

11.7.3 REVIEW OF 10 YEAR FINANCIAL MANAGEMENT PLAN

(File No 15-02-01)

EXECUTIVE SUMMARY

PURPOSE

To review Council's current 10 Year Financial Management Plan.

RELATION TO EXISTING POLICY/PLANS

Consistent with current policies.

LEGISLATIVE REQUIREMENTS

Review required at least every 4 years under the Local Government Act, 1993.

CONSULTATION

No issues to be addressed.

FINANCIAL IMPLICATIONS

No direct financial implications, however, the Plan sets Council's strategic financial framework.

RECOMMENDATION:

- A. That Council notes the significant reduction in the proposed future TasWater distribution pool and its effect on the adopted 10 Year Financial Management Plan.
- B. That the revised draft 10 Year Financial Management Plan (at Attachment 1) be adopted.
- C. That as part deliberations for each annual budget the General Manager provides an options paper, including potential saving measures and revenue opportunities, to off-set the loss of TasWater dividends.

/ Refer to Page 38 for Decision on this Item...

REVIEW OF 10 YEAR FINANCIAL MANAGEMENT PLAN /contd...

Decision:	MOVED Ald Chong SECONDED Ald Cusick																						
	“That the Recommendation be adopted”.																						
	CARRIED																						
	<table><tr><td>FOR</td><td>AGAINST</td></tr><tr><td>Ald Campbell</td><td>Ald James (abstained)</td></tr><tr><td>Ald Chipman</td><td></td></tr><tr><td>Ald Chong</td><td></td></tr><tr><td>Ald Cusick</td><td></td></tr><tr><td>Ald Doust</td><td></td></tr><tr><td>Ald Hulme</td><td></td></tr><tr><td>Ald Peers</td><td></td></tr><tr><td>Ald Thurley</td><td></td></tr><tr><td>Ald von Bertouch</td><td></td></tr><tr><td>Ald Walker</td><td></td></tr></table>	FOR	AGAINST	Ald Campbell	Ald James (abstained)	Ald Chipman		Ald Chong		Ald Cusick		Ald Doust		Ald Hulme		Ald Peers		Ald Thurley		Ald von Bertouch		Ald Walker	
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- D. That Council notes the significant reduction in the proposed future TasWater distribution pool and its effect on the adopted 10 Year Financial Management Plan.
- E. That the revised draft 10 Year Financial Management Plan (at Attachment 1) be adopted.
- F. That as part deliberations for each annual budget the General Manager provides an options paper, including potential saving measures and revenue opportunities, to off-set the loss of TasWater dividends.

ASSOCIATED REPORT

1. BACKGROUND

- 1.1.** Council adopted its current 10 Year Financial Management Plan (10YP) in 2014. While there is not a legislative requirement to review the 10YP until 2018, significant events have occurred in the interim which suggest a review at this time is appropriate.

- 1.2. A draft 10YP is provided at Attachment 1, which has been recommended to Council by its Audit Panel. The draft was also considered by Aldermen at Workshop sessions of 3 April 2017 and 19 April 2017.

2. REPORT IN DETAIL

- 2.1. Significant changes have occurred in the underlying assumptions of the current 10YP since its adoption. These primarily relate to economic externalities including key economic drivers such as inflation and interest rates, and also to distribution payments expected from TasWater.
- 2.2. The model developed to build the 10YP has as key drivers assumptions of future inflation, interest rates and municipal growth. The adopted 10YP assumes the current environment of low interest rates and inflation would move towards long term trends earlier than has been experienced. In response, the draft 10YP has moderated expectations around the timing and extent of upward cycles in both these measures.
- 2.3. Municipal growth has been strong over the last 3 years and is expected to continue for some time. Based on both lag and lead indicators, the draft 10YP takes a less conservative view of municipal growth and consequently has it moving towards long term trend at a faster rate.
- 2.4. The most significant impact on Council's forward financial position is the proposed reduction of distributions (dividends, guarantee fees, tax equivalents) from TasWater. The TasWater board has resolved to reduce the aggregate distribution pool from \$30 million per annum to \$20 million per annum, effective 2018/2019. This follows on from a freezing of distributions at the 2014/2015 level through to 2017/2018. Council's current 10YP is predicated on a distribution pool of \$30 million in 2014/2015, increasing by CPI each year which, at the time, was conservative relative to TasWater's advice on forward distributions.

