



“FINANCING OUR DIRECTION”

2019 - 2029

LONG TERM FINANCIAL PLAN

June 2019

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LONG TERM FINANCIAL PLAN

1. Introduction

This Long Term Financial Plan was revised by Northern Midlands Council on 24th of June 2019. It has been prepared to assist determine and illustrate Council's capacity to optimally meet our community's affordable service level preferences and the associated financial implications. The key objective of the Long Term Financial Plan (LTFP) is the achievement of financial sustainability in the medium to long term whilst achieving Council's strategic objectives.

The LTFP provides a mechanism for Council to consider the financial impact of its decisions and strategic direction on Council's financial sustainability.

2. Financial Sustainability

Financial sustainability means to Northern Midlands Council a long term financial position where planned long term infrastructure levels and provision of services to required standards are met without rate shocks or disruptive cuts to levels of service.

Local Government infrastructure assets are typically long-lived but as they age they require additional maintenance to preserve preferred minimum service levels. At a point of time it is necessary and cost effective that they be replaced. The LTFP incorporates financial projections for future asset maintenance and renewal consistent with that identified as cost-effectively warranted in Council's Asset Management Plans for major infrastructure classes.

Many of Northern Midlands Council's services are asset based and the assets have long lives. Council has \$372m in gross assets (replacement cost) including physical assets of roads, bridges, buildings, stormwater infrastructure, plant and equipment etc.

In 2019-20 Council has a total budgeted operating revenue of \$20.9m including rate revenue of \$11.2m, fees and charges revenue of \$1.9m, and a total budgeted operating expenditure of \$18.7m, including wages costs of \$5.6m (69 full time equivalent employees), materials & services of \$5.3m, and depreciation of \$5.4m. Council's underlying result in 2019-20 is an expected surplus of \$187,000.

It is important for Council to adequately fund its asset management to ensure assets achieve their expected service standards, however Council also need to weigh up the continuing higher expectations and pressures to increase service levels from its community (population 13,300) while at the same time achieve sound long term financial management.

3. Financial Strategy

Northern Midlands Council's financial strategy is to achieve its affordable service level objectives while also maintaining, or where necessary equitably improving its long term financial sustainability.

Council has embarked on a strategy to improve its ongoing financial sustainability. The level of operating revenue generated by Council in past years has been less than its operating expenses. The LTFP projects approximately a balanced operating position moving forward.

Key measures proposed to help achieve this are as follows:

- Financial parameters to fund ongoing operational expenditure by annual ongoing income where possible
- New services and increased service levels to be funded from new income
- Use or implement user pay principle where possible
- Forecasted flow of TasWater dividend revenue
- Minimise reliance on Interest revenue
- Continued commitment for Roads to Recovery grant funding until 2024
- Disposing of some Council land that is surplus to needs.

4. Strategic Planning

Following election of the new Council in 2018 the Strategic Plan 2017-2027 will be reviewed and new statements and targets may be set for what the municipal area will be like if that vision is achieved.

The current Strategic Plan states that Council will '*provide practical, viable, sustainable financial management policies and procedures*', and '*ensure that assets are planned, designed, developed, constructed and maintained to meet service, safety, and efficiency standards acceptable to the community*'.

The LTFP accommodates where possible the key priority projects and service levels identified in Council's current Strategic Plan 2017-2027.

5. Long Term Financial Plan

The LTFP provides for Council to consider financial impacts of its decisions on Council's long term sustainability. It aims to communicate

- the importance of a stable and predictable rate revenue stream,
- maintaining and improving levels of service,
- impacts of new initiatives on long term financial planning.

Inflation has not been taken into account in estimation of future values all forecasted figures are in real (current day year 1) values.

6. Assumptions

In preparation of the LTFP the model assumptions include:

