



KIAMA
MUNICIPAL
COUNCIL

Kiama Municipal Council

Review of LTFP and compliance with Fit for the Future ratios

November 2016



Document status

Ref	Version	Approving director	Date
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Introduction

Kiama Municipal Council has engaged Morrison Low to undertake a review of its Long Term Financial Plan (LTFP) to ensure the improvements included enable Council to meet all of the Fit for the Future (FFTF) ratios.

The revised LTFP covers the period from 2015/16 to 2026/27 and this incorporates improvement opportunities identified in earlier reports prepared by Morrison Low in 2015 and February 2016 (addendum). Details of the improvement opportunities identified in earlier reports are shown in Appendix A.

Summary

Our review has involved a review of the LTFP financial statements and assumptions provided. It did not involve a detailed review of the underlying budget data, however, during the review, we asked a number of questions to clarify the assumptions and data reflected in the financial statements.

We were satisfied with the answers to all of the questions asked, and our view is that the 2016 – 2027 LTFP for the Kiama Municipal Council demonstrates that Council is financially sustainable over the term on the LTFP and can meet all the FFF performance ratios.

LTFP Analysis:

During our review we have made the following observations on the financial statements and assumptions in the LTFP. These outline the factors taken into consideration when we formed the view that the LTFP, incorporating all of the improvement actions proposed enables Council to be financially sustainable as determined by the FFTF ratios.

- Council is allowing for a permanent SRV increase of 3% p.a. for three years commencing in 2018/19 in addition to the rates cap.
- The Council's 2016/17 budget in the LTFP is based on revised budgets approved by Council. Therefore the 2016/17 budget data differs from that in the published 2016/17 Operational Plan.
- An overall assumption of 2.5% CPI is used. The rates cap used is 2.25% with other assumptions ranging up to 4% for staff costs. We note that Council has only allowed for inflation of 1% on depreciation. This has been reduced as recent analysis indicates that some of Council's major buildings are overvalued. If the inflator on depreciation was increased to 2 or 3% this would not have a material effect on the LTFP and Council's ability to meet the FFTF benchmarks.
- Council has budgeted for significant revenues for profit on sale of assets. This relates to the proposed sale of land. This revenue is excluded from the Operating Surplus ratio so this has no impact on the FFTF ratios. The total amount budgeted from the sale of property assets over the term of the LTFP is \$22 million. Should the property sales not eventuate, the resulting interest cost would not materially impact on the Council's operating surplus. In addition, Council would have the option of modifying its expenditure plans if necessary.

- A major new aged care facility is being constructed and this will be operated on a commercial basis. During construction interest costs are capitalised. The addition of this new facility increases council revenues and expenditure. As a result of the addition of the new facility, there is an adverse impact on the real operating expenditure per capita ratio, however, the overall trend shows a decline as required.
- Council will collect a significant amount of cash (shown as bonds & deposits in the statement of cashflows) as Council will be selling a “right to occupy” for the new aged care units. The extra \$54m in cash collected is shown as an increase in internal reserves.
- The new aged care facility is projected to make a positive contribution to Council’s overall financial position. With the aged care facility removed from the LTFP financial statements, Council is still able to meet all of the FFTF ratios over the term of the LTFP; however, the level of annual operating surplus will be reduced by approximately \$3m per annum over the last eight years of the LTFP.