- 2.5.** The State Government has recently proposed to take over ownership of TasWater. Statements by the Treasurer to date include a commitment to maintain the level of distributions currently contemplated by the TasWater board until approximately the end of the attached draft 10YP.
- 2.6.** The effect of the reduction in TasWater distributions is profound. The final year of the adopted 10YP assumed dividends of \$4.14 million, whereas this is now expected to be \$2.2 million. The cumulative effect of reduced dividends is in excess of \$15 million over the next 10 years.
- 2.7.** Briefings with Aldermen have highlighted that Council's financial sustainability would be compromised should no action be taken to address this reduction in income. A "do nothing" approach is therefore not an option.
- 2.8.** Council has a range of tools at its disposal to address the issue. It can increase rates, reduce expenditure, increase other income sources, or even divest itself of assets. The purpose of the 10YP is not to identify specific strategies to be adopted by Council year-on-year, but to attempt to quantify the likely scale of response that will be required. With this in mind, the draft 10YP contains a "rating adjustment factor" (line 87) of 0.5% per annum which delivers outcomes which reasonably represent financial sustainability (based on key indicators). This 0.5% effectively quantifies the approximate scale of the response required and gives Council a target to address each financial year. It will then be a year-on-year budget decision to determine how this is best achieved. On this basis, the recommendation accompanying this report includes the requirement for an annual options paper to be developed for consideration as part of Council's budget deliberations.
- 2.9.** Particularly in the early years of the 10YP, it is envisaged that a strong emphasis in the proposed annual options paper will be on the expenditure side of Council's operations. This will necessarily consider a detailed review of both the level of expenditure in each functional area, the levels of service Council provides to the community, and the range of services Council provides to the community.

2.10. The Act requires that the 10YP is consistent with adopted Asset Management Plans. New Asset Management Plans are currently in development and these could alter the forward projections. Therefore it is proposed to again update the 10YP following adoption of new Asset Management Plans.

2.11. Key indicators are included in the draft 10YP which reflect internal measures and also those required by the Act for Council's financial statements. In summary:

- The **Infrastructure Renewal Reserve** remains consistent with adopted 10YP – declining from a high of \$29.8m to \$19.9m by year 10.
- **Cash** increases from the adopted 10YP – Council will note from previous consideration of the 10YP that cash was unrealistically low (especially relative to renewal reserve) in the adopted 10YP. This potentially remains the case, however further funding of the 7 Mile Beach recreational project may be considered (eg grants or loans).
- **Asset Sustainability Ratio** declines to a year 10 measure of 85%. As per previous advice to Council, the target for this measure as being 100% is considered unrealistic. This is due to annual depreciation including new assets which will not require replacement in the short/medium term, together with the renewal profile of Council's infrastructure. An outcome of 85% is therefore acceptable.
- **Renewal Funding Ratio** has been incorporated subsequent to the adoption of the current 10YP. Its target is 100%, indicating that Council's funding effort of 98% under the draft is appropriate.
- **Operating Result** is lower than the adopted 10YP, primarily arising from the base level for depreciation expense (\$12.5m in 2016/17) being higher (by \$400,000) than predicated in the adopted 10YP. However, the underlying result in later years of the draft 10YP is at an acceptable level and increases steadily through the later years of the plan, indicating long term sustainability.

2.12. As identified previously, Council's 10YP is not intended to provide an accurate prediction of specific line items. Rather, it attempts to show the likely set of

high level outcomes arising from the range of financial strategies Council expects to implement into the future. On this basis, the draft 10YP presents a balanced plan with responsible outcomes and which is likely to be affordable for the community.

3. CONSULTATION

3.1. Community Consultation

No issues to be addressed.

3.2. State/Local Government Protocol

No issues to be addressed.

3.3. Other

No issues to be addressed.

4. STRATEGIC PLAN/POLICY IMPLICATIONS

Consistent with existing policy frameworks including Asset Management Plans.

5. EXTERNAL IMPACTS

No issues to be addressed.

6. RISK AND LEGAL IMPLICATIONS

Council is well within legislative requirements for the review of the 10YP.

7. FINANCIAL IMPLICATIONS

No direct financial implications, however the Plan sets Council's strategic financial framework.

8. ANY OTHER UNIQUE ISSUES

No issues to be addressed.

9. CONCLUSION

The draft 10YP, which takes into account changes in key economic drivers and reductions in TasWater distributions, is provided for Council's consideration.

