2024-2033

LONG TERM FINANCIAL MANAGEMENT PLAN

Break O'Day
COUNCIL

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1. Executive Summary

The Long Term Financial Management Plan (LTFMP) seeks to inform the reader about how the Break O'Day (Council) intends to govern the financial aspects of its Strategic Framework. Underpinning this is Council's goal of managing its operations in a financially sustainable manner now and into the future.

This plan has been developed with Council's key financial strategies at its core: moderate underlying surpluses, sufficient liquidity and cash flow, minimise debt, and asset renewal requirements being satisfactorily funded.

Council recently considered its long term asset management plans, acknowledging the need to focus capital spending on asset renewals over the next ten years. Both the long term financial plan and the long term asset management plans are to be reviewed annually.

The forecasts contained within this LTFMP and which are necessarily based upon certain assumptions, produce the following outcomes over the 10-year horizon of this plan: -

- The achievement of modest underlying operating surpluses. Over the next 10 year period, Council is forecast to achieve underlying surpluses in the range -1% to 2% of revenue, and averaging 1%. It is important that Council generates sufficient revenue to cover all of its cash and non-cash costs, with a small buffer.
- Long borrowings are currently at moderate levels and these will decrease by more than 76% over the 10 year period.
- Cash balances over the 10 year period are at moderate levels . Balances should remain steady over the 10 year period.
- 100% funding of forecast asset renewal requirements will be achieved over the life of the plan, which is a key financial sustainability indicator. An appropriate benchmark is considered to be 90-100%. Renewal forecasts are continually being refined and the funding level monitored.

These outcomes, together with the underpinning assumptions of revenue and cost growth indicate annual rate increases in the order of 8-10% in the short term, and then decreasing to 4.6%. This is exclusive of the State Government fire levy, any redistributive effects of revaluations, Assessed Annual Value (AAV) indexation or changes to council rating policy.

These outcomes ensure a return to a financially sustainable position for the Council, thus ensuring the ability to deliver services into the future. It will ensure an equitable distribution of costs between current and future generations.

2. Background

Break O'Day Council

The Council is a regional council situated on the north east coast of Tasmania. The Council services an immediate population of 6,100 residents and increases to more than 15,000 in the summer months. Council offers a large array of services to the community and the infrastructure required of a regional location.

Council has over $256 million in gross assets (replacement cost) and will generate operating revenues of $18.1 million in 2023-24, comprising $11.8 million of rates and charges and $1.4 million of fees, charges and other income. $3.9 million is expected from operational grants, including $3.6 million in Financial Assistance Grants. Council has a workforce of 65 full time equivalent employees as at June 2022.

One of Council's corporate priorities is planning for its financial sustainability. Strategies to achieve this priority include the development of this 10-year Financial Management Plan.

What is Financial Sustainability?

For Council, financial sustainability means whether Council can sustain its current practices in financial terms and whether community needs are currently met and will be met in the future.

Importance for Local Government

Financial sustainability is particularly important for Local Government because councils hold assets worth in the billions of dollars (large relative to revenue base), that have lives, in some cases, well over 100 years.

Council has over $256 million in physical assets, including buildings, parks infrastructure, plant, vehicles and equipment, playground equipment, road infrastructure, stormwater infrastructure and sport and recreational facilities. The expected life of physical assets varies from 3 years to 100 years.

It is important for Council to adequately fund asset management to ensure its assets achieve their full expected service life but can also be renewed without incurring large rate increases in the future.

In addition, councils face continuing expectations and pressures to maintain and increase service levels while at the same time keep rate rises to a minimum and have sound long-term financial management.

3. Council's Planning and Reporting Framework

Strategic Framework

The Council's Community Vision was developed for Council by residents in 2017. In 2017 the Council endorsed a new 10 year Strategic Plan, 2017-2027, for the Break O'Day Council. This was recently updated in 2022. All councils are required to have a 10 year plan which is reviewed every four years. The Plan is built around six key goals and will guide the Council's work over the 10 year period. Each key foundation has outcomes that detail what we are trying to achieve and how we will measure success.

Performance in achieving the major actions and initiatives outlined in the Annual Plan are reported to the community through Council's Annual Report.

Key goals

Community

- To strengthen our sense of community and lifestyle through opportunities for people to connect and feel valued.

Economy

- To foster innovation and develop vibrant and growing local economies which offer opportunities for employment and development of businesses across a range of industry sectors.

Environment

- To balance our use of the natural environment to ensure that it is available for future generations to enjoy as we do.

Infrastructure

- To provide quality infrastructure which enhances the liveability and viability of our communities for residents and visitors.

Services

- To have access to quality services that are responsive to the changing needs of the community and lead to improved health, education and employment outcomes.

