Attachment B

Long Term Financial Plan (LTFP)

Workshop for Councillors

19 November 2013 (slides used)

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Long Term Financial Plan Workshop for Councillors

19 November 2013

GLEN INNES SEVERN COUNCIL

What is wrong with the old plan?

- The effects of the Airport
- Glen Innes Aggregates
- Drainage Charge
- Increase in grant revenue unlikely to materialise
- The effects of Gum Tree Glen
- Swimming Pool
- LIRS loans were not factored in – previous plan included loans at 8% (compared with 1.32% and 1.46%)
- Capital expenditure was lower than realistically required to meet the requirements of TCORP
- 2011/12 and 2012/13 actual figures and 2013/14 budgeted figures included.

No expected FAGS and R2R increases

<u>Original Plan included significant increases –</u>

- R2R increase of 25% was expected in the 2014/15 financial year (approx $151,500 increase).
- Financial Assistance Grant was expected to increase by 4% with a 20% increase in the 2014-15 financial year (approx $715,000 increase).
- Therefore approximately $866,500 decrease in annual revenue!

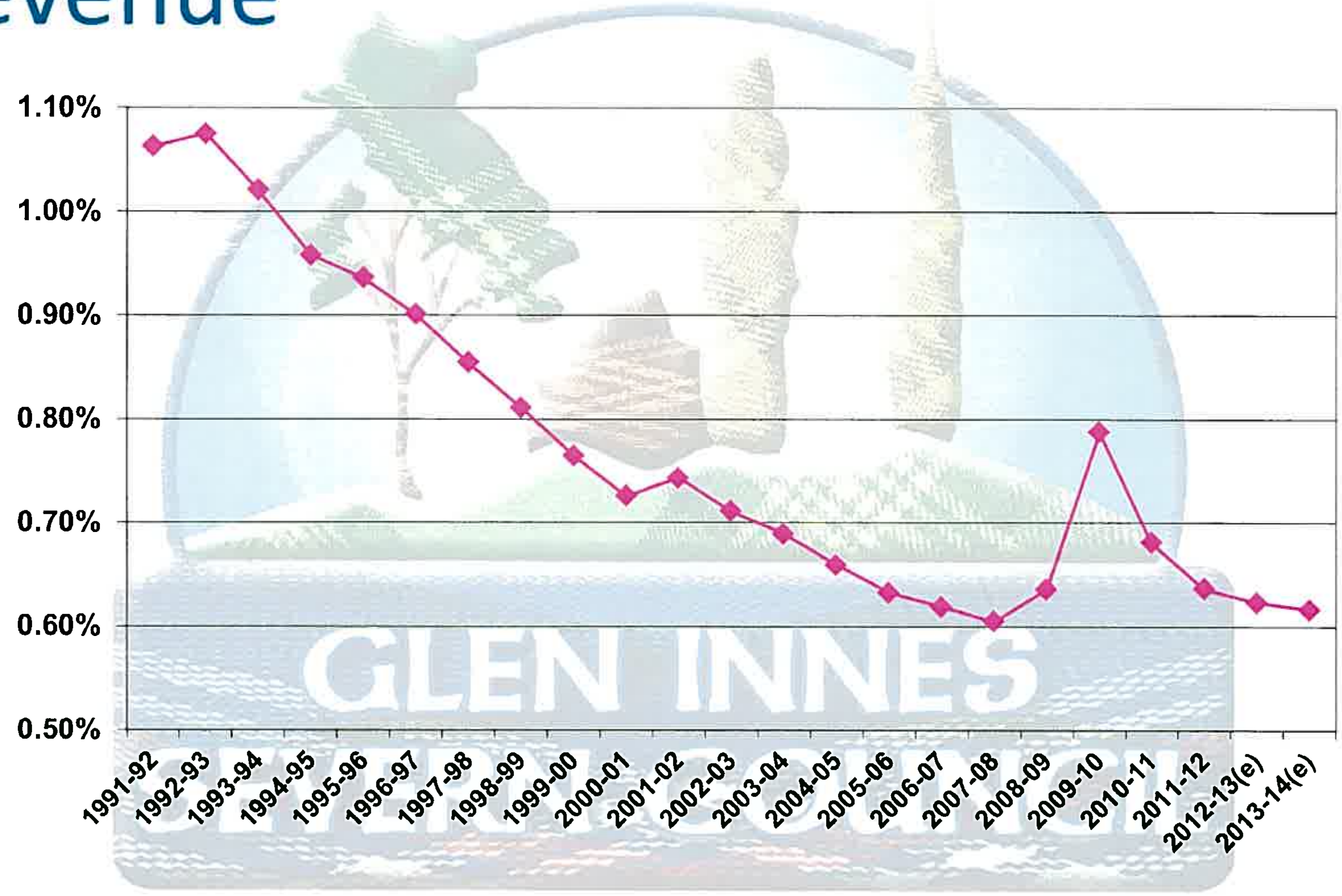
<u>New Scenarios:</u>

- After meeting with the NSW Grants Commission it is not expected that significant grant increases are likely to materialise. A Consumer Price Index increase has been incorporated.