Attachments: 1. Revised Draft 10 Year Financial Management Plan (2)

Andrew Paul
GENERAL MANAGER

Clarence City Council 10 Year Financial Management Plan REVISED DRAFT APRIL 2017		KEY INDICATORS AS AT YEAR 10				Asset Sustainability Ratio		85%	Average = 82%				ATTACHMENT 1	
		Asset Renewal Reserve		19,875	Adopted 10 YP		19,536	94%		Adopted = 88%				
		Cash		33,768	Renewal Funding Ratio		98%							
		Adopted 10 YP		29,183	Operating Result		4,076							
		Adopted 10 YP			Adopted 10 YP		6,805							
Measure	Actual 2014/2015 \$000	Actual 2015/16 \$000	Budget 2016/17 (Adjusted) \$000	Forecast 2017/18 \$000	Forecast 2018/19 \$000	Forecast 2019/20 \$000	Forecast 2020/21 \$000	Forecast 2021/22 \$000	Forecast 2022/23 \$000	Forecast 2023/24 \$000	Forecast 2024/25 \$000	Forecast 2025/26 \$000	Assumptions	
Revenue														
Rates	44,091	44,629	44,805	46,284	47,857	49,628	51,663	53,678	55,771	57,946	60,554	63,278	Assumed rates increase plus growth.	
User Charges	5,170	5,131	5,437	5,589	5,751	5,935	6,149	6,358	6,574	6,798	7,070	7,352	CPI + growth	
Interest earnings - standard	550	500	550	561	573	587	602	617	633	651	670	690	Base level of interest earnings applied to budget support - increase by rates increase percentage	
Interest earnings - renewal funds	1,663	1,510	1,195	880	810	781	660	614	588	520	519	438	Average of opening & closing cash balances less non interest bearing estimate times investment rate.	
Financial Assistance Grants	3,986	1,199	2,500	2,520	2,563	2,612	2,664	2,717	2,777	2,838	2,909	2,982	Prior year plus CPI - Council now on minimum grant	
Specific Capital Grants	3,691	3,891	1,858	1,022	526	526	50	51	52	53	55	56	R2R likely to 2018/19 plus Est \$50k pa adj for inflation	
Other Government Subsidies	2,404	2,670	2,384	2,420	2,461	2,508	2,558	2,609	2,667	2,725	2,794	2,863	CPI	
Contributions of Capital (Assets)**	102,850	10,121	1,451	1,473	1,498	1,526	1,557	1,588	1,623	1,659	1,700	1,743	NOT IN ADOPTED BUDGET Assumed 2013/14 Actual plus inflation pa	
Gain/Loss on Disposal/Retirement of Assets	(2,015)	(2,319)	(500)	(508)	(516)	(526)	(536)	(547)	(559)	(572)	(586)	(600)	NOT IN ADOPTED BUDGET Assumed long term average plus inflation pa	
Dividends	3,318	3,317	3,300	3,300	2,212	2,212	2,212	2,212	2,212	2,212	2,212	2,212	Forward estimates from TasWater including dividend "freeze"; CPI adjusted	
Dividends - Balance	39	168		0	0	0	0	0	0	0	0	0	Any dividend amount not appropriated to renewal by Council	
Developer Contributions			331	330	336	342	349	356	364	372	381	390	5 year average of POS and Car Parking Contns; CPI adjusted	
Other Revenue	398	491	491	505	520	536	556	575	594	614	639	664	CPI + growth	
Total Revenue	166,145	71,308	63,802	64,376	64,591	66,668	68,483	70,827	73,296	75,816	78,915	82,070		
Expenditure														
Employee Costs	15,691	16,354	17,320	17,804	18,321	18,907	19,588	20,254	20,942	21,654	22,521	23,421	CPI plus growth (previous version: rates increase plus growth)	
Depreciation**	11,668	12,135	12,463	12,812	13,183	13,605	14,095	14,574	15,070	15,582	16,205	16,853	CPI plus growth	
Materials and Contracts	11,426	12,664	11,648	11,974	12,322	12,716	13,174	13,622	14,085	14,564	15,146	15,752	CPI plus growth (previous version: rates increase plus growth)	
Interest Expense - existing loans	38	34	18	18	8	0	0	0	0	0	0	0	Actuals from existing portfolio	
Interest Expense - new loans				0	0	0	0	0	0	0	0	0	Assumed no new loans	
State Government Charges	4,794	4,956	5,221	5,367	5,522	5,699	5,904	6,105	6,313	6,527	6,788	7,060	CPI + Rates growth	
