on conserving and protecting the local environment and wanted Council to increase its role in gathering environmental information, developing management plans and implementing environmental programs.

Council needs to be fully resourced through partnerships and staff to recognise, develop and implement environmental programs. As a result Council has identified a number of possible programs which would aide in the fulfilment of the community strategic plan. Unfortunately, given the constrained funding, the following key projects are unfunded at this stage:

- Agricultural Land Study
- Industrial Area Study
- Billabong Water Study
- Gloucester River Study
- Flood Plain Study

Council will be seeking external funding for these.

Improved performance in asset management

Although residents acknowledged that Council was working within limited resources, they wanted to see improved standards for the Shire's roads, bridges and other community assets.

Council has long recognised the deteriorating state of its roads and bridges and has now completed a full condition assessment of the complete road network. From this detailed information Council has developed a hierarchical based prioritised 10 year works program. This enables a costed and identified strategy and supports the application for an SRV.

Council's transport infrastructure (roads, bridges etc.) comprise 93% of total assets. It is recognised that the works program concentrates on this aspect of Council's infrastructure, and that more work is required to document and assess Council's other assets such as recreation and cultural assets.

No new or upgraded assets have been included in the LTFP after the 2015 financial year except for the seal extension program funded from the federal governments 'Roads to Recovery' project. This project is expected and has been forecast to carry on throughout the 10 year plan at a value of around $800k ($400k grant funds) which allows Council to seal around 5km's of gravel road each year.

It is acknowledged that new assets attract whole of life maintenance and risk costs. Council is aware that the ability to maintain its assets has been reached. It is important that the future maintenance costs and ongoing obligations associated with contributed assets are recognised.

More community involvement in decision-making

Members of the community also said they wanted to be involved in key decisions that affected their lives and expected Council to devote more time and resources to community consultation and information-sharing.

Council has enhanced its website and media communication. For the special variation consultation 41 presentations were conducted around the shire to various service groups and public meetings. Council will look to continue this approach with community consultation and information sharing included in the budget, to maintain the website, as well as printing and publishing expenses.

Infrastructure Backlog

Council has reported its backlog of works needed to bring roads and bridges to a good average condition at $75m, representing 43% of the value of all assets. State Government has stated that this ratio should be less than 2% of all assets ($3m). This is now the biggest challenge Council is facing and is the primary focus going forward whilst doing what it can to maintain service levels in all other areas.

How did Council come to be in this position?

A number of issues affect Council's capacity for financial sustainability. These include:

- Increased service mandates (cost sharing) - A number of services that were previously delivered by State Government have now been shifted to Local Government, with no commensurate increase in resources. Examples include the Waste Management Levy and Rural Fire Services. This has substantially increased administrative responsibilities and costs for local councils. The cost to manage an increasingly complex regulatory and compliance burden is also difficult on small councils such as Gloucester.

- Rate pegging - The State policy of limiting annual rate increases to CPI since 1977 has reduced Council's capacity over the longer term to deliver the standard of service required by its community. Note for instance that construction costs have risen by more than 5% per year in the past, and this means that Council faces increasing difficulty in meeting the cost of its asset maintenance and renewals program. Whilst other councils have applied special variations to increase their rates revenue, Gloucester has not previously done so.

- The diminishing funding available through the Federal Assistance Grants has been a significant impost on this and many councils' sustainability. At inception in 1992 the grant amounted to over 1% of Federal revenues; this is now heading to half this. As well the freeze imposed last year will impact Gloucester Council d by $565,000 over the next 4 years.

- Greater detailed knowledge of Infrastructure condition. With detailed condition and assessment data, we now better understand the backlog and can factor this into financial planning. However given the impacts of the above on Council, we have been consistently hindered in allocating revenue to maintain assets at a high standard, and in some areas a lower standard than what the community expects.

  These impacts have resulted in insufficient funds for future renewals, insufficient funds to purchase or build new assets, which has added to the overall backlog of renewal works required.

What Council has done to improve our financial position

Grant funding

Council has introduced a process to actively seek funding for projects and to prepare a database of shovel ready projects which could fit suitable funding which fall in line with Council's strategic plan and delivery program. An active grants committee has been formed to consider all partnership and funding opportunities.

Review of Fees and Charges

Council has undertaken a review of fees and charges to ensure these meet the twin community expectations as to recovery and subsidy. A number of increases in fees have been implemented such as burials at the cemetery and a new on site sewer management charge. A revised waste management strategy commenced October 2014 that is aimed at reducing actual landfill and hence reducing the state imposed waste management levy.

Council Management Re-structure

Council has restructured to create a flatter organisational structure. 4 senior staff have not been replaced with an annual saving of approx. $500,000. The restructure has been aligned to a revised delegation matrix to provide improved clarity and devolution of responsibility for individual service units.

Investment in Human Resources

The restructure has been accompanied with an enhanced Human Resource focus and the internal staff transfer to the position of Human Resources Officer. The introduction of a new employee performance management process aligns and monitors all employees to the targets and actions as identified through the long term Community Strategic Plan.

Service Unit reviews

A number of service units have been reviewed, which has resulted in some substantial changes in how Council delivers some services.

- Council has introduced a user pays system for residents at the Landfill, and Council has taken over the management of the landfill waste facility from the previous contractor run operation. There were a number of factors included in this change of management strategy, most prominently was the State Governments waste levy which has been trending toward $400,000 per year.
- Cemetery maintenance has been reviewed with a lower the level of service provided.
- The Hydro pool hours were cut on Sundays and public holidays and the opening hours of the swimming pool were also reduced to lessen the wages cost in this service unit.
- Parks and Gardens services have also been cut, lessening the service level given to the community for this service unit. This cut in services has been publicised and the development of a recreation management plan commenced.

- Council's property portfolio which includes residential and industrial land held for sale has been reviewed. Land sales totalling over $2m have been generated. Council has been actively pursuing the development of an aged care facility for the town.

Review of business systems

Council has reviewed how it undertakes operations, and has made improvements to current processes, including the introduction of a project management process to assess and monitor projects, the introduction of a customer request management process and enhanced ability to manage and monitor budgets.

Review of asset strategy & valuation methodology

The methodology used to value Council's assets affects the main issues, namely the value of the Backlog of works, and the depreciation expense. A review of the Asset Management Plan has been completed. Council is working with regional councils to consider valuation methodology and asset management strategy adopted. For example this could result in an increase in some asset lifecycles. Results to date have been estimated for the purposes of this LTFP.

Financial modelling Assumptions

The financial projections for the period 2015-25 are based on a number of assumptions about the way Council will continue to operate and the sources of income it may expect. These assumptions are outlined below:

	2014/15	2015/16-2017/18	Beyond 2018	
Own generated income	3.0%	3.0%	3.0%	In line with Council's strategy to improve revenue
Grants	2.5%	2.5%	3.0%	In line with predicted inflation
Engineering expenditure:	2.5%	2.5%	3.0%	It is noted the constuction price index has exceeded this inflation in previous years
General expenditure	2.5%	2.5%	3.0%	In line with predicted inflation
Employee expenses	2.9%	3.0%	3.0%	(which includes the increase in Super rate from 9.25% in 2014 to 12% in 2020)
Interest Rate	2.5%	2.5%	3.0%	Predicted in line with current trends

Population growth

It is expected that the Council area will continue to experience modest population growth of less than 1%. Increases in rateable assessments have been included going forward at the average growth of the prior two years (0.17%).