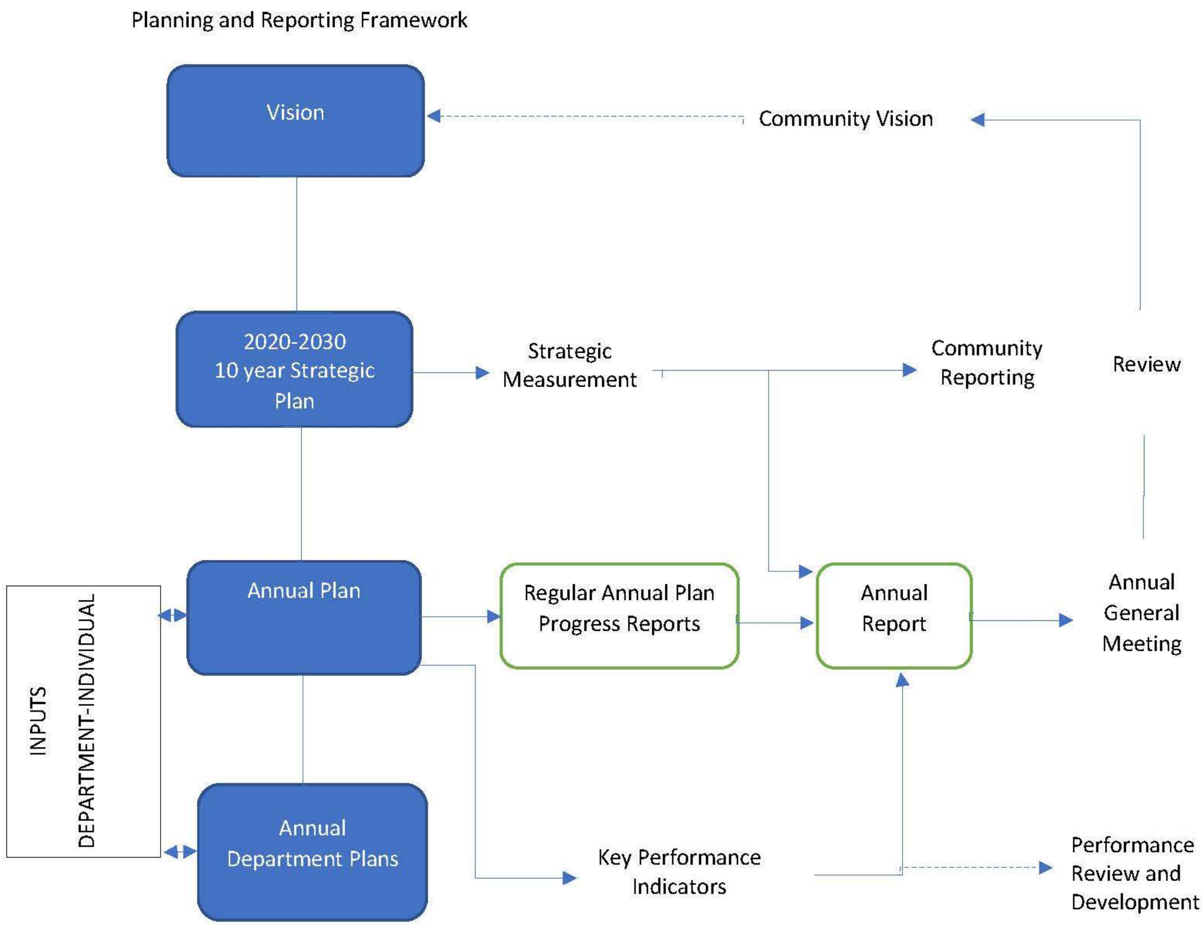
Linkages with the Strategic Framework

The relationship between long-term financial planning and Council's strategic framework is represented in the diagram overleaf. Long-term financial planning provides for the optimum allocation of available resources to deliver Council's strategic and corporate objectives. Long-term financial planning supports the delivery of Council's community vision.

Long term financial sustainability can only be said to have been achieved when Council is providing expected services at defined levels to its community that is adequately funded, not only on an annual basis, but over the long term. This includes infrastructure asset renewal funding requirements.

Council's 10-year Financial Management Plan and 10-year Asset Management Plan are integral documents. Council's Asset Management Strategy sets out the most appropriate long term course of action for implementing the asset management policy which aims to forecast long-term asset renewal requirements.

Council's Planning & Reporting Framework



4. Introduction to Long-Term Financial Management Plan

The Long-Term Financial Management Plan (LTFMP) sets out Council's objectives, goals and desired outcomes in financial terms. The purpose of the LTFMP is to express in financial terms the activities that Council proposes to undertake over the medium and longer term to achieve its strategic objectives and community expectations. The key objective of the LTFMP is the achievement of financial sustainability in the medium to long term whilst achieving Council's strategic objectives.

The LTFMP provides a tool for Council to consider the financial impact of its decisions on Council's future financial sustainability. It includes consideration of cost increases: salaries and wages, fire levy, energy costs and other operating costs; and revenue increases: rates, operating grants and other fees and charges.

The LTFMP is aimed at: -

- Developing systems to ensure the financial impacts of new initiatives are included in long-term financial planning;
- Achieving modest operating surpluses;
- Maintaining stable and predictable rate increases; and
- Maintaining and enhancing community service levels.

The LTFMP has been prepared over a rolling 10-year period with the first planning year being 2023-24 and concluding in 2032-33. The LTFMP is a 'living' document and is updated annually as part of Council's annual planning and budget process and on an ongoing basis to reflect changing internal and external circumstances.

Measuring Financial Sustainability

Council has adopted the recommended suite of financial sustainability measures identified in *The Framework for Long-term Financial and Asset Management Planning for all Tasmanian Councils* reports as key to securing long-term financial sustainability.

The 8 measures have been adopted for the purposes of the LTFMP and are as follows:

- Underlying operating result
- Operating surplus ratio
- Net financial liabilities
- Net financial liabilities ratio
- Interest cover ratio
- Asset sustainability ratio
- Asset consumption ratio
- Asset renewal funding ratio

Appendix 1 provides a full explanation of these indicators. The first two are measures of profitability, the next three are measures of indebtedness, and the last three are measures of asset management.

5. Assumptions and Methodology

The preparation of the LTFMP is underpinned by a 10-year financial model. The financial model allows for analysis and modelling of various financial scenarios. For the purpose of financial modelling the following key assumptions for years beyond 2023-24 have been made:

General

- The LTFMP generally provides for maintenance of existing core services.
- Annual asset renewal requirements are based on Council's Asset Management Plans, which set out the forecast capital renewal requirements for the next 10 years. These plans are expressed in today's dollars.
- All maturing debt will be repaid as it falls due.

Specific

- The percentage of revenue uncollected on average at year-end is 4.58%.
- The percentage of creditors' payable on average at year-end is 6.5%.
- The percentage of commission received for collecting the Tasmanian fire service levy is 4%.
- The employee on-cost percentage relating to payroll tax, contribution scheme superannuation, personal leave, public holidays, annual leave and long services leave and workers compensation insurance is 50%.
- 100% funding of forecast asset renewal requirements has been included over the 10 year period.

The specific assumptions have been based on an analysis of recent experience. The variables used to underpin Council's long-term financial strategy are based on a historical analysis of cost and revenue increases over the last five years. These variables are summarised on the following page: -

		Y/E 30 June	2024	2025	2026	2027	2028-29	2030-33
	Operating Items							
INFLOWS	**Rate increase (Council operations, including base growth)**	% change	9.75	10.0	8.6	5.1	4.6	4.6
	Rate increase (fire levy)	% change	6.0	2.0	2.0	2.0	2.0	2.0
	Rate base growth	% change	0.64	0.60	0.60	0.60	0.60	0.60
	Operating grants	% change	11.65	4.5	3.5	3.5	3.0	2.5
	Other fees and charges	% change	8.0	5.0	5.0	5.0	5.0	5.0
	Interest revenue rate	%	3.5	3.5	3.0	2.0	2.0	2.0
OUTFLOWS	**Operating costs**	% change	6.0	4.5	3.5	3.5	3.0	2.5
	Employee salary & wages	% change	4.0	4.0	3.0	3.0	3.0	3.0
	Fire levy	% change	6.0	2.0	2.0	2.0	2.0	2.0
	Contractors	% change	8.0	5.0	5.0	5.0	5.0	5.0
	Insurance	% change	15.0	10.0	10.0	10.0	10.0	10.0
	IT Costs	% change	10.0	5.0	5.0	5.0	5.0	5.0
	Other expenses	%	3.0	2.0	2.0	2.0	2.0	2.0

Whilst the LTFMP will be updated annually, the underpinning financial model will be regularly updated. Revisions will included: -

- The inclusion of prior years' actual results;
- The inclusion of the current year budget;
- Revisions to the current year budget as approved by Council half yearly;
- Updated assumptions;
- Revisions to depreciation forecasts; and
- Revisions to the 10 year capital expenditure forecasts sourced from the updated asset management plans.

