

LONG TERM FINANCIAL PLAN

10-years 2018 - 2028

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1. BACKGROUND

The Long Term Financial Plan (LTFP) is an important part of Council's Strategic Planning process. This tests the long-term community aspirations and goals against financial realities.

The purpose of this plan is generally not to provide specific detail about individual works or services. It is intended as a planning and decision making tool in order to ensure Council can deliver services to the community within a framework of financial sustainability.

Federation Council has prepared this Long Term Financial Plan (LTFP) as part of Integrated Planning and Reporting requirements. This document has helped to guide Council in relation to its future capacity to manage its assets together with community aspirations.

This process has considered the cost to properly manage Council's existing infrastructure and delivery of services to the community. It has considered the future aspirations of the community in relation to new and improved services and has provided a guide for Council in regard to its long term financial capacity.

[Core and Non-Core Services \(Not Exempt from Capital Expenditure Guidelines Issued Pursuant to Section 23a of the Local Government Act 1993\):](#)

Council has what can be called core and non-core services and one challenge for Councils, is the cost-shifting from the State and Federal Governments to Council for some existing services and no continuing funds allocated to Councils for new non-core services. Additionally, projects funded by Loan Funds, or by a reduction in Equity (unrestricted available cash held, required for unforeseen circumstances, eg disaster not covered by insurance) in areas not normally considered to be a core service area, have a significant restrictive impact on the base core services budget of Council (eg rates, roads and rubbish as was the original 'mantra' for any Council).

An indication of some of these non-core service areas undertaken to support a stronger community are as follows:

- Corowa Swimming Pool, (particularly if heated and staffed all year around) and other pools,
- Mulwala Industrial Subdivision,
- Howlong Industrial Subdivision (and associated Stormwater Drainage works) – may also be subject to Private-Public-Partnership provisions,
- Federation Saleyards Corowa,
- Federation Aerodrome Corowa,
- Caravan Parks (e.g. Ball Park Corowa) and Urana Caravan Park, and
- Service areas relating to Environmental, Youth, Aged, Disability, Health, Early and Seniors Education, Social, Arts and Culture, Tourism, Economic Development.

However, it is these types of services that make a community a place that residents and visitors want to live in, and it is these types of areas of service delivery that the community told Council it wants to also still focus on, in the Community Strategic Plan (CSP) consultation forums and surveys.

2. OVERVIEW

Federation Council is a regional Council with a low rate base that serves a growing area. Council has maintained very low general rate charges over many decades. This has been due to rate pegging, strong consideration towards the rural rate base and economic factors.

Some excellent achievements have been made the Council given limited rate revenue and the high level of infrastructure and service demands.

In February 2015, the NSW Government released a set of criteria which would measure the Council's ability to achieve 'Fit for the Future'. The criteria is based on the achievement of financial performance ratios.

For the 2018/2019 financial year, Federation Council has achieved only three of the seven improvement ratio targets set by the Office of Local Government.

Council will work with the General Manager to work on an Organisational Improvement Program focused on improving the long term sustainability of the Council. However, without significant additional sources of general funds revenue it is not expected that Federation Council will achieve additional Fit for the Future performance targets in the short, medium or long term period.

A number of appendices are considered attached to this document being the 10-year projected income and expenditure (appendix 2) and cash flow statements (appendix 3) – see General Manager's report item 5.8 to the 26 June 2018 Council Meeting.

3. OBJECTIVES

The objectives of the Federation Council LTFP are:

- Understand the cumulative effects of Council's asset management commitments and community aspirations.
- Identify the financial opportunities and threats confronting Council.
- Provide a basis for sound and strategic decision making.
- Ensure that Council's decision making processes are undertaken within a framework of financial sustainability.
- Meet the requirements of the Office of Local Government (OLG) Integrated Planning and Reporting (IP&R) framework.

4. THE LONG TERM FINANCIAL PLAN (LTFP) SENSITIVITIES/ASSUMPTIONS

The LTFP will be reviewed on an annual basis in conjunction with the preparation of revised Delivery Programs and Operating Plans from year to year. Additionally, Council is required to prepare a Long Term Financial Plan (LTFP) that provides calculation of a base case, a worst case and a, 'to be adopted', projected LTFP case (three scenarios).

In order to prepare the LTFP (10-years) it has been necessary to make a number of assumptions to allow long term expenditure and income to be estimated.

The following is an overview of key assumptions which have been taken in the preparation of the 'to be adopted' Operating, Delivery Program and Long Term Financial Plan (10-year):

In order to prepare the LTFP it has been necessary to make a number of assumptions to allow long term expenditure and income to be estimated.

The LTFP will be reviewed on an annual basis and in more detail every four years (three years in the case of the current Council term), in conjunction with the preparation of new Delivery Programs.

The following is an overview of key assumptions which have been in the preparation of the LTFP:

LEVELS OF SERVICE:

Existing levels of service and current asset maintenance standards are generally assumed to be satisfactory and have therefore been used as a baseline for the costing to financial projections.

STRATEGIC ASSET MODELLING:

This LTFP has been informed by strategic asset modelling which has been prepared in the form of "**Core**" **Asset Management Plans** in accordance with the requirements of the National Framework and [NSW Office of Local Government](#) mandates. It is prepared to meet minimum legislative and organisational requirements for sustainable service delivery and long term financial planning and reporting. Core Asset Management is a "top down" approach where analysis is applied at the "system" or "network" level.

COST INCREASE INDEX (CPI) APPLIED:

A CPI of 2.3% has been applied annually to Council's cost expenditure estimates.

CAPITAL WORKS PROJECTS - RENEWAL VS UPGRADE AND EXPANSION:

The preparation of the LTFP confirms the need for the reassessment of the condition of Council's Infrastructure Assets and this is underway. After this information is finalised Council will be able to review its split between Maintenance as against Renewal vs Upgrade and Expansion.

WORKFORCE LEVELS:

Workforce levels are assumed to remain at the current level although this detail is subject to review by September 2018 (being 12 months from the date of the last Council elections).

ROADS TO RECOVERY (RTR) FUNDING AND OWN SOURCE OF FUNDS EXPENDITURE (CURRENTLY \$1.975MIL /YEAR):

Council is required to maintain at least \$1.975 million expenditure on roads per year, funded from own source funds such as rates and charges, to meet the requirements of the RTR funding agreement.

This Federal Government RTR program provides Council with an average amount of around \$975k in funding, primarily for use on Council Local Roads and Streets. Whilst the Federal Government has maintained this much needed Program, the negative impact of the period of no indexation of the RTR or the Revenue Sharing Grants (also called Financial Assistance Grants or FAG) continues to severely reduce Council's ability to maintain

healthy Operating Surpluses going forward. The last period of no indexation of FAG funding cost Council over a \$1million going forward.

INFRASTRUCTURE BACKLOG IN ROADS AND BRIDGES (IN PARTICULAR):

The 30 June 2017 Financial Statements indicated that an infrastructure backlog of over \$10 million has been estimated for roads and at least 2-4 major bridges are undersized/ need replacement.

Grant funding will also continue to be heavily pursued into the future, including in the roads and other needed infrastructure areas.

REVENUE SENSITIVITIES:

Rate Income and Rate Pegging:

2.3% increase allowed annually on General Fund activities excluding waste (due to concerns around unknown likely increase in recycling costs).