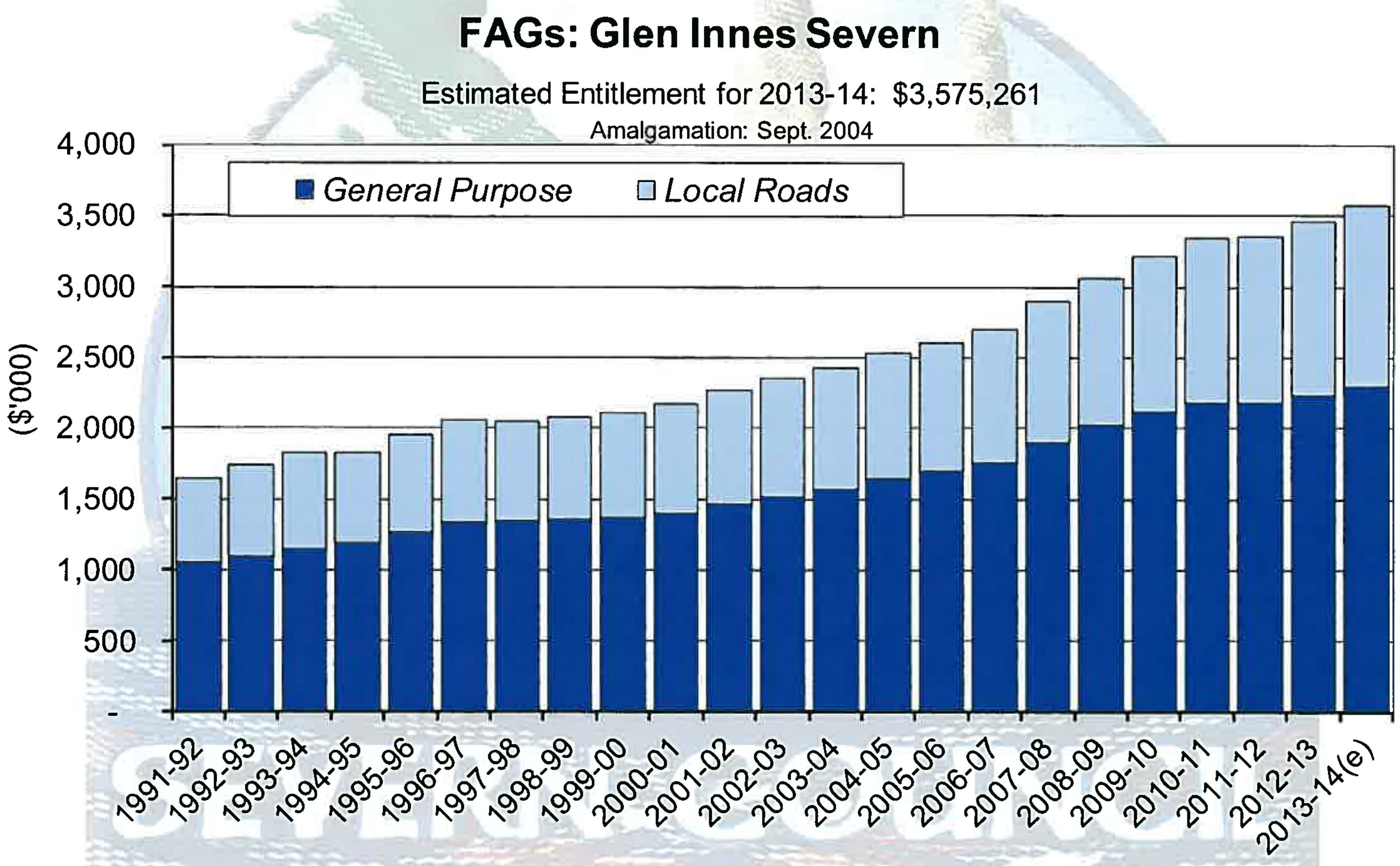
No expected FAGS and R2R increases

- At the time of setting the previous LTFP there was an expectation that an increase in FAGS and R2R was likely.
- After the meeting with the NSW Grants Commission it is not expected that this is likely to increase.
- The Commission appeared to be suggesting that Council should consider other sources of revenue and suggested that a Special Rates Variation combined with a LIRS loan is a good deal.

FAGS as % of Commonwealth Revenue



FAGS Actual amounts



Focus on Financial Sustainability

- TCORP Sustainability Indicators (Ratios)
- Financial Ratios are strong apart from Operating Ratio and Own Sourced Revenues
- Infrastructure ratios are weak
- Council needs to focus on improving the Renewal and Maintenance of assets
- TCORP noted this in their review of Council in March 2013.

TCORP Indicators

		2013	2012	2011	2010
Financial Ratios					
Operating Ratio	> (4.0%)	(4.53%)	(0.27%)	(12.1%)	(5.4%)
Interest Cover Ratio	> 4.00x	5.58x	7.46x	8.42x	7.02x
Debt Service Cover Ratio	> 2.00x	3.34x	4.78x	5.13x	4.44x
Unrestricted Current Ratio	> 1.50x	4.78x	3.46x	2.40x	2.83x
Own Source Operating Revenue Ratio	> 60.0%	44.68%	39.65%	31.5%	32.2%
Cash Expense Ratio	> 3.0 months	8.64 months	6.98 months	6.8 months	7.0 months
Infrastructure Ratios					
Infrastructure Backlog Ratio	< 0.02x	0.12x	0.14x	0.17x	0.16x
Asset Maintenance Ratio	> 1.00x	0.74x	0.63x	0.62x	0.62x
Building and Infrastructure Renewals Ratio	> 1.00x	0.89x	0.55x	0.57x	0.07x
Capital Expenditure Ratio	> 1.10x	0.87x	1.37x	1.10x	0.51x

TCORPs recommendation:

"However we would also recommend that the following points be considered:

- *Council's rates and annual charges and user fees and charges makeup only 42.0% of it's overall revenue. It is recommended Council considers its options for improving its performance in this area, either by securing new or additional revenue;*
- *Council is reliant on Operating Grants as a key source of revenue. While this is not unusual for rural LGA's it is an area that requires monitoring;*
- *While Council has forecast increases in operating grants Council should continue to source additional revenue streams should this not eventuate".*

Unfortunately - this is exactly what we expect.

- Increasing "*rates and annual charges and user fees and charges*" means a rates increase, a drainage charge or annual charges etc. Unfortunately, in the case of replacing untied funding such as the expected increase in the FAGS this can only mean a rate increase.
- Annual charges must be spent on the particular purpose for which the charge was raised. Rates do not need to be spent in this manner. Rates are a tax, not a fee for service.

How do you improve asset renewal ratios?

- More money needs to be spent on Infrastructure which will deteriorate financial ratios. Our financial ratios don't 'have enough room to move' to address the infrastructure ratios.
- Water, Sewer and Roads and Drainage.
- An approximate $1.5million needs to be spent on top of what is currently being spent.
- Last two years were inflated due to loan funded purchases.

The Basic Balance

	$
Revenue	23,941,000
Expenditure	24,804,000
Net Position	(863,000)
Add: Depreciation	4,880,000
Less: Loan Repayments	559,000
Less: Capital Purchases (Renewals)	4,880,000
Less: Capital Purchases (New)	488,000
Net Cash Position	(1,910,000)

The TCORP Suggested Balance

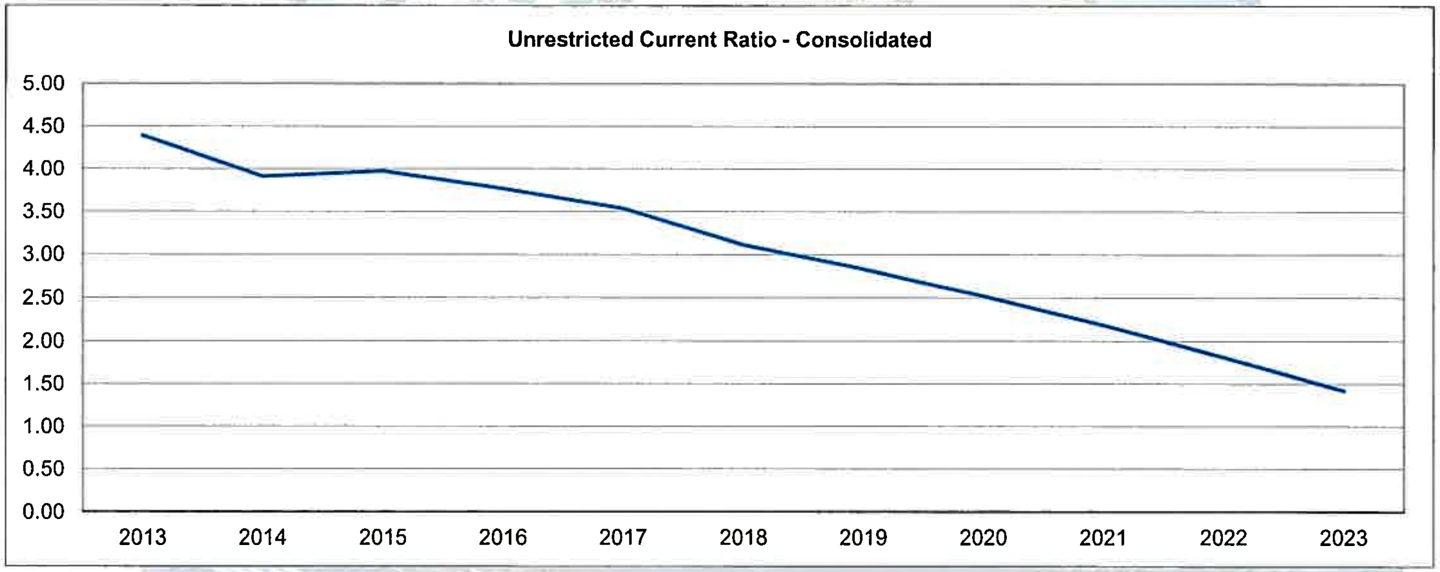
	$
Revenue	25,851,000
Expenditure	24,804,000
Net Position (4% profit)	1,047,000
Add: Depreciation	4,880,000
Less: Loan Repayments	559,000
Less: Capital Purchases (Renewals)	4,880,000
Less: Capital Purchases (New)	488,000
Net Cash Position	0

The current plan….

