



# Long Term Financial Plan 2020-29



# Upper Lachlan Shire Council

## Long Term Financial Plan 2020 –2029

### TABLE OF CONTENTS

1. Executive Summary	1
2. Introduction	2
3. Financial Objectives	3
4. Current Financial Position of Council	4
5. Long Term Financial Plan and how it will be used	11
6. Key Planning Assumptions	12
7. Detailed Income Forecasts	13
8. Detailed Expenditure Forecasts	19
9. Methods of Monitoring Financial Performance	24
10. Sensitivity Analysis	25
11. Conclusion	26
12. Financial Modelling Scenario	27
10 Year Financial Plan – Scenario Base Case: by Consolidated and by Fund	
- Historical Information	
- Income Statement	
- Statement of Financial Position (Balance Sheet)	
- Equity Statement	
- Cash Flow Statement	
- Key Performance Indicators	
- Financial Performance Indicators	
- Charts	

## Executive Summary

The Upper Lachlan Shire Council in partnership with Yass Valley Council and Goulburn Mulwaree Council and our communities developed the Tablelands Regional Community Strategic Plan which identifies the community's priorities for twenty years and outlines strategies to achieve those goals.

The Regional Community Strategic Plan is a long term visioning document that expresses community's long term aspirations. The Community Aspirations are as follows:-

- A built environment enhancing the lifestyle of a diverse community;
- Community liaison to preserve and enhance community facilities;
- A healthy natural environment;
- A prosperous economy with the balanced use of our land;
- People attaining health and wellbeing;
- Resilient and adaptable communities;
- Responsible and efficient use of resources; and
- Transparent and accountable governance.

In working towards delivering these long term aspirations for our community, sufficient resources will need to be provided by Council and asset management will become a critical component in ensuring service delivery success. Council will address community aspirations within the five identified Strategic Pillars. The Strategic Pillars are as follows:-

1. **Community**
2. **Environment**
3. **Economy**
4. **Infrastructure**
5. **Civic Leadership**

To ensure that Upper Lachlan Shire Council addresses the Strategic Pillars priorities in the Regional Community Strategic Plan, a Resourcing Strategy has been prepared. The Resourcing Strategy is a key part of the integrated planning and reporting framework for Council's long term planning. Council's Resourcing Strategy includes the following integrated documents:-

- Long Term Financial Plan (LTFP);
- Workforce Plan; and
- Infrastructure Plan (incorporates Asset Management Plan).

The Long Term Financial Plan sets out Council's projected income and expenditure, statement of financial position and cash flows for the coming 10 years and outlines methods of monitoring financial performance.

The Long Term Financial Plan will assist Council to make informed decisions with regard to the future sustainability and efficiency of Council operations.

## Introduction

The creation of a Long Term Financial Plan is a requirement under the Integrated Planning and Reporting framework for NSW local government and forms part of the Council Resource Strategy.

The Long Term Financial Plan is a 10 year plan that tests the community's aspirations against its financial capacity. The Long Term Financial Plan will be used as a decision-making tool and will continue to evolve and change as circumstances change and Council decisions are implemented.

A Long Term Financial Plan provides a framework for Upper Lachlan Shire Council to assess its revenue building capacity to deliver upon the key performance indicators for all the principal activity areas and provide suitable level of services outlined in the Regional Community Strategic Plan.

The Long Term Financial Plan also aims to:-

- Establish greater transparency and accountability of Council to the community;
- Provide an opportunity for early identification of financial issues and any likely impacts in the longer term;
- Provide a mechanism to solve financial problems and understand the financial impact of Council decisions; and
- Provide a means of measuring Council's success in implementing strategies.

The Long Term Financial Plan is a living document and will change as the underlying principles and key assumptions and Council's financial position change over time.

Council has identified a number of strategic performance measures that are incorporated into the assessment of Council's financial performance and financial position. Council will be vigilant in reviewing each performance measure to gauge how Council is progressing to achieve its community aspirations and strategic objectives.

The community engagement period, which informed the development of the Tablelands Regional Community Strategic Plan, identified roads and bridges infrastructure as priority number one. In response, Council has allocated the largest proportion of funds to this purpose annually over the life of the Long Term Financial Plan. Roads infrastructure projects will be implemented in accordance with Council's Infrastructure Plan and associated services levels will be reviewed in conjunction with the community.

### **Financial Assessment of NSW Councils**

In March 2013 a "Financial Assessment, Sustainability and Benchmarking Report" was prepared by NSW Treasury Corporation (TCorp) on Upper Lachlan Shire Council. The TCorp report assessed Upper Lachlan as being in a "Sound" Financial Sustainability Rating position and Outlook for the Council was Neutral.

In addition to this assessment, the Independent Pricing and Regulatory Tribunal (IPART) completed an "Assessment of Council Fit for the Future Proposals" in October 2015 the report was commissioned by the NSW Government. The IPART Report stated that Upper Lachlan Shire Council satisfied the financial criteria to be Fit; which included sustainability, efficiency, infrastructure and service management assessments. On 18 December 2015 Upper Lachlan Shire Council was deemed Fit for the Future by the NSW Government.

## Financial Objectives

Council will pursue the following financial objectives for the term of the Long Term Financial Plan:-

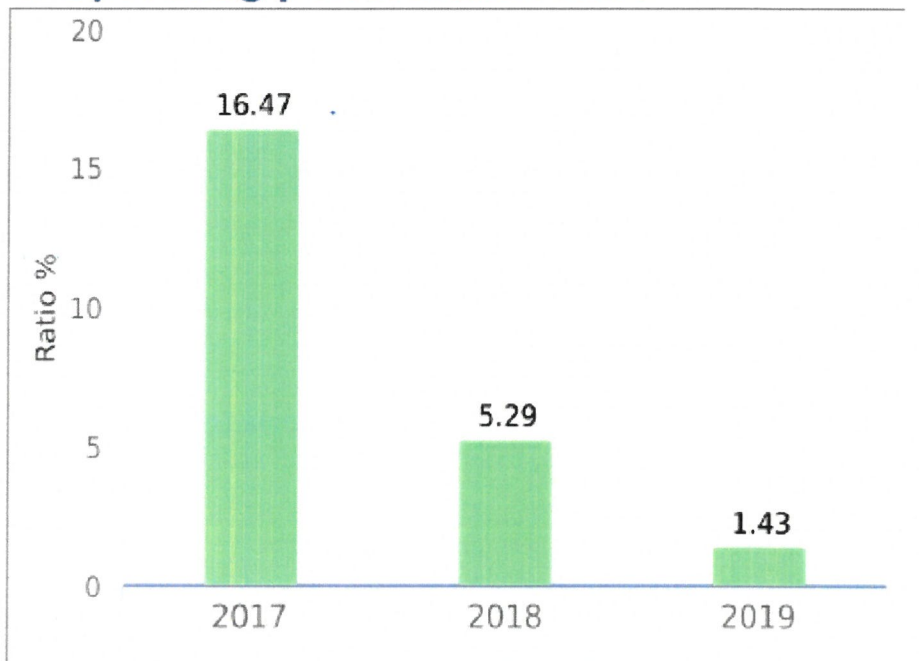
1. Maintain Council's sound financial performance and sound financial position for the next ten year period. Ensure Council's TCorp Financial Sustainability Rating remains as Sound;
2. Continue to provide a fair and equitable rating structure and revenue policy;
3. Attract and maximise government grants, contributions and subsidies as an external funding source to assist in delivering Council services;
4. Budget for and achieve a surplus Net Operating Result (before capital grants and contributions) each year to ensure financial viability and stability in Council's core operating activities. This performance indicator is an annual Operating Performance Ratio above the benchmark of 0;
5. Budget maintain an Unrestricted Current Ratio of at minimum 1.50:1; thereby ensuring access to adequate working funds on a continual basis;
6. Annually fund the asset renewal program in line with Council's Infrastructure Plan and Asset Management Plan for all of its assets classes. To maintain an Infrastructure Renewals Ratio of greater than 100%;
7. Continue to benchmark Upper Lachlan's financial performance against the Office of Local Government and TCorp ratios;
8. Report to Council the Quarterly Budget Review Statements (QBRS) and to review program activities each quarter;
9. Report to Council and monitor the six monthly Delivery Program implementation reviews;
10. Continually review all operating expenditure and improve efficiency in service delivery where possible;
11. Reduce Council-owned assets which do not align with Council's adopted strategic objectives, and place an unnecessary ongoing maintenance burden on Council and the community;
12. Implement user-pay principles on service provision and assets, excluding known and Council approved community service obligations. Full cost recovery pricing principles to be implemented where appropriate.