Borrowings

The model does not include any new borrowings to allow Council to consider the use of future operating income before committing Council to further interest repayments. This is as recommended by TCorp who was commissioned by the State Government to review the financial sustainability of all Council's in NSW in 2012. However should the SV application be successful, it may be prudent to borrow to enable appropriate groupings of works to achieve savings.

Range of services

It is assumed that there will be no substantial changes to the range of services currently delivered by Council at this time, or to the general activities upon which it currently expends its funds.

Sale of Residential Land

Council currently holds a number of residential and industrial land lots which will be promoted for sale. Relevant incomes and expenses relating to these land lots have been included in the LTFP.

External funds held by Council

No movement in external funds has been included within the Long Term Financial Plan beyond 2015/16 on the basis that any further external funds received will be budgeted to be spent in the same year, and no further section 94 contributions are forecast to be received due to the section 94 contribution plan being reviewed at the time of writing this report. Any contributions raised will be off set against the developments for which they were raised.

Movements in Debtors, Creditors and other Liabilities

For the purposes of the long term plan, no movements in debtor, creditor or other liability balances have been included. Therefore if an expense or revenue occurs in a particular year, the assumption will be that it will be received or paid in the same year. It is understood that there may be variances in balances each year, but these are not considered to be large enough to affect the overall status of the plan.

Key Performance Indicators

KPI's which have been included in the LTFP are as follows:

1) Operating Performance Ratio (greater or equal to breakeven average over 3 years)
2) Own Source Revenue Ratio (greater than 60% average over 3 years)
3) Building and Infrastructure Asset Renewal Ratio (greater than 100% average over 3 years)
4) Debt Service Ratio (greater than 0 and less than or equal to 20% average over 3 years)

These ratios represent 4 out of the 7 criteria used in Council's Fit for the Future Self-Assessment. The other 3 ratios included in the assessment are as follows:

1) Infrastructure Backlog ratio (less than 2%)
2) Asset Maintenance ratio (greater than 100% average over 3 years)
3) A decrease in Real Operating Expenditure per capita over time

At the time of the report into local government, Gloucester Council failed every criterion except for the Debt Service Ratio. However these ratios look at historic information and do not take account of any changes which have occurred in the current year, or those which are planned in coming years. The LTFP models proposed changes to improve our KPI's and achieve benchmark targets for a more sustainable council.

The Infrastructure backlog and asset maintenance ratios rely on engineering data and disclosed in special schedule 7 which in the past has been unaudited. The data going forward is subject to variation due to the current deteriorated condition of our roads. Although Council has made many advances in data collection and the standardisation and documentation of its methodologies, data may remain very difficult to predict into the future given our current resources. These KPI's have therefore not been forecast over the term of LTFP.

Real operating expenditure per capita over time looks at purely historical data, and is there to show that Council has made efficiencies in working practices over time. It also makes very general assumptions regarding CPI increases, and does not take into account any extraordinary events (such as the discontinuance of water and sewer activities Council undertook in 2011). This KPI does not add further value to the operating performance ratio, and is therefore not included in the LTFP ratios.

Financial Modelling

A Long Term Financial Plan is required to Model at least three likely scenarios to review possible outcomes over 10 years of Council's finances.

Council has modelled the following three scenarios which place a large emphasis on Council's need to raise a Special Rate Variation to fund the renewal of Council's infrastructure, reducing Council's backlog whilst maintaining current service levels in all other areas.

Alongside the scenario's, Council has an action plan to gain further efficiencies and better improve Council's financial position. This action plan is set out at the end of this document, but it is noted that each scenario affects Council's ability to carry out the tasks detailed in the action plan. No unidentified savings resulting from the action plan have been included in any of the scenarios.

The three scenarios presented are as follows:

1) A status Quo model which represents Council's position if nothing changes. This is a scenario which would occur if no special rate variation was obtained, and no extra operating grant allocations were granted. The scenario includes all structural changes which have been made in the last two years; however it does not include any further changes to working practices, and also does not include any further unforseen capital grant income or expense.

2) A Model including a 13% Special Rate Variation cumulative for 3 years commencing in the 2015/16 year. All assumptions included within the Status Quo model remain the same for this scenario. The Special Rate Variation includes the 13% rate increase which is inclusive of the forecast 2.5% rate peg increase for those 3 years.

3) A Model including an 18% Special Rate Variation cumulative for five years starting in the 2015/16 year. Again all assumptions included within the Status Quo model remain the same for this scenario. The Special Rate Variation shows an 18% increase in rates (which includes the forecast rate peg).

Various other models have been prepared to research the impacts of a rate increase; however these three options represent a base line model, a preferred model and an optimum model.

Capital Works Program (included in all 3 scenarios)

Each plan includes a base capital works program which has been taken from the Asset Management Plan. In addition to this works program, the SRV scenarios include the infrastructure works which have been determined as priority in the Transport Asset Management Plan adopted by Council on the 14 January 2015.

10 Year Asset Program	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Transport Assets										
New Assets	667	404	416	429	441	455	468	482	497	512
Upgraded Assets	8,176	50	52	53	55	56	58	60	61	63
Renewal Assets	1,680	1,514	1,547	1,182	1,217	1,254	1,291	1,330	1,370	1,411
Other Assets										
New Assets	534	-	-	-	-	-	-	-	-	-
Renewal Assets	1,731	633	603	648	938	854	1,284	708	1,060	592
TOTAL CAPITAL SPEND	12,788	2,601	2,618	2,311	2,651	2,619	3,101	2,580	2,988	2,578

NOTE: The large total shown for Upgraded Assets for 2015 includes grant funds for Buckets Way.

The only New Assets included in the LTFP is the continuing program of road sealing under the roads to recovery grant.

Upgraded assets include the State funded Blackspot program in the 2015 year, and a small budget worth around $50k for lane upgrades in town area's each year.

Under Other Assets the new assets in the 2015 year represent the restructure of the waste depot to include a weighbridge and new office to enable Council to comply with state regulations relating to the reporting of waste in and out of the depot. Council pays a levy on all waste that goes into the landfill which has seen the cost of the landfill sharply rise in the last three years.

Long Term Financial Plan Tables explanation:

To present the Long Term Financial Plan results, three tables have been included.

The Income Statement

The income statement represents all income and operating expenses expected in the 10 year plan. It does not include any capital expenditure. In lieu, it includes the depreciation expense which represents an estimate of usage or an average cost to replace the assets each year. Council has not sufficiently invested in replacing its assets thus creating a backlog. To address this backlog, surpluses need to be generated that covers the depreciation or averaged annual cost of replacement each year, together with additional to cover the current accumulated backlog.

Cash Flow Statement

The cash flow statement represents all cash inflow and outflow expected during each year of the 10 year plan. It includes all actual expenditure – including capital expenditure which culminates in the Net Increase (Decrease) in Cash Held.

Key Performance Indicators

These are the four indicators as discussed on page 9. They Plan shows how they have been calculated, with the results shown in Green if they fulfil the State Government's target, or Red if they do not fulfil the State Government's target.