The former Corowa Council was acknowledged as being one of the lowest rated Council in New South Wales. This level of rating supported the NSW Office of Local Government and Independent Pricing and Regulatory Tribunal (IPART) to allow the former Corowa Council to increase the rates income amount by 7% over the 4 years ending 2017/2018.

As part of Council's endeavour to continue to work towards satisfying all of the NSW Governments 'Fit for the Future' performance targets, a further special rate variation proposal is likely to be considered by Council commencing 1 July 2021 to more quickly achieve the requirements of 'Fit for the Future' whilst meeting the expectations of the community. The current 10-year base rates income projections has based on the 2.3% applicable for the 2018/19 year.

Currently extensive ongoing condition assessment and analysis of likely remaining lives of the significant asset areas of roads and streets, bridges, footpaths and kerb & gutter and stormwater drainage areas is being undertaken. This information will inform the requirements in regards to future rate income requirements and the need for NSW State Government infrastructure grant injection for roads and streets and in particular, bridges as well as the likely need for consideration of Special Rates for Stormwater Drainage improvements.

Water and Sewer Fees and Charges

A number of major upgrades in the Water and Sewerage Treatment Plants (Mulwala Water, Howlong and Corowa Sewerage) will be expected to be planned, designed and costed (and in some case commenced) over the period of this 10-year LTFP.

Pricing in the areas of Water & Sewer will therefore be expected to be more closely reviewed in future years as better information becomes available.

The current 10-year base rates income projections has based on the 2.3% applicable for the 2018/19 year.

Fees and Charges

Federation Council apply a range of fees and charges for services provided to the community. These are reviewed annually and set as part of Council's Revenue Policy. Regulatory fees have been increased in accordance with legislation.

Council discretionary fees have been reviewed in the past and will be done again in the future, based on the cost for Council to provide respective services and benchmarking comparisons being made. While additional revenue is now forecast by the indexing of fees & charges, fees and charges account for a small portion of Council's total revenue - if these assumptions are proved to be incorrect, it is not expected to have a significant impact on LTFP.

Interest Income from Investments

Future investment earnings have been conservatively estimated based on current cash levels and future expected earnings of 2% to 3%.

Grants Provided for Operational Purposes

This source of revenue includes Financial Assistance Grants (FAGS) from the Australian Government. This is a major source of Councils revenue and is a scheme which has existed for decades.

The amount of the FAGS grant provided to Council each year has varied significantly over the past 10 years with variations ranging from no increments to an increase equivalent to CPI. Recent past no increments of FAGS has had a significant impact Council's LTFP and contributed to less ability for Federation Council to be sustainable.

Currently, Federation Council is also somewhat reliant on the Federal Government to maintain the Roads to Recovery Program for an average amount of up to \$1million. This amount has also been noted as operational revenues though it can only be utilised for Capital Works associated with transport services.

Capital Grants

A number of grants have been assumed within the LTFP in order to make projects viable. Grants are a competitive process; therefore no guarantee can be made as to Council's success.

EXPENDITURE SENSITIVITIES:

Expenditure - Maintenance Costs

Maintenance budgets have been reviewed by respective management areas, and scrutinised through the review of project budgets and quotes. Inflationary pressures on maintenance budgets have generally been kept to around a 2.3% increase over the LTFP. While it is acknowledged that inflationary pressures may exceed this in the median to long term - it is expected this will be constrained through increased capital renewal expenditure which will in time reduce maintenance pressures.

A provision for Extra Maintenance and Repair (M&R) Expenditure has been also been made of \$50k in 2021/2022 over the estimated 2020/2021 amount and \$20k per year thereafter. This is to partly provide for the expected M&R costs flowing from additional/new assets from merger and other Government Grant funded expenditures.

Expenditure - Wages Increase

Award increase of 2.5% applied annually to wages as per the Organisation Staff Structure currently in place.

However, it is critical that the high level of contract and other staff currently required to complete merger and other grant funded projects allocated to Federation Council, do not impact on other Operating and Capital Works completion rates and costs. For example all project staff time needs to be allocated direct to projects and not to erode operating budgets for core services.

Expenditure – Non Capital (Employee Benefits and On Costs)

Employee costs include salaries, wages, superannuation, workers compensation, staff training, allowances and employee leave entitlements. Increases in employee costs have been estimated at 2.3% for the period of the LTFP.

Expenditure – Non Capital (Depreciation and Amortisation)

Federation Council will continue to undertake a revaluation program on all Council assets as prescribed by the Office of Local Government.

Depreciation costs used in the LTFP relate to existing assets and any proposed capital works. The results of future asset revaluations may result in depreciation estimates being revised a number of times.

Increased by \$500k in 2021/2022 over the estimated 2020/2021 amount and an additional \$20k per year thereafter. This is to reflect additional/new assets from merger and other assets to be built over the coming years from additional Government Grant funded expenditures.

Depreciation expenses have been derived using asset modelling so amounts vary according to projected costs and allowance for capital works (including upgrade and expansion expenditure) over the course of the financial plan.

Expenditure - Materials and Contracts

Local government is characterised by relatively high levels of materials and contract expenses due to the large number of assets held, constructed and maintained by Council. This places Council under considerable pressure when rising materials and construction costs occur.

Generally, material and contracts costs will be constrained to annual increases of 2% to 3% for the term of the LTFP to account inflationary pressures. Irrespective of the known inflationary pressures. Council will need to constrain this expenditure through reviews of service levels with the community over the coming years.

Expenditure – Insurance Costs

One of the key challenges for Council in the future will be the resources required to effectively manage Council's risk management and public liability requirements. Insurance costs are expected to continue to rise into the future. The LTFP has allowed for a 2.3% increase in insurance costs. Ongoing reviews will need to be undertaken to continually review insurance needs. Insurance costs include policies such as property, public liability, professional indemnity and vehicles.

Some insurance savings have been estimated based on a reduction in coverage such as the removal of schemes such as accumulated sick leave or an increase in property excess amounts. Decisions to change these policies have been made based on analysis and the expectation that this will in the long term reduce Council's overall costs, however there is no guarantee of this as the future is not known and therefore this may expose Council to increased levels of risk.

Expenditure - Energy

The increased cost of energy are expected to have a continued significant financial impact on Council and its community. Council's current electricity bill is in the order of \$700,400 to \$800,000 so Council staff continually review ways to hold costs in this area.

Significant work has been undertaken by Council to manage these costs in the recent past. This has included the tendering of all of Council's electricity requirements which resulted in new electricity supply contracts being established for longer periods than the normal 12 months. Additionally, both former Councils completed Solar Projects - with solar electricity now being generated on over 16 Council sites.

Expenditure - Borrowing Costs and Loan Funding Interest Rates

Interest rates for future borrowings have been estimated at 3-4% fixed per annum. All loans terms will be 10 years or more.

3.9% is applied to loans for over 15 years in length, and 3.38% for 15 years and less.

Expenditure - Loan Borrowing Funding and Repayment

The General Fund budget for the next 4 years (and subsequent years) has been based on considerable loan borrowing, which on top of interest, obviously needs to be repaid. This loan funding, (of which the swimming

pool loan proposed of \$4 million is the largest), adds an estimated total additional amount of \$1.42 million in interest (and around \$4 million in interest over the 40 year life of the loan), and \$2.068 million in principal payments. Being a total amount of \$3.488 million over and above existing loan principal and interest repayments over four years.