- 5 Scenarios have been prepared for discussion
- Only 2 of these hold real merit
- Each of the Scenarios are discussed below.

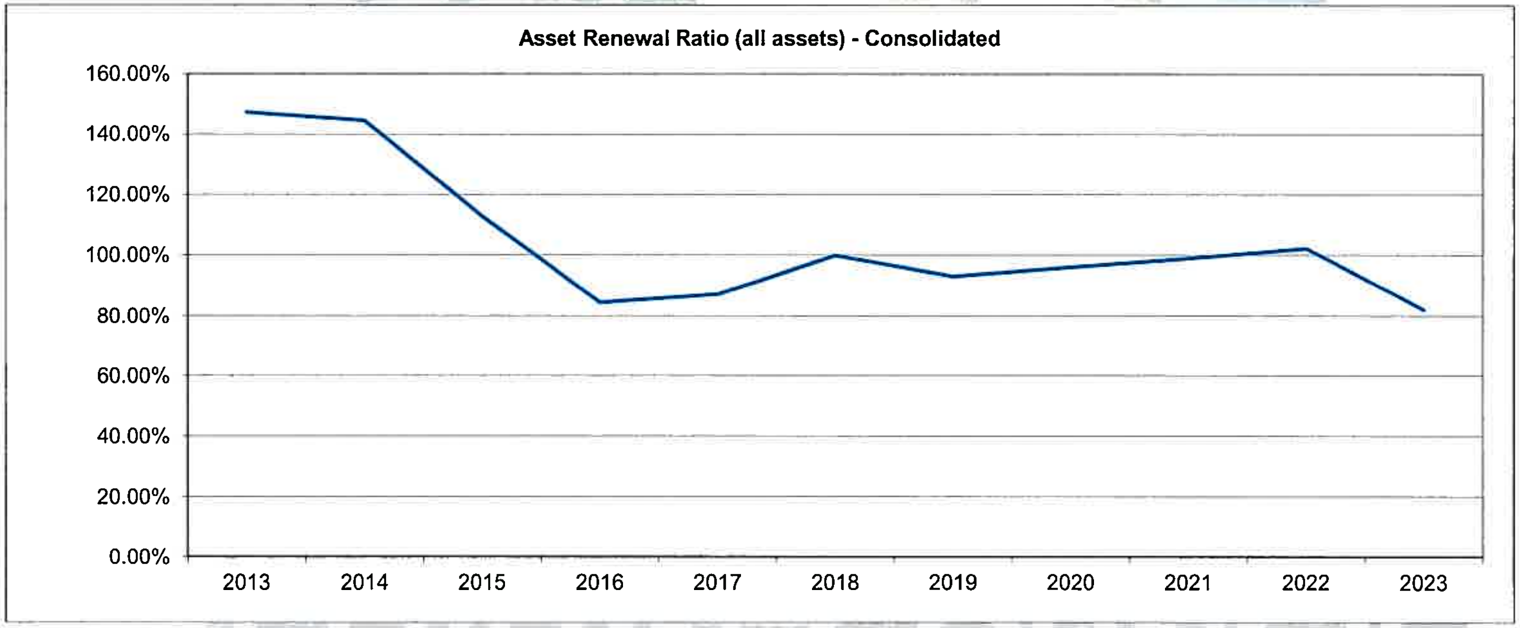
Base Case Scenario

- Unrestricted Current Ratio



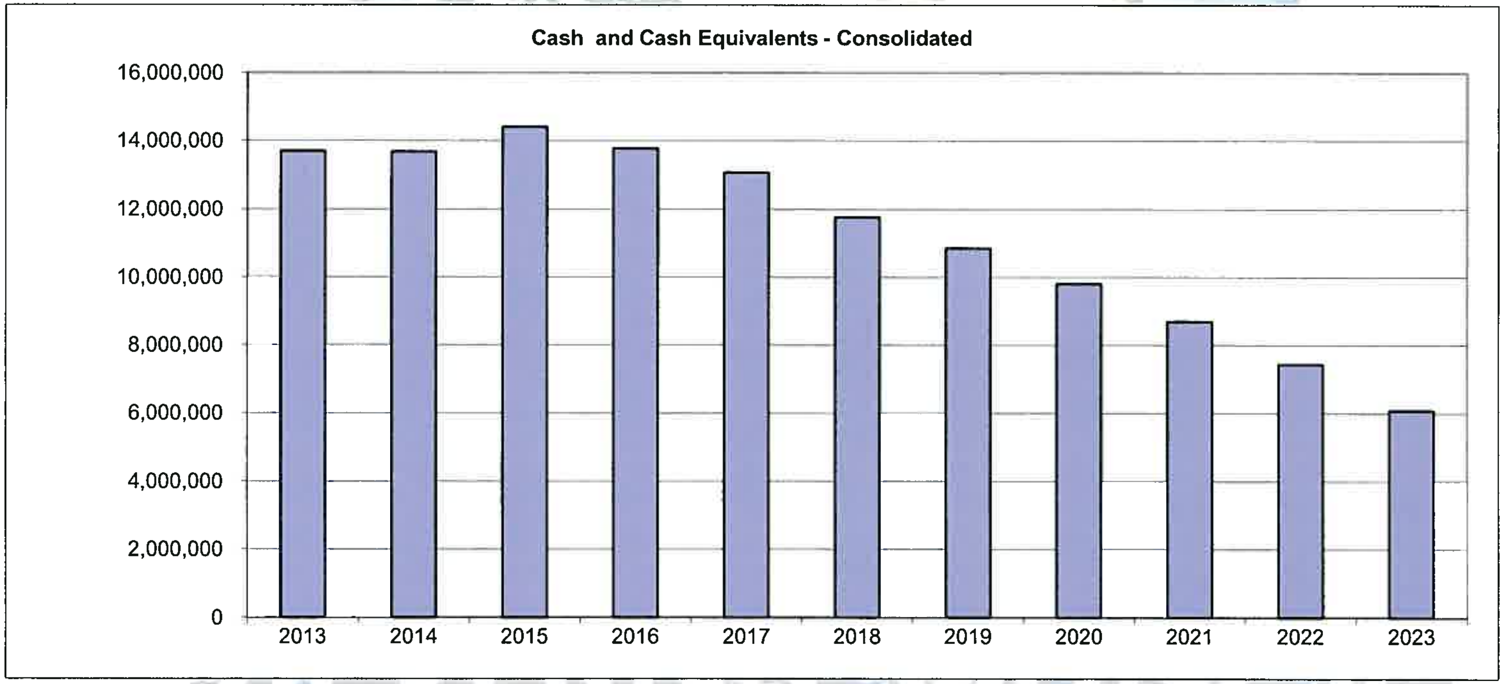
Base Case Scenario

- Asset Renewal Ratio



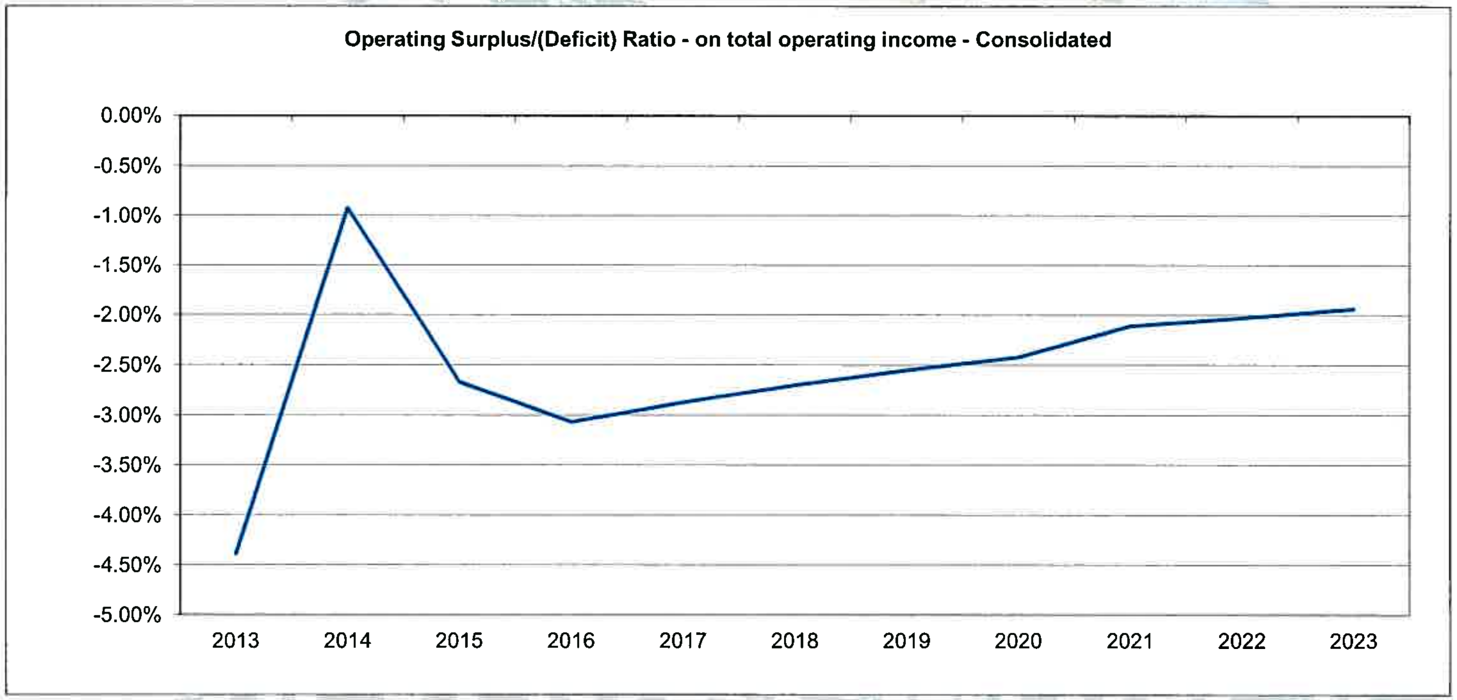
Base Case Scenario

- Cash and Cash Equivalents



Base Case Scenario

- Operating Surplus/(Deficit) Ratio



Water and Sewer Funds

- Water fund ‘cash’ balance is decreasing rapidly
- Sewer fund ‘ cash’ balance is also decreasing
- This is due to increased capital expenditure to maintain the 1:1 ratio
- This is what needs to happen and should be addressed through fee increases.

Quarry 'Fund'

- Conservative Profit Projected.

General Fund

- Falling behind – particularly in cash, due to increasing loan repayments and increasing capital expenditure.

Base Case Scenario

- Council could adopt the base case scenario by reducing capital expenditure (basically in line with historical average).