# Current Financial Position of Council

## Operating Performance Ratio

This ratio is intended to measure Council's ability to contain its operating expenditure within the confines of its operating income. The benchmark is greater than 0%. The Operating Performance Ratio for the past three financial years from 2016/2017 to 2018/2019 is seen in the below graph:-

### 1. Operating performance ratio



## Cash and Investments

Cash and investments in 2019 totals \$28.6 million (2018 - \$30 million) and is divided into unrestricted cash, internally restricted cash by Council, and externally restricted cash (i.e. water supply, sewerage, domestic waste funds, external grants unexpended and development contributions).

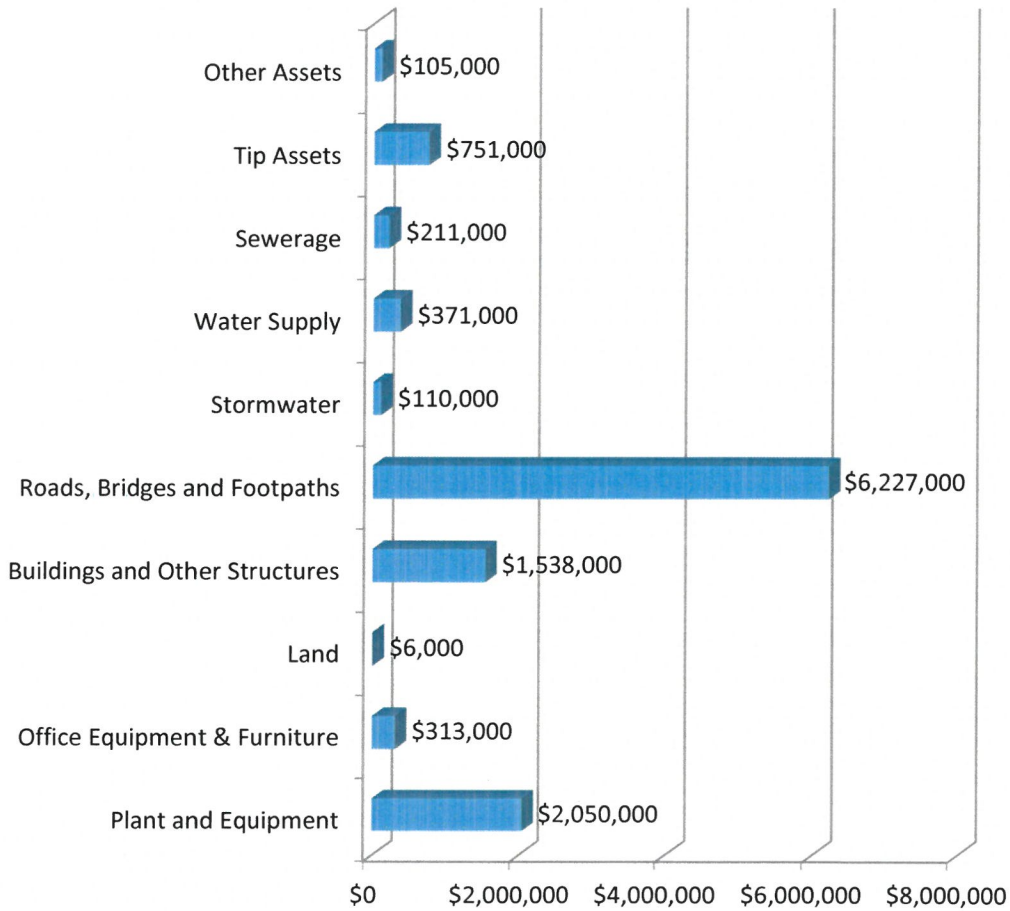
Cash and Investments (\$'000)



**Financial Position Indicators**

Financial Performance Measures	Indicator	2019	2018	2017	2016	2015
Unrestricted Current Ratio	Ratio	5.13	2.97	5.14	6.40	5.66
Own Source Operating Revenue Ratio	Percentage	62.99%	56.37%	52.13%	65.28%	65.81%
Rates and Annual Charges Outstanding	Percentage	2.42%	2.94%	3.35%	2.36%	2.23%
Debt Service Cover Ratio	Percentage	15.98%	19.85%	25.52%	22.37%	14.15%
Buildings and Infrastructure Renewals Ratio	Percentage	90%	204%	137%	148%	122%
Operating Result Surplus (before capital grants and contributions)	(\$000)	213	1,430	5,221	3,825	858

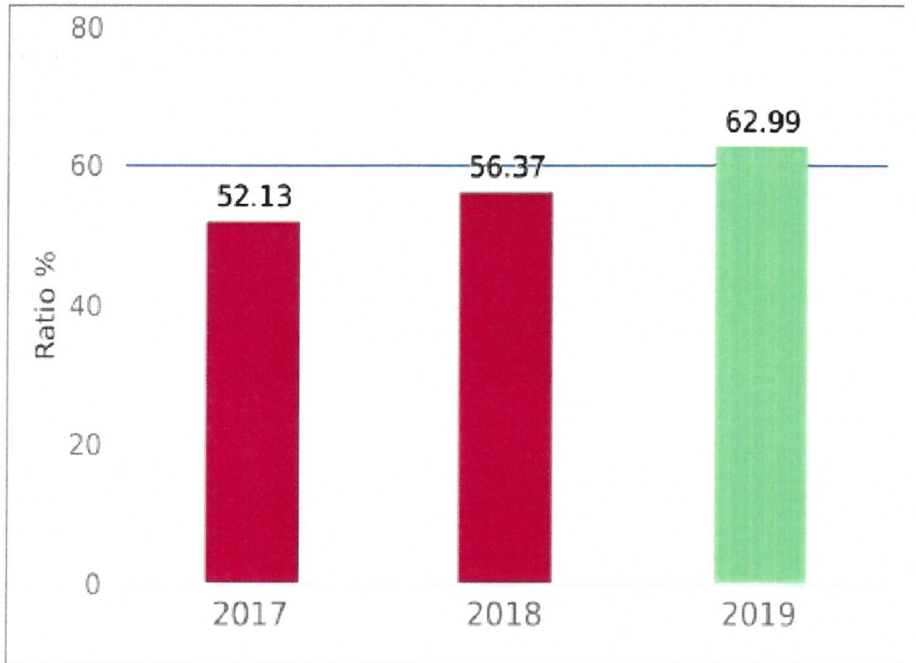
**2018/2019 Capital Expenditure by Asset Class - \$11,682 (\$'000)**



### Own Source Operating Revenue Ratio

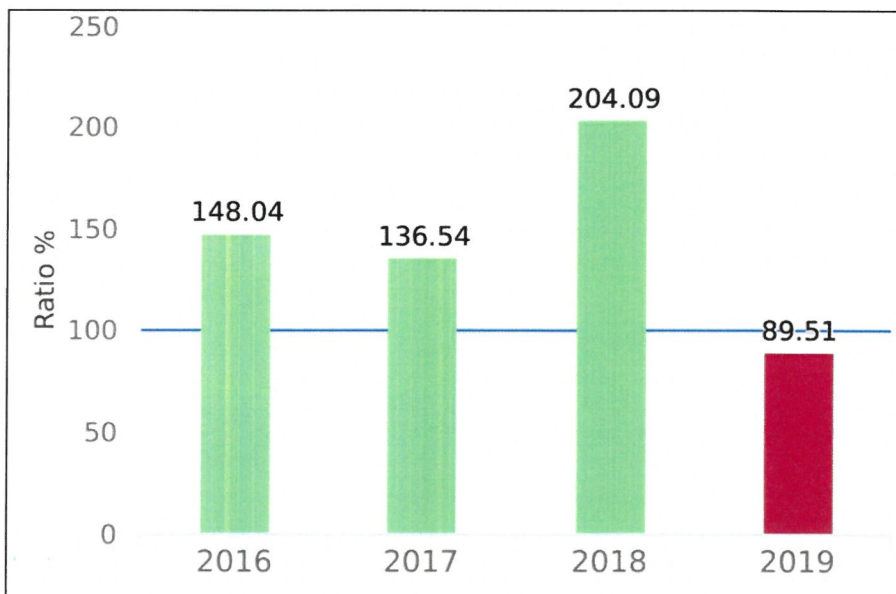
This ratio measures the degree of reliance on external funding sources such as operating grants and contributions. The Benchmark is greater than 60%. A comparison of Council's Own Source Operating Revenue Ratio for the past three financial years from 2016/2017 to 2018/2019 is seen in the below graph:-