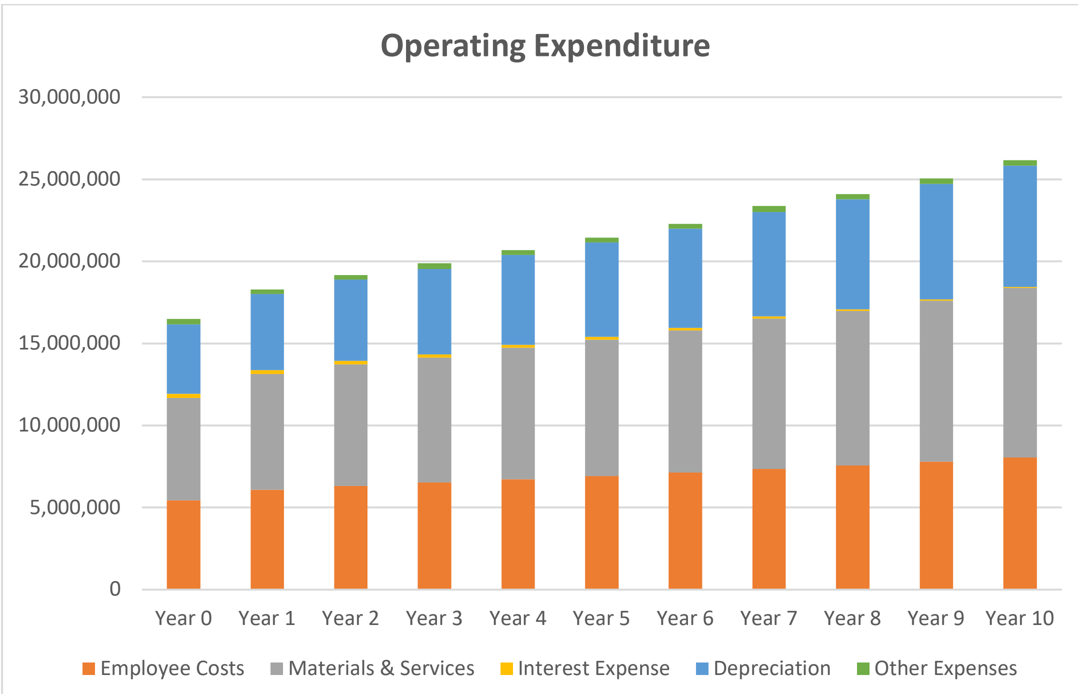
Forecasts from 2023-24 onwards are based, in the short term, on Council's focus on attaining a financial sustainable position, specifically;

- Sufficient funding for core operations and to meet statutory obligations.
- Achieving a modest surplus, sufficient to finance asset renewals at 100% and meet loan repayments by year 10 (2032-33).
- Ensuring liquidity by maintaining the balance of cash on hand over the 10 year period.

6. Key Financial Strategies

In order for Council to remain financially sustainable the following financial strategy has been adopted. The financial strategy reflects an appropriate mix of cost and revenue levels designed to maintain financial stability and, as far as possible, whilst ensuring sufficient resources are available to achieve Council's strategic objectives and community expectations.

Forecast Operating Expenses 2023-24 to 2032-33



Operating Items - Expenses

Salaries and Wages

Salaries and wages is gross salaries and wages, net of leave amounts paid and amounts capitalised, and redundancy payments (if any).

Costs have been assumed to increase by 4%, in year 2024-25 and 3% per annum from year 3 of the plan. This is inclusive of reclassifications and any new positions. It is inherent in the assumption that leave amounts paid and amounts capitalised will increase by the same amount.

Employee On-costs

Employee on-costs include superannuation, leave entitlements, payroll tax, and workers compensation less labour on-costs capitalised. On costs for these items are assumed at 50% of salaries and wages, based on the 2023-24 forecast rate.

Employee Leave Entitlements Expense

Leave entitlements expense is the annual accruals for employee leave. This has been assumed to increase in line with increase in wages.

Materials and Services

Materials and services is all expenditure not included elsewhere. Major items include subcontractors, communication costs, consultants, licences, external labour, insurance, fuel, advertising and marketing, equipment maintenance, water and sewer charges, energy costs, printing and stationery costs, and legal costs. This has generally been assumed to increase in line with inflation.

Fire Levy

Pursuant to the *Fire Services Act 1979*, local government acts as a collection agent for this levy, which is paid directly to the State Fire Commission. This item is difficult to forecast as given its method of calculation by the State Fire Commission, is prone to substantial fluctuations, year on year. For the 2023-24 year, there will increase in the fire levy of 6%, over the 10-year period it is expected to increase in the order of 4-6% p.a. A 4% commission is received for collecting the levy.

Other Expenses

Other expenses include audit fees and councillor allowances and expenses. From 2024-25 increases are forecast to be 2% per annum.

Depreciation and Amortisation

Depreciation is the financial representation of the annual decrease in the value of, or consumption of service potential inherent in, Council's assets. Depreciation therefore approximates the funds that will need to be spent at some time in the future to renew assets. This expense is forecast to increase in line with construction cost increases, due to rising asset valuations and capital expenditure.