- Won’t meet required infrastructure renewal ratios.
- Won’t meet target of three year operational surplus.
- Will catch up with us in a few years time. The longer you don't meet the required asset renewal ratio the greater the backlog gets.

Scenario 2 include a SRV and Increased Water and Sewer Fund Charges

- Will balance budget
- Will achieve operating surplus within 3 years
- Will partly protect Council from possible loss of Water and Sewer
- Will increase capital works significantly
- Infrastructure Renewal will be very positive.

Special Rates Variation

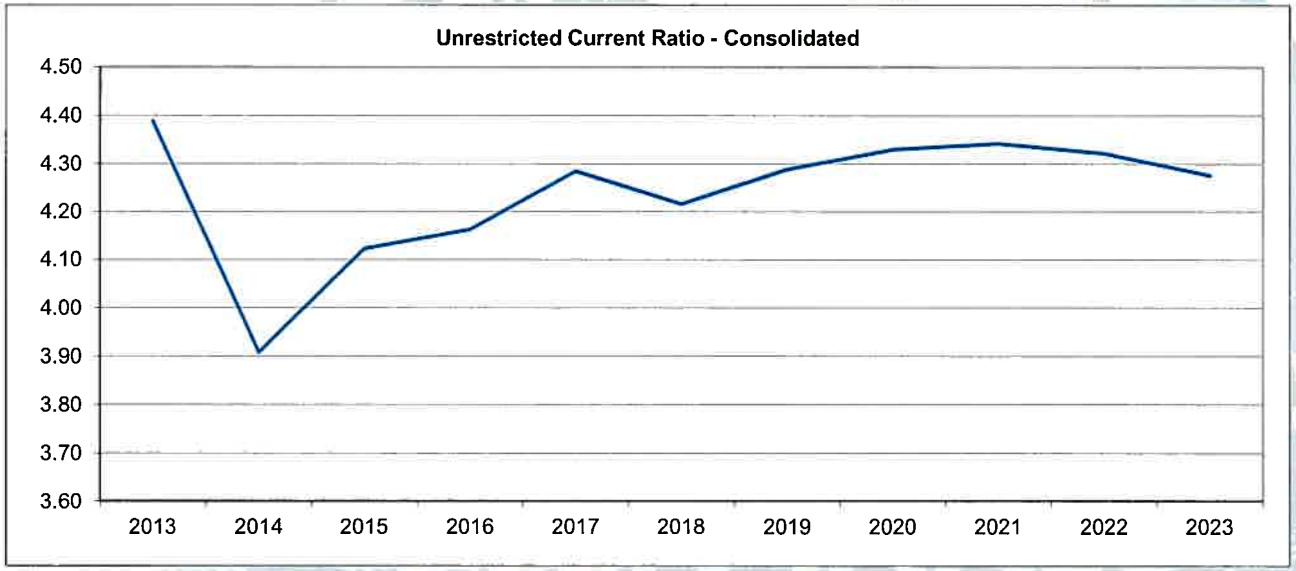
- Rate Peg
- DLG Group and Regional Average (Annexure C)
- LTFP suggests in the order of $800,000 to $1 million
- Primarily farm land (refer to page 24).

Increase in Water Fund Charges

- 3,394 assessments, increase in annual charge.
- 466,710 kl usage last year
- $100,000 additional required
- A) $100,000/466,710.00 = 21 c increase – hard to estimate elasticity of demand.
- B) $100,000/3,394 = $29.50 per assessment (result, lifts connection fee to $300 per assessment).