#### 2. Own source operating revenue ratio



### Buildings and Infrastructure Renewals Ratio

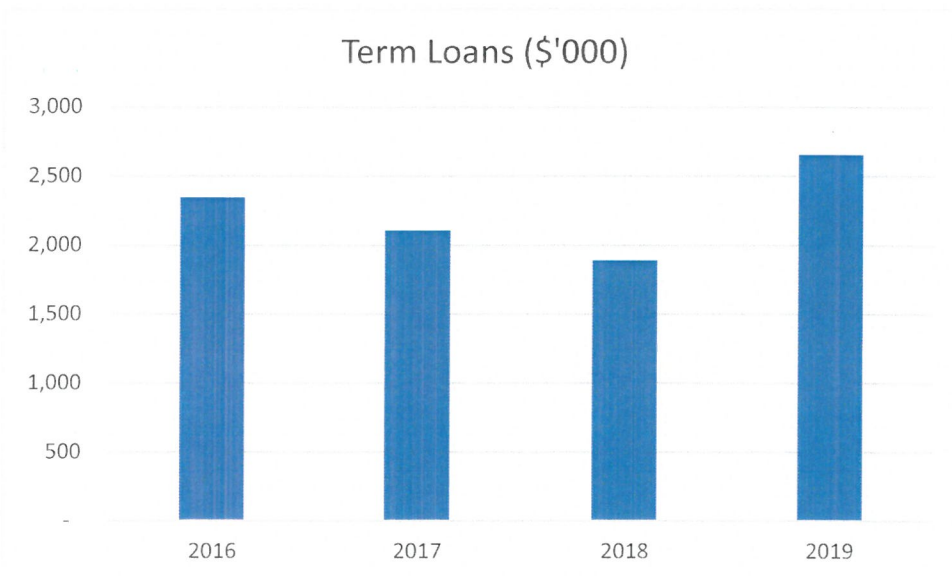
This ratio measures the rate at which assets are being renewed relative to the rate at which the assets are depreciating. The Benchmark is greater than 100%. A comparison of Council's Buildings and Infrastructure Renewals Ratio for the past four financial years from 2015/2016 to 2018/2019 is seen in the below graph:-





## Borrowings and External Debt

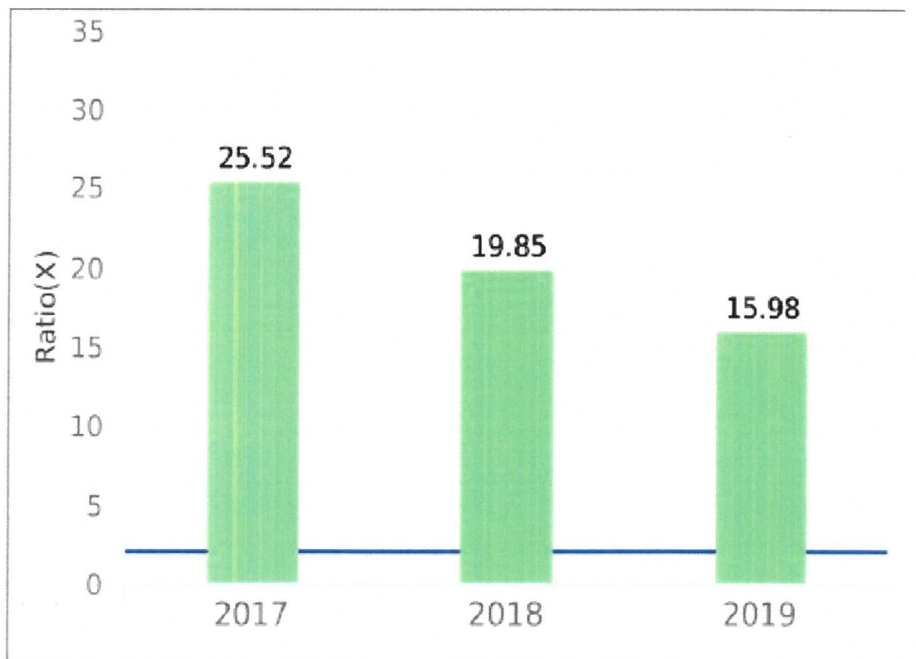
A comparison of Council's External Debt outstanding for the past four financial years is seen in the below graph. The Council Benchmark is less than 10% of total continuing operating income:-



### Debt Service Cover Ratio

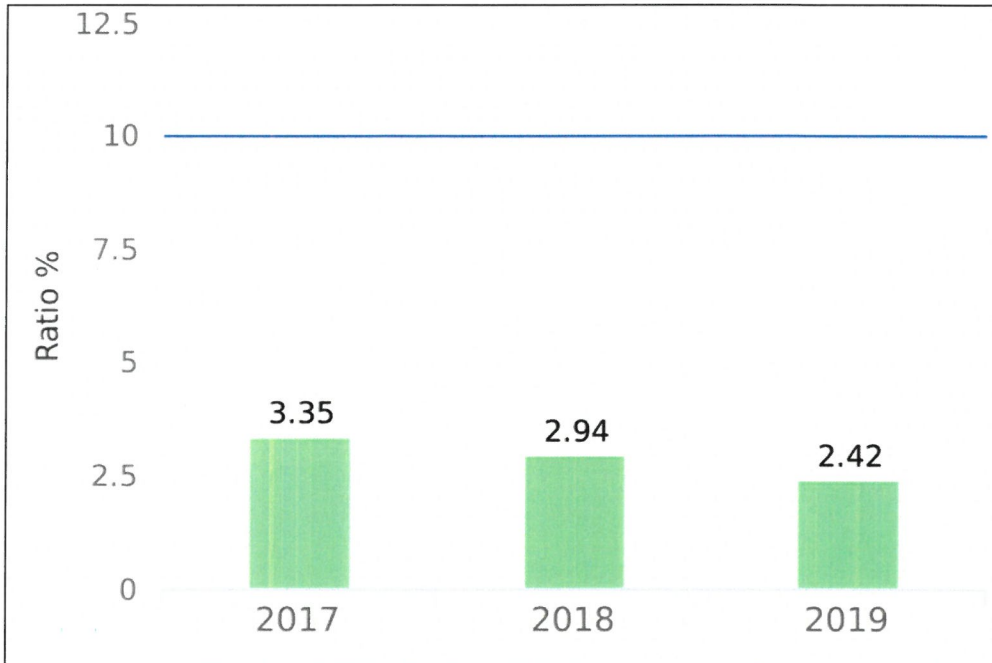
The Debt Service Cover Ratio is a ratio that measures the availability of operating cash to service debt including interest, principal and lease payments. Unlike its predecessor, the Debt Service Ratio, in this measure the higher the number, the greater the ability to service debt. The benchmark is greater than 2%.

## 4. Debt service cover ratio



### Rates and Annual Charges Outstanding Ratio

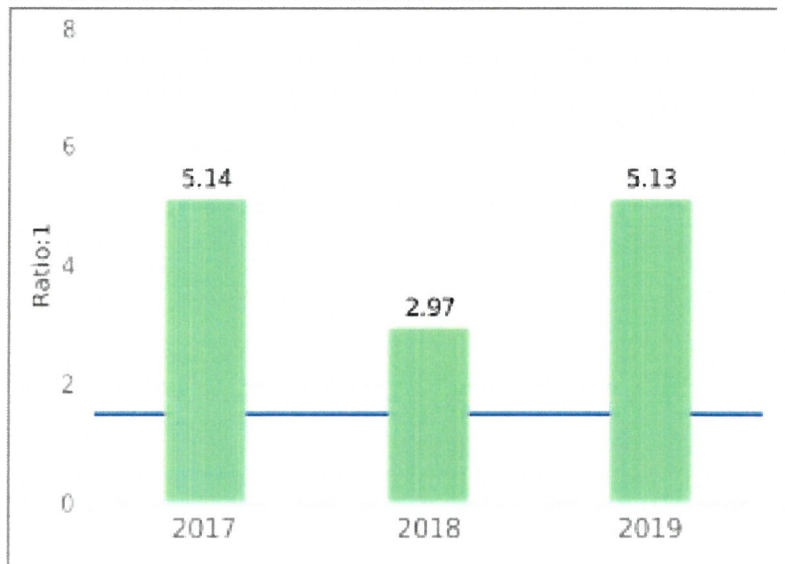
This performance measure assesses the impact of uncollected rates and annual charges on liquidity and reflects the adequacy of recovery efforts by Council. The past 3 financial years in the below graph display efficiency in debt recovery procedures:-