Performance against the Fit for the Future Benchmarks

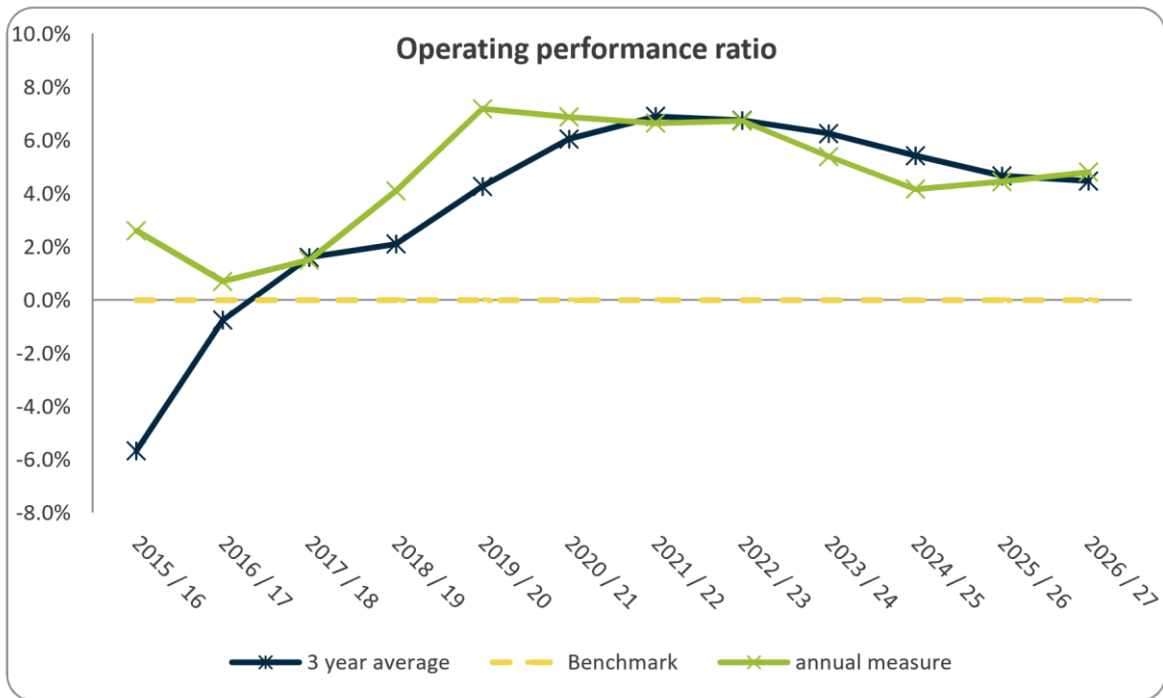
Comparison of date by which benchmark is met

Table 1 - Comparison of date by which benchmark is met

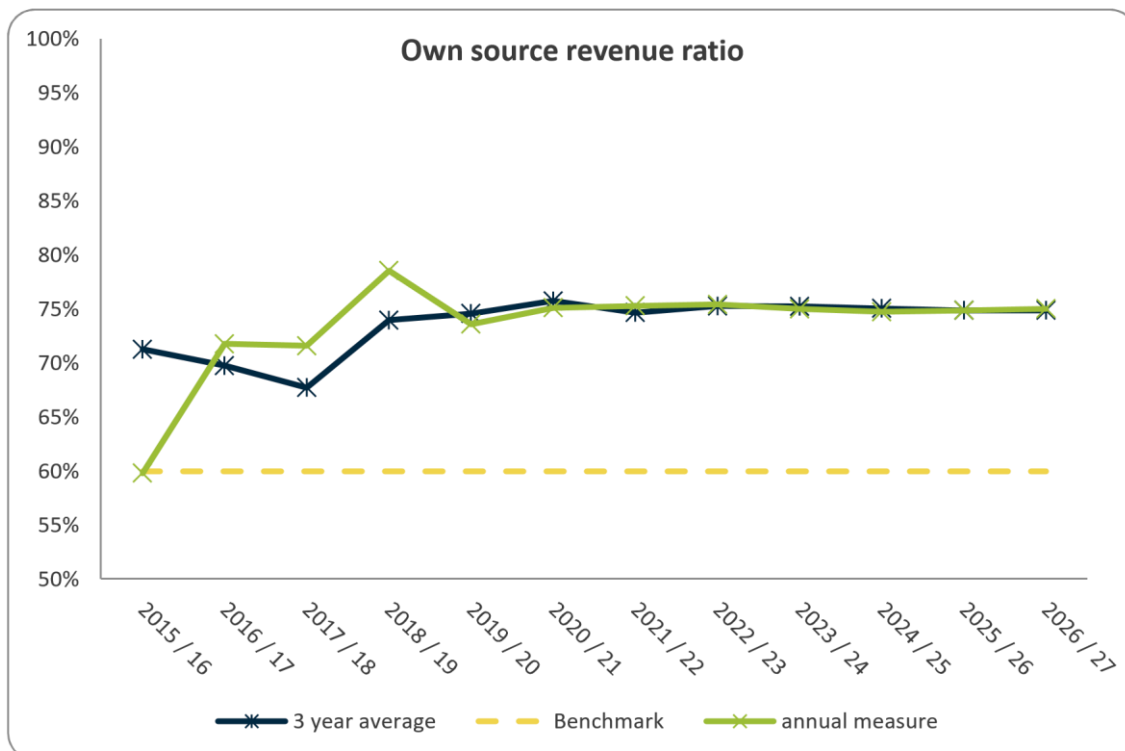
Benchmark	Date Benchmark First Met	Achieved over the term of the LTFP
Operating Performance Ratio	2015/16	Yes
Own Source Revenue Ratio	2015/16	Yes
Building and Infrastructure Asset Renewal Ratio	2015/16	Yes
Infrastructure Backlog Ratio	2015/16	Yes
Asset Maintenance Ratio	2015/16	Yes
Debt Service Ratio	2015/16	Yes
Real Operating Expenditure per capita	Met	Yes ¹