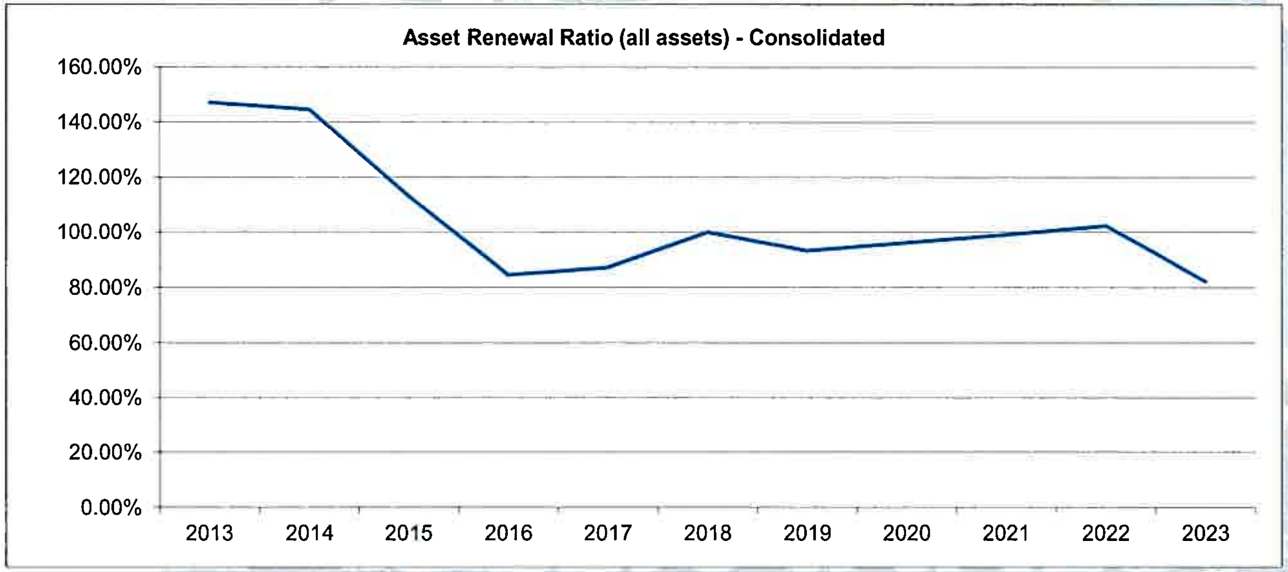
Scenario 2: SRV

- Unrestricted Current Ratio



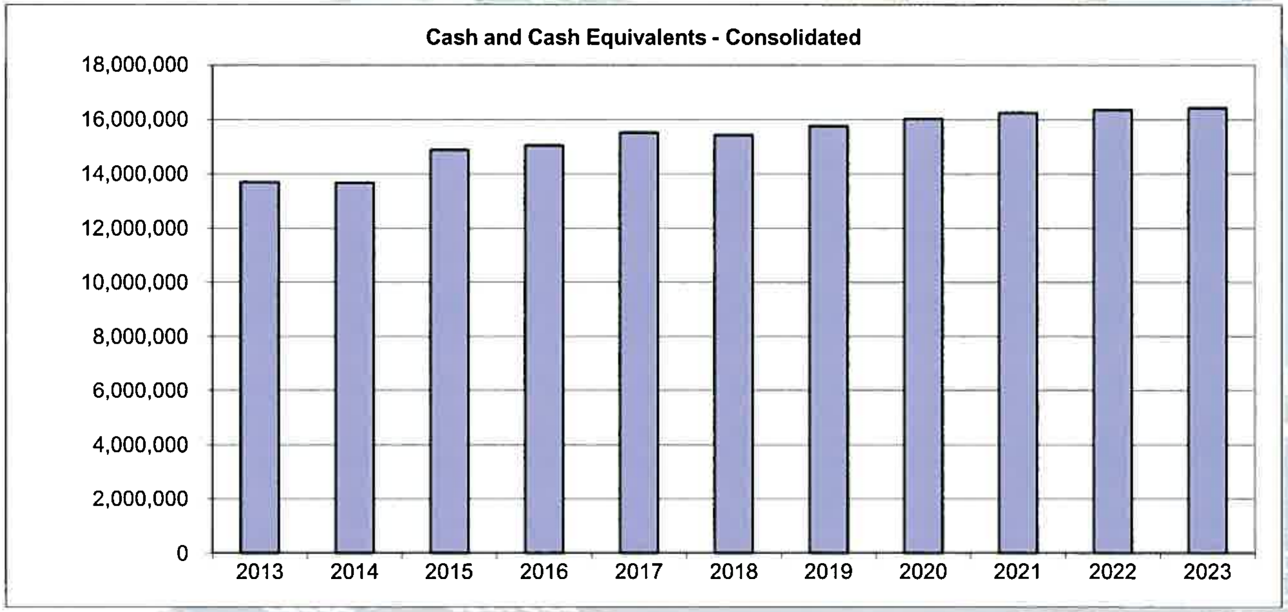
Scenario 2 – SRV

- Asset Renewal Ratio



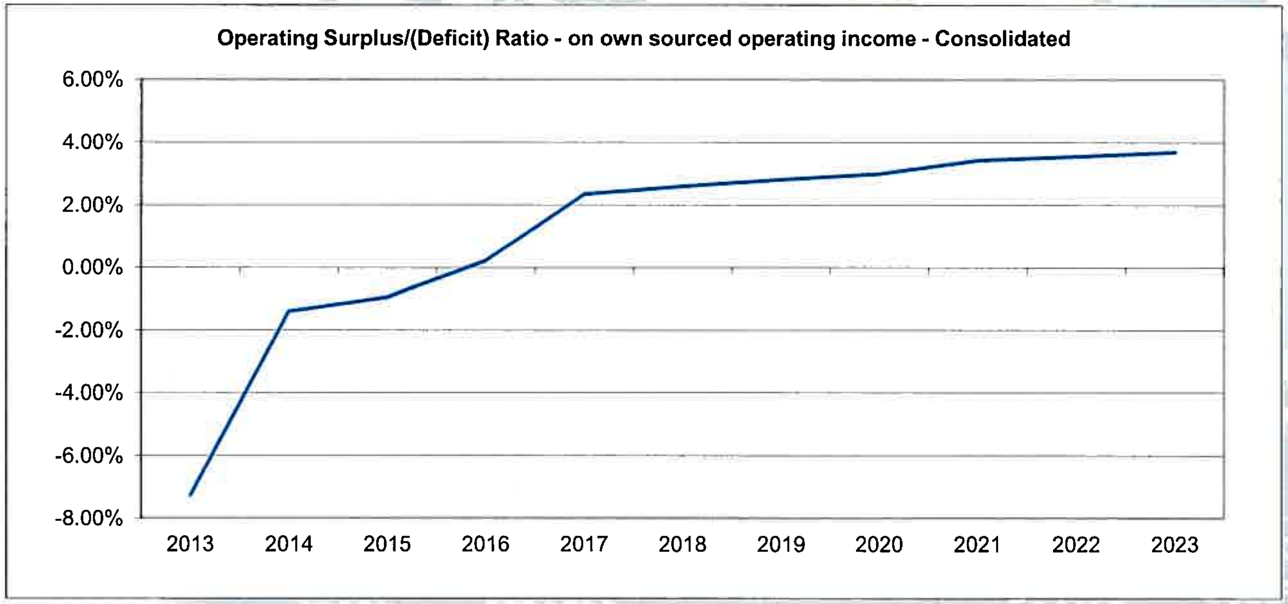
Scenario 2 – SRV

- Cash and Cash Equivalents



Scenario 2 – SRV

- Operating Surplus/(Deficit) Ratio



Scenario 2 – SRV

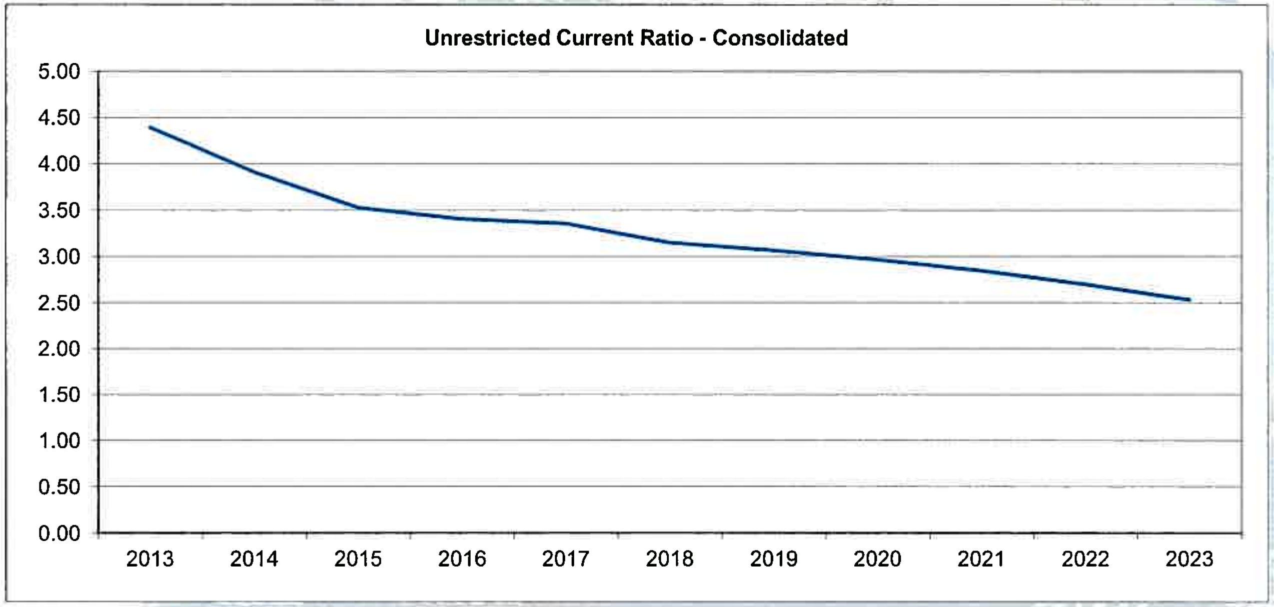
- Likely to achieve operating surplus within 3 years
- Suggests Council is funding its depreciation
- Insufficient funding to address infrastructure backlog
- Council could adopt this scenario but it would still require additional funding to address the identified infrastructure backlog of $29.5 million.

Applications to IPART

- 2013/14 IPART received 24 applications for SRV or minimum rate increases – all were successful
- 2012/13 IPART received 15 applications for SRV or minimum rate increases – all were successful
- 2011/12 IPART received 23 applications for SRV or minimum rate increases – 4 were declined, the remainder were approved either in part or in full.
- It is suggested that, it is only a matter of time before all councils are pushed into applying for a SRV.