### Unrestricted Current Ratio

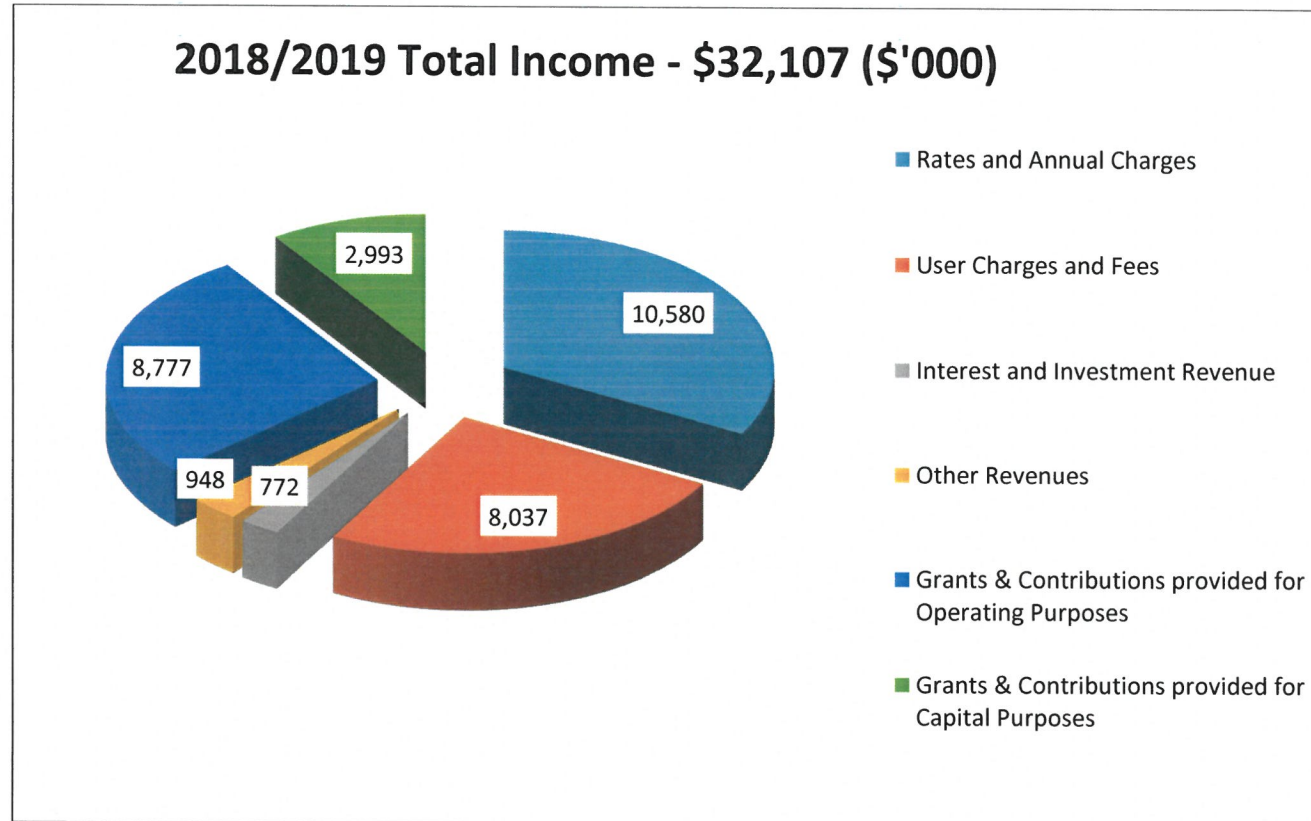
This is a commonly used measure of liquidity. This is a ratio of current assets to current liabilities (excluding external restrictions). This ratio assesses the adequacy of working capital and the ability of Council to satisfy financial obligations in the short term for unrestricted activities. A ratio of greater than 1.50 indicates healthy liquidity.

### 3. Unrestricted current ratio



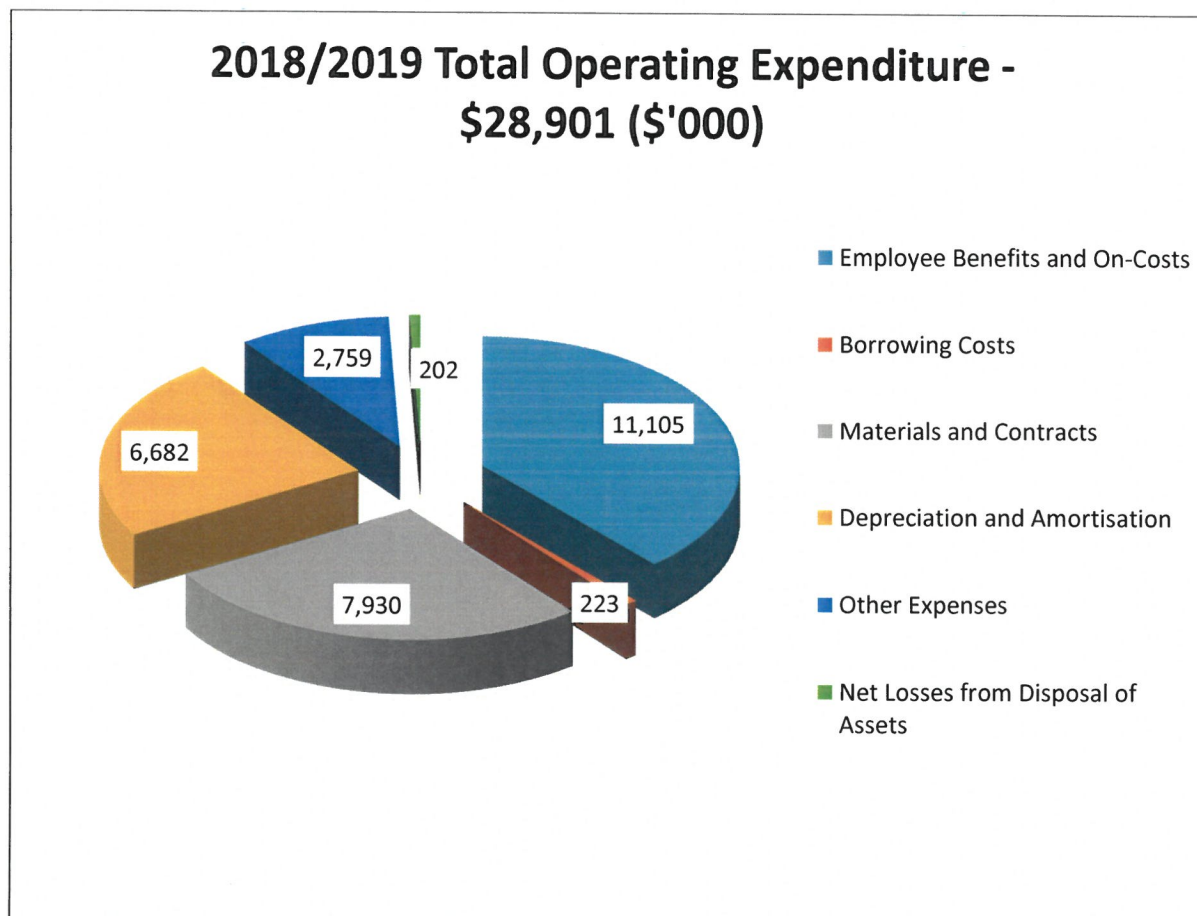
## Operating Revenue by Source

In 2019 total income (including capital grants and contributions) was \$32.1 million (2018 – total income was \$33.7 million). A breakdown of Income from Continuing Operations by income source is seen in the below graph:-



## Operating Expenditure by Type

In 2019 total expenditure (including capital expenditure) was \$28.9 million (2018 – total expenditure was \$26.2 million). A breakdown of Expenditure from Continuing Operations by expenditure type is seen in the below graph:-



## **Long Term Financial Plan and how it will be used**

Council's Long Term Financial Plan model consists of linked spreadsheets that use the 2020/2021 budget, information contained in the Delivery Program and Operational Plan, as well as long term key planning principles and assumptions to generate 10 year forecasts of income and expenditure.

Council's Long Term Financial Plan covers all areas of Council operations; including General Fund, Domestic Waste Fund, Water Supply and Sewerage Funds. The plan considers the high degree of infrastructure renewal required particularly in the General Fund and Water Supply Fund.

The Long Term Financial Plan will be subject to review and adjustment annually or as priorities change to align with the Community Strategic Plan and Resourcing Strategy components. The ten year plan presents an Income Statement, Statement of Financial Position, Equity Statement and Cash Flow Statement.

The Long Term Financial Plan also draws on Council's Infrastructure Plan (incorporating the asset management plan) which defines the service levels, intervention thresholds and capital maintenance and renewal expenditure requirements for their respective asset classes.