While the Swimming Pool is a required replacement/upgrade asset after ending a useful life of over 50 plus years, the Mulwala and Howlong Industrial Subdivisions (non-core activities), are both requiring loan funding, and for different reasons, are some of the financial challenges that this current Council has inherited.

The Mulwala subdivision was required to be re-scoped and costed, mainly in relation to under estimated drainage issues, hence the large increase in total costs. The more recent Howlong subdivision was an opportunistic and somewhat rushed application, to attract a Federal Government grant that had limited planning. Whilst delivering much needed additional industrial land over time, and strengthening existing critical businesses to the economy, it still places a medium financial challenge to the Council whilst revenues from lot sales are being realised.

Whilst in the longer term overall community economic benefits may flow, this does not add any substantial direct improvement to Council's operating positions, other than the increase of some rates for these lots, especially given the relatively low number of lots, and the high production costs versus the sales markets.

Merger Fund Activities

As provided by the NSW State Government additional funds have been received of \$15 million, (being \$5 million provided for merger implementation and \$10 million for stronger communities of which \$1 million being applied as specific Community Organisation project contributions to a maximum of \$50,000 in each case). This amount is to be expended by 31 Dec 2019.

EXPENDITURE – CAPITAL WORKS PROGRAM

Council's Capital Works Program will largely be governed by the outcomes of major asset strategies as against Council's funds available for the works proposed whether from Grants, Rates, Loans, Reserves or otherwise. The proposed Capital works program is aimed at delivering on a number of community priorities as expressed in Council's Community Strategic Plan but firstly is focussed on the renewal of existing assets.

It is apparent from the LTFP that one of the key strategies Council will need to apply in order to remain financially sustainable is asset consolidation, not expansion. However, with the recent extensive NSW State Government Grants Program this has not always been able to be achieved.

The Capital Works Program is assumed to already include CPI cost increases.

Melbourne Street, Mulwala proposed future Improvement:

No capacity exists within the Long Term Financial Plan to fund the Melbourne Street Mulwala (State Road) continued improvement over funds allocated by Roads and Maritime Services (RMS) ie the associated and beautification/upgrade works that adjoin the State Road are generally not funded by the NSW Roads and Maritime Services (RMS). So that burden ends up a problem for Federation Council.

The draft budget has not included Melbourne Street Mulwala unless near full grant funding can be attained.

Storm Water Drainage Expenditure in Future Years:

Following completion of existing program of replacement Stormwater Drainage works, a Stormwater Drainage Special Charge, on lands benefitting from Stormwater Drainage infrastructure, to fund future new Stormwater Capital Works Programs, is recommended. This will likely affect all the larger towns and villages.

Economic Development related Projects

Council will be provided with information to assist in the management of these non-core Economic Development project areas (see below). Much of information will be under “Commercial in Confidence” restrictions to ensure the interests of the community will be protected from inappropriate use of the information or influence over the decision making in these areas, not necessarily supported by objective evidence:

- Mulwala Industrial Subdivision,
- Howlong Industrial Subdivision (and associated Stormwater Drainage works),
- Corowa Sanger Street Minor Redevelopment,
- Melbourne Street, Mulwala associated works to the road,
- Federation Saleyards located at Corowa,
- Federation Aerodrome located at Corowa,
- Foreshore improvements (all areas)
- Ballpark Caravan Park located at Corowa,
- Urana Caravan Park, and
- More major income producing General Fund leases/licences and other land sales opportunities.

A number of these Economic Development projects are expanded below including the pricing of Council lands for sale.

Future Land Sales and Loan Funding Issues:

Following the completion of the Mulwala and Howlong Industrial Subdivisions, Council will be required to consider final pricing of the lands that may mean no or little subsidisation to \$ amounts per m². These amounts may be in the order of \$12.50 to over \$15/m² on the land made available for sale.

Currently, the LTFP has provided for a conservative number/ amount of land sales for the years 2020/2021 through to 2024/25 (of \$3.65million).

If the sale prices set for on blocks Mulwala, Howlong and the existing Corowa Industrial Subdivisions were in the order of \$55/m², \$40/m² and \$40/m² respectively, (and actually achieved), the estimated value of \$9.5million would go a long way towards addressing loan repayments and backlog expenditure, rather than the Federation Community absorbing a shortfall or subsidisation of the projects.

However, if insufficient sales occur in the short to medium term, including for the Mulwala Industrial Land, the pricing may need to be revisited and may need to be further subsidised. It is important to consider that whilst neighbouring Councils may be selling land more cheaply, there is also other considerations as to why businesses purchase land in certain areas, and Council should not be held to ransom or panic.

Therefore, based on this Council should set prices more based on the return required to ensure the financial sustainability of the Council and only adjust those prices over time, if required. For example, if adjustments for additional land pricing subsidisation is required, Council will need to consider corresponding cuts in other service areas to maintain a financial position (including the levels of unrestricted cash based reserves), that is satisfactory.

Internal Loans may be used instead of Externally Funded Loans - Internal Loans may contribute loan funding for the Mulwala and Howlong Industrial Subdivision Shortfalls to allow more flexibility in repayment if sales occur more promptly than forecast.

The loans for both Howlong and the Mulwala Industrial Lands have been calculated using current NSW Treasury Corporation (TCorp) interest rate estimates over 10 years. This loan funding will assist to ensure there is sufficient General Fund cash flow to weather against slow sales. Whilst not expected, this could occur and should be considered for conservative purposes, particularly given the potential for the release of competing land in Yarrowonga and Jindera.

There is some capacity in the short term, if sales occur more promptly than anticipated, to repay the principal amounts, and this flexibility would be assisted by taking loans, one from Water Fund and one from Sewer Fund. The proposed large Capital Works requirements that would use the reserve funds from both these Business units are not likely to be required, for at least 4 years in the Water Fund case, and up to 6-8 years for the Sewer Fund case.

The 'to be adopted' LTFP Projected Case, makes provision for Council to account for a limited amount of pressure (from slow land sales) to subsidise the sale price per m², at least in the short to middle term, but this comes at the cost of tight Operating Result and limited future Capital rehabilitation or renewal works, without significant additional roads, bridges and other core infrastructure government grants being received.

Corowa Sanger Street Minor Redevelopment (\$1.5mil originally up to \$1.8mil assumed)

Provision was originally made in the former Corowa Council Delivery Budget for an un-scoped Sanger Street, Corowa upgrade in the order of \$600,000 2016/2017, \$600,000 2017/2018 (both equity funded) and a further \$600,000 in 2017/2018 (loan funded), a total of \$1.8 million. However, in the compilation of the first Administrator Delivery Plan Budget, the 2016/2017 allocation was not spent and not allocated to reserves (not rolled over/not carried forward).

The 2017/2018 3rd Qtr Budget Review indicated that of the \$600,000 allocated, an amount of \$575,000 will be available for rollover to 2018/2019. At this time the current draft Delivery Program 2018/2019 – 2020/2021 no provision has been considered for any funding of this project above the rollover \$575,000 amount until after 2021/2022 for a further \$900,000 (not \$1.2 million).