Please note that the KPI's are indicators only. They are relevant targets to move toward in the longer term, to remain aware of and look to address.

Scenario 1 - Status Quo
Income Statement

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
INCOME: REVENUES FROM ORDINARY ACTIVITIES											
EXCLUDING PROFIT ON ASSET DISPOSAL, NON-OPERATING GRANTS, SUBSIDIES & CONTRIBUTIONS											
Rates	3,864	3,961	4,066	4,175	4,307	4,444	4,585	4,730	4,880	5,035	5,194
Rates Growth	-	7	7	7	7	7	8	8	8	8	9
Annual Charges	1,565	1,604	1,644	1,685	1,736	1,788	1,842	1,897	1,954	2,012	2,073
User Charges & Fee's	1,492	1,466	1,510	1,555	1,602	1,650	1,699	1,750	1,803	1,857	1,913
Interest Earnings	106	109	111	114	118	121	125	128	132	136	140
Other Revenue	753	772	791	811	835	860	886	913	940	968	998
Operating Grants, Subsidies & Contributions	4,414	4,154	4,258	4,364	4,495	4,630	4,769	4,912	5,059	5,211	5,368
Total Revenue	12,194	12,072	12,388	12,712	13,100	13,501	13,913	14,339	14,777	15,228	15,693
EXPENDITURE: EXPENSES FROM ORDINARY ACTIVITIES											
EXCLUDING LOSS ON ASSET DISPOSAL											
Employee Costs	(5,108)	(5,005)	(5,155)	(5,310)	(5,469)	(5,633)	(5,802)	(5,976)	(6,156)	(6,340)	(6,530)
Materials & Contracts	(3,098)	(2,827)	(2,898)	(2,970)	(3,059)	(3,151)	(3,246)	(3,343)	(3,443)	(3,546)	(3,653)
Utilities	(403)	(413)	(423)	(434)	(447)	(460)	(474)	(488)	(503)	(518)	(534)
Depreciation	(4,803)	(4,778)	(4,853)	(4,948)	(5,051)	(5,156)	(5,278)	(5,391)	(5,484)	(5,570)	(5,570)
Interest Expenses	(161)	(158)	(152)	(145)	(140)	(135)	(130)	(125)	(120)	(116)	(116)
Insurance	(375)	(385)	(395)	(404)	(417)	(429)	(442)	(455)	(469)	(483)	(483)
Other Expenditure	(1,634)	(1,675)	(1,717)	(1,760)	(1,812)	(1,867)	(1,923)	(1,980)	(2,040)	(2,101)	(2,101)
Total Expenditure	(15,582)	(15,241)	(15,593)	(15,971)	(16,395)	(16,832)	(17,295)	(17,759)	(18,215)	(18,675)	(18,987)
Total before Capital Income	(3,388)	(3,169)	(3,205)	(3,259)	(3,295)	(3,331)	(3,381)	(3,421)	(3,438)	(3,447)	(3,294)
Non-Operating Grants, Subsidies & Contributions	9,468	1,207	1,233	960	1,038	1,017	1,146	1,077	1,108	1,108	1,140
Profit on Asset Disposals	343	50	-	50	-	50	-	50	-	-	50
Sub-total	9,811	1,257	1,233	1,010	1,038	1,067	1,146	1,127	1,108	1,108	1,190
NET RESULT	**6,423**	**(1,912)**	**(1,972)**	**(2,249)**	**(2,257)**	**(2,264)**	**(2,235)**	**(2,294)**	**(2,330)**	**(2,339)**	**(2,103)**

Model 1 Status Quo - Cash Flow

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
CASH FLOWS FROM OPERATING ACTIVITIES										
RECEIPTS										
Rates	3,864	3,967	4,073	4,182	4,314	4,451	4,592	4,738	4,888	5,202
Annual Charges	1,565	1,604	1,644	1,685	1,736	1,788	1,842	1,897	1,954	2,073
User Charges & Fee's	1,492	1,466	1,510	1,555	1,602	1,650	1,699	1,750	1,803	1,913
Interest & Investment	106	109	111	114	118	121	125	128	132	140
Other Revenue	753	772	791	811	835	860	886	913	940	998
Operating Grants, Subsidies & Contributions	4,414	4,154	4,258	4,364	4,495	4,630	4,769	4,912	5,059	5,368
Sub-total	12,194	12,072	12,388	12,712	13,100	13,501	13,913	14,339	14,777	15,693
PAYMENTS										
Employee Costs (Operating Only)	(5,108)	(5,005)	(5,155)	(5,310)	(5,469)	(5,633)	(5,802)	(5,976)	(6,156)	(6,530)
Materials & Contracts	(3,098)	(2,827)	(2,898)	(2,970)	(3,059)	(3,151)	(3,246)	(3,343)	(3,443)	(3,653)
Utilities (gas, electricity, water, etc.)	(403)	(413)	(423)	(434)	(447)	(460)	(474)	(488)	(503)	(534)
Insurance	(375)	(385)	(395)	(404)	(417)	(429)	(442)	(455)	(469)	(483)
Interest	(161)	(158)	(152)	(145)	(140)	(135)	(130)	(125)	(120)	(116)
Other Expenditure	(1,634)	(1,675)	(1,717)	(1,760)	(1,812)	(1,867)	(1,923)	(1,980)	(2,040)	(2,101)
Sub-total	(10,779)	(10,463)	(10,740)	(11,023)	(11,344)	(11,676)	(12,017)	(12,368)	(12,731)	(13,417)
Net Cash Provided by (Used in) Operating Activities	1,415	1,609	1,648	1,689	1,756	1,825	1,897	1,970	2,046	2,276
CASH FLOWS FROM INVESTING ACTIVITIES										
Payments for Development of Land Held for Resale	(3)	-	-	-	-	-	-	-	-	-
Payments for Purchase of Property, Plant & Equipment	(2,235)	(633)	(603)	(648)	(938)	(854)	(1,284)	(708)	(1,060)	(592)
Payments for Construction of Infrastructure	(10,523)	(1,968)	(2,015)	(1,663)	(1,713)	(1,765)	(1,817)	(1,872)	(1,928)	(1,986)
Grants / Contributions for the Development of Assets	9,468	1,207	1,233	960	1,038	1,017	1,146	1,077	1,108	1,140
Proceeds from Sales (excluding Land)	100	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Land	342	50	-	50	-	50	-	50	-	50
Net Cash Provided by (Used in) Investing Activities	(2,851)	(1,344)	(1,385)	(1,301)	(1,613)	(1,552)	(1,955)	(1,453)	(1,880)	(1,388)
CASH FLOWS FROM FINANCING ACTIVITIES										
Repayment of Loans	(323)	(265)	(268)	(272)	(275)	(282)	(136)	(143)	(98)	(102)
Net Cash Provided by (Used in) Financing Activities	(323)	(265)	(268)	(272)	(275)	(282)	(136)	(143)	(98)	(102)
NET INCREASE (DECREASE) IN CASH HELD	(1,759)	0	(4)	116	(132)	(8)	(194)	374	68	787
Cash at Beginning of Year	3,515	1,756	1,756	1,752	1,868	1,736	1,727	1,533	1,907	1,975
Cash at the End of Year	**1,756**	**1,756**	**1,752**	**1,868**	**1,736**	**1,727**	**1,533**	**1,907**	**1,975**	**2,762**