Other Expenses	10,337	10,525	10,137	10,421	10,724	11,067	11,465	11,855	12,258	12,675	13,182	13,709	CPI + Rates growth	
Total Expenses	53,954	56,668	56,807	58,397	60,079	61,994	64,226	66,409	68,667	71,002	73,842	76,796		
Surplus/(Deficit)	112,191	14,640	6,996	5,980	4,511	4,674	4,257	4,417	4,629	4,814	5,073	5,274		
Underlying Surplus/(Deficit)	7,665	2,947	4,187	3,993	3,004	3,148	3,187	3,325	3,513	3,674	3,905	4,076	Excludes non-cash revenue and capital grants	
Fair Value Revaluation of Fixed Assets	11,650	2,224	6,958	8,000	9,393	10,969	12,109	12,678	14,538	15,145	17,938	18,803	CPI	
Fair value revaluation of investments and associates	1,305	2,788	2,362	2,601	3,033	3,499	3,815	3,945	4,487	4,640	5,483	5,703	CPI (adjusted for non-current receivables 16/17)	
Comprehensive Result	125,146	19,652	16,315	16,581	16,938	19,142	20,181	21,041	23,654	24,599	28,495	29,780		
Assets														
Cash Assets	55,824	58,384	57,371	57,897	52,694	46,705	43,263	41,311	39,733	37,764	35,798	33,768	Outcome of assumptions/variables within the model	
Other Current Assets	7,179	4,543	7,389	7,500	7,627	7,772	7,928	8,086	8,264	8,446	8,657	8,874	CPI	
Total Current Assets	63,003	62,927	64,760	65,397	60,321	54,477	51,191	49,398	47,997	46,210	44,455	42,642		
Infrastructure Assets	496,968	513,430	533,317	552,547	577,304	605,441	633,915	660,796	688,406	717,509	752,135	788,382	CPI + Rates growth less depreciation plus total capital expenditure. 15/16 Budget adjusted to reflect actuals in 14/15	
Other Non Current Assets	166,948	169,632	169,981	174,064	178,434	184,144	190,773	197,260	203,967	210,901	219,337	228,111	CPI+Rates growth (Non current debt repaid in 16/17 and 17/18)	
Total Non Current Assets	663,916	683,062	703,297	726,611	755,739	789,585	824,688	858,056	892,373	928,411	971,472	1,016,493		
Total Assets	726,919	745,989	768,057	792,008	816,060	844,062	875,879	907,453	940,370	974,620	1,015,927	1,059,134		
Liabilities & Equity														
Current Borrowings	171	183	191	191	0	0	0	0	0	0	0	0	Actuals from existing portfolio - assumed no new borrowings	
Other Current Liabilities	9,763	9,314	10,228	10,433	10,662	10,918	11,191	11,471	11,780	12,098	12,461	12,835	Represents creditors, accruals, and provisions. Annual adjustment at same rate as rate increases	
Total Current Liabilities	9,934	9,497	10,419	10,624	10,662	10,918	11,191	11,471	11,780	12,098	12,461	12,835		
Non Current Borrowings	371	188	0	0	0	0	0	0	0	0	0	0	Actuals from existing portfolio plus assumed nil new borrowings	
Other Non Current Liabilities	719	757	751	766	783	802	822	842	865	888	915	942	Consistent with rate increases	
Total Non Current Liabilities	1,090	945	751	766	783	802	822	842	865	888	915	942		
Total Liabilities	11,024	10,442	11,170	11,390	11,445	11,720	12,013	12,313	12,645	12,987	13,376	13,778		
Net Assets	715,895	735,547	756,887	780,618	804,615	832,342	863,866	895,141	927,725	961,634	1,002,551	1,045,357		
Infrastructure Renewal Reserve	26,839	28,413	28,614	29,790	29,199	28,211	26,524	24,917	23,552	22,194	20,988	19,875	Prior year plus funds raised plus dividends applied plus assumed interest minus renewal expenditure	
Other Cash Backed Reserves	5,937	5,554	6,733	7,164	7,621	8,108	8,619	9,147	9,712	10,298	10,936	11,600	CPI + developer contributions	
Other Reserves and Equity	683,119	701,577	721,540	743,664	767,795	796,023	828,723	861,076	894,461	929,142	970,627	1,013,882		
Total Equity	715,895	735,544	756,887	780,618	804,615	832,342	863,866	895,141	927,725	961,634	1,002,551	1,045,357		