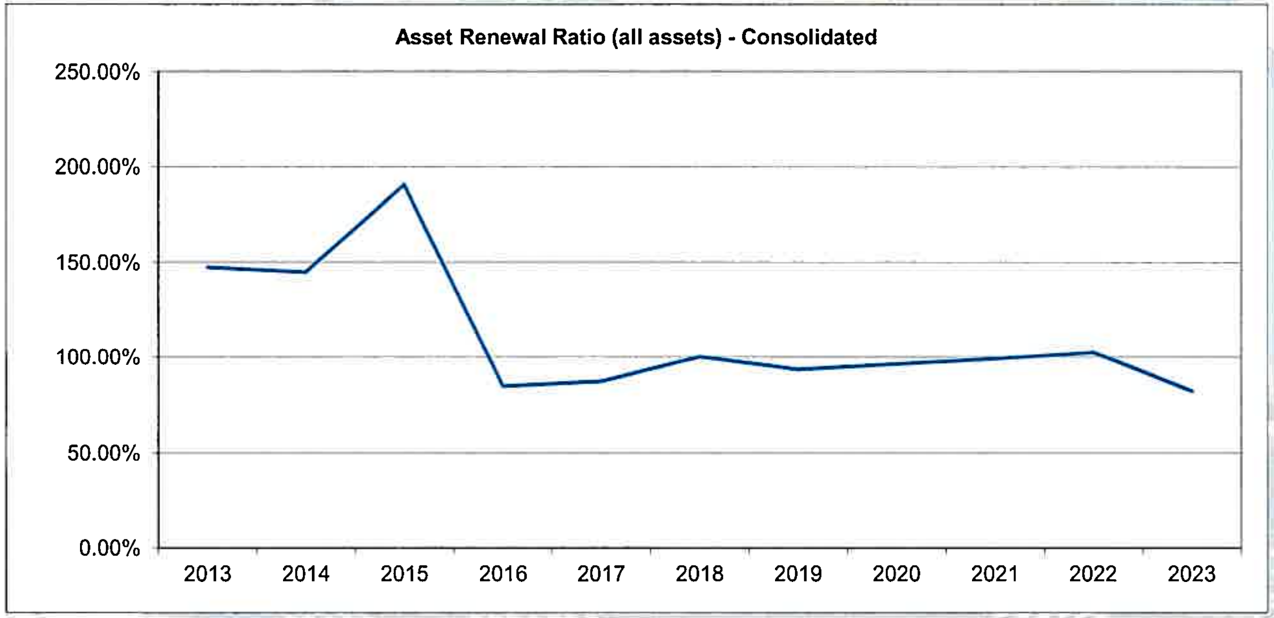
Scenario 3 – SRV and LIRS Loan

- Unrestricted Current Ratio



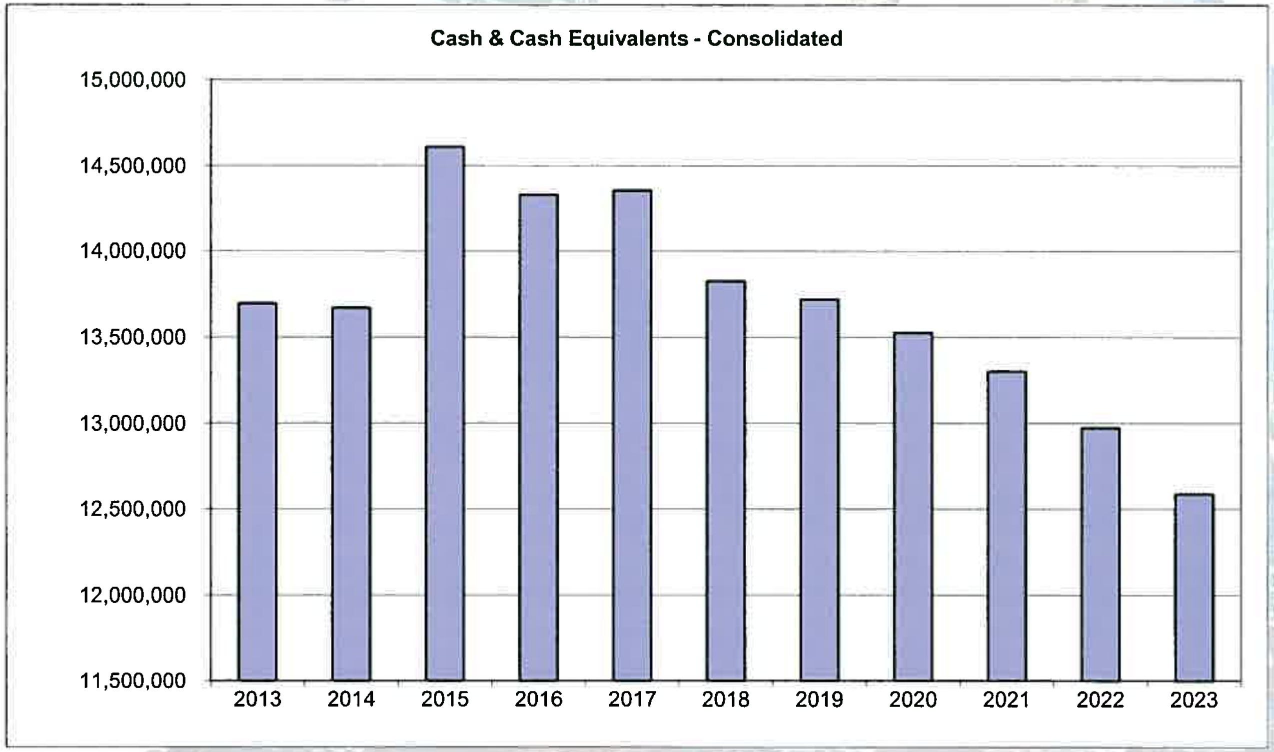
Scenario 3 – SRV and LIRS Loan

- Asset Renewal Ratio



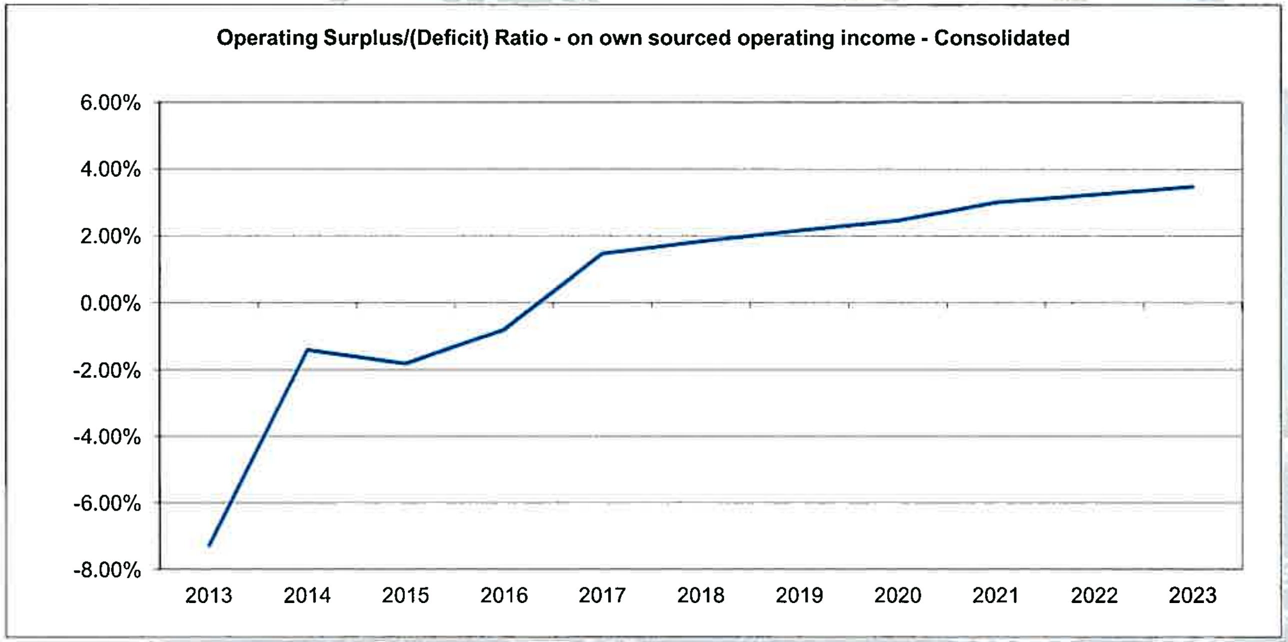
Scenario 3 – SRV and LIRS Loan

- Cash and Cash Equivalents



Scenario 3 – SRV and LIRS Loan

- Operating Surplus/(Deficit) Ratio



Scenario 3 – SRV and LIRS Loan

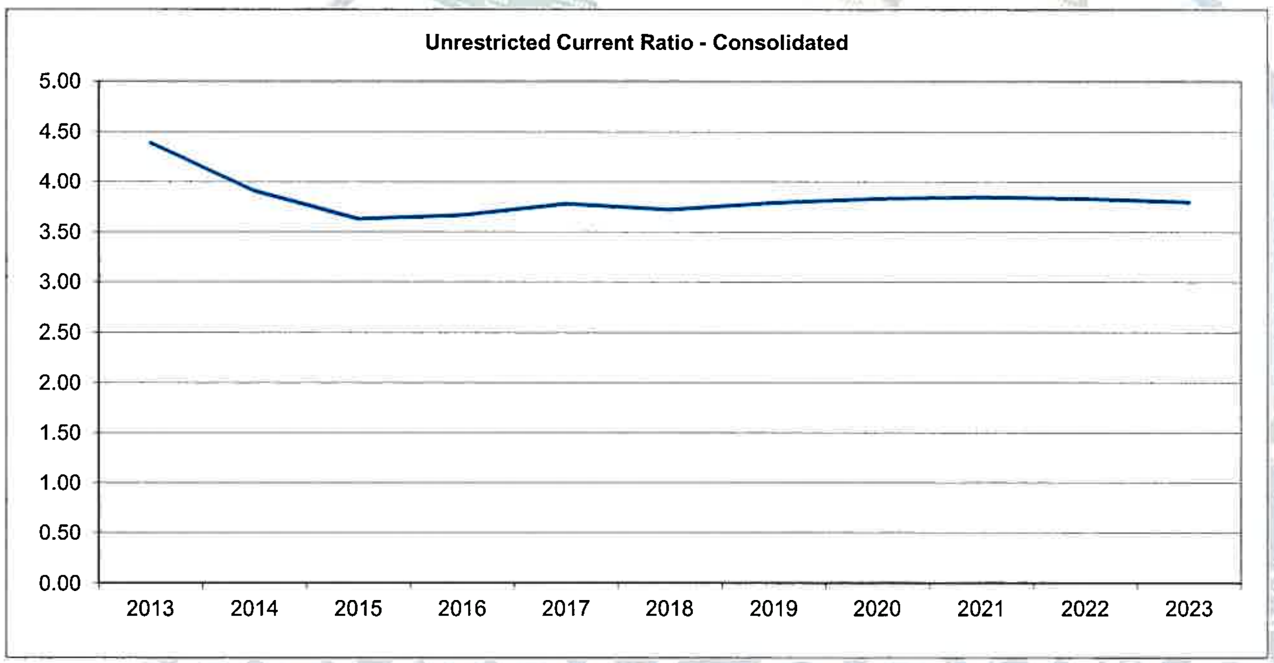
- Deteriorating cash position
- Interest rate subsidised at 3% would equate to around 2% - less than the CPI for roads and road infrastructure