Gloucester Shire Council Plan 2013-2023

Key Performance Indicators

Status Quo

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
OPERATING PERFORMANCE RATIO										
Total Continuing Operating Revenue	12,194	12,072	12,388	12,712	13,100	13,501	13,913	14,339	14,777	15,693
Less Operating Exp incl interest & depreciation	(15,582)	(15,241)	(15,593)	(15,971)	(16,395)	(16,831)	(17,295)	(17,759)	(18,215)	(18,987)
= Net Operating Result	(3,388)	(3,169)	(3,205)	(3,259)	(3,295)	(3,331)	(3,382)	(3,421)	(3,438)	(3,294)
Divided by continuing operating revenue	12,194	12,072	12,388	12,712	13,100	13,501	13,913	14,339	14,777	15,693
Ratio Target - (+ve) Between 0% and 15%	**-27.79%**	**-26.25%**	**-25.87%**	**-25.64%**	**-25.15%**	**-24.67%**	**-24.31%**	**-23.86%**	**-23.27%**	**-20.99%**
OWN SOURCE OPERATING REVENUE RATIO										
Total continuing operating revenue (less All grants)	7,780	7,918	8,130	8,348	8,605	8,871	9,144	9,426	9,717	10,326
Divided by Total continuing operating revenue (inc capital grants)	21,662	13,279	13,621	13,672	14,139	14,518	15,060	15,415	15,885	16,834
Ratio Target > or = to 60%	**36%**	**60%**	**60%**	**61%**	**61%**	**61%**	**61%**	**61%**	**61%**	**61%**
DEBT SERVICE RESULT										
Cost of Debt Service (principle & interest)	484	423	420	417	415	417	266	268	218	218
Divided by Continuing Operating Revenue	12,194	12,072	12,388	12,712	13,100	13,501	13,913	14,339	14,777	15,693
Ratio Target Greater than 0% less than 20%	**4%**	**4%**	**3%**	**3%**	**3%**	**3%**	**2%**	**2%**	**1%**	**1%**
BUILDING AND INFRASTRUCTURE ASSET RENEWAL RATIO										
Capital Renewal Expenditure	12,788	2,601	2,618	2,311	2,651	2,619	3,101	2,580	2,988	2,578
Divided by Depreciation/Amortisation Expense	4,803	4,778	4,853	4,948	5,051	5,156	5,278	5,391	5,484	5,570
Ratio Target 90% to 100%	**266.2%**	**54.4%**	**53.9%**	**46.7%**	**52.5%**	**50.8%**	**58.8%**	**47.9%**	**54.5%**	**46.3%**

Status Quo Scenario Results

The FY2016 year is forecast to make a $3.169m loss before capital grants and gains on disposals of assets. This is a negative 26.25% operating ratio. The target for the operating ratio is to break even or better. Under the status quo scenario Council will have a continuing average loss of more than $3m each year. The result sees a continuing negative operating ratio, which improves slightly over the 10 year period due to a reducing depreciation spend.

Depreciation is reducing because more assets are reaching the end of their useful lives and are not being renewed through a capital works program. This is reflected in the building and infrastructure asset renewal ratio which going forward from 2015 year, sits at around a negative 50% when the target is between 90-100% (or 100% average over 3 years).

It is noted that the 2015 year shows a Building and Infrastructure Ratio of 266.2 % which is due to a federal grant of $8m to renew the Buckets Way highway. However it is also noted that this grant impacts on our own source revenue ratio of only 36% when the target is 60%.

As no new loans have been factored into the LTFP the Debt Service Cover ratio sits at a comfortable level, well within the target. Loans are considered to accelerate a capital works program, however this needs to be balanced between the low level of maintenance Council is currently able to allocate and the additional interest and capital repayments which would be payable on a loan.

Status Quo Scenario Conclusion

Assets will continue to deteriorate as funds will not be available to renew them. This in turn increases Council's public liability as some road assets for example may become dangerous and subject to closure or not be maintained.

As assets deteriorate they will require further funds to be spent on operations such as inspections, and unbudgeted reactive work to fix deteriorated assets. Possible claims could result from unmaintained assets.

As staff time is taken up with reactive works, less time will be able to be spent on implementing Council’s action plan as set out at the end of this document. This could create a difficult downward spiral of diminishing returns.

It is noted that the status quo scenario is a 'worst case' scenario where no further grant funds will be received for existing services, no further efficiencies are found, or extra activities which fulfil Council's long term goals.

Scenario 2 - 13% cumulative for 3 years SRV

In this scenario, which represents the application made to IPART, a Special Rates Variation of 13% (including the Rate Peg increase) has been sought for 3 years cumulative starting in the 2015/16 year. This increase will remain in the rate base.
The extra funds raised will fund a defined works program that starts the long haul of tackling the backlog of works outstanding on Council’s infrastructure (mainly roads), which make up 93% of Council assets.

Model 2: 13% cumulative for 3 years
Income Statement

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
INCOME: REVENUES FROM ORDINARY ACTIVITIES											
EXCLUDING PROFIT ON ASSET DISPOSAL, NON-OPERATING GRANTS, SUBSIDIES & CONTRIBUTIONS											
Rates	3,864	4,366	4,941	5,592	5,769	5,951	6,140	6,335	6,535	6,743	6,956
Rates Growth	-	7	7	8	10	10	10	10	11	11	11
Annual Charges	1,565	1,604	1,644	1,685	1,736	1,788	1,842	1,897	1,954	2,012	2,073
User Charges & Fee's	1,492	1,466	1,510	1,555	1,602	1,650	1,699	1,750	1,803	1,857	1,913
Interest Earnings	106	109	111	114	118	121	125	128	132	136	140
Other Revenue	753	772	791	811	835	860	886	913	940	968	998
Operating Grants, Subsidies & Contributions	4,414	4,154	4,258	4,364	4,495	4,630	4,769	4,912	5,059	5,211	5,368
Total Revenue	12,194	12,478	13,264	14,131	14,564	15,011	15,471	15,946	16,435	16,939	17,458
EXPENDITURE: EXPENSES FROM ORDINARY ACTIVITIES											
EXCLUDING LOSS ON ASSET DISPOSAL											
Employee Costs	(5,108)	(5,005)	(5,155)	(5,310)	(5,469)	(5,633)	(5,802)	(5,976)	(6,156)	(6,340)	(6,530)
Materials & Contracts	(3,098)	(2,827)	(2,898)	(2,970)	(3,059)	(3,151)	(3,246)	(3,343)	(3,443)	(3,546)	(3,653)
Utilities	(403)	(413)	(423)	(434)	(447)	(460)	(474)	(488)	(503)	(518)	(534)
Depreciation	(4,803)	(4,778)	(4,868)	(4,986)	(5,115)	(5,247)	(5,399)	(5,541)	(5,664)	(5,780)	(5,780)
Interest Expenses	(161)	(158)	(152)	(145)	(140)	(135)	(130)	(125)	(120)	(116)	(116)
Insurance	(375)	(385)	(395)	(404)	(417)	(429)	(442)	(455)	(469)	(483)	(483)
Other Expenditure	(1,634)	(1,675)	(1,717)	(1,760)	(1,812)	(1,867)	(1,923)	(1,980)	(2,040)	(2,101)	(2,101)
Total Expenditure	(15,582)	(15,241)	(15,608)	(16,009)	(16,459)	(16,922)	(17,415)	(17,909)	(18,394)	(18,885)	(19,197)
Result before Capital Income	(3,388)	(2,763)	(2,344)	(1,878)	(1,895)	(1,911)	(1,944)	(1,963)	(1,959)	(1,946)	(1,738)
Non-Operating Grants, Subsidies & Contributions	9,468	1,207	1,233	960	1,038	1,017	1,146	1,077	1,108	1,108	1,140
Profit on Asset Disposals	343	50	-	50	-	50	-	50	-	-	50
Sub-total	9,811	1,257	1,233	1,010	1,038	1,067	1,146	1,127	1,108	1,108	1,190
NET RESULT	**6,423**	**(1,506)**	**(1,111)**	**(868)**	**(857)**	**(844)**	**(798)**	**(836)**	**(851)**	**(838)**	**(548)**