The 10 year Long Term Financial Plan has been developed by Upper Lachlan Shire Council in accordance with the Office of Local Government, Integrated Planning and Reporting Guidelines.

### **The Purpose of the Long Term Financial Plan**

- Provide a transparent account of Council's financial situation to the community;
- Set out the assumptions upon which Council's financial budgets have been structured;
- Provide methodology for strategic decision making that is in the community's best interests;
- Identify Key Performance Indicators upon which Council can benchmark its financial performance against other NSW Councils of a similar size with comparable resources;
- Evaluate the impact of future scenarios upon Council's financial position;
- Provide a basis for future decision making particularly when the Infrastructure Plan and asset management strategy are further refined and developed;
- Identify issues which impact upon the financial sustainability of Council including known opportunities and threats;
- Achieve an operational budget surplus result annually acknowledging that minimum service delivery may need to be reviewed while attempting to reduce operating costs in real terms;
- Achieve a working fund surplus result annually; and
- Assist with planning for major capital infrastructure renewal program and specific capital projects.

## Key Planning Assumptions

A Long Term Financial Plan is dependent on a number of planning assumptions. In preparing this plan it was necessary to consider a range of matters and make appropriate assumptions. These assumptions have been used to model and formulate the plan.

In developing the Long Term Financial Plan Council has considered and made assumptions with regards to demographics of the Shire, projected economic growth and industrial development within the Shire, service delivery standards, and all other major influences on Council's income streams and expenditure patterns and projects.

In summary the Long Term Financial Plan sets out the following key planning assumptions used to develop the long term forecasts of income and expenditure for Council:

### Income Forecasts

<u>Income Source</u>	<u>Projected Annual Increase</u>
• General (Ordinary) Rates Income	2.50%
• Domestic Waste Charges	3% - full cost recovery
• Sewerage Charges	2% - full cost recovery
• Water Supply Charges	3% - full cost recovery
• Water Supply User Pay Charges	4% - full cost recovery
• Interest Rate on Investments	3% return over 10 year period
• Interest Rate on Overdue Rates	7%
• Operating General Purpose Grants	2.50%
• Capital Grants	2.50%
• Development Contributions	2.50%
• Net Gain from Disposal of Assets	Variable % based on plant schedule
• Other Revenues	2.50%
• User Charges and Fees	2.50% - full cost recovery and within Statutory limitations
• Population Growth	1% annually
• Service Levels	Refer to Infrastructure Plan

### Expenditure Forecasts

<u>Expenditure Source</u>	<u>Projected Annual Increase</u>
• Salaries and Wages	3%
• Superannuation Guarantee Contribution	9.50%
• SASS Defined Benefit Plan Contribution	Double contribution rate until 2021
• Workers Compensation	3% (variable)
• Consumer Price Index	2%
• Interest Rate for Borrowings	3.50%
• Depreciation Expense	1.90% recurrent only
• Insurances	3%
• Electricity and Gas	2.50%
• Materials and Contracts	3.25%
• Major capital works projects	Varies according to projects funding status and other factors

## Detailed Income Forecasts

### General (Ordinary) Rates Income

Historically there is minor change in the number of rateable assessments from year to year. The total number of rateable assessments in 2005/2006 was 5,604. The number of rateable assessments for 2020/2021 is 6,275. There has been an average increase in total rateable assessments annually of 0.75%. This increase equates to minimal additional general rates income to Council.

Council will continue to apply the maximum annual rates increase allowable by IPART and Office of Local Government. The maximum permissible rates increase in recent past years included 2015/2016 was 2.40%, 2016/2017 was 1.80%, 2017/2018 was 1.50%, 2018/2019 was 2.30%, 2019/2020 was 2.70%. The maximum increase in 2020/2021 is 2.60%. Council has projected the annual rate pegging limit increase to be 2.50% annually. This is based on historical data (past ten years) increase in maximum rate cap for general rates income. A 2.60% increase equates to an additional \$192,000 general rates income. Further details for each individual rating category are available in Council's Operational Plan.

No special variation to general rates income is included in the Council Long Term Financial Plan projections for the Base Case Scenario, however this will continue to be assessed based on community feedback and on the need for additional income to continue to deliver services.

In Upper Lachlan LGA, a number of wind farms have been constructed and a number of wind farms have development consent and will be constructed in the near future however the legal rateability status for these large scale industrial developments is not clear. Council has a Section 94A Development Contributions Plan to apply to state significant projects and has also established a Community Enhancement Fund (CEF). These plans are designed to mitigate negative aspects of these projects on the community and to ensure the developments make a reasonable contribution with respect to community infrastructure.

### Domestic Waste Management Charges

The Domestic Waste Management (DWM) service is provided by Council to the residential properties in townships and the immediate surrounding area of towns within the Shire. The DWM service provides garbage and recycling collection services. The basis of the DWM annual charge is on a full cost recovery basis to allow for the future upgrade of the DWM plant fleet, garbage bins, and partial allocation for the rehabilitation of the waste centres (rubbish tips) in the Shire.

The DWM charge is projected to increase annually by 3% over the next ten year period. Council will continue to complete and publish in the Operational Plan a comprehensive domestic waste reasonable cost calculation in accordance with the Local Government Act requirements and to ensure any service changes are consulted with and conveyed to the community.

### Sewerage Charges

Upper Lachlan Shire Council operates and manages sewerage systems and services within three towns in the Shire, being Crookwell, Gunning and Taralga. Council intends to maintain the sewerage services and improve the sewerage infrastructure in the coming ten year period.

Council implemented the Department of Water and Energy Best Practice Management Guidelines and pricing principles for sewerage services and complies with the National Performance Framework advocated by the NSW Office of Water and Environment Protection Authority (EPA).

The average annual increase for sewerage charges of 2% is projected over the next ten year period based on full cost recovery principles. Also, Council aims to achieve an economic real rate of return on the sewerage services of greater than 1%.

### **Water Supply Charges**

Council operates and manages water supply systems within four towns in the Shire, being Crookwell, Gunning, Dalton and Taralga. Council intends to maintain the water supply services and improve the infrastructure for these reticulated water supply systems. Council, in partnership with the Federal and State Government, completed capital upgrade works of \$10.1 million to increase reliability and improve water quality and water treatment operations for the Gunning and Dalton water supply schemes, these works were completed in May 2014. The Crookwell water supply scheme \$7 million upgrade project to the water treatment operations was completed late 2017.

The average annual increase for water supply annual charges of 3% is projected over the next ten year period based on full cost recovery principles. Also, Council aims to achieve an economic real rate of return on the water supply services of greater than 1%.

### **Water Supply User Pay Charges**

Water supply user pay charges are highly volatile due to the impact from seasonal conditions. Council has implemented initiatives, such as water bore installations to supplement existing water storages, to assist in drought proofing water resources necessary for the towns in the Shire. Upper Lachlan Shire Council has implemented the former Department of Water and Energy Best Practice Management Guidelines and pricing principles for water supply and comply with the National Performance Framework as advocated by the NSW Office of Water. Council will continue to generate greater than 50% of total water supply revenue from water supply user charges.

The water supply user charges are projected to increase annually by 4% over the next ten year period. All water supply users pay a dollar amount per kilolitre charge with a two tiered tariff pricing system. The water supply user charges are based on full cost recovery of the service.

### **Interest Rate on Investments**

Interest rates on investments have been variable in recent years. The Reserve Bank of Australia official cash interest rate has fallen from a high of 7.25% in March 2008 to a low of 0.25% in March 2020. The average interest rate on term deposits held by Council at March 2020 is 1.63%. With the global economic volatility interest rates will remain low in the short term and the cash rate will be at 0.25% for over the next two years. Term deposit interest rates are anticipated to be in the vicinity of 1% to 1.50% for the next two years with the interest rate increasing to the historical average of 3% for the ten year period. Future changes or volatility in interest rates will have an impact on Council's long term financial outlook.

In accordance with Council's Investment Policy and Ministerial Investment Order, Council now invests only in term deposits, with varying maturity timeframes, with Australian authorised deposit taking institutions.

### **Interest Rate on Overdue Rates**

Council has sustained a remarkably low rates and annual charges outstanding percentage of less than 3.50% for the past ten years. Council staff have enforced Council's Debt Recovery Policy and remained vigilant in assuring regular cash flow from rates and annual charges.

Council has projected an average overdue interest rate of 7% over the ten year period. The interest rate in 2015/2016 was 8.50%, 8% in 2016/2017, 7.50% in 2017/2018, 2018/2019 and 2019/2020.