¹ The Real Operating Expenditure per capita ratio is impacted by the construction and operation of a major new aged care facility. This facility generates significant additional revenues which are not taken into consideration with the calculation of this benchmark.

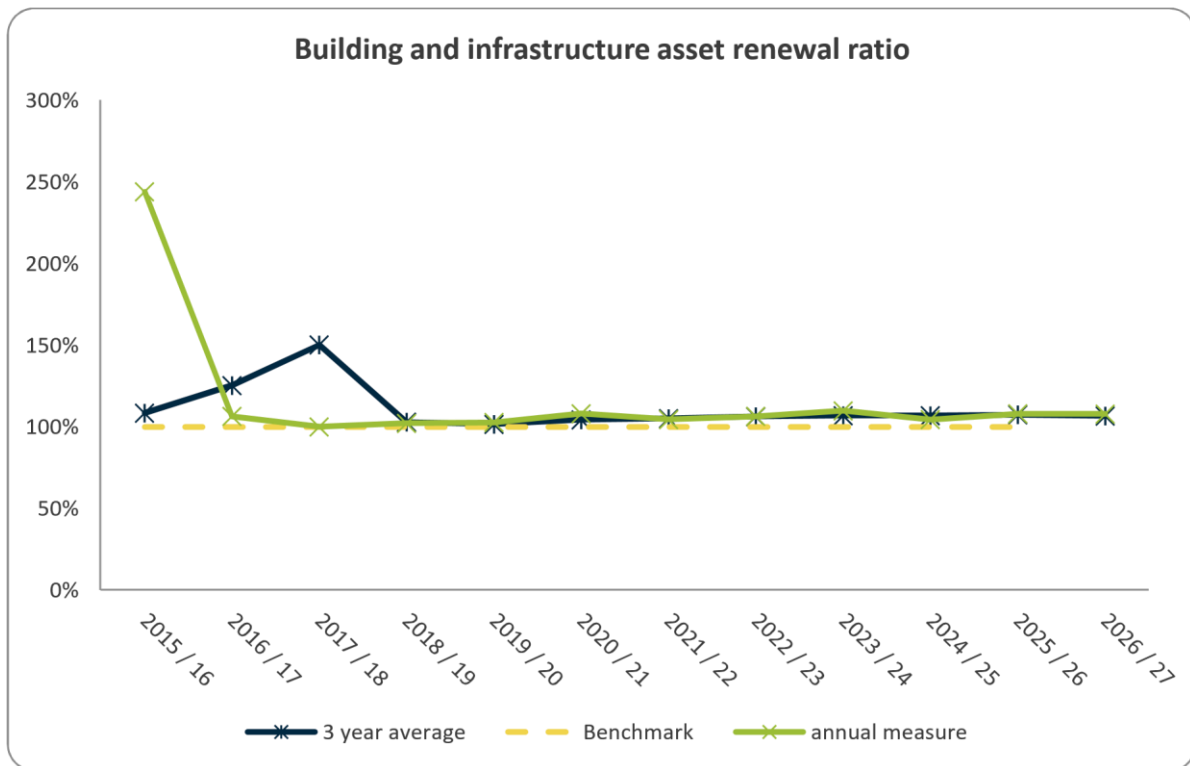
Projections for Fit for the Future Benchmarks