- Service delivery maintained at current levels
- Asset Renewal requirements are based on Council's Asset Management Plans for major assets classes, and depreciation levels for minor classes
- Current debt level maintained (excluding State Stimulus funding)
- Receivables maintained at current averaged levels
- Liabilities maintained at current averaged levels
- Capital grants are not included in operating surplus
- Asset revaluations are not included as they are usually adjusted directly to equity
- Rate income increases are forecasted at 1 percent per annum for ten years over the current level (plus cost indexation) without other identified operating savings, plus 0.75 percent for development. Rate income includes General Rate, Fire Levy Rate, Waste Management Charges, & Riverworks Special Rates, and associated interest and penalty.
- Fees & Charges maintained at current levels
- Operating Grants are forecast to be ongoing and at current levels
- Dividends are forecast to be received from TasWater based on the targeted distributions as approved by the General Meeting with a one third reduction in 2018.
- Interest revenue is based on 2.0 percent of the average cash balance
- Capital income – Roads to Recovery grant funding is committed until 2024 and assumed to be ongoing
- Employees numbers maintained at current levels
- Salaries & Wages & Oncosts at negotiated Enterprise Bargaining Agreement 2019 provisions, and maintained at constant levels thereafter
- Materials & Services maintained at current levels
- Energy costs maintained at current levels
- Depreciation maintained in accordance with Asset Management Plans plus allowance for new/upgraded assets
- Other expenditure includes special committee costs, councilor allowances, sundry reimbursements and contributions at current levels.

7. New Initiatives

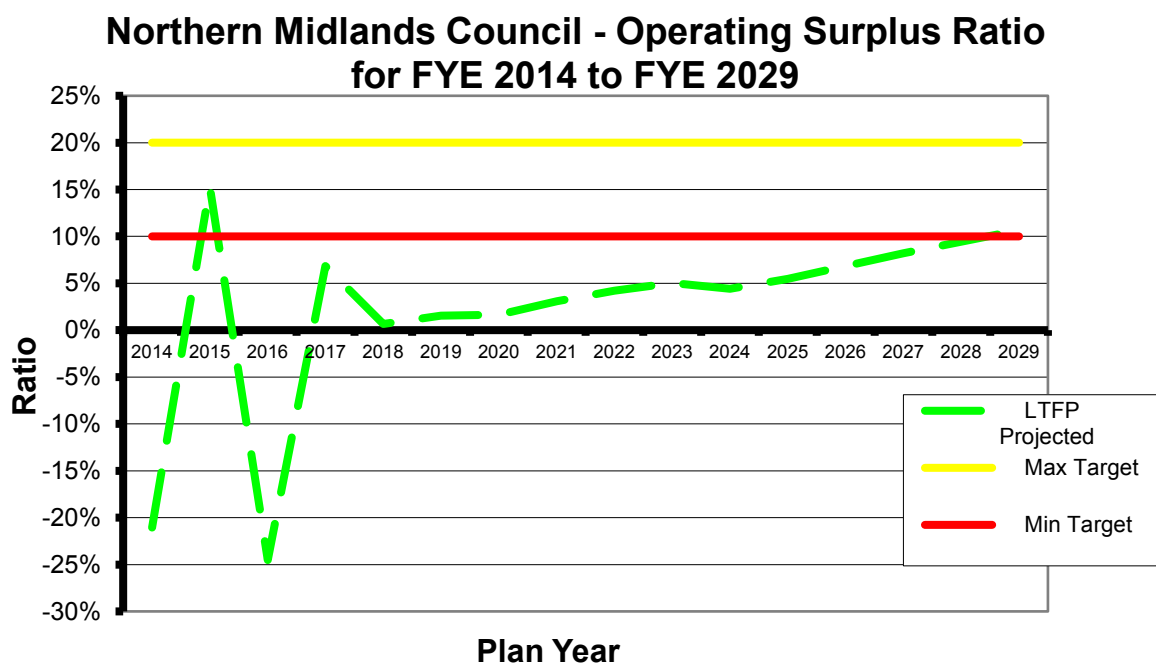
The LTFP has been based on current best estimate forecasts of existing services and service levels, as well as expected property development growth of 0.75 percent.

New initiatives included are:

- Major road and timber bridge renewal programs.
- Extension of the stormwater, and footpath infrastructure.
- Building Stimulus Program.