13% cumulative for 3 years Cash Flow

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
CASH FLOWS FROM OPERATING ACTIVITIES										
RECEIPTS										
Rates	3,864	4,373	4,949	5,601	5,778	5,961	6,150	6,345	6,546	6,967
Annual Charges	1,565	1,604	1,644	1,685	1,736	1,788	1,842	1,897	1,954	2,073
User Charges & Fee's	1,492	1,466	1,510	1,555	1,602	1,650	1,699	1,750	1,803	1,913
Interest & Investment	106	109	111	114	118	121	125	128	132	140
Other Revenue	753	772	791	811	835	860	886	913	940	998
Operating Grants, Subsidies & Contributions	4,414	4,154	4,258	4,364	4,495	4,630	4,769	4,912	5,059	5,368
Sub-total	12,194	12,478	13,264	14,131	14,564	15,011	15,471	15,946	16,435	17,458
PAYMENTS										
Employee Costs (Operating Only)	(5,108)	(5,005)	(5,155)	(5,310)	(5,469)	(5,633)	(5,802)	(5,976)	(6,156)	(6,530)
Materials & Contracts	(3,098)	(2,827)	(2,898)	(2,970)	(3,059)	(3,151)	(3,246)	(3,343)	(3,443)	(3,653)
Utilities (gas, electricity, water, etc.)	(403)	(413)	(423)	(434)	(447)	(460)	(474)	(488)	(503)	(534)
Insurance	(375)	(385)	(395)	(404)	(417)	(429)	(442)	(455)	(469)	(483)
Interest	(161)	(158)	(152)	(145)	(140)	(135)	(130)	(125)	(120)	(116)
Other Expenditure	(1,634)	(1,675)	(1,717)	(1,760)	(1,812)	(1,867)	(1,923)	(1,980)	(2,040)	(2,101)
Sub-total	(10,779)	(10,463)	(10,740)	(11,023)	(11,344)	(11,676)	(12,017)	(12,368)	(12,731)	(13,417)
Net Cash Provided by (Used in) Operating Activities	1,415	2,015	2,524	3,108	3,220	3,335	3,455	3,578	3,704	4,041
CASH FLOWS FROM INVESTING ACTIVITIES										
Payments for Development of Land Held for Resale	(3)	-	-	-	-	-	-	-	-	-
Payments for Purchase of Property, Plant & Equipment	(2,235)	(627)	(589)	(648)	(909)	(854)	(1,284)	(708)	(1,060)	(592)
Payments for Construction of Infrastructure	(10,523)	(2,380)	(2,904)	(3,101)	(3,187)	(3,275)	(3,365)	(3,459)	(3,554)	(3,653)
Grants / Contributions for the Development of Assets	9,468	1,207	1,233	960	1,038	1,017	1,146	1,077	1,108	1,140
Proceeds from Sales (excluding Land)	100	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Land	342	50	-	50	-	50	-	50	-	50
Net Cash Provided by (Used in) Investing Activities	(2,851)	(1,750)	(2,260)	(2,739)	(3,058)	(3,062)	(3,503)	(3,040)	(3,506)	(3,055)
CASH FLOWS FROM FINANCING ACTIVITIES										
Repayment of Loans	(323)	(265)	(268)	(272)	(275)	(282)	(136)	(143)	(98)	(102)
Net Cash Provided by (Used in) Financing Activities	(323)	(265)	(268)	(272)	(275)	(282)	(136)	(143)	(98)	(102)
NET INCREASE (DECREASE) IN CASH HELD	(1,759)	(0)	(4)	97	(113)	(8)	(184)	394	100	885
Cash at Beginning of Year	3,515	1,756	1,756	1,752	1,849	1,736	1,727	1,543	1,937	2,038
Cash at the End of Year	**1,756**	**1,756**	**1,752**	**1,849**	**1,736**	**1,727**	**1,543**	**1,937**	**2,038**	**2,922**

Gloucester Shire Council Plan 2013-2023

Key Performance Indicators

13% 3 years

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
OPERATING PERFORMANCE RATIO										
Total Continuing Operating Revenue	12,194	12,478	13,264	14,131	14,564	15,011	15,471	15,946	16,435	17,458
Less Operating Exp incl interest & depreciation	(15,582)	(15,241)	(15,608)	(16,009)	(16,459)	(16,922)	(17,415)	(17,909)	(18,394)	(19,197)
= Net Operating Result	(3,388)	(2,763)	(2,344)	(1,878)	(1,895)	(1,911)	(1,944)	(1,963)	(1,959)	(1,738)
Divided by continuing operating revenue	12,194	12,478	13,264	14,131	14,564	15,011	15,471	15,946	16,435	17,458
Ratio Target - (+ve) Between 0% and 15%	**-27.79%**	**-22.15%**	**-17.68%**	**-13.29%**	**-13.01%**	**-12.73%**	**-12.57%**	**-12.31%**	**-11.92%**	**-9.96%**
OWN SOURCE OPERATING REVENUE RATIO										
Total continuing operating revenue (less All grants)	7,780	8,324	9,006	9,766	10,069	10,381	10,702	11,034	11,376	12,091
Divided by Total continuing operating revenue (inc capital grants)	21,662	13,685	14,497	15,091	15,602	16,028	16,618	17,023	17,543	18,599
Ratio Target > or = to 60%	**36%**	**61%**	**62%**	**65%**	**65%**	**65%**	**64%**	**65%**	**65%**	**65%**
DEBT SERVICE COVER RATIO										
Operating result before Interest & Depreciation										
= Operating Revenue	12,194	12,478	13,264	14,131	14,564	15,011	15,471	15,946	16,435	17,458
Less Operating Expenses	(15,582)	(15,241)	(15,608)	(16,009)	(16,459)	(16,922)	(17,415)	(17,909)	(18,394)	(19,197)
Except Interest Expense and Depreciation	4,964	4,936	5,020	5,131	5,255	5,382	5,529	5,666	5,784	5,896
= OSBID	1,576	2,173	2,676	3,253	3,360	3,470	3,585	3,703	3,824	4,157
Divided by Principal and Interest	484	423	420	417	415	417	266	268	218	218
Ratio Target Greater than 2	**3**	**5**	**6**	**8**	**8**	**8**	**13**	**14**	**18**	**19**
BUILDING AND INFRASTRUCTURE ASSET RENEWAL RATIO										
Capital Renewal Expenditure	12,788	3,007	3,493	3,749	4,096	4,129	4,649	4,167	4,614	4,245
Divided by Depreciation/Amortisation Expense	4,803	4,778	4,868	4,986	5,115	5,247	5,399	5,541	5,664	5,780
Ratio Target 90% to 100%	**266.2%**	**62.9%**	**71.7%**	**75.2%**	**80.1%**	**78.7%**	**86.1%**	**75.2%**	**81.5%**	**73.4%**

13% cumulative for 3 years SRV Scenario Results

This is the scenario adopted by council for its SV submission. However it does not fully resolve the financial issues particularly the backlog. Whilst the net operating result improves from a deficit of $3.388m in 2016 to a deficit of $1.738m loss in 2025, it still shows a loss.