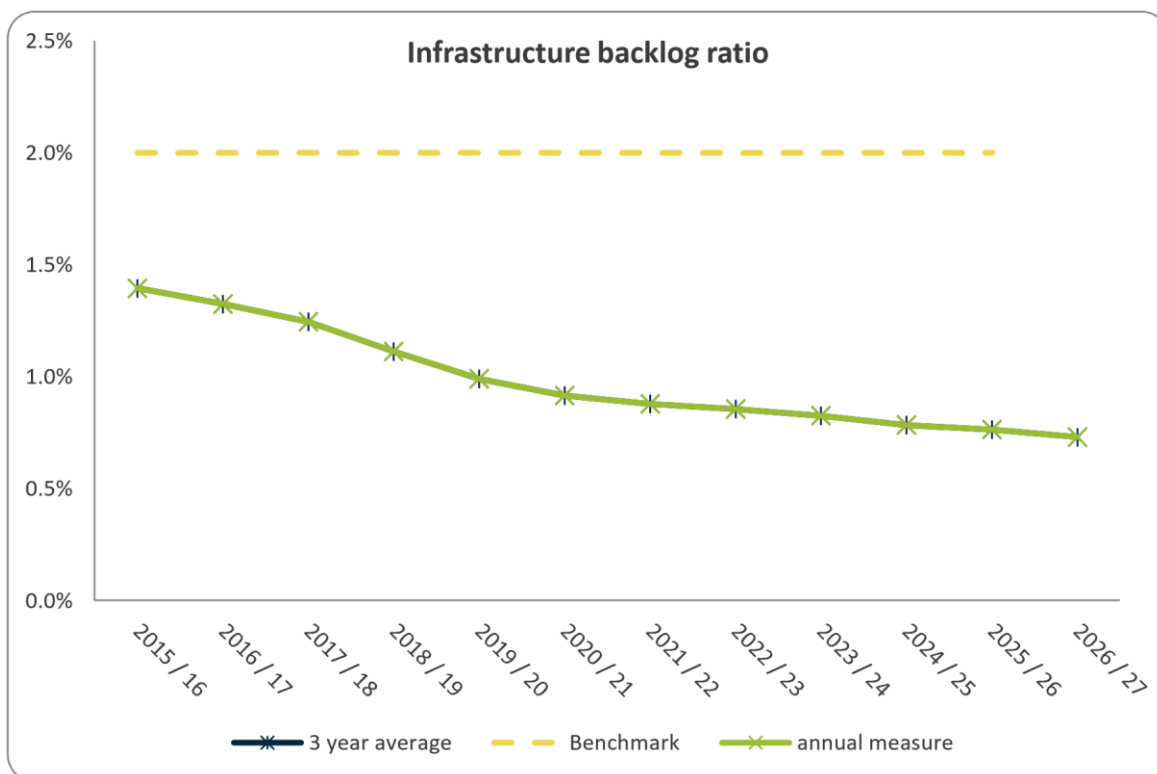
Graph 1: Operating performance ratio



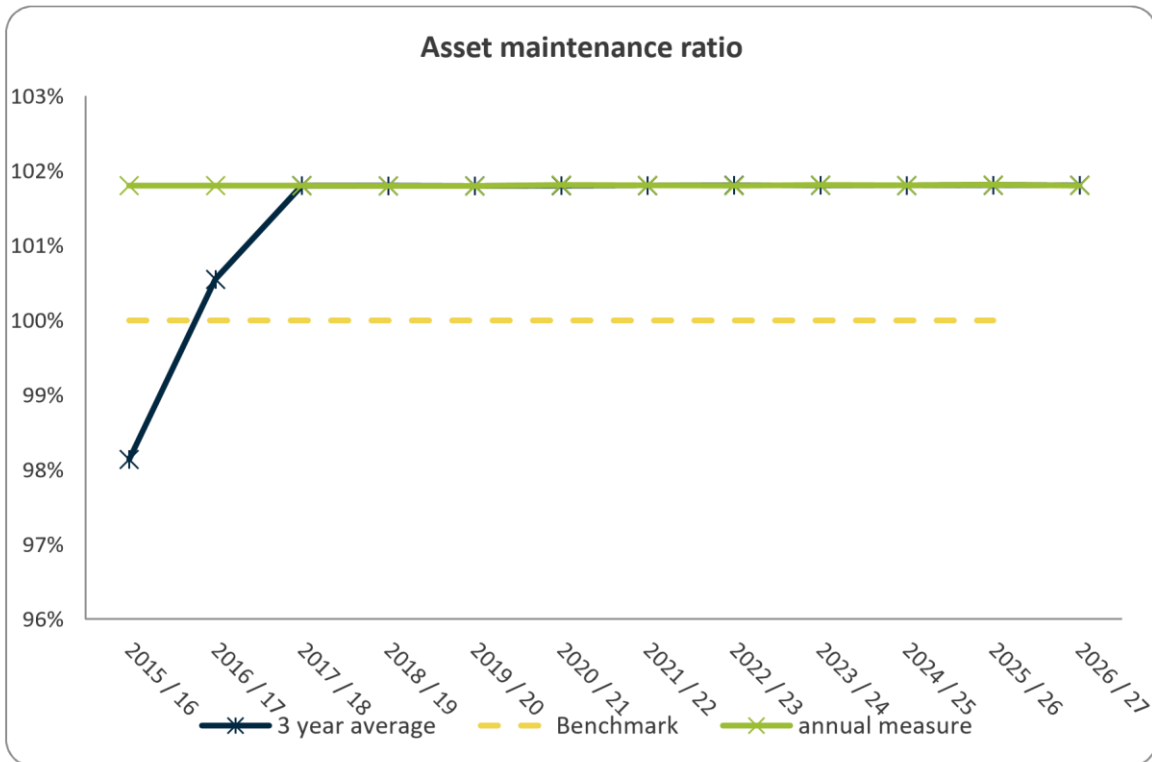