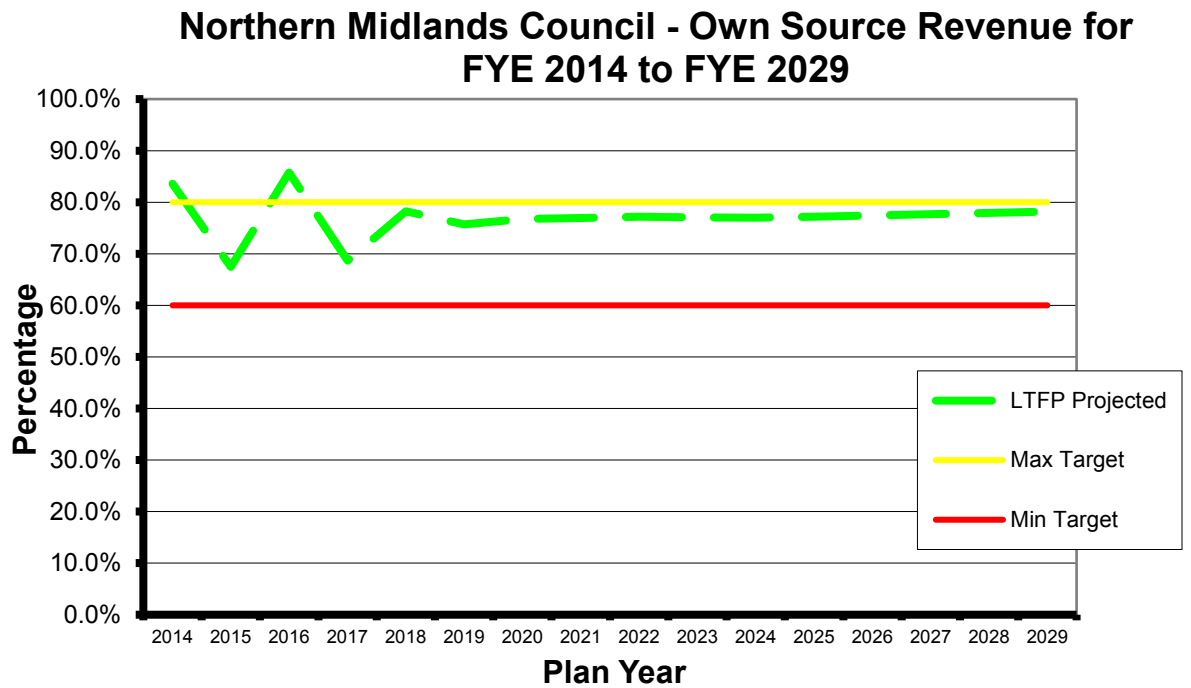
8. Financial Sustainability Measures

The Framework for *Long Term Financial and Asset Management Planning* Report for all Tasmanian Councils, recommended that the following nine financial sustainability measures be used as an indication to long-term financial sustainability:

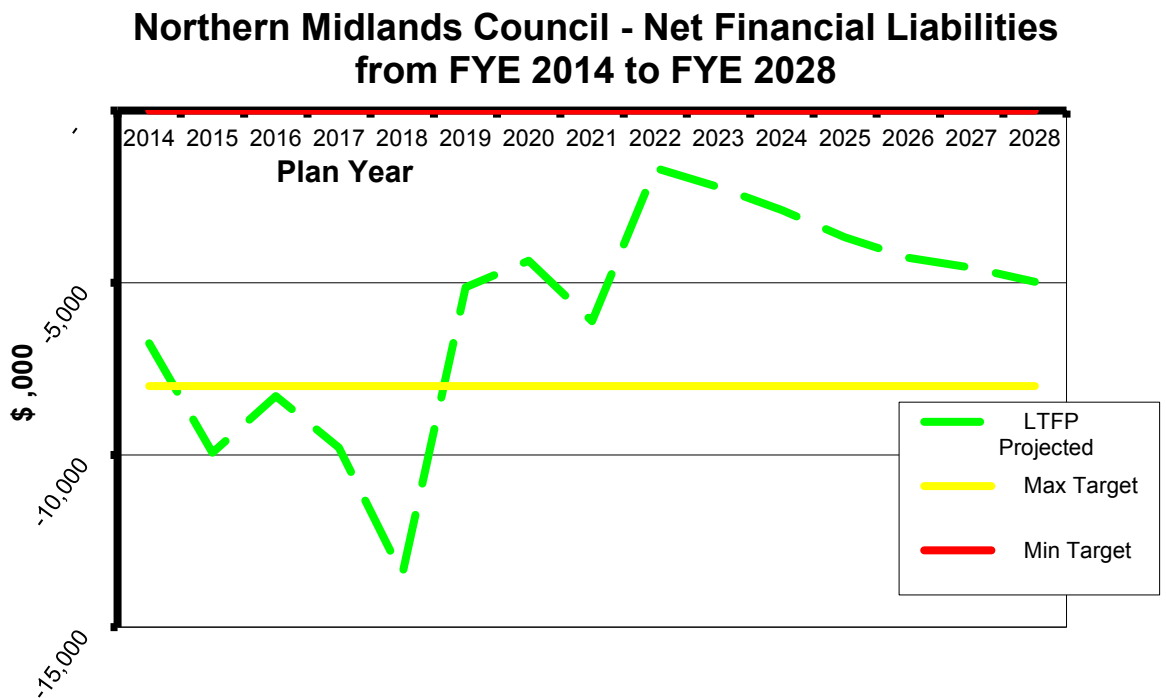


- Operating result – The operating surplus (deficit) before amounts received specifically for new or upgraded assets and physical resources received free of charge (and excluding capital grants such as Roads to Recovery). **See Table 1 – Operating Statement, page 11.**
- Operating surplus ratio - The percentage by which the operating surplus or deficit as defined above varies from the major controllable income source plus predictable operating grants.