Asset Write-offs

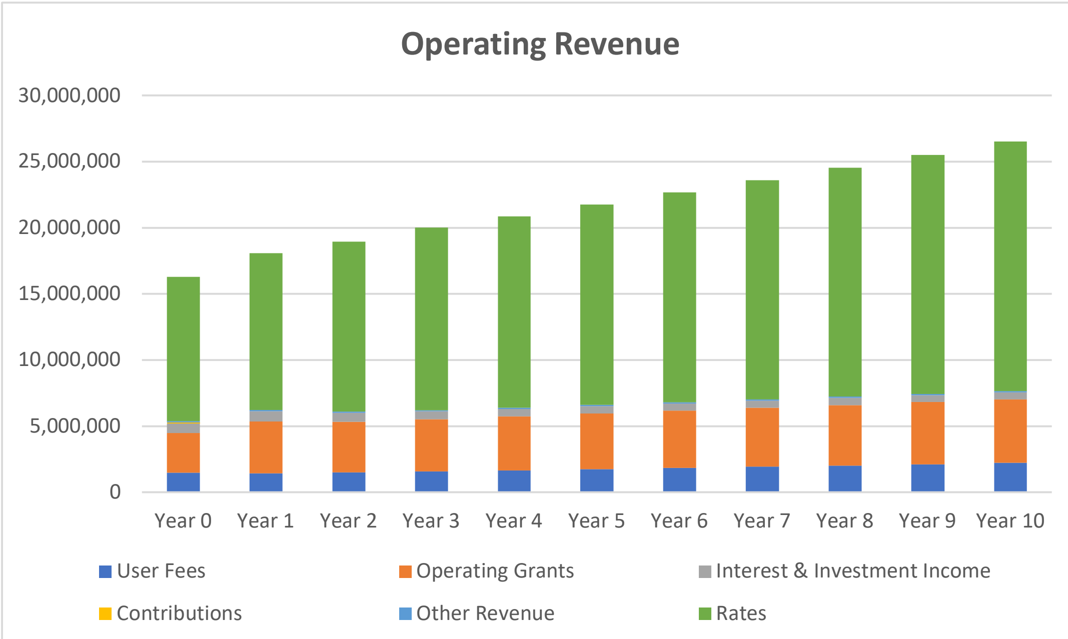
Asset write offs represents the residual value of infrastructure assets replaced. The forecast is difficult to predict, therefore no allowance has been made for asset write-offs.

Interest Expense

Interest expense is payable on debt. No new loans have been forecast over the 10 year period, only renewal of existing long term loans.

Operating Items - Revenue

Forecast Operating Revenue 2023-24 to 2032-23 ('000s)



Rates

Rates include revenue from general rates, service rates (fire protection) and service charges (waste management) and supplementary rates. Increases in total general rate revenue for 2023-24 are forecast to be 9.75% per annum moving to 10% in 2024-25 and 8.6% 2025-26. Then decreasing to 5.10% for the following 3 years and 4.6% 2029-30 onwards.

This plan is not in any way affected by changes in the Council's rating strategy – it simply models total rate revenue required per annum irrespective of how that is apportioned to individual properties. For the same reason, the LTFMP is unaffected by periodic revaluations or the application of AAV indexing by the Valuer-General. However, the impact on individual ratepayers may be affected by these factors.

Fire Levy Commission

A commission of 4% is earned for collecting the State Government fire levy.

Fees and Charges

Fees and charges income includes all user fees and charges including landfill, private works income, building and development fees, animal licences, leases, hall hire and community events income. Most user fees and charges are forecast to increase in line with inflation over the 10 year period.

Operating Grants

Operating grants are predominantly the Commonwealth financial assistance grants. Over recent years revenue from Finance Assistance Grants has been slightly increasing. However, 75% the 2022/23 Financial Assistance Grants was received in advance, higher than the budgeted 50% that has typically been occurring. A return to a typical allocation has been forecast from 2023-24 and for the remaining 10 year period.

A significant increase of 11.65% is forecast for 2023-24 after the Federal budget announcement that the allocation for Tasmania will increase higher than the national average. The Financial Assistance Grant is forecast to increase inline with inflation from 2024-25.

Given the unpredictable nature of grant revenue, no forecast has been made for other operating grants.

Interest and Investment Revenue

Interest revenue is earned on cash investments. An interest rate of 3.5% has been assumed from 2024 on the basis of current rates, then decreasing to 3% in year 3 (2025-26) and 2% thereafter. Only a proportion of Council's cash holdings is held in investments that attract interest.

Distributions from TasWater

Distributions are received as a result of Council's ownership interest in TasWater. They comprise dividends and tax equivalent payments. Forecast amounts are based on advice from both TasWater and the State Government to provide distributions until 2024-25. The most recent correspondence from TasWater has confirmed that full dividends should be paid in 2023-24 and over the four years to 2024-25 an additional payment is likely to be received for missed payment due to the pandemic. This has been reflected in the 10 year plan.

Non-Operating Items

Contributed Assets

Contributed assets are assets contributed to Council by developers. Council does not budget for these contributions as they cannot be reliably forecast.

Capital Grants

Capital grants are grants received to upgrade existing assets or to create new assets. They include Roads to Recovery grants and other specific-purpose capital grants. These are also difficult to reliably forecast and are therefore not included unless specific advice has been received. Only approved grants are included in 2023-24 and only Roads to Recovery grants at current levels has been included in the plan moving forward.

Asset Revaluations

Asset revaluations are revaluation increments and decrements arising from periodic asset values. Usually these amounts are credited or debited directly to equity but on occasions are accounted for through the income statement.

Movement in TasWater Investment

This represents the annual adjustment to the value of Council's ownership interest in TasWater. This has been forecast to increase in line with increase in construction cost indices to reflect the estimated growth in TasWater assets.

Capital Items

Asset Replacement

An integral component of the LTFMP is Council's approach to asset management and in particular to the renewal of assets. Council controls assets worth over $256 million and it is important that each generation pays their way, rather than allowing assets to run down creating a financial impost (or lower service levels) on future generations.

To ensure that Council discharges its asset management obligations responsibly, as set out in this plan, Council aims to achieve modest underlying operating surpluses and fully fund renewals for the life of the plan. This will ensure that the current generation is fully paying for the current cost of service provision and asset consumption.

Asset management plans will continue to be enhanced over time across all asset classes.

Capital works program

The forecast works program has a strong focus on asset renewal over the 10 year period. Some new assets have been identified and included, largely funded by Federal and State grants for 2023-24.

Borrowings

No new borrowings will be undertaken in 2023-24 and principal repayments of $0.407 million on existing borrowings will be made. Principal Loan repayment rise steadily to $0.605million over the 10 year period.

No new borrowing are forecast over the 10 year period, only refinancing of existing debt. Council's aim over the 10 year period is to repay debt to ensure a manageable level of repayments and capacity to borrow is available if required.

7. Long Term Risk, Contingency and Reserves

The LTFMP has included all known variables and has made certain assumptions about the future. However, the future is uncertain. There is an inherent risk that circumstances may change, some of which may be within Council's control (e.g. policy decisions, service delivery decisions) and some which will be outside of Council's control (e.g. legislative change, funding streams, demographics, and macro-economic conditions).

Council's three largest expense categories are employee salaries and wages, materials and services, and depreciation. As such the outcomes of the LTFMP are significantly affected if actual results in these three categories are different to forecast. Chapter 10 sets out a sensitivity analysis of these two largest categories – employee costs, and materials and services, as well as the LTFMP's sensitivity to rates increases being different to those currently assumed. In addition, asset management outcomes have a significant impact on the LTFMP. Updates to asset management plans and cyclical revaluations may materially impact on asset valuations, depreciation expense, asset write-offs and forecast asset renewal requirements.