The interest revenue from outstanding rates and annual charges will not be materially affected by any changes in the maximum interest rate as determined each year by the Office of Local Government.

### **Operating General Purpose Grants**

Council's most important and material recurrent operating grant is the untied Financial Assistance Grants (FAG) received from the Federal Government and administered by the NSW Local Government Grants Commission. The FAG grant accounts for around 33% of Council's total operating grants and contributions received annually. The FAG grant has a general and roads component totalling \$4.86 million in 2019/2020. The LTFP has estimated a 2.50% increase annually for the FAG over the ten year period which is based in part on the Commonwealth's annual Consumer Price Index (CPI) estimates.

There are two other material operating grants received by Council annually. The operating grants received from the Roads and Maritime Services (RMS) for the Regional Roads Block Grant totals \$1.75 million annually. The Federal Government program Roads to Recovery is classified as an operating grant and is being used by Council solely for capital works projects and programs. The Roads to Recovery is a 5 year program equivalent to \$1.2 million each year. The Roads to Recovery new 5 year funding program began 1 July 2019. In addition, Council has also received an additional \$1.2 million related to Drought Assistance to be utilised in 2019/2020 and 2020/2021.

Council has assumed that all recurrent grants and contributions for operating purposes will also increase annually by a projection of 2.50%.

### **Capital Grants**

Capital grants are by their nature highly variable from year to year depending on the need and community support for major capital works projects and the availability of capital grant programs to assist in funding major capital improvement projects.

Council's Delivery Program details the road reconstruction and sealing programmed works to 2024. A significant project is the RMS Repair program which will be utilised for the regional road reconstruction and bitumen resealing program; i.e. MR248E Crookwell to Laggan.

Council has also made allowance in the LTFP for timber bridges replacement program and utilising loan funds matched against capital grant funding in future years. There is a four year new borrowings program commenced in 2019/2020 and this program is detailed in Council Delivery Program. All timber bridge replacements will be completed by 2024 with new concrete structures.

There are numerous competitive rounds of NSW Government and Federal Government grants programs becoming available in the next 2-3 year period. Council has secured grant funding for the MR258 Wombeyan Caves Road reconstruction (\$5 million), MR248E Kiamma Creek bridge replacement (\$1 million), MR256 Abercrombie River bridge replacement (\$1.5 million), Grabine Road reconstruction project (\$3.5 million) and the Kangaroo Creek Bridge on Bigga Road (\$950K).

Council has projected an average increase in general fund capital grants income of 2.50% for the ten year period.

## **Development Contributions**

The Upper Lachlan Local Environment Plan 2010 encourages development around the existing towns and potential growth centres in the Shire. Council development contributions will be impacted by any increased economic development and subdivision activities over the coming ten years. The population and industrial development growth expectations are categorised in the low to moderate range by Council in our long range forecasts.

Council has a Section 94 Development Contributions Plan that allows Council to collect contributions from developers where it is considered that additional demand will be placed on existing public facilities and amenities. Council's Plan contains the following development contributions; Roads, Open Space, Community Facilities, Waste Management, Emergency Services and Plan Administration. Council has projected an annual increase in development contributions of 2.50% for the ten year period.

Council has implemented a Section 94A Development Contributions Plan in 2012 and this plan is designed to collect contributions from developments of regional and state significant developments and energy, wind and power station developments.

Council has a Section 64 Development Contributions Plan for the Upper Lachlan Shire Council area for water supply and sewerage services. Council has projected an annual increase in Section 64 development contributions of 2.50% for the ten year period.

## **Net Gain from Disposal of Assets**

Council has developed a detailed ten year motor vehicle, plant and equipment replacement program and has a Disposal of Assets Policy. The Council Delivery Program provides further detailed information on projected motor vehicle, plant and equipment replacement. There are no real estate assets classified as available for sale and no sales are planned over the ten year period. The annual increase % is variable and is subject to plant replacement schedule. There is no set % increase or decrease on the net gain from the disposal of assets.

## **User Charges and Fees**

Council has numerous user charges and fees that are statutory fees determined by regulation or by another government agency, for example Development Application fees and Section 149 Certificate fees and Section 603 Certificate fees. In most cases there is no annual increase in these user charges and fees provided in the relevant legislation. Therefore, no increase is estimated in statutory fees.

For discretionary fees, the most material fees are for private works (contracted work) undertaken by Council on private properties. The Roads and Maritime Services (RMS) Routine Maintenance Council Contract (RMCC) and Works Orders on State Road MR54 are also a discretionary fee. The State Road MR54 total works program is estimated to be contract works with RMS for \$2 million each year for the entire ten year period.

For all discretionary fees an annual increase of 2.50% is projected over the next ten year period based on full cost recovery principles and profit component where applicable.

## **Other Revenues**

Other Revenues are relatively immaterial in Council's operating budget these items include; property rental income, Agency fees (Service NSW and Australia Post Agency), fuel tax credits and other recoverable charges. An annual increase of 2.50% is projected over the next ten year period based on full cost recovery principles and profit component where applicable.

## **Population Growth**

The Long Term Financial Plan takes into consideration any potential growth in population within the Upper Lachlan local government area.

The Community Strategic Plan and Delivery Program are informed by the Australian Bureau of Statistics (ABS) Census and the ABS National Regional Profile for population growth in Upper Lachlan. The ABS Estimated Resident Population for Upper Lachlan at June 2016 was 7,841 which are a 1.03% annual increase. Council estimates a population increase of 1% annually to 2028.

The cost of Council's services is not particularly sensitive to population growth for the towns and villages within the Shire. At the projected increased population levels, the Long Term Financial Plan model assumes that the population growth will not have a significant impact on the income and expenditure projections contained therein.

## **Services Levels**

Council will endeavour to continue maintaining the existing level of services for all the principal activities undertaken by Council as detailed in Councils Delivery Program and Operational Plan under each Community Strategic Plan Strategic Objective Area. Also, Council will meet the service levels in relation to infrastructure maintenance and renewal as detailed in the Infrastructure Plan and Asset Management Strategy.

The service levels delivered at present may not necessarily meet with the community expectations however Council is attempting to address the backlog of roads, bridges and associated infrastructure work in a planned and coordinated manner.

## **Other Economic Factors**

There are a number of economic factors that may potentially adversely affect the long term financial projections and assumptions used by Council in formulating the current Long Term Financial Plan. These include the following items:-

### **Volatility in the Consumer Price Index**

In recent years, the Consumer Price Index (CPI) has been relatively stable. The Federal Government and Reserve Bank of Australia target inflation range is between 1.50% to 2%.

Council's operating budget is particularly sensitive to changes in the CPI, particularly where prices for major consumption items such as transport and petroleum products increase in excess of the average CPI. Council has projected an annual CPI increase of 2% over the life of the Long Term Financial Plan.

## **Cost Shifting from State Government**

The issue of cost shifting is of significant concern to all NSW Councils. The estimated annual cost shift expense for Upper Lachlan in 2015/2016 was \$1 million or equivalent to 3.50% of total Council income (excluding capital grants and contributions). The cost shift activities include Rural Fire Services, pensioner rates concessions, public libraries, noxious weeds control, animal control, and State Emergency Services (SES). If this situation is not addressed Council's financial position is weakened. In addition from 2021/2022 the Emergency Services Levy will have increased by over \$334K from the levy paid by Council in 2018/2019 and this added expense increase will impact on services provided by Council in future years.



## Detailed Expenditure Forecasts

### Salaries and Wages

Upper Lachlan employs 137 full-time equivalent employees, this fluctuates with casual staff utilised for peak period road work projects. The Workforce Plan identifies human resources key performance areas, goals and strategies and how they interact with Council's Strategic Objectives and Aspirations from the Community Strategic Plan to assist in delivering Council's programs. Council's single largest expense relates to employee costs.

Council reviews each position upon a vacancy and assesses the need for changes to a position or to the position parameters. Council does not anticipate any decrease in the number of employees. Council does have an ageing workforce and have allocated 45% of total leave entitlements to an internally restricted cash reserve for this purpose and budgets annually for projected staff retirements, based on an age profile, this is incorporated into the Council Operational Plan.

All staff members are employed by Council under the NSW Industrial Relations System. The employment terms and conditions are set out in the Local Government (State) Award 2017. The Award includes, in effect, provision for annual salary increases. The increases mandated are 2.6% from July 2014, 2.7% from July 2015, and 2.8% from July 2016, 2.35% from July 2017, 2.50% from July 2018 and 2.50% from July 2019. Historically, over the past 10 years, the average annual Award salary increase has been 2.81%.