- Likely to achieve operating surplus within 3 years
- Suggests Council is funding its depreciation
- Insufficient funding to address infrastructure backlog

Scenario 4 – SRV & Unsubsidised Loan

- This is similar to Scenario 3, but showing the results of Council being unsuccessful in obtaining a LIRS subsidy of 3%
- Slightly worse cash and operating position than that of Scenario 3
- Not necessary to consider this scenario unless Council is unsuccessful in securing a LIRS subsidy.

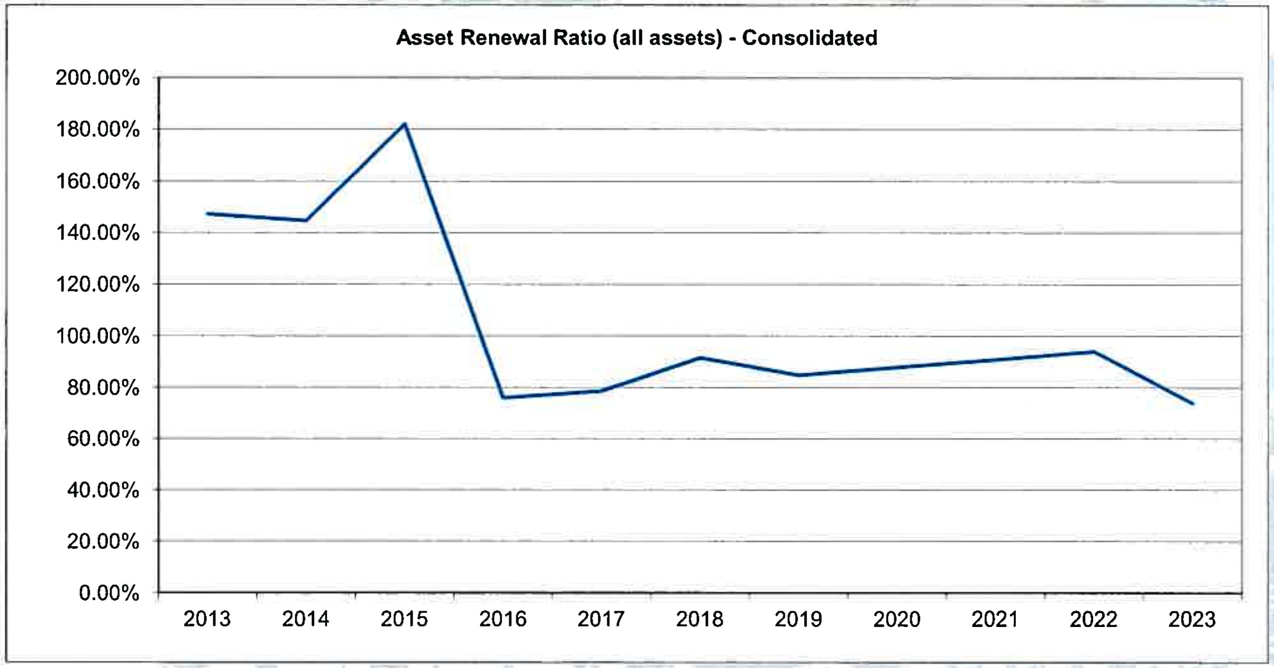
Scenario 5 – SRV, LIRS Loan & Reduced Capital Expenditure