The LTFMP is be reviewed and updated regularly – on at least an annual basis to coincide with the adoption of the Council budget, and more frequently when new information is available which may have an impact on the LTFMP.

In order to mitigate financial risk, the LTFMP has made provision for contingencies and reserves. These are outlined below.

Contributions in Lieu of Public Open Space

A reserve has been established to separately account for funds provided to Council for the express purpose of providing areas of Public Open Space throughout the municipality.

Section 137 Funds

A reserve has been established to separately account for unclaimed funds held from property sales for unpaid rates.

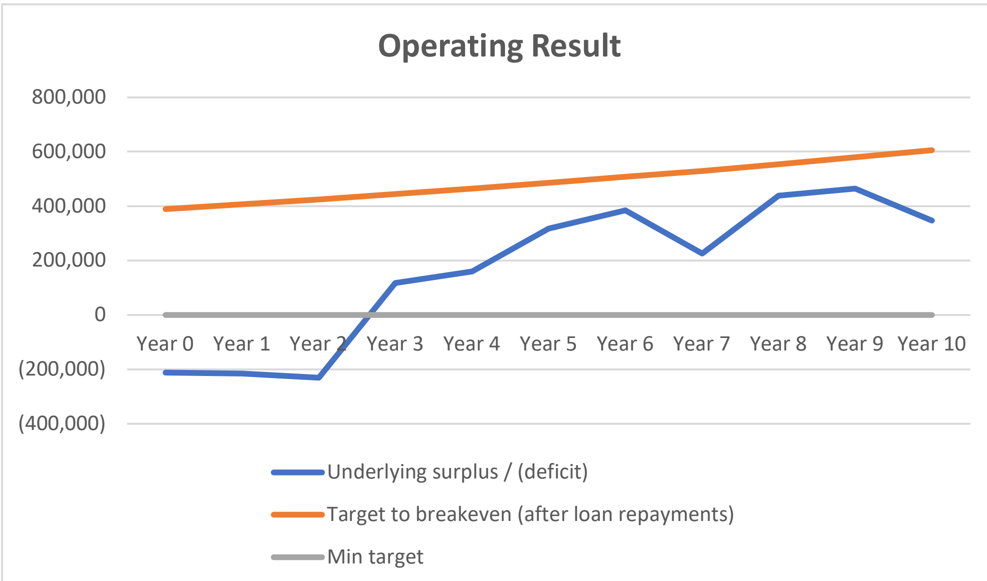
General Reserve

A reserve has been established to separately account for funds held for a specific purpose at the request of Council.

8. Forecast Position and Analysis

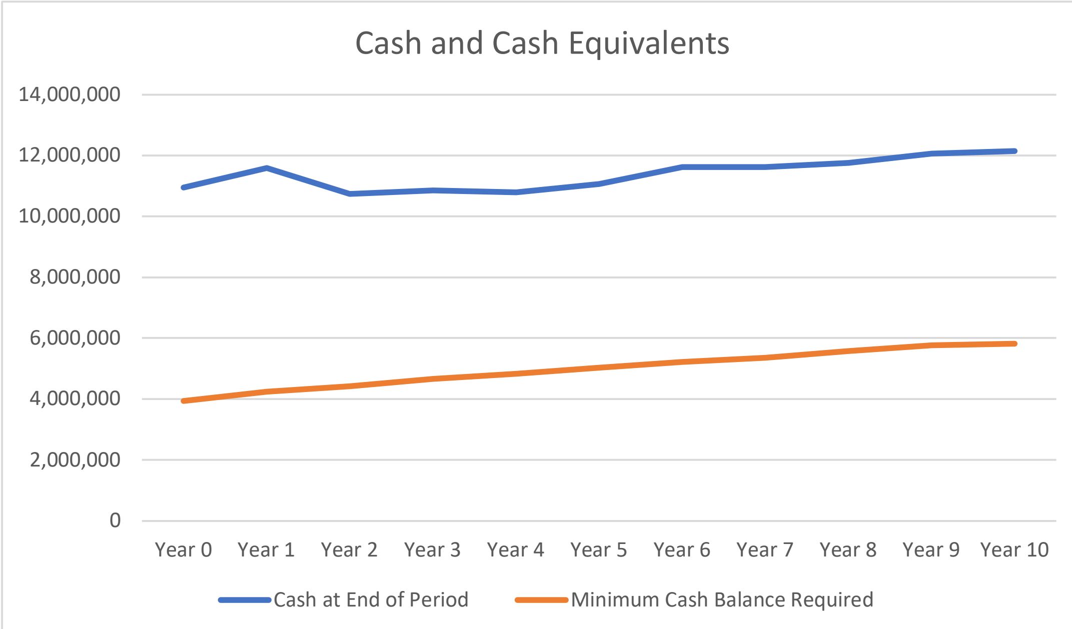
Based on the long-term financial strategy, the following outcomes will be achieved. More detail is provided in the forecast financial statements at Appendix 2.

Operating Result



Based on the financial strategy Council will commence its return to a financially sustainable position with ongoing modest underlying operating surpluses from 2025-26. This is discussed further in Chapter 9.