Salary costs are also affected by individual staff progressing in Council's Salary Structure by achieving productivity and skill step improvements related to their grading and salary steps. Council provides a modest allowance for these additional impacts. Council has forecast an annual increase in total salaries and wages of 3% over the term of the Long Term Financial Plan.

### Superannuation Guarantee Contribution

The Superannuation Guarantee is required to be paid by Council to nominated superannuation funds as employer contributions on behalf of individual employees. The Superannuation Guarantee was set at 9% of employee's salary for a long period; however the Federal Government increased the % contribution rate to 9.50% in 2014/2015 and remains at 9.50% at 30 June 2020. The incremental increases are set out below:-

Financial Year	Rate
2012/2013	9.00%
2013/2014	9.25%
2014/2015	9.50%
2015/2016	9.50%
2016/2017	9.50%
2017/2018	9.50%
2018/2019	9.50%
2019/2020	9.50%
2020/2021	9.50%
2021/2022	10.00%
Future years undetermined	

The Long Term Financial Plan assumes that the Superannuation Guarantee expense will increase by the increment amounts in line with forecast increases in salaries and wages.

## **SASS Defined Benefit Plan Contribution**

Council is involved in an industry defined benefits superannuation scheme, known as the Local Government SASS Superannuation Retirement Scheme. This superannuation scheme is a multi-employer fund where assets accumulate in the fund to meet member's benefits as defined in a Trust Deed consisting of all NSW Councils.

In 2009, the SASS scheme advised that as a result of the global financial crisis it had a significant deficiency of assets over liabilities. As a result the Scheme has imposed increased contributions from 2009/2010 for a period of up to 10 years to recover the deficit. SASS has confirmed to Council that the increased contribution will remain in place, until at minimum, 30 June 2021. Council has employee members of SASS scheme and the total employer contribution expense in 2018/2019 was \$400,409.

The SASS scheme actuary monitors the financial position each year, however despite there being recovery in the financial markets since the global financial crisis; the scheme actuary reviewed the position at 30 June 2018 and advised double contributions to continue to the scheme.

## **Workers Compensation**

Council's Workers Compensation Insurance premium is a significant employee expenditure on-cost. The premium is calculated based on 3 years of workers compensation claims experience, estimated increases in salaries and wages and various multiplier factors used by StateCover Mutual Ltd. Upper Lachlan Shire Council workers Compensation insurance costs peaked in 2012/2013 at \$548,267. In 2015/2016 workers compensation premium cost was \$198,957, in 2016/2017 the cost was \$206,639 and in 2017/2018 the cost was \$233,098 (GST Inclusive). The cost in 2018/2019 has spiked to \$319,169 (GST Inclusive) and a 3% annual increase above the 2018/2019 premium costs is envisaged over the next 10 year period.

It is extremely difficult to calculate an appropriate inflationary index to forecast likely future Workers Compensation premiums. Implementation of an effective return to work and rehabilitation program has assisted Council in reducing the amount of workers lost time due to injury. However, there are serious injury claims that will impact premiums in the next 3 year period.

## **Interest Rate for Borrowings**

Council has a Loans/Borrowings Policy that details the objectives and criteria for external funding programs. Council will not borrow to finance annual operating and maintenance activities. Council will borrow for the acquisition of income producing assets or for asset renewal and upgrade programs. All Council loans are for fixed term periods and fixed interest rates to reduce the risk of exposure to variable repayment amounts.

Council has further capacity to borrow within all Funds, in particular within the General Fund. The General Fund debt service ratio is 1.28% as at 30 June 2019. There are future borrowings forecast in the General Fund for the replacement of timber bridges and the Crookwell waste transfer station. Council anticipates \$7.76 million general fund borrowings in the four year period commencing in 2019/2020.

Any future upward movement in the official cash rate by the Australian Reserve Bank (current cash rate is at 0.25%) has the potential to increase the borrowing interest rates available from financial institutions for any new loans.

The current borrowing rates from financial institutions for loans covering a ten year period are in the vicinity of 2.50 to 3.50%. Council's Long Term Financial Plan estimates an average interest rate of 3.50% for any new borrowings to 2029.

## **Consumer Price Index**

See comments in economic factors outlined earlier titled “Volatility in Consumer Price Index”. The annual CPI is estimated at 2% annually for 10 years in Council’s Long Term Financial Plan.

## **Depreciation Expense**

Depreciation of Council’s major infrastructure assets is determined within their respective asset management strategies and this is reflected in the Long Term Financial Plan. Council’s Infrastructure Plan, including the Asset Management Plan details the useful lives and depreciation periods for each class of asset.

The depreciation expense is calculated using the straight line method to allocate their cost over their estimated useful lives. All assets classes are re-valued at “fair value” every 5 years.

Council has asset classes; including water supply, sewerage, land, buildings, stormwater, plant and equipment, roads, bridges and footpaths. Total depreciation projected in 2020/2021 is \$6.8 million. Depreciation expense has risen significantly following the completion of Taralga water supply, Crookwell water treatment plant construction, Gunning and Dalton water supply capital improvement projects / asset additions as well as roads and bridges revaluation in 2015 and new assets constructed, such as Crookwell Memorial Oval complex and new road construction projects.

In calculating depreciation an annual provision for revaluation and recurrent depreciation expense increase of 1.90% has been included in the Long Term Financial Plan over the entire ten year period.

## **Other Expenses**

The Long Term Financial Plan estimates a 2.50% increase annually for all other expenses. Other Expenses includes Councillors Allowances, electricity and gas, street lighting, printing and stationary, valuation fees, telephones and communications expenses. The increase is largely based on historical data in relation to these expenses.

Council projections are also based on our contract with Telstra and TPG for telephony, mobile telephones, internet and NBN services. Also, increases in Councillor Allowances are determined by the Local Government Remuneration Tribunal annually and for the past five years the annual increase has been capped at 2.50%.

## **Insurances**

Insurance expenses are the single largest expense categorised as an Other Expense. The annual insurance cost in 2018/2019 was \$649,000. The insurance expense is projected to increase annually by 3% over the next ten year period. This projection is based in part on historical data and claims history.

The significant increase in natural disaster events and severity of property damages in the past five years highlights the potential for increased property protection claims. In Upper Lachlan Shire Council there has been significant recent insurance claims; including a storm damage incident at Crookwell library in 2017, the 2018 hail damage to Council plant and motor vehicle fleet, the 2015 snow incident property damage claim, and a 2011 public liability case relating to a trip fall incident.

Also, factored into the insurance costs increase is annual updating of Council’s buildings declared insurance valuations. These valuations generally increase which in turn leads to higher insurance premiums as building replacement valuations continue to escalate.

## Electricity and Gas

Electricity and Gas price increases were a focal point of Federal Government debate surrounding carbon taxes and meeting carbon credit targets and timeframes.

In 2014/2015 the increase in electricity costs as determined by the Independent Pricing and Regulatory Tribunal (IPART) was a price increase of 2.50%. Analyst projections of future electricity costs vary, however Council has estimated an average annual increase of 3% over the next ten year period.

## Emergency Management Contributions

Emergency Management Contributions are imposed on Councils by the NSW Government to assist funding the Rural Fire Service (RFS), NSW Fire Brigades and State Emergency Services (SES). The contributions are a significant Other Expense item for Council with an annual contribution in 2017/2018 to NSW Fire Brigade of \$25K, SES of \$16K and RFS \$404K. There is increased annual expense of \$100K for the Emergency Services Levy this takes effect in 2020/2021. The increase for these contributions is 2.50% annually over the next ten year period.

## Materials and Contracts

For the ten years to 2029, the Long Term Financial Plan estimates a 3.25% increase annually in Materials and Contracts expense. The increase projected for total materials and contracts expense is above the projected CPI due to specific purpose Council operations related to gravel pits, rubbish tips, waste centres, parks and gardens maintenance activities where costs are higher than CPI.

Private works activities will fluctuate from year to year based on private development projects within the Shire. Council does utilise a mix of Council employees and contracted plant hire operators and equipment when undertaking private works.

Council has contract arrangements related to the maintenance of State Road MR54, Goulburn to Crookwell to Bathurst Road. This Routine Maintenance Council Contract (RMCC) is with the Roads and Maritime Services (RMS). The budget forward estimate is for \$2 million expense each year under the RMCC contract and Works Orders in the LTFP.

There are no significant (greater than \$50,000) legal costs projected by Council related to planning and development legal costs.





## Major Capital Works Projects

The number and type of major capital works expenditure programs will depend upon a variety of factors not least of which is external funding arrangements.

The roads and bridges infrastructure maintenance and asset renewal is the largest challenge facing the Council in the medium to long term. Council is committed to local road capital improvements, especially in allocating additional resources to gravel resheeting programs.