This shortfall is reflected in the Building and Infrastructure asset renewal ratio which only improves from 62.9% in 2016 to 73.4% in 2025 against the target of between 90-100% (or 100% average over 3 years). It is an improvement on the status quo model.

Delivering Long Term Goals

This model suggests that Council would greatly improve its ability to maintain its assets while maintaining current service levels in other areas of council. Council will still need to maintain its focus on achieving full resolution of its deteriorating assets and looking at additional revenue sources. Council also will need to continue finding innovative and alternative routes to delivering its long term goals.

The Action Plan as set out at the end of this document would be able to be fully implemented and increased as further possibilities to gain strategic capacity are uncovered which would allow Council to deliver more of its long term goals for the community.

Household affordability

A 13% increase in rates for 3 years will see on average rates increasing by 44.29%, compared to 8.64% increase with just the standard CPI or rate pegged increase. The following table gives the average rates which will be payable per rates class:

Sub-category or Special Rate name	Current Average Rates	Average Rates Year 1	Average Rates Year 2	Average Rates Year 3
	2014/15	2015/16	2016/17	2017/18
Residential Rural	1,002	1,152	1,302	1,471
Residential Gloucester	678	775	876	990
Residential Village	653	773	873	987
Business Industrial/Commercial	1,328	1,466	1,656	1,872
Farmland	2,543	2,601	2,679	2,760
Business Other	975	1,086	1,227	1,387

When average rates are compared to Councils 5 neighbouring local government areas, the current rates in all categories (except mining) fall in the middle. It is noted that some of the neighbouring areas already have special rate variations granted which will be in force in the 2015/16 year.

Council understands that its population has a high proportion of older retirees who are pensioners, and who have moved to the area to take advantage of relaxing in a beautiful environment where opportunities abound in joining in with local community groups and other activities.

Council's ranking in socio economic index rating is number 47 out of 152 LGA's (within the lowest 32% of all LGA's in NSW)

Council has considered the findings of an affordability analysis and believes this option is affordable for its residents; however it acknowledges that there may be some hardship caused by the increases, and therefore it has introduced a hardship policy to allow households to apply for different options to help in paying their rates.

13% cumulative for 3 years Scenario Conclusion

Council will still not achieve the State Government KPI targets for Operating Surplus and Building and Infrastructure asset renewals over the 10 year period without additional revenues or introducing further efficiency gains and changes in working practice.

However whilst outcomes from the Status Quo scenario worsened as time went on, under this scenario at the end of the model 10 year period, Council will be in a better situation than at present.

It is considered that this option is viable if taken alongside the action plan to increase Council's strategic capacity and create efficiencies. The Scenario also requires a reassessment of the community strategic plan and corresponding service levels and if necessary apply for further increases if needed after the three year SRV period has concluded.

Scenario 3 - 18% cumulative for 5 years SRV

In this scenario, Council has modelled a special variation that would enable an average standard road condition of 2.9/5 (where 1 is best and 5 is worst). This scenario was included with the others in the widespread consultation and information sessions. The feedback from the community is that they neither accepted nor could afford this rate increase. The model is shown here as the 3rd scenario to enable a direct comparison of the higher levels of outcomes possible.

The extra funds raised will go towards tackling the backlog of works outstanding on Council's infrastructure (mainly roads), which make up 93% of Council assets.

Gloucester Shire Council Plan 2013-2023

Statement of Comprehensive Income by Type

18% for 5 years

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
INCOME: REVENUES FROM ORDINARY ACTIVITIES											
EXCLUDING PROFIT ON ASSET DISPOSAL, NON-OPERATING GRANTS, SUBSIDIES & CONTRIBUTIONS											
Rates	3,864	4,560	5,388	6,367	7,524	8,891	9,171	9,461	9,761	10,071	10,390
Rates Growth	-	7	8	9	11	13	15	16	16	16	17
Annual Charges	1,565	1,604	1,644	1,685	1,736	1,788	1,842	1,897	1,954	2,012	2,073
User Charges & Fee's	1,492	1,466	1,510	1,555	1,602	1,650	1,699	1,750	1,803	1,857	1,913
Interest Earnings	106	109	111	114	118	121	125	128	132	136	140
Other Revenue	753	772	791	811	835	860	886	913	940	968	998
Operating Grants, Subsidies & Contributions	4,414	4,154	4,258	4,364	4,495	4,630	4,769	4,912	5,059	5,211	5,368
Total Revenue	12,194	12,671	13,710	14,906	16,321	17,953	18,507	19,078	19,666	20,272	20,898
EXPENDITURE: EXPENSES FROM ORDINARY ACTIVITIES											
EXCLUDING LOSS ON ASSET DISPOSAL											
Employee Costs	(5,108)	(5,005)	(5,155)	(5,310)	(5,469)	(5,633)	(5,802)	(5,976)	(6,156)	(6,340)	(6,530)
Materials & Contracts	(3,098)	(2,827)	(2,898)	(2,970)	(3,059)	(3,151)	(3,246)	(3,343)	(3,443)	(3,546)	(3,653)
Utilities	(403)	(413)	(423)	(434)	(447)	(460)	(474)	(488)	(503)	(518)	(534)
Depreciation	(7,753)	(4,778)	(4,818)	(4,948)	(5,112)	(5,291)	(5,534)	(5,769)	(5,938)	(6,103)	(6,103)
Interest Expenses	(161)	(158)	(152)	(145)	(140)	(135)	(130)	(125)	(120)	(116)	(116)
Insurance	(375)	(385)	(395)	(404)	(417)	(429)	(442)	(455)	(469)	(483)	(483)
Other Expenditure	(1,634)	(1,675)	(1,717)	(1,760)	(1,812)	(1,867)	(1,923)	(1,980)	(2,040)	(2,101)	(2,101)
Total Expenditure	(18,532)	(15,241)	(15,557)	(15,971)	(16,457)	(16,967)	(17,551)	(18,138)	(18,669)	(19,208)	(19,520)
Total before Capital Income	(6,338)	(2,570)	(1,847)	(1,064)	(136)	987	956	940	997	1,065	1,378
Non-Operating Grants, Subsidies & Contributions	9,468	1,207	1,233	960	1,038	1,017	1,146	1,077	1,108	1,108	1,140
Profit on Asset Disposals	343	50	-	50	-	50	-	50	-	-	50
Sub-total	9,811	1,257	1,233	1,010	1,038	1,067	1,146	1,127	1,108	1,108	1,190