- Own Source Revenue Ratio – The ratio of revenue raised by Council excluding grant income.

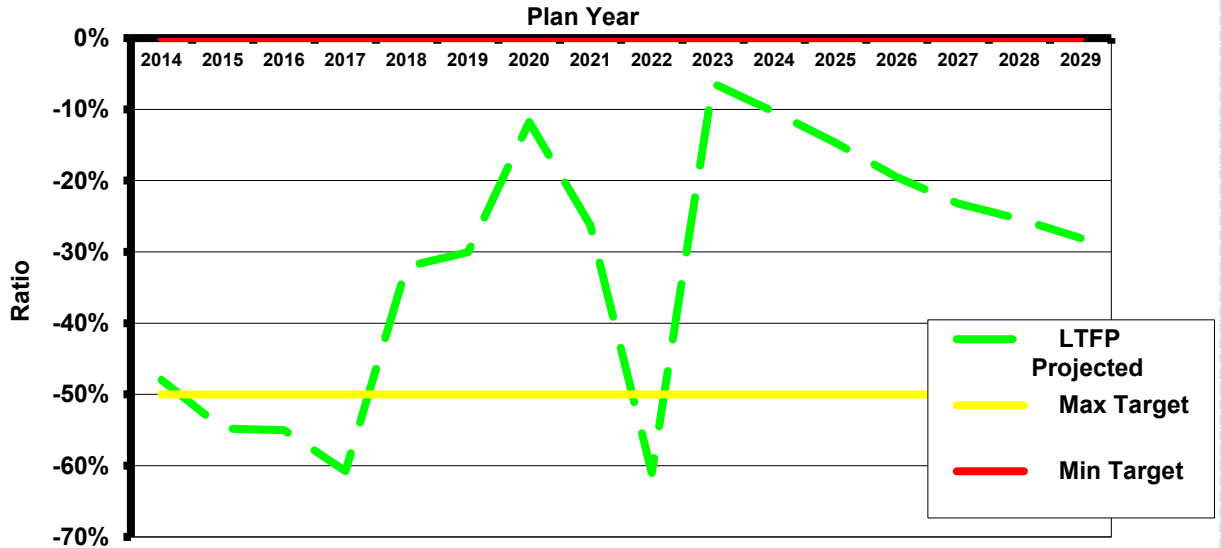


- Net financial liabilities – What is owed to others less money held, invested or owed to the entity. **See also Table 2 – Operating Statement, page 12.**



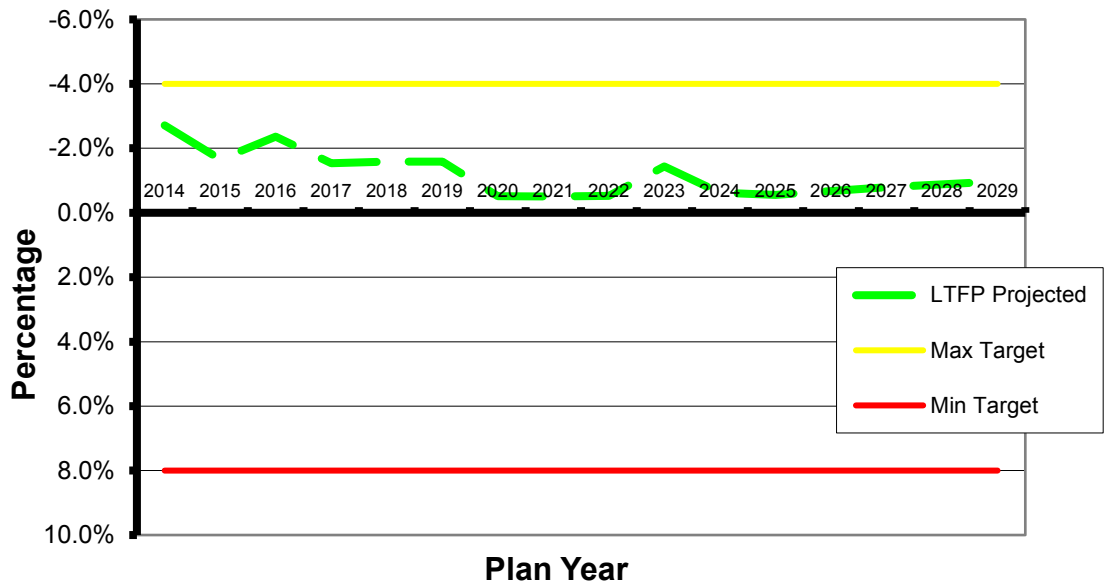
- Net financial liabilities ratio – The significance of net amount owed compared with the period’s income.