Council annually generally commits a funding allocation of \$800K of the Federal Government Roads to Recovery Program to gravel resheeting of the local road network. Local weather and environment factors continue to exacerbate the deterioration of gravel surfaces on local roads. Council intervention is continually necessary to restore and improve road surfaces.

Council recently completed the number one priority project being the reconstruction and bitumen sealing of the entire unsealed sections of Crookwell to Taralga Road MR248E and bitumen sealing the remaining unsealed sections of MR54 State Road Crookwell to Bathurst Road.

Council's Delivery Program details the road reconstruction and sealing programmed works to 2024. A significant project is the RMS Repair program which will be utilised for the road reconstruction and resealing of MR248E Crookwell to Laggan Road.

A significant capital improvement project to be undertaken in the coming twelve months is the Crookwell landfill remediation capital works to meet EPA requirements totalling \$2.1 million. The DWM restricted reserve funds will fund a large component of the Crookwell landfill remediation component of waste centre upgrade in conjunction with funding from the General Fund.

Council's annual capital expenditure program from 2020 to 2029 will range from \$12 million to \$20 million annually over the ten year period.



## Methods of Monitoring Financial Performance

The financial sustainability of local government has been the subject of independent reviews; including the Treasury Corporation report in 2013 and IPART report in 2015.

The Long Term Financial Plan opens the way for Council to address issues such as constraints on revenue growth (such as rate capping), ageing infrastructure, ageing population, legislative change and cost shifting and, in consultation with the community, set funding priorities and service levels that set Council on a path to a more sustainable future.

**Council will annually monitor, report, and assess its financial performance using the following measures:-**

Performance Measures	Performance Indicator
• Unrestricted Current Ratio of Assets to Liabilities	>2:1
• Net Operating Result (Operating Performance Ratio)	Achieve operating surplus annually
• Consolidated Debt Service Ratio for all Funds	<=10% of Operating Revenue
• Rates and Annual Charges Outstanding Ratio	<5%
• Own Source Revenue Ratio	>60%
• Infrastructure Asset Renewals Ratio	>=100%
• Total Unrestricted Cash Reserves (Minimum)	>\$500,000 at financial year end
• Employee Leave Entitlements Cash Reserve	>=45% of total liability
• Working Capital Result	Surplus maintained annually
• Each Fund (Water Supply, Sewerage and DWM)	Full cost recovery and annual operating Surplus
• Completion of Capital Budget	>90% completion rate each year
• Budget Revote works carryovers	<5% of original operating budget
• Investment Returns	>90 day BBSW Rate
• Utilisation of Section 94 Development Plans funds	Minimum \$250,000 annual expenditure

In addition to the above mentioned performance measures, Upper Lachlan Shire Council will continue to use local government financial and governance health check benchmarks and other appropriate efficiency indicators in measuring Council's long term financial sustainability.

Upper Lachlan Shire Council will not borrow to fund ongoing operating expenditure requirements. Council has further capacity to borrow within the General Fund and is utilising this to replace the 12 remaining timber bridges on local roads which require replacement within the next 3 years. Council Infrastructure Department has developed a bridge replacement program which is implemented into the Long Term Financial Plan.

## Sensitivity Analysis

Long term financial planning is inherently uncertain. This Long Term Financial Plan is based on a range of principles and key assumptions to forecast Council's income and expenditure for the 10 years of the Plan. Variations in these assumptions over the life of the Plan may have a significant impact on the projections in the Plan.

The Long Term Financial Plan assumes the continuation of all current operational grants and subsidies. Upper Lachlan Shire Council does have a reliance on grants and subsidies and any withdrawal of a grant or subsidy would require Council to reconsider the forecast service levels of expenditure and potentially review staffing levels.

Ultimately, any variations to the underlying assumptions will impact on income and expenditure forecasts. Using a reliable basis for the assumptions should minimise the potential for significant material variations. Council has used the most recent publicly available and reliable information from a variety of sources in formulating the forecasts used in the Long Term Financial Plan model.

A major variable to the Long Term Financial Plan process is the projected capital expenditure and income required for future asset renewals and new asset and infrastructure projects. A number of Council projects are significantly dependent on matching or full grant funding for a project to proceed. Also, the change in Council direction or changes in Council strategic objectives is a possibility with an election cycle of four years.

The table below summarises the Long Term Financial Plan's sensitivity to operational activities variations from the various underlying key assumptions:-

Operating Income and Expenditure Categories	2020/2021 Base Year (Rounded \$'000)	Likelihood of Variation	Sensitivity to 5% variation in the key assumptions (Rounded \$'000)
<b>Income</b>	<b>\$28,760</b>	<b>variation</b>	<b>\$1,438</b>
Rates and Annual Charges	\$11,548	Unlikely	+ / - \$577
User Charges and Fees	\$6,141	Possible	+ / - \$307
Operating Grants	\$9,498	Possible	+ / - \$475
Interest and Investments	\$503	Unlikely	+ / - \$25
Other Income	\$1,070	Unlikely	+ / - \$54
<b>Expenditure</b>	<b>\$28,345</b>	<b>variation</b>	<b>\$1,417</b>
Employee Benefits and Oncosts	\$10,832	Unlikely	+ / - \$542
Materials and Contracts	\$7,736	Possible	+ / - \$386
Borrowing Costs	\$210	Unlikely	+ / - \$11
Depreciation	\$6,788	Possible	+ / - \$339
Other Expenses	\$2,780	Unlikely	+ / - \$139

The Sensitivity Analysis above indicates Council's financial exposure to changes in the underlying assumptions. The 2020/2021 base year for projecting operating income and expenditure is sound and has been developed over a decade of budget preparation cycles. In the context of the Long Term Financial Plan the projections are considered to be reliable estimates.

Projections of capital expenditure are based on the Upper Lachlan Shire Council Infrastructure Plan. This Plan identifies an optimal level of service delivery based on an assets age profile and condition assessment. These projections will be accurate in the context of the assumed service and asset intervention levels identified in the Infrastructure Plan.

## Conclusion

Upper Lachlan Shire Council has prepared a consolidated budget 10 year analysis projections of a minor Net Operating Surplus, before capital grants and contributions, throughout the period to 2029. Council will continue to monitor all business units and functional cost centres to try to achieve efficiencies and productivity improvements. The General Fund financial sustainability over the ten year period is susceptible to any adverse material \$ variance and may result in the inability to meet financial sustainability benchmarks.

Council has completed the revaluation of assets at fair valuation for all the following asset classes; operational land, buildings, property, plant and equipment, office equipment, stormwater, roads, bridges, footpaths, water supply and sewerage assets. Since the revaluation of assets Council now recognises an additional annual amount of \$300,000 for building depreciation expense and has recognised an additional \$400,000 annually for roads and bridges depreciation expense.

Large infrastructure capital works construction projects were completed in 2012 to 2018; including the Taralga Sewer Scheme (\$6.9 million) and Taralga Water Supply Upgrade (\$1.9 million) the major upgrade of the Gunning and Dalton Water Supply infrastructure (\$10.8 million) and the Crookwell water supply infrastructure (\$7 million) project. These major projects already have and will continue to result in significant increases in depreciation expense for future years. The increase in depreciation expense of greater than \$450,000 annually in the Water Supply Fund highlights the challenge Council will have in funding asset renewal programs into the future.

Further obligations imposed upon Councils (cost shifts) by other tiers of government continue to have negative impacts upon Councils' Long Term Financial Plan modelling and financial position. Local Government NSW have demonstrated that the impact of cost shifting upon NSW Councils equates to 3.50% of total income before capital amounts for Council each year. The Long Term Financial Plan model projects overall Council expenses to continue to increase faster than revenue. The outcome from this analysis will have a negative impact on Council's financial position and may adversely affect the level of services that may be provided to our community.

Consideration by Council of a special rates variation application in the near future is necessary to maintain the existing standard of services to the Shire community. In particular, additional revenue source from a special rates variation would assist in funding the backlog of asset renewal programs for the Council's local road network.

The Long Term Financial Plan does not incorporate any new services to be provided by Council to the community in the next ten year period.

While grant funding from the other tiers of government is available from time to time this additional funding source has not been included in the Long Term Financial Plan as these sources are irregular and largely unpredictable. However, Council continues to endeavour to apply for and maximise access to State and Federal Government grants through our Grants Officer.

The Independent Review Panel Report "Revitalising Local Government" released in 2013 recommends that the methodology for distribution of Financial Assistance Grants be amended. This recommendation if implemented will be large step in the right direction to allow Council's to achieve financial sustainability.