- Unrestricted Current Ratio



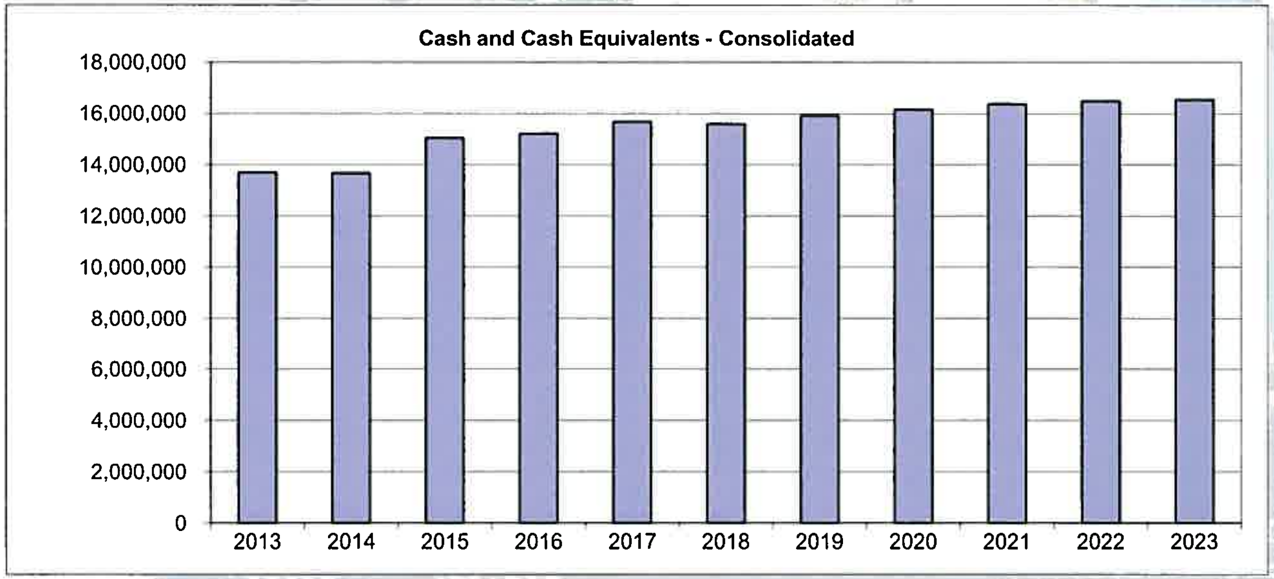
Scenario 5 – SRV, LIRS Loan & Reduced Capital Expenditure

- Asset Renewal Ratio



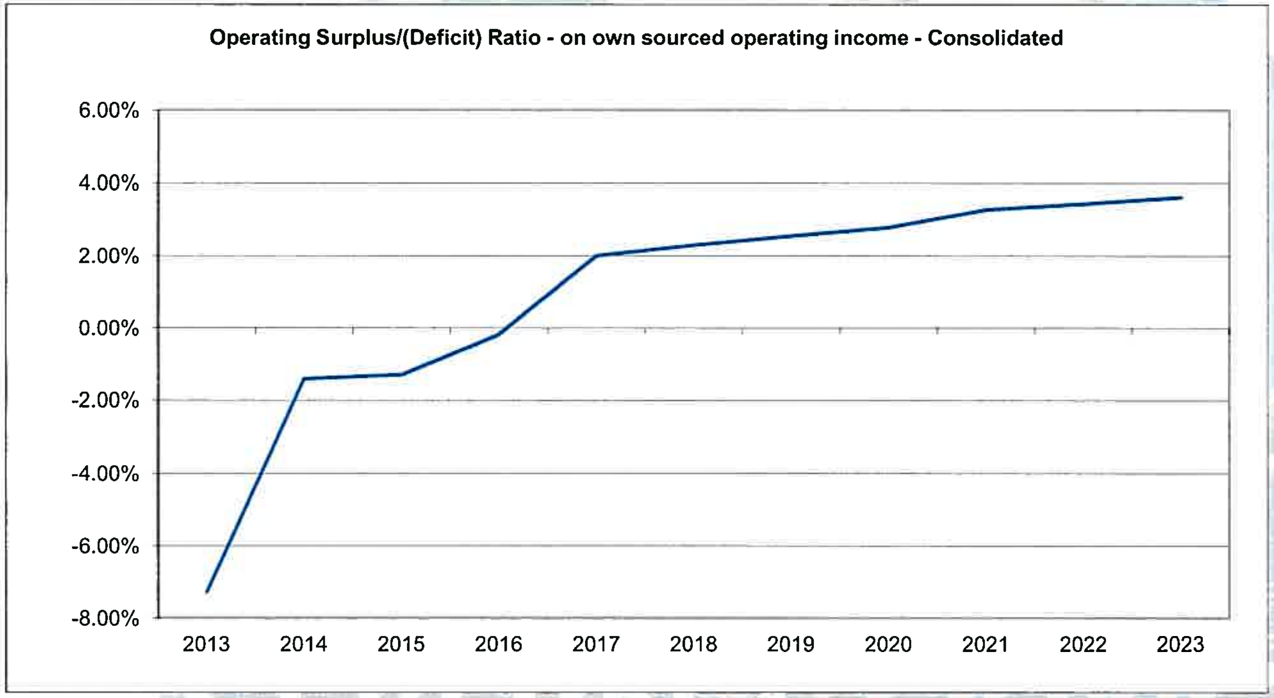
Scenario 5 – SRV, LIRS Loan & Reduced Capital Expenditure

- Cash and Cash Equivalents



Scenario 5 – SRV, LIRS Loan & Reduced Capital Expenditure

- Operating Surplus/(Deficit) Ratio



Scenario 5 – SRV, LIRS Loan & Reduced Capital Expenditure

- Stable cash position and satisfactory operating position
- Addresses a number of critical infrastructure projects
- Improvement on earlier scenarios apart from infrastructure renewal
- A strong scenario.

Conclusion

- Financially sustainable into the future
- TCORP focus on financial indicators (refer page 48)
  - Own Source Operating Revenue
- Focus on improving the renewal and maintenance of assets
- No longer expecting increased FAGs and R2R increases
- Community
- Where to from here?

Where to next

- Please read LTFP – Discussion Paper
- Please email me with any questions / queries
- Report to November Council Meeting
- Timeline going forward.