Northern Midlands Council - Net Financial Liabilities Ratio from FYE 2014 to FYE 2029

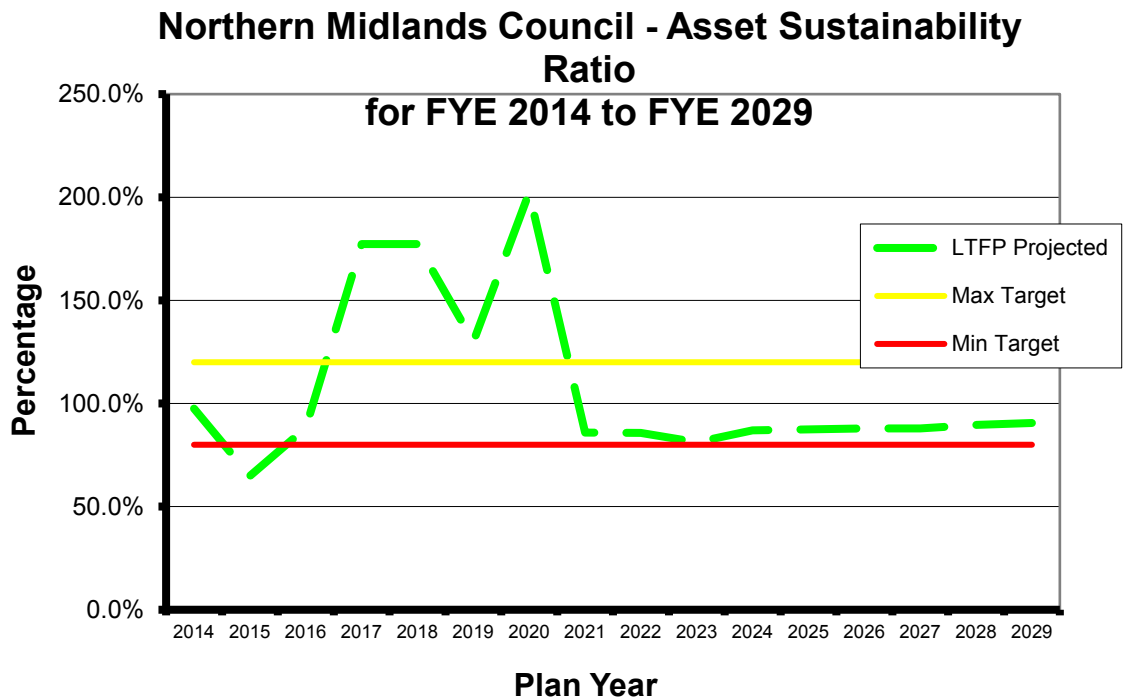


Interest cover ratio – The proportion of day-to-day operating income used to pay interest on loans net of interest income.