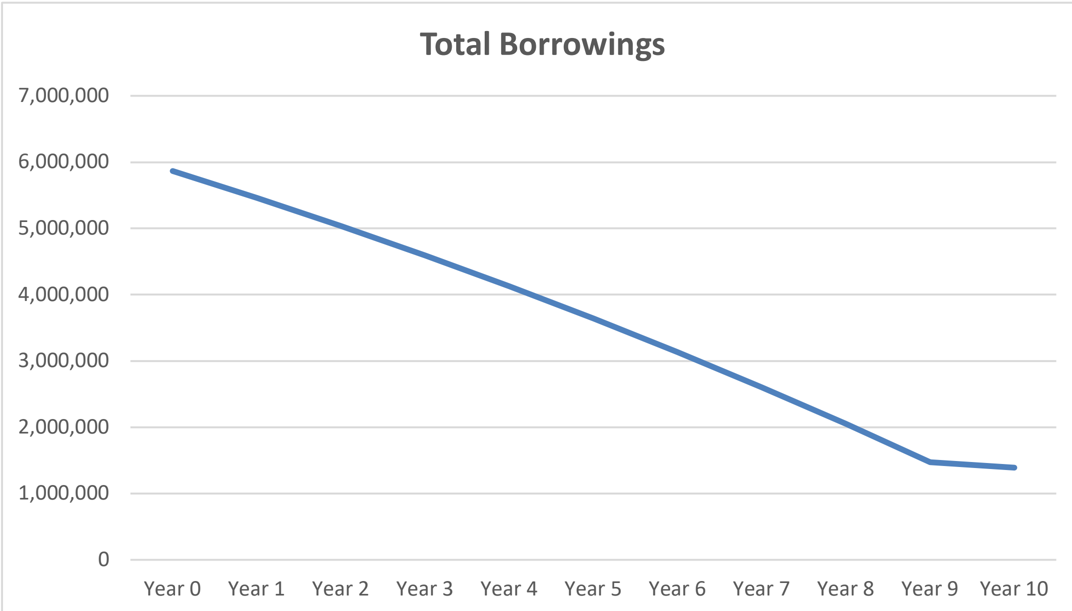
Cash



Cash balances are currently at a moderate level. A concerted effort to maintain and build cash balances is required to ensure Council's liquidity, to provide for asset replacement requirements and to provide for unforeseen events. Balances will remain steady to meet these needs. A KPI considered as appropriate minimum cash levels for a council by the Tasmanian Audit Office is unrestricted cash balances on hand of at least 3 months of recurrent operating expenditure.

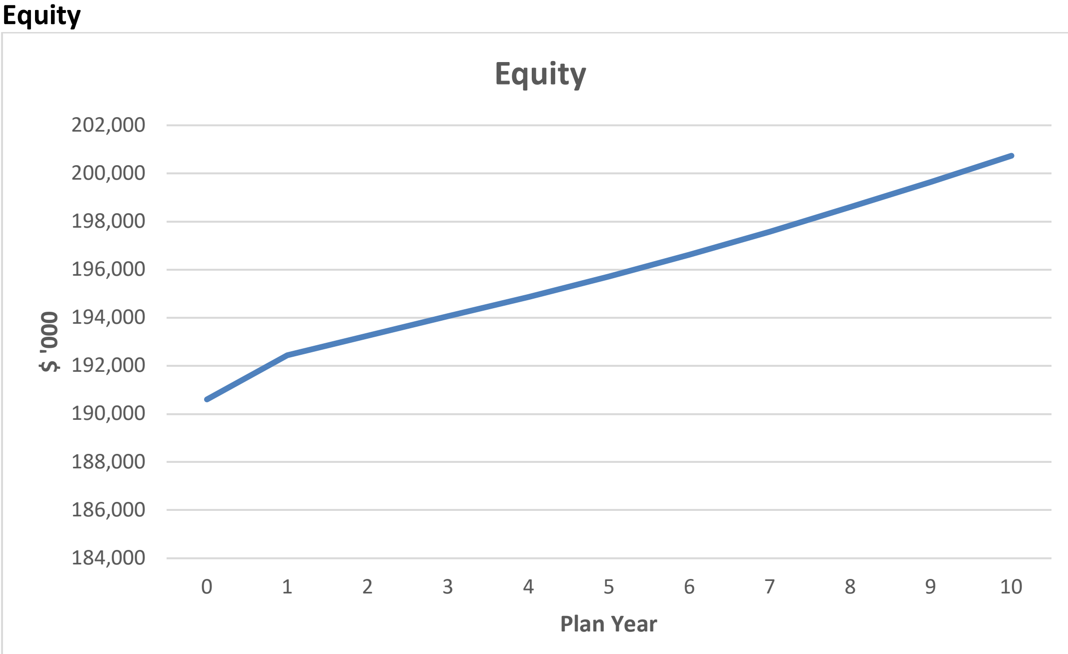
Unrestricted cash balances is calculated by taking the balance of cash and cash equivalents and deducting commitments such as funds held in trust, employee entitlements, contractual liabilities for grants and funds held in reserve for specific purposes.

Debt



Borrowings are currently at a moderate level, no new loans are forecast in the 10 period. The aim is to keep Council's debt within manageable levels and under acceptable benchmarks to provide the facility to borrow funds in the future if required. See also Indicators 4 and 5 in Chapter 9.

Equity



Over the life of the plan, equity is forecast to increase due to operating surpluses.

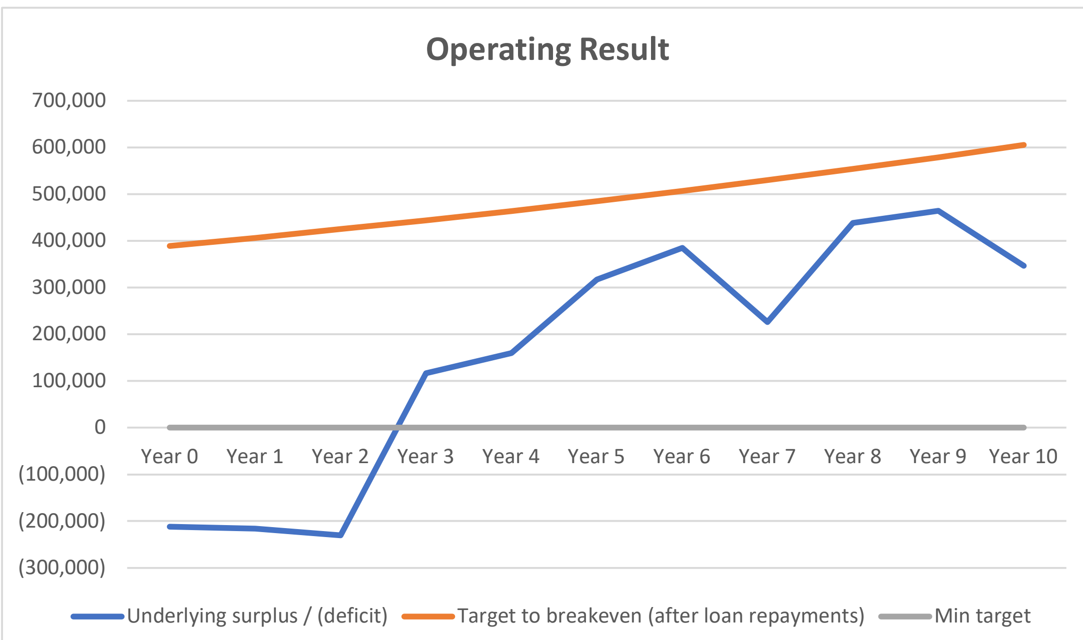
9. Financial Sustainability Outcomes

As outlined in Chapter 4, for the purpose of measuring Council's financial sustainability, eight financial sustainability measures have been adopted.