Cash Flow18% for 5 years										
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
CASH FLOWS FROM OPERATING ACTIVITIES										
RECEIPTS										
Rates	3,864	4,566	5,396	6,376	7,535	8,904	9,186	9,477	9,777	10,407
Annual Charges	1,565	1,604	1,644	1,685	1,736	1,788	1,842	1,897	1,954	2,073
User Charges & Fee's	1,492	1,466	1,510	1,555	1,602	1,650	1,699	1,750	1,803	1,913
Interest & Investment	106	109	111	114	118	121	125	128	132	140
Other Revenue	753	772	791	811	835	860	886	913	940	998
Operating Grants, Subsidies & Contributions	4,414	4,154	4,258	4,364	4,495	4,630	4,769	4,912	5,059	5,368
Sub-total	12,194	12,671	13,710	14,906	16,321	17,953	18,507	19,078	19,666	20,898
PAYMENTS										
Employee Costs (Operating Only)	(5,108)	(5,005)	(5,155)	(5,310)	(5,469)	(5,633)	(5,802)	(5,976)	(6,156)	(6,530)
Materials & Contracts	(3,098)	(2,827)	(2,898)	(2,970)	(3,059)	(3,151)	(3,246)	(3,343)	(3,443)	(3,653)
Utilities (gas, electricity, water, etc.)	(403)	(413)	(423)	(434)	(447)	(460)	(474)	(488)	(503)	(534)
Insurance	(375)	(385)	(395)	(404)	(417)	(429)	(442)	(455)	(469)	(483)
Interest	(161)	(158)	(152)	(145)	(140)	(135)	(130)	(125)	(120)	(116)
Other Expenditure	(1,634)	(1,675)	(1,717)	(1,760)	(1,812)	(1,867)	(1,923)	(1,980)	(2,040)	(2,101)
Sub-total	(10,779)	(10,463)	(10,740)	(11,023)	(11,344)	(11,676)	(12,017)	(12,368)	(12,731)	(13,417)
Net Cash Provided by (Used in) Operating Activities	1,415	2,208	2,971	3,883	4,976	6,278	6,490	6,709	6,936	7,481
CASH FLOWS FROM INVESTING ACTIVITIES										
Payments for Development of Land Held for Resale	(3)	-	-	-	-	-	-	-	-	-
Payments for Purchase of Property, Plant & Equipment	(2,235)	(623)	(579)	(648)	(1,020)	(738)	(2,084)	(708)	(1,060)	(592)
Payments for Construction of Infrastructure	(10,523)	(2,577)	(3,357)	(3,887)	(4,992)	(6,307)	(4,472)	(6,644)	(6,819)	(6,999)
Grants / Contributions for the Development of Assets	9,468	1,207	1,233	960	1,038	1,017	1,146	1,077	1,108	1,140
Proceeds from Sales (excluding Land)	100	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Land	342	50	-	50	-	50	-	50	-	50
Net Cash Provided by (Used in) Investing Activities	(2,851)	(1,943)	(2,703)	(3,525)	(4,974)	(5,978)	(5,410)	(6,225)	(6,771)	(6,401)
CASH FLOWS FROM FINANCING ACTIVITIES										
Repayment of Loans	(323)	(265)	(268)	(272)	(275)	(282)	(136)	(143)	(98)	(102)
Net Cash Provided by (Used in) Financing Activities	(323)	(265)	(268)	(272)	(275)	(282)	(136)	(143)	(98)	(102)
NET INCREASE (DECREASE) IN CASH HELD	(1,759)	0	0	86	(273)	18	944	341	67	978
Cash at Beginning of Year	3,515	1,756	1,756	1,756	1,843	1,570	1,588	2,532	2,874	2,940
Cash at the End of Year	**1,756**	**1,756**	**1,756**	**1,843**	**1,570**	**1,588**	**2,532**	**2,874**	**2,940**	**3,918**

Gloucester Shire Council Plan 2013-2023

Key Performance Indicators

18% for 5 years

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2024-2025
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
OPERATING PERFORMANCE RATIO										
Total Continuing Operating Revenue	12,194	12,671	13,710	14,906	16,321	17,953	18,507	19,078	19,666	20,898
Less Operating Exp incl interest & depreciation	(18,532)	(15,241)	(15,557)	(15,971)	(16,457)	(16,967)	(17,551)	(18,138)	(18,669)	(19,520)
= Net Operating Result	(6,338)	(2,570)	(1,847)	(1,064)	(136)	987	956	940	997	1,378
Divided by continuing operating revenue	12,194	12,671	13,710	14,906	16,321	17,953	18,507	19,078	19,666	20,898
Ratio Target - (+ve) Between 0% and 15%	**-51.98%**	**-20.28%**	**-13.47%**	**-7.14%**	**-0.83%**	**5.50%**	**5.17%**	**4.93%**	**5.07%**	**6.59%**
OWN SOURCE OPERATING REVENUE RATIO										
Total continuing operating revenue (less All grants)	7,780	8,517	9,453	10,542	11,825	13,323	13,738	14,166	14,607	15,530
Divided by Total continuing operating revenue (inc capital grants)	21,662	13,878	14,944	15,867	17,359	18,970	19,653	20,155	20,774	22,038
Ratio Target > or = to 60%	**36%**	**61%**	**63%**	**66%**	**68%**	**70%**	**70%**	**70%**	**70%**	**70%**
DEBT SERVICE RESULT										
Cost of Debt Service (principle & interest)	484	423	420	417	415	417	266	268	218	218
Divided by Continuing Operating Revenue	12,194	12,671	13,710	14,906	16,321	17,953	18,507	19,078	19,666	20,898
Ratio Target Greater than 0% less than 20%	**4%**	**3%**	**3%**	**3%**	**3%**	**2%**	**1%**	**1%**	**1%**	**1%**
BUILDING AND INFRASTRUCTURE ASSET RENEWAL RATIO										
Capital Renewal Expenditure	12,788	3,200	3,936	4,535	6,012	7,045	6,556	7,352	7,879	7,591
Divided by Depreciation/Amortisation Expense	7,753	4,778	4,818	4,948	5,112	5,291	5,534	5,769	5,938	6,103
Ratio Target 90% +	**164.9%**	**67.0%**	**81.7%**	**91.7%**	**117.6%**	**133.1%**	**118.5%**	**127.4%**	**132.7%**	**124.4%**

18% cumulative for 5 years SRV Scenario Results

This is the optimal plan for Council to enable all KPI's to be met over the 10 year period.

The Operating performance result moves into a surplus. Own source revenue exceeds the 60% benchmark and the additional revenue generated can be allocated to clear the backlog of capital works taking the Building and Infrastructure Asset Renewal Ratio above the targeted 100% which is required if the backlog is to be cleared.

Delivering Long Term Goals

Again the additional SRV funds over the 10 year period go towards clearing Council's backlog of capital works, and will allow Council to implement better strategic asset management systems to ensure work plans are accurately forecast, carried out and documented.

Council would still carry out Its Action Plan, but it would have the resource to not only maintain current service levels, but to improve them, and be able to start resourcing other long term goals in the community strategic plan to a greater extent.