Graph 2: Own source revenue ratio



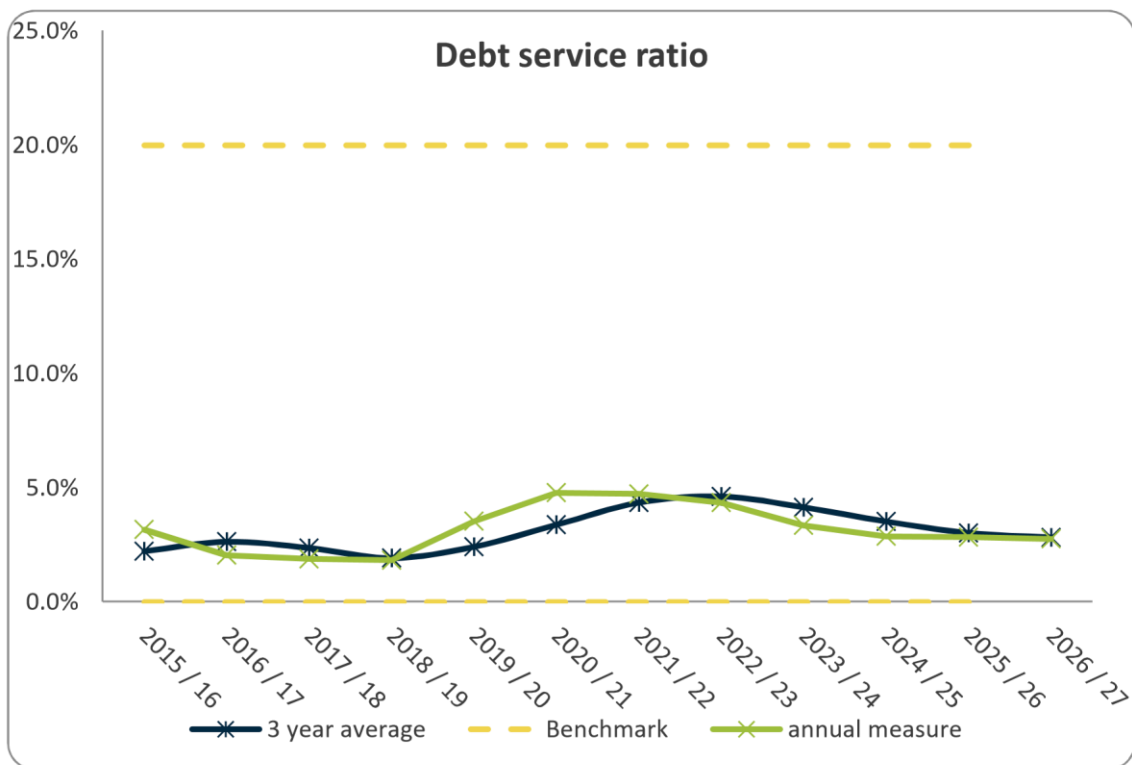
Graph 3: Building and infrastructure asset renewal ratio