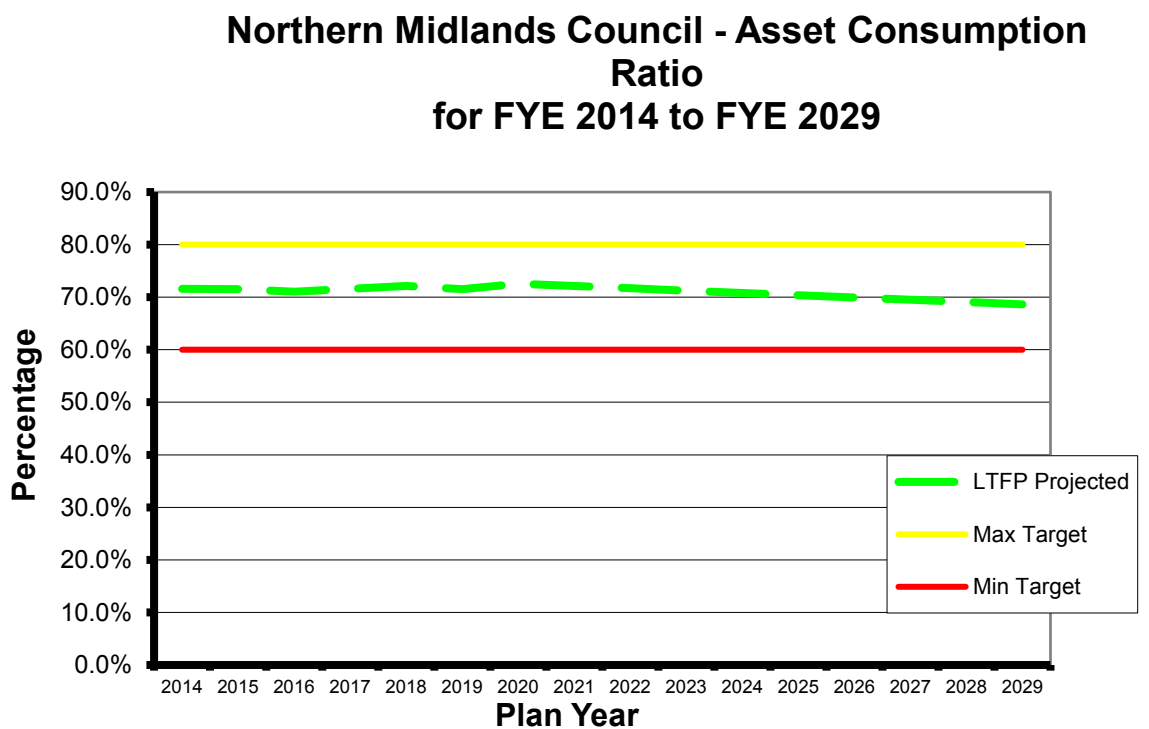
Northern Midlands Council - Net Interest Cover Percentage from FYE 2014 to FYE 2029



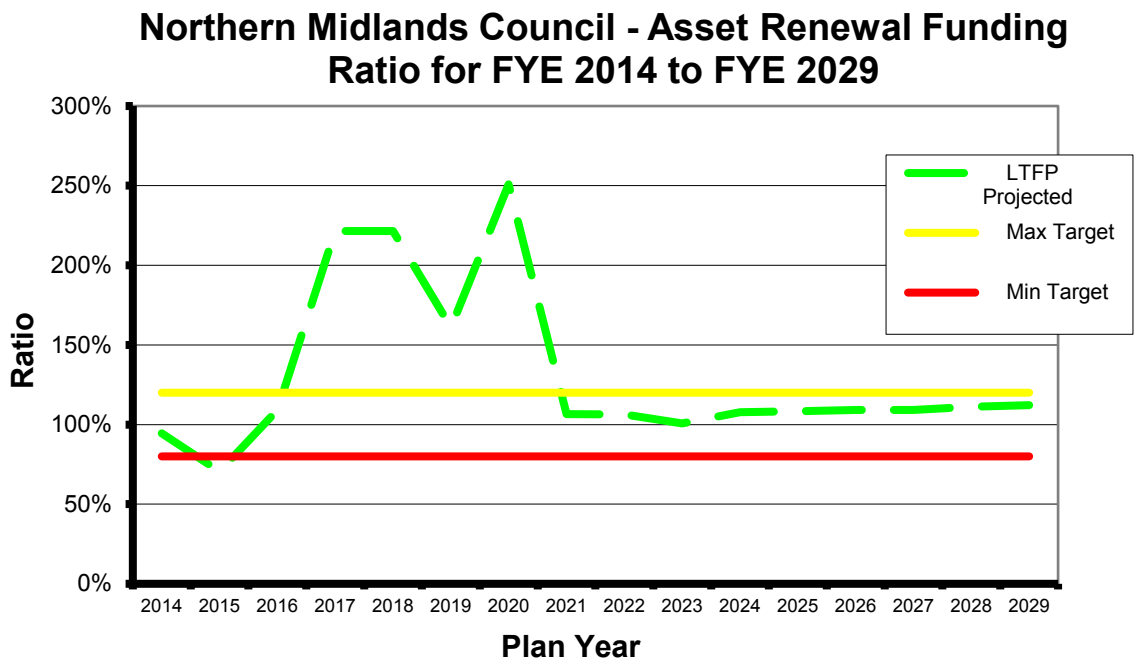
- Asset sustainability ratio – The ratio of asset replacement expenditure relative to depreciation for a period. It measures whether assets are being replaced at the rate they are wearing out.