- Indicators 1 – 2 are measures of profit performance and the extent to which expenses are covered by revenues.
- Indicators 3 – 4 are measures of indebtedness and the amount Council owes others (debt, employee provisions, creditors) net of financial assets (cash, investments) and amounts owed to Council.
- Indicators 5 – 7 are measures of asset management.

Indicator 1 – Underlying Operating Result

This indicator measures the difference between day-to-day income and expenses for the period and is recognised as a better indicator of sustainability than the all-inclusive operating result. The underlying operating result excludes capital grants which can be project specific and thus non-recurring, and other amounts which are required to be recognised as income by accounting standards.



An operating surplus arises when operating revenue exceeds operating expenses for the period. An operating deficit arises when the opposite is true. Council's long term financial sustainability is dependent upon ensuring that on average, over time, its expenses are less than associated revenues. This ensures equity between generations of ratepayers in that each generation is responsible for the cost of the resources they consume.

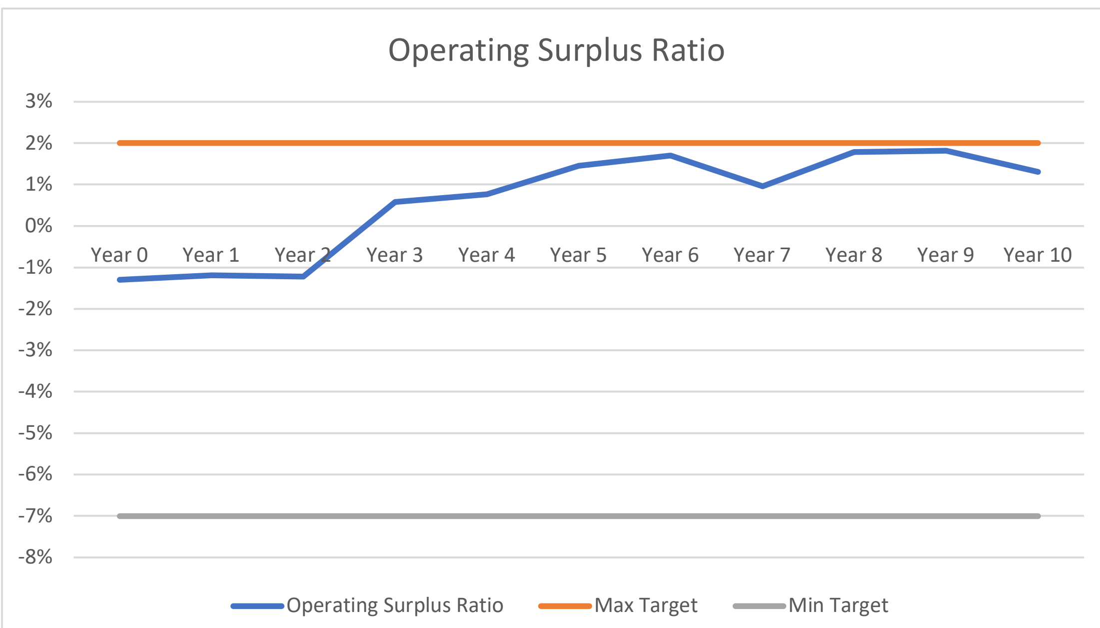
Council's LTFMP indicates, after year 3 (2025-26), modest surpluses will be recorded over the remaining plan period. The surpluses rise in the later years revenue growth assumptions being higher than expenditure growth assumptions, to generate cash surpluses needed for asset replacement and loan repayments. These forecasts will continue to be reviewed.

Research indicates that there is no clear agreement on what an appropriate target should be. For example, the Victorian Auditor-General recommends generating surpluses consistently, the Tasmanian report "Framework for Long Term Financial and Asset management Planning for all Tasmanian Councils" September 2009 recommends breakeven, or better, on average over medium term, and some state studies recommend sizeable surpluses.

Shown in the previous graph is the breakeven target including principal loan repayments. This provides for sufficient cash to fund operations, asset replacements on a consistent basis and provide sufficient funds to meet loan repayments as required. Without the funding of loan repayments over and above breakeven, there would be reduced funds available for asset replacements and place a burden on future ratepayers.

Indicator 2 – Operating Surplus Ratio

The operating surplus ratio is the operating surplus (deficit) expressed as a percentage of total revenue (adjusted by excluding capital grants, contributed PP&E and asset revaluation increments/decrements). It expresses the underlying operating result relative to annual revenue.

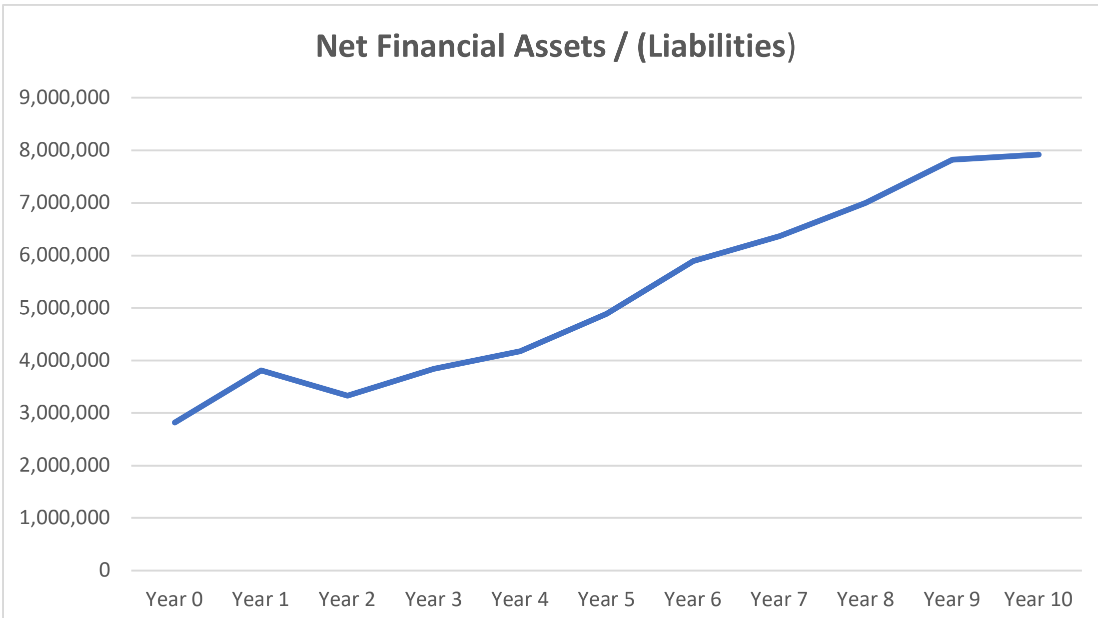


Over the next 10 year period, Council is forecast to achieve underlying surpluses in the range -1% and 2% of revenue, and averaging 1%. These forecasts will continue to be reviewed. It is important that Council generates sufficient revenue to cover all of its cash and non-cash costs, with a small buffer.