There was no detailed rationale including design that would allow Council to have even arrived at those figures (e.g. \$1.8 million). Moreover, no current capacity exists in the LTFP for this to occur, due to other projects that are considered more developed and committed, that leads to the committed financial situation going forward, i.e. loans for Corowa Pool, Mulwala and Howlong Industrial subdivisions.

Notwithstanding this has now created community expectations that need to be managed, and some need exists for footpath improvements and other beautification works and mobility and safety works.

It is considered that there are many other retail and other activation pursuits that could be achieved for far less \$ and far greater benefit. There remains a number of key, under-utilised and low yielding buildings, including Council owned assets that could contribute greatly to an improved Sanger Street. There are also other potentially vibrant retail spaces that would benefit from for example, partnerships with Council to gain more space, and further new business opportunities that could utilise Council's buildings.

Therefore, this alternate approach being considered would achieve a more vibrant and active street environment. The Economic Development unit will work closely with the Business Chamber and other stakeholders to pursue these aspects, and irrespective of funding constraints a Sanger Street working party, or Business Chamber subgroup is recommended to be formed to ensure Council and the stakeholders remain aligned.

Corowa Saleyards

\$50k has been allocated to design and cost the priorities currently agreed, and there is \$500,000 tentatively funded in two years' time. No budget has been provided now or in the three future years to review or construct concept plans or costings for roofing or other works other than the \$500,000 allocated.

In any case given it is a Business Undertaking, to avoid problems with costing and pricing and properly ensure a reasonable Business Case exists, a realistic cost benefit analysis is required for any proposed works.

For Council's information, in the past the former Corowa Council had heavily subsidised the operation of the business from other areas of Council, including waste treatment upgrades of over \$1 million to be repaid as the performance of operations continued to occur as it has done at present. This is considered to have masked the financial performance of the business, and potentially more work is required there in any case, in the area of

storage or treatment and re-use, to better manage the effluent including wash down run off from the site. This is critical in wet seasons.

[Corowa Aerodrome \(\\$250k part staged works planned 2019/2020\)](#)

Currently, Council is working to attract a fully funded aircraft service provider that takes the cost burden for the supply of an aerodrome off Council's books. If this doesn't come to fruition Council may be faced with limited options but to continue to reduce service outcomes and maintenance costs on a deteriorating asset. \$250,000 is recommended in the 2019/2020 budget for works to at least hold the asset runways and a further \$1million is probably required in the short to medium term, (some rehabilitation and resealing etc at least).

However, for 2018/2019 an allocation of \$10k has been made to facilitate some cost recovery from every landing or touch and go that occurs at the aerodrome. Additionally, an amount of \$50k has been provided to undertake a Geo-Technical analysis to better inform recent Aerodrome analysis reports. There is no provision for any works as part of any possible decision on the Qantas Flight School or any other new development options. Grant funding or over third party investment would be required for these types of proposals to go ahead.

[Ballpark Redevelopment after Corowa Pool Rehabilitation completed](#)

\$1 mil has been allocated from proposed loan funds in 2021/2022 as has been the case for other major capital works. It is also proposed that grant funding will continue to be pursued in the future.

[More major income producing General Fund leases/licences and other land sales opportunities.](#)

The Economic Development area of Council is working at identifying higher value opportunities for incomes to be derived for unneeded operating Council Land and lands that might be leased or licenced to third parties.

THE LONG TERM FINANCIAL PLAN (LTFP) 'TO BE ADOPTED' PROJECTED CASE DRAFT BUDGET 2018/2019 TO 2027/2028 CONCERNS AND ISSUES

Appendices in support of the 'to be adopted' Projected Case LTFP:

[The 'to be adopted' Projected Case LTFP Estimated Results - General Fund Operating Surplus \(-\) – refer appendix 2:](#)

2018/19 '000	2019/20 '000	2020/21 '000	2021/22 '000	2022/23 '000	2023/24 '000	2024/25 '000	2025/26 '000	2026/27 '000	2027/28 '000
-\$732	-\$751	-\$756	-\$305	-\$662	-\$976	-\$1,235	-\$1,324	-\$1,520	-\$1,592

These amounts are currently \$500k to \$2.5million too low to probable fund Staff Organisation Structure and to recognise that part of the RMS Block Grant (\$1million and the Roads to Recovery Funds \$1,000million to be expended on Capital Works, (though can be shown as Operating Income as they have been). Likewise, additional Operating Surpluses can mean a greater allocation to Capital Works backlog.

[The 'to be adopted' Projected Case LTFP Estimated Results - General Fund Nett All Movements Operating and Capital Surplus \(-\)/Deficit:](#)

2018/19 '000	2019/20 '000	2020/21 '000	2021/22 '000	2022/23 '000	2023/24 '000	2024/25 '000	2025/26 '000	2026/27 '000	2027/28 '000
\$353	\$134	-\$870	-\$260	-\$187	-\$241	-\$222	\$686	\$542	\$521

Over and above the shortfall of desired Operating Surpluses in the previous item these balances should be greater at least \$1million (-) to ensure Council has Unrestricted Cash & Cash Equivalent to weather unexpected events.

The 'to be adopted' Projected Case LTFP Estimated Results - General Fund Level of Expenditure on Core Infrastructure Limited in Coming Years

The Loan Interest and Principal Repayments over previous years has been low with the former Corowa having a small number of General Fund loans and Urana none. However, with limited increases in Operating Income the proposed loan funding of the Capital Works in relation to the Swimming Pool, Industrial Estates and related Storm Water Drainage is of particular concern.

[The 'to be adopted' Projected Case LTFP Estimated Results - Fund Unrestricted \(Cash & Cash Equivalents\) Reserves Balance:](#)

The unrestricted Reserves balance (unrestricted equity to cater for financial/unbudgeted shocks such as an uninsured damage claims or storm damage not declared a natural disaster, etc), for a Council the size of Federation Council, is considered to be kept at, at least \$1.3 million (to \$2 million) as at the end of each year.

For an indication of the impact on the bottom line and the amount of unrestricted cash backed General Fund reserves, refer to the Appendix 3 – Cash Flows Statement 2017/2018 to 2027/2028. Currently, the Long Term Financial Plan Cash Flows estimates that in years 2019/2020 and 2027/2028 the Unrestricted Cash and Cash Equivalents for General Fund drops below \$1.3 million and therefore will need to be addressed within the coming year.

Refer to the Appendix 4 – Reserves Internal and External (3 years being 2018/2019 to 2020/2021)

[The 'to be adopted' Projected Case LTFP Estimated Results – Service reviews](#)

Service reviews are to be undertaken, and are funded as part of the Merger grant funded projects in a number of areas, and these are yet to be undertaken. Whilst these are critical in terms of effectiveness and functionality,

and for areas such as staff and customer satisfaction, they are not expected to identify any significant savings, given the base levels both Councils were operating at pre-merger, and the obvious need in some areas to improve. For example the areas in relation to Procurement, Risk, Property and Communications were given little formal emphasis. The only way significant savings might occur would be if Council were undertaking functions that cost a lot and that these could be dis-continued and outsourced more efficiently, such as Aged Care.

The 'to be adopted' Projected Case LTFP Estimated Results –

Project and Contract Staff Cost Blowouts.