These benefits would flow to the Shire in an earlier timeframe, enable Council to implement 'Best Practice' processes making use of current technology, and could also generate resource sharing to gain further scale and capacity as required by State Government.

Household affordability

An 18% increase in rates cumulative for 5 years will see on average rates increasing by 128.78% (more than double), compared to 15.25% increase with just the standard CPI or rate pegged increase. The following table gives the average rates which will be payable per rates class:

Sub-category or Special Rate name	Current Average Rates	Average Rates Year 1	Average Rates Year 2	Average Rates Year 3	Average Rates Year 4	Average Rates Year 5
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Residential Rural	1,002	1,187	1,400	1,652	1,950	2,301
Residential Gloucester	678	801	945	1,115	1,316	1,552
Residential Village	653	773	912	1,076	1,270	1,498
Business Industrial/Commercial	1,328	1,559	1,839	2,171	2,561	3,022
Farmland	2,543	3,011	3,553	4,193	4,948	5,838
Business Other	975	1,152	1,359	1,604	1,893	2,233

Council held a number of community information sessions with Gloucester Shire residents to ask if they would be agreeable to an 18% rate rise for 5 years, and the results were published in the local media as per the following extract:

Gloucester says no to 18 per cent rate rise

Aug. 19, 2014, midnight

AFTER speaking to nearly 1000 residents at more than 40 feedback sessions across the shire, council is yet to convince residents they should support a proposed 18 per cent increase to rates.

The sessions commenced in June last year and involved meetings with organisations, service clubs and residents in public halls and rural fire stations around the shire.

Together with media, web, information desks, newsletters and direct mail outs, they were designed to provide all ratepayers access to full information and an opportunity to raise queries direct with council.

"As a general comment there was an enhanced understanding of the condition of our roads and bridges, agreement that we need to address the backlog in their renewal and maintenance and acceptance of the need to substantially increase rate revenue," general manager Danny Green said.

"However, (they did not support) the 18 per cent compound increase, designed to provide the optimum solution given timeliness of works and affordability.

"It was interesting to note several comments that the problem is only of recent origin when in fact unfunded liabilities have been before this council for many years."

Gloucester Advocate Aug 19th 2014

18% cumulative for 5 years SRV Scenario Conclusion

Although the 18% would clear the backlog and enable Council to fulfil elements of the Community Strategic Plan which are currently unfunded, it is considered currently not acceptable to impose such a huge increase in rates.

Therefore even though Council is aware what increase is required at this stage to clear the backlog and implement the maintenance routine to optimise the use of the renewed assets, it is unable to raise the revenue required to fund the program. Council therefore has to go back to its action plan and rethink its service levels, moderate its long term goals, or think more strategically on how the goals can be reached without the financial impact currently forecast.

Sensitivity Analysis

Financial Assistance Grants

Because of its relatively small population figures, Council will always rely heavily on Financial Assistance Grants and other government subsidies to support its activities. Grants currently account for a greater percentage of Council's income than rating revenue, and this is not unusual for small Rural Council areas. Accordingly, any reduction in this level of assistance would have a substantial impact on Council's operations.

Construction Price Index

For the majority of a Council's operations, prices are best reflected in the Construction price index. For the Gloucester area this has been rising around 5% per annum. Obviously if these rising service/material costs are not recovered or costs structures aligned accordingly, any council will face an increasing gap between revenues and expenditure and increased costs of maintaining infrastructure.

Employee Cash Reserves

Council needs to ensure that it maintains cash reserves for restricted purposes such as employee leave entitlements which presently total $192k. Council must maintain these reserves and accommodate changes such as an aging workforce to ensure that cash funds are available on demand.

Regulatory and Legislative Changes

Because Council's income base is so limited, any additional regulatory responsibilities or mandated services have potential to severely impact on financial sustainability. The State Waste Management Levy has already reduced available community resources, resulting in excessive household price increases for waste management fees. The additional environmental performance requirements supporting the levy will also impact substantially on Council's resources.

Council's tenuous financial position makes it vulnerable to even minor changes in regulatory responsibility, with additional labour and administrative costs that it is unable to absorb.

Unforseen Costs relating to Council Merging into a Larger Council Area

Like all councils in NSW, Gloucester is currently considering its response to the government's review and what is the best structural and governance model to ensure best outcomes for the community. Whilst there is some government financial support for the transition process, the business case has yet to be fully developed and short term merger costs and longer term benefits and impacts have yet to be fully determined. These costs could include: Consultancy expenses, redundancy packages, change of IT systems, change of processes to align Gloucester Shire Council to the new entity, extra administration and travel costs.

At present Council has no resources to fund these, the currently budgeted programs may be affected to pay these unforseen costs.

Action Plan to further improve our financial position

Council is committed to supporting the community's long-term aspirations in relation to maintaining services, stronger environmental focus and improved performance in asset management. However, our current financial situation presents a number of challenges in achieving this aim.

The following strategies have been developed to increase Council's resourcing base and provide more funding to fulfil our community strategic plan:

- ***State and Federal funding***

Council needs to continue to aggressively pursue all avenues for state and federal grants to improve its position. This includes lobbying local members and government Ministers for additional infrastructure funding.

- ***Continuing Review of fees and charges***

Council will continue its work to review all fees and charges. Whilst those fees or charges which can be significantly increased is minimal and any additional revenues would not be significant, we need to ensure fees are set at cost recovery, while remaining sensitive to community needs.

- ***Review of Section 94 Plan***

Council has budgeted to review its section 94 plan to ensure it is able to recover an equitable amount from developers to accommodate new property within the Shire.

- ***Resource Sharing and preparing to be Fit for the Future***

In light of State Governments fit for the future proposals, Council is now required to undertake a full review of its financial and strategic position, including all administrative and other processes. We will continue to consider options for resource sharing with other Councils or with a Joint Organisation, or whether a formal merger with another Council provides the best outcome over a range of criteria. The funding of the infrastructure backlog will be a central determinant as will maintenance or enhancement of services levels.

- ***Service Levels***

Council is to build on the work already started to help prioritise services in accordance with public expectations, with funding more targeted to the higher priority services. Council has developed a hierarchical approach to road and bridges works based on traffic volumes and other factors. More work is required to ensure that services are prioritised in accordance with public expectations.

- ***Review of Community Strategic Plan***

A consultative review of the Community Strategic Plan is planned to ensure expectations and goals are moderated, actionable and achievable within the confines of our financial position. This would also help to align community expectation to Council's capacity to deliver within the Plan's 10 year timeframe.

- ***Increase rates***

Gloucester Council has not increased rates above the standard annual permissible increase since 1977. This has resulted in consistent under-spending on asset maintenance and renewal due to lack of funds. A program of incremental rate increases would provide significant funding for community infrastructure. However, this program should reflect the general capacity of the community to meet the additional charges. An affordability analysis has been conducted and wide community consultation undertaken.

Conclusion

Council is not financially sustainable and has deteriorating infrastructure. Council needs to review all operations and assets to look for strategies and efficiencies to reduce the financial burden.

Council will be applying for a Special Rate Variation to commence in the 2015/2016 financial year as detailed in scenario 2 as presented in this long term financial plan.

Council has been addressing its financial position and is working to overcome the financial challenges to achieve an outcome which is equitable to all Gloucester Shire Residents.