- Asset consumption ratio – The average proportion of ‘as new condition’ left in assets.



- Asset renewal funding ratio – The ratio of net present value of asset replacement funding accommodated over a 10 year period in a LTFP relative to the net present value of projected capital renewal expenditures identified in an asset management plan for the same period. It assesses the entity’s financial capacity to fund asset renewal.



9. Long Term Estimation and Risk

The LTFP is based on assumptions about the future. The future is uncertain and therefore there is high risk that circumstances may change some of which are within Council’s control (eg policies, service delivery, community needs, emergencies) and some outside Council’s control (eg legislation, demographics, development levels).

Council’s three largest revenue streams are rates, operational grants and user fees and three largest expense items are wages, materials and services, and depreciation. The outcomes of the LTFP are significantly affected if actual results in these major categories are different to forecasted.

The plan will be reviewed and updated by no later than June each year, to coincide with the budget process, and even more regularly if new information is available and will significantly impact on the Council’s long term financial sustainability.

10. Sensitivity Analysis

A sensitivity analysis has been undertaken showing the impact of some of the most significantly assumptions e.g. lower level of growth, lower level of dividends, wages percentage increase above consumer price index etc. The results indicate that these would have significant impact on Council’s financial position should this occur.

11. Cash Reserves & Borrowing

In order to minimize financial risk the LTFP will make provision for cash reserves for the following accounts:

- Employee provisions and contractual commitments \$1m
- Asset Replacement at a level of 1 percent of asset replacement value \$4m
- Loan repayment provision until 2022-23.

The LTFP projects that Council will not need to borrow (other than accept State Stimulus Loan funding) over the planning period in order to meet cashflow needs arising from proposed capital works associated with provision of identified new and renewable assets.

Council has set a financial parameter that it will not borrow from external sources for operating expenditure, and for capital expenditure (for new assets) unless repayments are funded from new rates raised.

12. Forecast Financial Position

Based on the long term financial strategies listed above the following outcomes will be achieved:

Table 1 Operating Statement

Year Ending 30 June:	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Actual	Budget	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Revenue												
Rates	10,395	10,757	11,272	11,469	11,670	11,874	12,082	12,293	12,509	12,727	12,950	13,177
Interest on outstanding Rates	192	289	222	226	231	235	240	245	250	255	260	265
Charges	1,605	1,891	1,902	1,902	1,902	1,902	1,902	1,902	1,902	1,902	1,902	1,902
Grants - FAG	3,349	3,487	3,531	3,531	3,531	3,531	3,531	3,531	3,531	3,531	3,531	3,531
Grants - Non FAG	331	770	687	687	687	687	687	687	687	687	687	687
Investment Income - Interest	498	569	369	369	373	336	120	108	133	159	179	198
Investment Income - Dividends	702	468	468	459	449	440	432	423	415	406	398	390
Other	709	451	460	460	460	245	188	188	188	188	188	188
Total Operating Revenue	17,781	18,682	18,911	19,103	19,303	19,251	19,182	19,377	19,614	19,855	20,095	20,338
Operating Expenses												
Salaries & Wages	4,824	5,340	5,636	5,664	5,693	5,721	5,750	5,778	5,807	5,836	5,865	5,895
Materials & Services	4,372	5,544	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338
Government Levies and Charges	760	872	845	845	845	845	845	845	845	845	845	845
Depreciation	5,550	5,400	5,459	5,454	5,490	5,521	5,546	5,572	5,598	5,624	5,654	5,688
Finance Charges	215	272	272	272	272	57	0	0	0	0	0	0
Other	1,132	567	608	608	608	608	608	608	608	608	608	608
Loss /(Gain) Asset disposals	861	521	566	566	566	566	566	566	566	566	566	566
Total Operating Expenses	17,714	18,516	18,724	18,747	18,811	18,656	18,653	18,708	18,762	18,817	18,876	18,940
Operating Surplus / (Deficit)	67	166	187	356	492	595	529	670	852	1,038	1,219	1,398
Physical Resources Free of Charge	985	524	541	541	541	541	541	541	541	541	541	541
Amounts specifically for new or upgrade	2,389	2,462	1,461	1,224	1,224	(4,296)	1,224	1,224	1,224	1,224	1,224	1,224
Net Surplus / (Deficit)	3,441	3,152	2,189	2,121	2,257	(3,160)	2,294	2,435	2,617	2,803	2,984	3,163
Other Comprehensive Income												
- Net Asset Reval	5,607	0	0	0	0	0	0	0	0	0	0	0
- Fair Value Adjustment Tas Water	519	0	0	0	0	0	0	0	0	0	0	0
Total Comprehensive Income	9,567	3,152	2,189	2,121	2,257	(3,160)	2,294	2,435	2,617	2,803	2,984	3,163