Concerns exist for the high level of contract and other staff required to complete merger and other grant funded projects allocated to Federation Council. In particular, it is problematic to be able to book all the Project Manager time and other costs to such projects, as these staff can be drawn away from their core projects because of the collegiate work team environment ie team meetings, corporate training and other matters that arise not provided for in specific type grant funding.

The Merger and State Government Willingness to Fund Community Based Projects

The State Government recent package of Grants for Community Based Sporting and other Community Infrastructure, though embraced with open arms, contributes to the creation of an expectation/impression that Federation Council doesn't have any other funding issues to deal with. Additionally, expectations that services both internal and external should be increased, though warranted, funding needs to follow these expectations.

Productivity and Efficiency Targets:

The General Manager has indicated that this will be of particular focus for the coming 2018/2019 year.

Special Rate Variation (SRV) consideration likely necessary for commencement by 2020/2021:

The challenges facing the Long Term Financial Plan when allowing for large Loan Funding amounts such as for the Corowa Swimming Pool, impacts the ability of Council to address normal asset infrastructure rehabilitation and maintenance work aimed at reducing the infrastructure backlog.

In the absence of potential additional revenue sourced from improved flows from the State and Federal Governments, such as those actions proposed from the recommendations from the Independent Review into Councils, as part of the reform process, including an improved rating ability for city Councils to rate high-rise properties, and the subsequent reallocation from city to country of the Federal Government assistance grants. Council should consider the impact of large loan-funded investments in projects such as the Industrial Estates and Corowa Swimming Pool. As these combined with required increase staffing, adversely the short to medium term operating result issues facing Council. If Council wishes to continue current staffing and service levels, (recommended), a Special Rate Variation will be likely required to be pursued to provide the required funds to continue to be sustainable in the longer term. Whilst the Government continues to promise further Capital Expenditure funding, such as from Snowy Hydro II, this does not go anywhere towards the issue of the operational costs of a Council versus the limited ability to raise own source revenue.

Service reviews are to be undertaken, and are funded as part of the Merger grant, and these are yet to be undertaken. Whilst these are critical in terms of effectiveness and functionality, and for areas such as staff and customer satisfaction, they are not expected to identify any significant savings, given the levels both Councils were operating at pre-merger, and the obvious need in some areas to improve. For example, Procurement, Risk, Property and Communications. The only way significant savings would be expected would be if Council were undertaking functions that cost a lot, and could be dis-continued and outsourced more efficiently, such as Aged Care. This is not the case.

6. METHODS OF MONITORING KEY FINANCIAL PERFORMANCE (KPI'S)

A critical component of the LTFP is the ability to monitor the financial performance of Federation Council within the parameters of the plan. To achieve this, Council will closely monitor the financial performance of outcomes of the plan in accordance with the requirements of Fit for the Future performance measures..

Key Performance Indicators which will be reported on include:

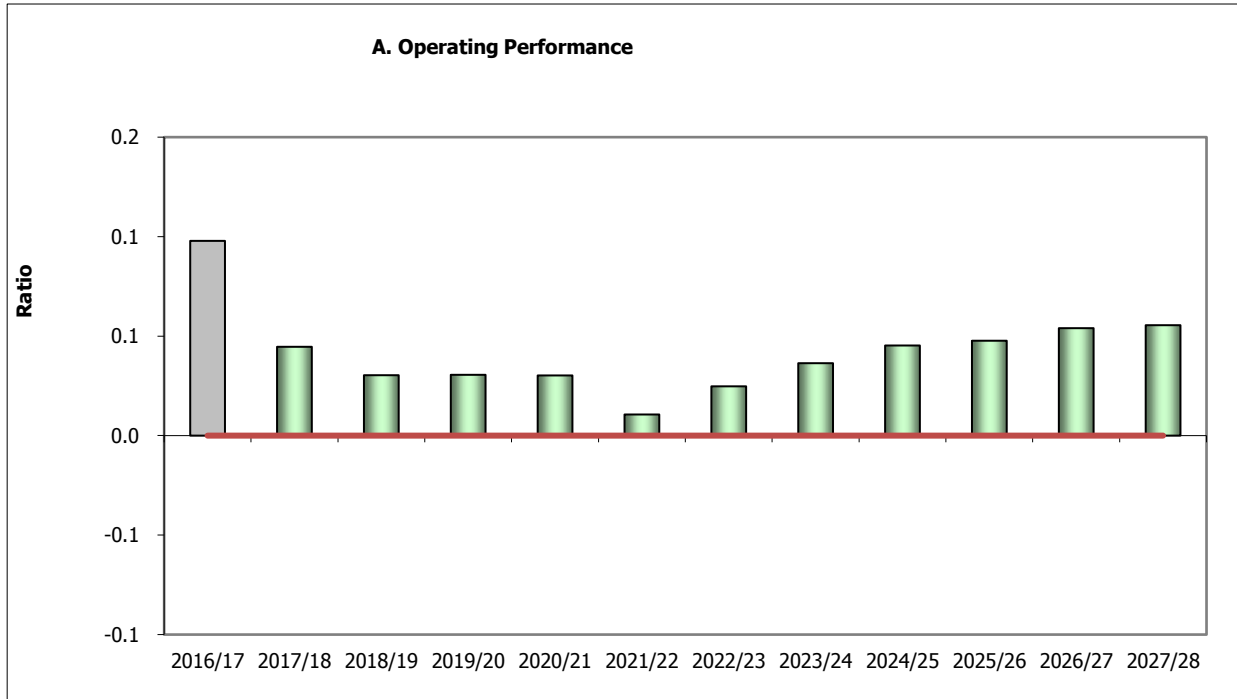
- A) Operating Performance Ratio
- B) Own Source Revenue
- C) Building and Infrastructure Asset Renewal
- D) Infrastructure Backlog
- E) Asset Maintenance Result
- F) Debt Service
- G) Real Operating Expenditure per Capita

Council will review the LTFP each year as part of the development of Council's annual Operational Plan. The review will include an assessment of the previous year's performance in terms of the accuracy of the projections made in the LTFP compared to the actual results. Evaluation will include reviewing and amending estimates and scenarios where long-term goals are not being achieved or where changes have affected set goals and strategies. Assumptions will also be revisited to improve the accuracy of the plan over time.