57	Clarence City Council - 10 Year Financial Management Plan													
58	REVISED DRAFT APRIL 2017													
59		Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
60		2014/2015	2015/2016	2016/2017	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Assumptions
61	Other	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
62	Capital Expenditure - Total			18,487	17,109	21,916	23,268	20,773	19,902	20,213	21,279	22,130	23,015	Aggregate of capex types
63	Capital Expenditure - Renewal			9,622	9,077	10,115	10,952	12,055	12,465	12,762	13,283	13,815	14,367	Used original AMP numbers plus estimate and current inflation factors. Extrapolated in years 9 and 10
65	Capital Expenditure - New			8,865	6,532	10,258	10,723	7,067	5,731	5,686	6,171	6,418	6,675	Used original AMP numbers plus estimate and current inflation factors. Extrapolated in years 9 and 10
66	Capital Expenditure - Enhancements			-	1,500	1,544	1,593	1,650	1,706	1,764	1,824	1,897	1,973	Allowance for enhancements of existing assets - reduced from \$2.5m to more realistic level.
67	Loan Principal Repayments	161		180	191	-	-	-	-	-	-	-	-	Actuals - existing debt - Refer AA loans net FV and ageing Workpapers
68	New Borrowings			-	-	-	-	-	-	-	-	-	-	None assumed
69														
70	Primary Ratios/Measures													
71	Net Financial Liabilities	44,800	47,942	46,201	46,508	41,249	34,985	31,251	28,998	27,088	24,777	22,422	19,990	
72	Net Financial Liabilities Ratio	73%	80%	76%	75%	65%	54%	46%	42%	38%	33%	29%	25%	Benchmark: > 0
73	Underlying Surplus/(Deficit)	7,665	2,947	4,187	3,993	3,004	3,148	3,187	3,325	3,513	3,674	3,905	4,076	Benchmark: > 0
74	Underlying Surplus Ratio	12%	5%	7%	6%	5%	5%	5%	5%	5%	5%	5%	5%	Benchmark: > 0
75	Asset Consumption Ratio	53%	54%	54%	55%	56%	57%	58%	58%	59%	60%	60%	61%	Benchmark: > 40
77	Asset Sustainability Ratio			77%	71%	77%	80%	86%	86%	85%	85%	85%	85%	Benchmark: 100% (but subject to discussion with AG)
78	Liquidity Ratio	634.2%	662.6%	621.6%	615.6%	565.8%	499.0%	457.4%	430.6%	407.4%	381.9%	356.7%	332.2%	Benchmark: >100%
79	Gearing Ratio	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Benchmark: no set benchmark
80	Debt Servicing to Rates	0.5%	0.1%	0.4%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Benchmark: no set benchmark
82														
83	Primary Variables													
84	Rating Increases	2.8%		1.9%	2.00%	2.20%	2.40%	2.50%	2.50%	2.70%	2.70%	3.00%	3.00%	CPI plus "Rating Adjustment Factor" (below) if relevant
85	Rates Growth	0.9%		1.3%	1.30%	1.20%	1.30%	1.60%	1.40%	1.20%	1.20%	1.50%	1.50%	Estimate of market - approx average of 19 years (1.6%)
86	Inflation	1.2%		1.4%	1.50%	1.70%	1.90%	2.00%	2.00%	2.20%	2.20%	2.50%	2.50%	Estimate of potential trend - moving towards RBA target range of between 2%-3%, but from very low base
87	Rating Adjustment Factor				0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	Adjustment over CPI - providing for phased in sustainability following loss of Taswater Dividend, including allowance for loss of dividend indexing
88	Cumulative Inflation				101.50%	103.23%	105.19%	107.29%	109.44%	111.84%	114.30%	117.16%	120.09%	
89	Average Investment Rate				2.50%	2.50%	2.75%	2.80%	2.90%	3.00%	3.00%	3.20%	3.20%	Estimate of market - assumes low return/low inflation environment
90	Average Borrowing Rate													
	Taswater Dividends based on adopted 10YP			3,476	3,528	3,588	3,656	3,729	3,804	3,888	3,973	4,073	4,174	Information only - dividend amount had distribution decisions not changed since adopted 10YP
	Amount raised - Rating Adjustment Factor (Cum)				224	455	695	943	1,201	1,470	1,748	2,038	2,341	Information only - Cumulative amount raised by the Rating Adjustment Factor (this is included in Renewal Funds Raised below)
	Taswater Dividends plus Rating Adjustment Factor				3,524	2,667	2,907	3,155	3,413	3,682	3,960	4,250	4,553	Information only - allows comparison between expected dividends plus rating adjustment factor and dividend payments previously expected
91	Renewal Funds Raised	5,962	6,167	6371	6,773	7,201	7,671	8,195	8,732	9,298	9,892	10,578	11,304	Base model per current level raised, adjusted for CPI plus growth, PLUS Rating Adjustment Factor (replaces Taswater Dividends).
96	Major Development Rates - Capital	1,406	1,461	1492	1,522	1,555	1,593	1,632	1,673	1,718	1,765	1,818	1,872	Adjust for expected rates increases
97	** Amounts in forward estimates will differ from actual estimates adopted by Council													