Table 2 Balance Sheet

As at 30 June:

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Actual	Budget	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS												
Financial Assets												
Cash and Cash Equivalents	7,633	7,545	4,172	6,982	7,207	3,129	3,893	4,749	5,726	6,500	6,979	7,571
Current Trade & Other Receivables	722	722	722	722	722	722	722	722	722	722	722	722
Current Other Financial Assets	0	0	0	0	0	0	0	0	0	0	0	0
Non Current Other Financial Assets	8,450	8,450	8,450	8,450	6,550	0	0	0	0	0	0	0
Total Financial Assets	16,805	16,717	13,344	16,154	14,479	3,851	4,615	5,471	6,448	7,222	7,701	8,293
Non Financial Assets												
Inventories	27	27	27	27	27	27	27	27	27	27	27	27
Investment Property	0	0	0	0	0	0	0	0	0	0	0	0
Infrastructure, Property, Plant & Equipment	254,482	254,101	264,038	266,440	268,313	269,415	270,797	272,182	273,570	275,334	277,593	279,868
Loans Receivable	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-current Assets	40,462	40,462	40,462	40,462	40,462	40,462	40,462	40,462	40,462	40,462	40,462	40,462
Total Non Financial Assets	294,971	294,590	304,527	306,929	308,802	309,904	311,286	312,671	314,059	315,823	318,082	320,357
Total Assets	311,776	311,307	317,871	323,083	323,281	313,755	315,901	318,142	320,506	323,045	325,783	328,650
LIABILITIES												
Current Liabilities												
Trade & Other Payables	1,466	1,466	1,466	1,466	1,466	1,466	1,466	1,466	1,466	1,466	1,466	1,466
Borrowings	0	0	0	0	0	0	0	0	0	0	0	0
Provisions	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059
Other Current Liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Total Current Liabilities	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525	2,525

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Actual	Budget	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-current Liabilities												
Trade & Other Payables	0	0	0	0	0	0	0	0	0	0	0	0
Borrowings	0	0	0	0	0	0	0	0	0	0	0	0
Loans Payable	8,470	8,470	8,470	8,470	0	0	0	0	0	0	0	0
Provisions	110	110	110	110	110	110	110	110	110	110	110	110
Other Non-current Liabilities	0	0	0	0	0	0	0	0	0	0	0	0
	8,580	8,580	8,580	8,580	110	110	110	110	110	110	110	110
Total Liabilities	11,105	11,105	11,105	11,105	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635
Net Assets	300,671	300,202	306,766	311,978	320,646	311,120	313,266	315,507	317,871	320,410	323,148	326,015
EQUITY												
Accumulated Surplus	160,621	163,773	165,962	168,083	170,340	167,180	169,474	171,909	174,525	177,328	180,312	183,476
Asset Revaluation Reserves	146,600	146,600	146,600	146,600	146,600	146,600	146,600	146,600	146,600	146,600	146,600	146,600
Other Reserves	0	0	0	0	0	0	0	0	0	0	0	0
Adjustment to Cash & Borrowings for effects of inflation	0	0	(148)	(282)	(441)	(258)	(405)	(599)	(851)	(1,116)	(1,362)	(1,658)
Total Equity	307,221	310,373	312,414	314,401	316,499	313,522	315,669	317,909	320,274	322,813	325,551	328,418
Total Borrowings / (Cash & Cash Equivalents)	(12,610)	(7,545)	(7,545)	(7,264)	(7,648)	(3,387)	(4,298)	(5,348)	(6,577)	(7,616)	(8,341)	(9,229)
Borrowings in real values	(12,610)	(7,545)	(7,397)	(6,982)	(7,207)	(3,129)	(3,893)	(4,749)	(5,726)	(6,500)	(6,979)	(7,571)
Cumulative Discount	0	0	(148)	(282)	(441)	(258)	(405)	(599)	(851)	(1,116)	(1,362)	(1,658)
P.a. Increase	0	0	(148)	(134)	(159)	183	(147)	(194)	(252)	(265)	(246)	(296)