'FIT FOR THE FUTURE' PERFORMANCE RATIOS

A) Operating Performance Ratio

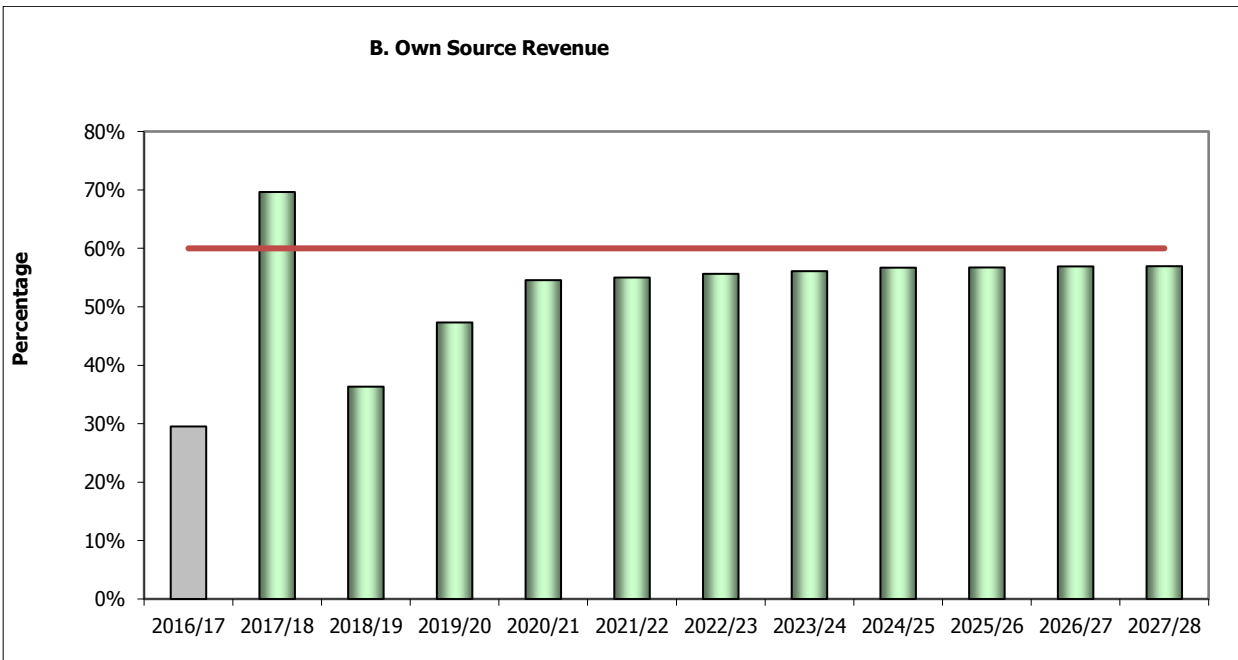
Operating Revenue (excl Capital Grants & Contributions) *minus* Operating Expenses *over* Operating Revenue (excl Capital Grants & Contributions)



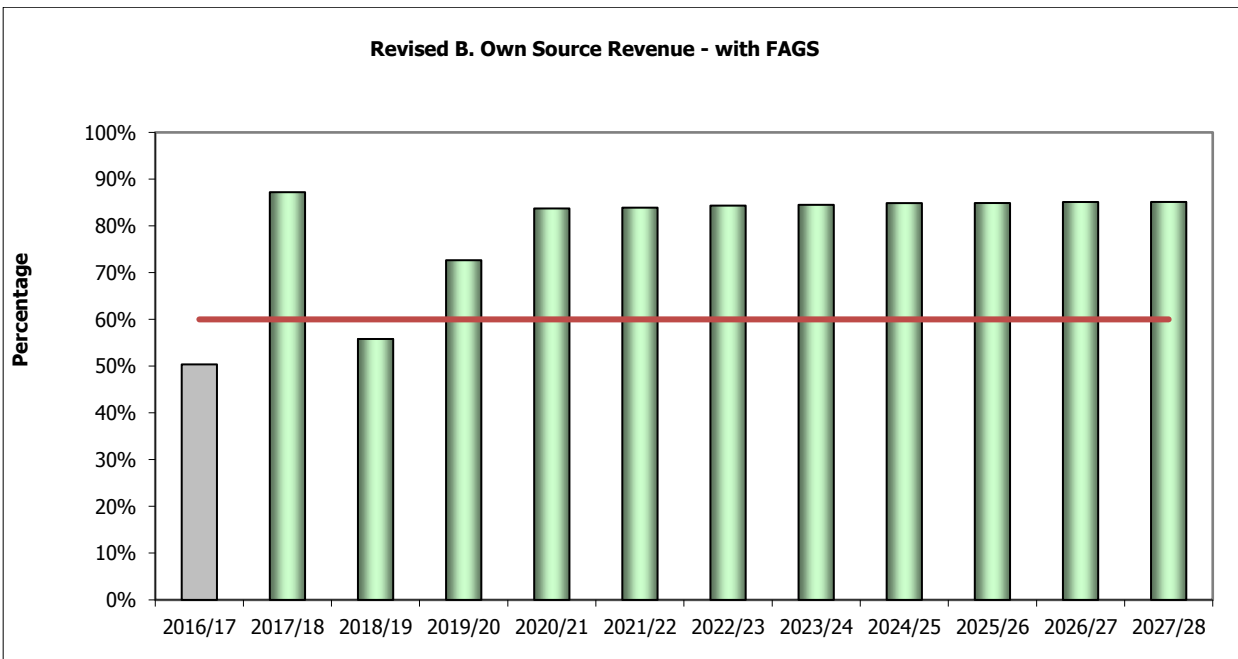
The Benchmark performance target is greater or equal to break-even over a 3 year period.

B) Own Source Revenue

Total Continuing operating revenue *minus* all grants & contributions *over* Total Continuing operating revenue inclusive of Capital Grant

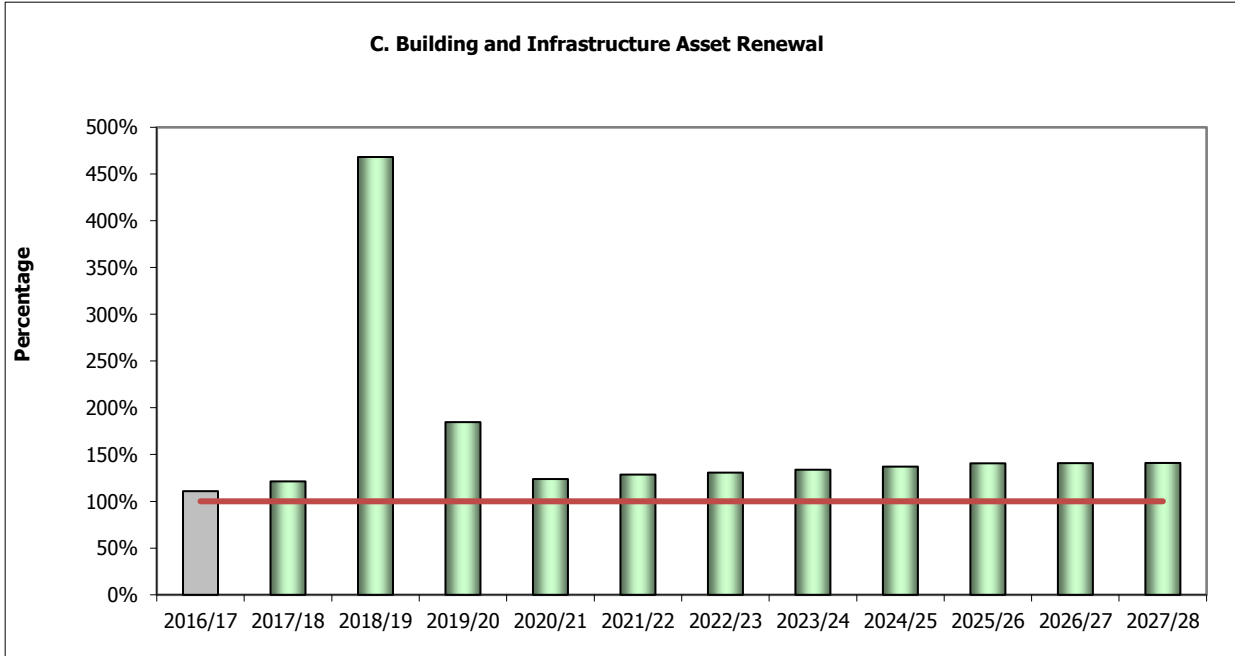


The benchmark performance target is greater than 60% average over a 3 year period.