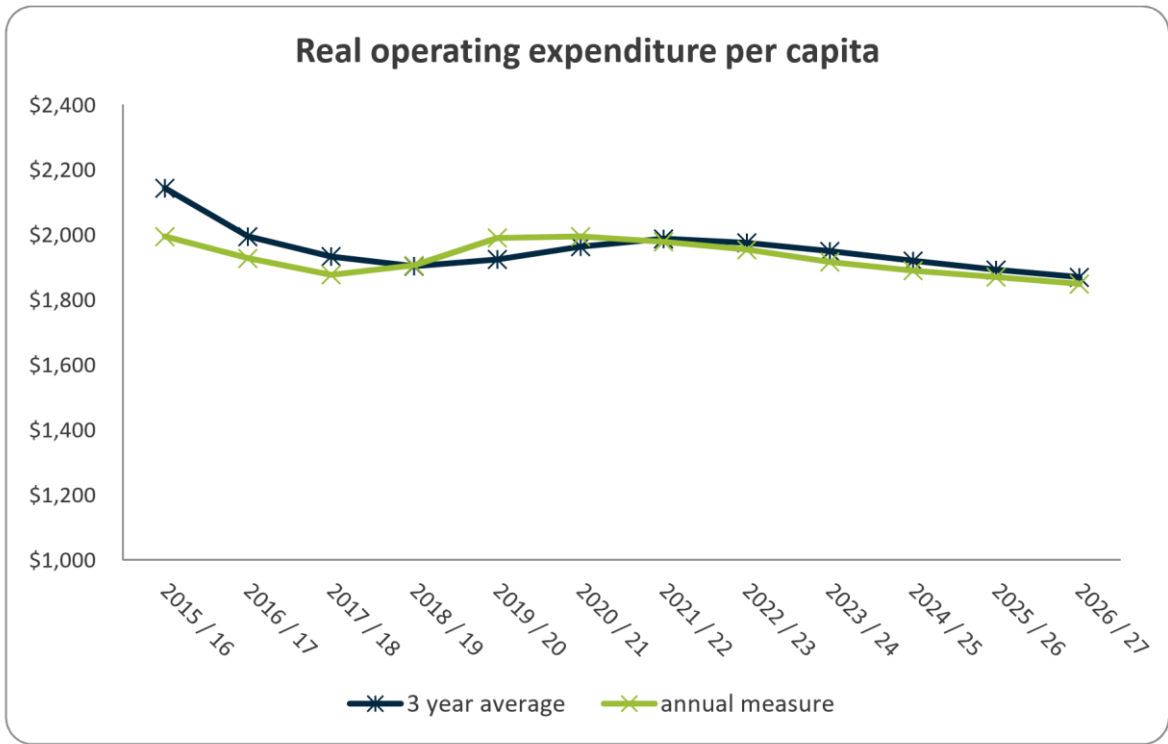
Graph 4: Infrastructure backlog ratio



Graph 5: Asset maintenance ratio



Graph 6: Debt service ratio



Graph 7: Real operating expenditure per capita

Appendix A - Improvement Proposal Opportunities Adopted by Council

Improvement Opportunity	Total (\$000)
Increased commercial opportunities	\$50
Holiday Parks additional income	\$100
Sale of additional aged care units	\$80
Rental of old waste site for storage	\$50
Saving on early payment of loans	-\$55
JO Staff sharing	-\$85
Change in Depreciation – buildings	-\$1,200
Change in Depreciation - transports and drainage assets	-\$450
Change in depreciation due to hierarchy of roads (15% of Seal)	-\$50
Change in depreciation non infrastructure assets	-\$265
Movement of funds holiday parks maintenance to renewal	-\$100
Service reviews - Waste	-\$100
Service review - Civil	-\$100
Service Review - Parks	-\$100
Service Review - Office	-\$100
Service Review - IT	-\$85
Rental Saving	-\$50
Capitalisation of loan costs - Spring Creek Development	-\$200
Capitalisation of loan costs - Spring Creek Development	-\$180
Capitalisation of loan costs - Spring Creek Development	-\$87
Reduction in Motor vehicle fleet	-\$20
Return from Blue haven site - for discussion	TBD
Land Sales – for discussions	TBD
Adjustments to fees and charges based on 14/15 result	\$600