C) Building and Infrastructure Asset Renewal Ratio

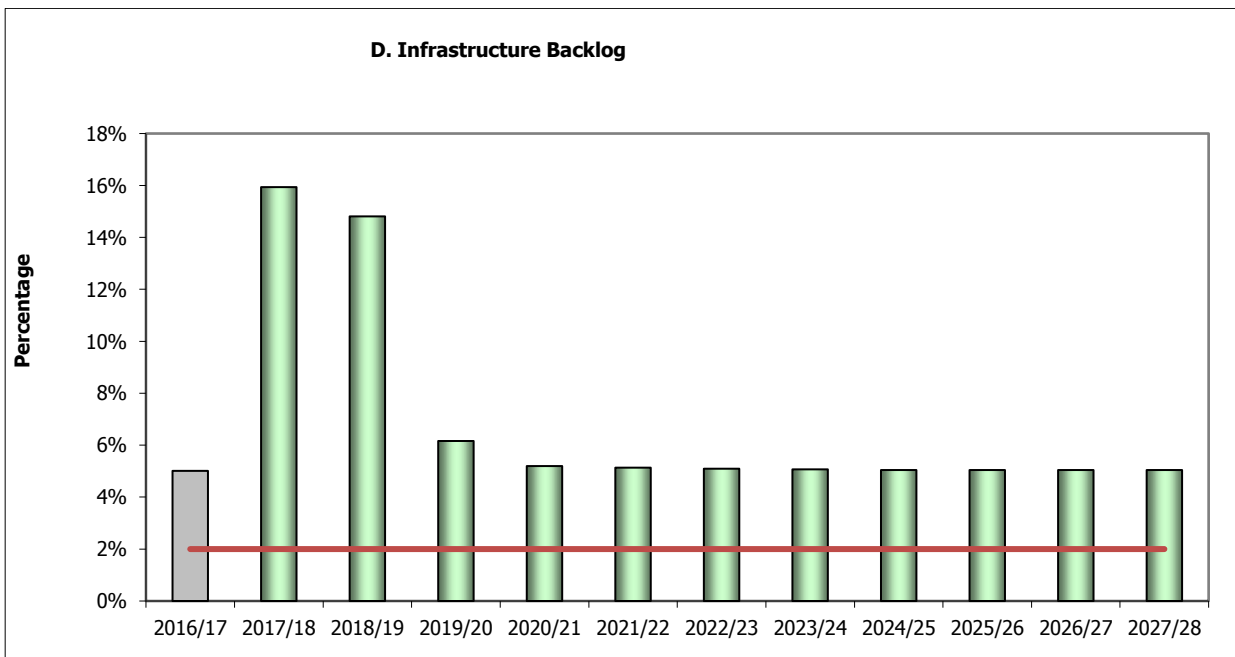
Asset renewals (building & infrastructure) over Depreciation, amortisation & impairment (building & infrastructure).



The benchmark performance target is greater than 100% average over a 3 year period.

D) Infrastructure Backlog Ratio

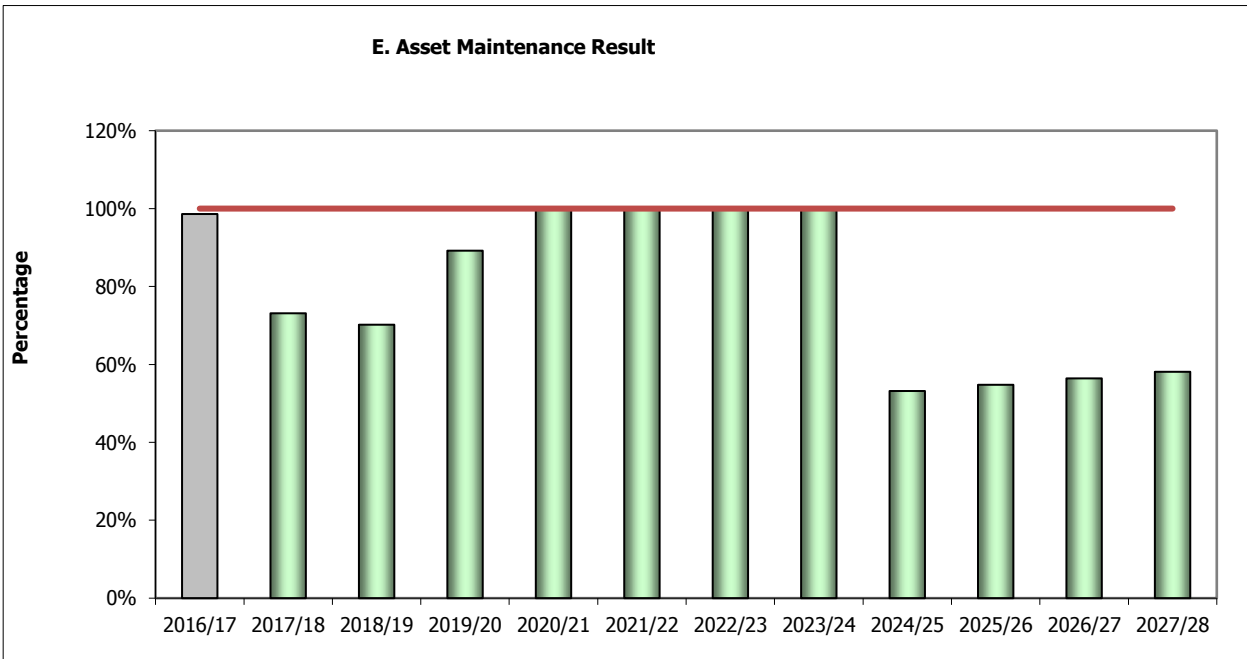
Estimated cost to bring assets to a satisfactory condition over Total WDV of infrastructure, building, other structures & land improvements



The benchmark is less than 2%. Council does not achieve this ratio within the LTFP.

E) Asset Maintenance Result Ratio

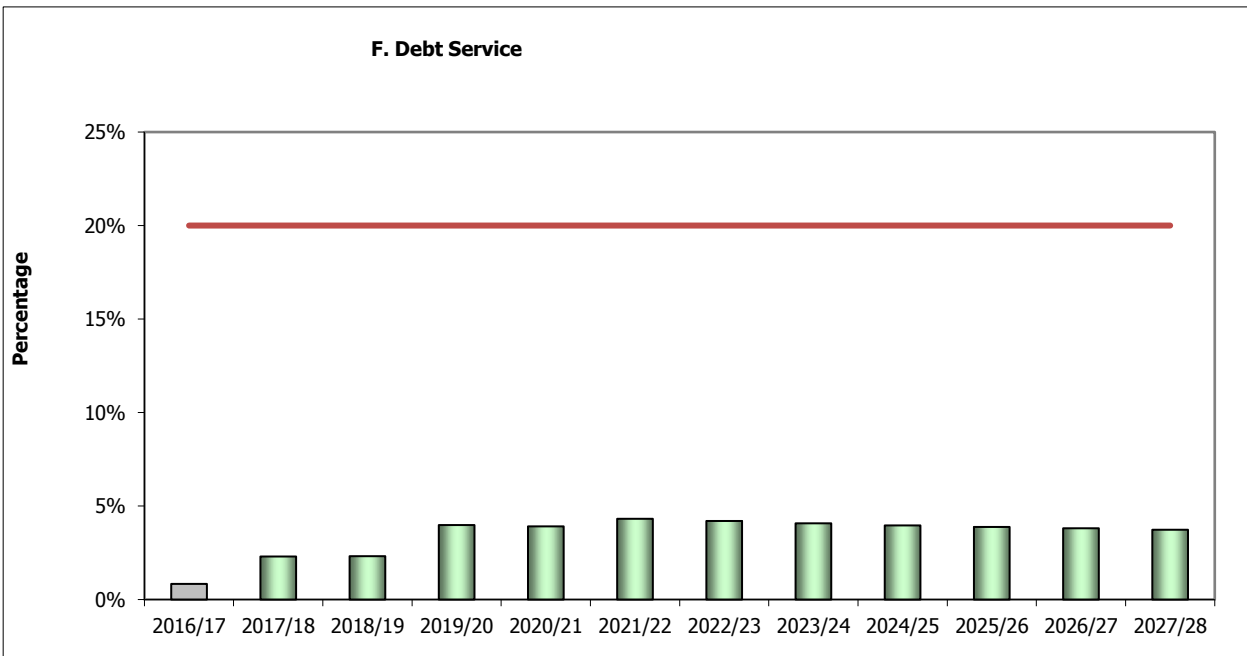
Actual Asset Maintenance over Required Asset Maintenance



The benchmark is greater than 100% average over a 3 year period.

F) Debt Service Ratio

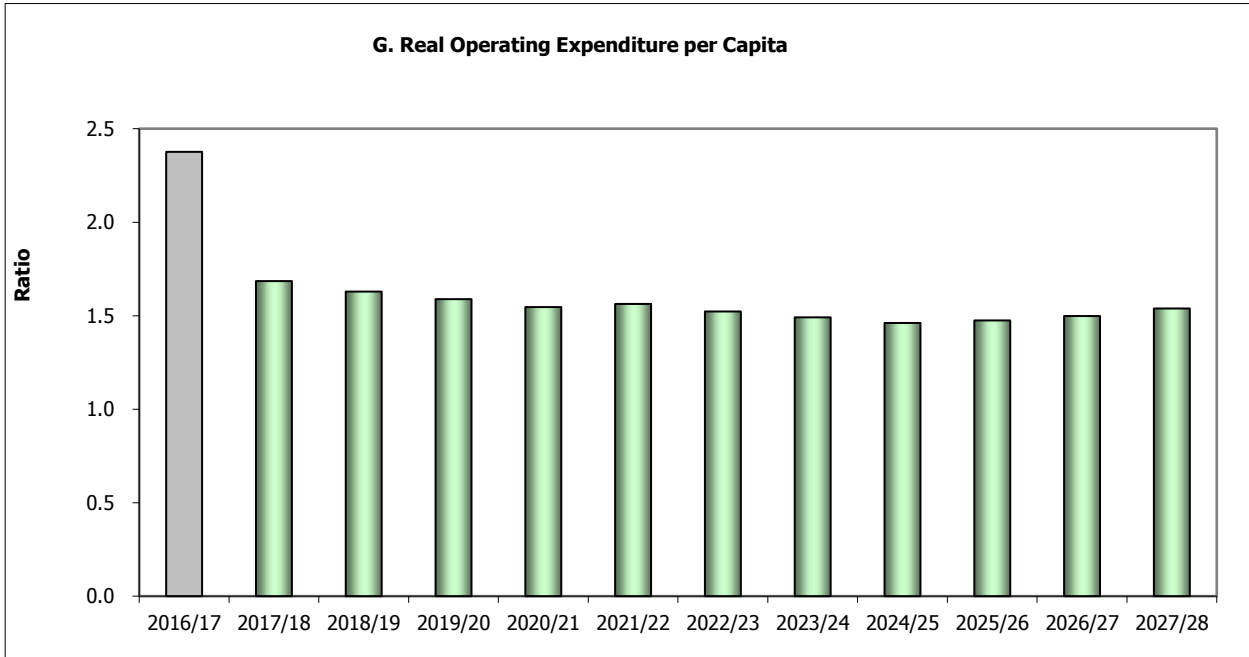
Cost of debt service (interest expenses & principal repayments) over Total continuing operating revenue (excluding capital grants & contrib.).



The benchmark is greater than 0 and less than or equal to 20%.

G) Real Operating Expenditure per Capita ratio

Real Operating Expenditure over Population



The benchmark is a decreasing Real Operating Expenditure per capita over time.

7. IMPROVEMENT OF THE LONG TERM FINANCIAL PLAN (LTFP)

The LTFP normally presents 3 options for Council's consideration being one that provides calculation of a base case, a worst case and a 'to be adopted' projected LTFP case (three scenarios).

Within this LTFP only a 'to be adopted' projected LTFP case. The reason for this is that there are a number of major Council projects that are currently being decided upon (Corowa Pool, Industrial Estates, etc) that will have huge consequences for Federation Council's financial ability in the short to medium term to allow proper focus on Council's more 'core' activities.

Therefore, Council has been presented with a 'to be adopted' projected LTFP case that is very conservative and as the decision making process occurs will be updated to reflect the changes, at least at the times of Quarterly Budget Reviews.

8. CONCLUSION AND NEXT STEPS

The LTFP is an invaluable planning and decision making tool that should help guide the future direction of Council. Council will carry out a complete review of the LTFP every 4 years (3 years for the current Council) in line with the review of the Community Strategic Plan. This will take place up to nine months after each Local Government election. The Resourcing Strategy, including the LTFP, will be reviewed and updated during this process.

Performance outcomes identified within the LTFP will be regularly monitored by Council and the senior management team by way of the quarterly review of the Operational Plan and Delivery Program.

Prudent financial management is critical if Council is to remain sustainable. An improvement program has been established by the Council and it is important that a strong focus is placed on the achievement of these actions. Ongoing improvements are expected in Council's financial performance. Council expects to achieve some additional 'Fit for the Future' improvement targets set by the NSW State Government through the implementation of its improvement proposal. However, Council has a large infrastructure backlog which has accumulated over decades. The LTFP together with asset models don't anticipate that Council will achieve funding levels before 2027/2028 in order to adequately fund and 'catch up' with infrastructure renewal needs.

Next Steps

Council's 10-year Long Term Financial Plan indicates a number of budget items that mean that Council will need to pursue additional funding sources to achieve a financially sustainable plan for the future in addition to the General Manager leading an Organisational Improvement Program.

Council needs to pursue other funding that can be allocated to services such as projects where loan funding has been considered necessary (Corowa Pool), core services such as for roads infrastructure backlog, bridges backlog and new stormwater drainage works being the main examples.

Specifically, Council will need to:

- Seek more grants that are not specifically linked to new assets,
- Consider the possibility of future Special Rate Increases,
- Consider new Special Rates for new assets over and above efforts to examine current practices to maximise Council's productivity and performance in the delivery of existing services, and
- Avoid where possible, providing new services unless supporting income streams are also available.