Research indicates a wide range of views on appropriate targets. Reviews indicate targets of 0% to 15%, 2.5% to 7.5%, 5% but within the range of 0% to 10% and greater than 0%. It is recommended that Council support a 2% Operating Surplus ratio as part of its LTFMP which provides a small margin in the event of unexpected events. Operating surpluses also generate cash surpluses required to retire debt (principal payments are not recorded in the operating result). Differences in the asset valuation rates used for financial reporting purposes and asset renewal purposes also require cash surpluses to be generated.

Indicator 3 – Net Financial Assets/ (Liabilities)

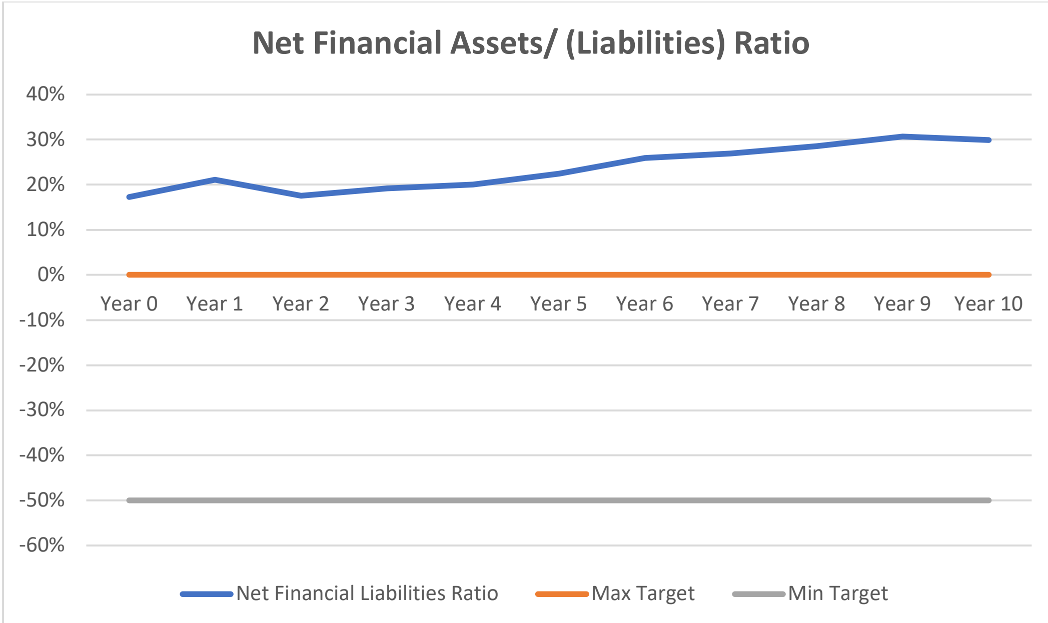
Cash held/invested and receivables less what is owed to others and is thus a measure of net financial assets. It is broader than just loan debt, as it includes amounts owed to creditors, employee provisions, amounts held in trust and all other liabilities.



Council's LTFMP indicates through the graph above that it will continue to operate in a net financial asset position. As noted earlier, Council currently has a moderate cash position and moderate level of borrowings. The position will weakest at around $2.8million in 2023-24 and steadily improve over the 10 years as borrowing are reduced.

Indicator 4 – Net financial assets / (liabilities) ratio

This ratio is net financial liabilities expressed as a percentage of income. It indicates the extent to which net financial liabilities can be met by the Council's income. Where the ratio is increasing it indicates the Council's capacity to meet its financial obligations from income is strengthening.

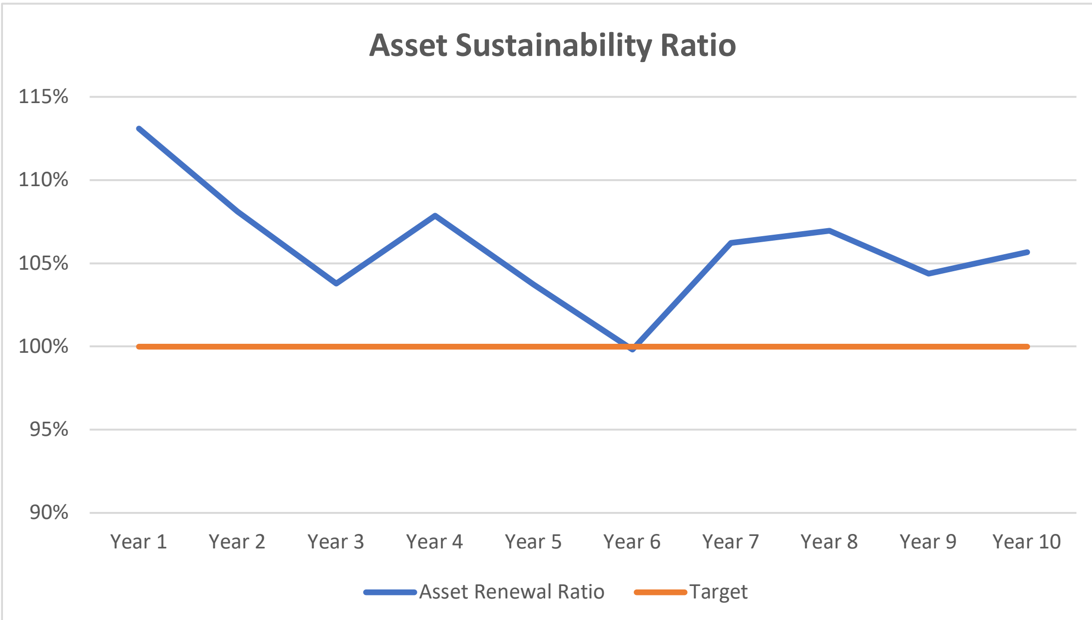


As set out above, Council will continue to operate in a net financial asset position over the 10 year period. Council's net financial liability ratio will peak at 31% in 2031-32. The Tasmanian Auditor-General suggests a ratio of 0% to -50% represents low risk, -50% to -100% moderate risk, and greater than -100% high risk.

Indicators 3 and 4 show that Council's level of indebtedness will remain above benchmarks. Council's financial recovery approach adopted in this plan provides Council with the ability to service current debt.

Indicator 5 – Asset sustainability ratio

This ratio is asset replacement capital expenditure expressed as a percentage of depreciation expense. It measures whether assets are being replaced at the rate at which they are wearing out. With a young asset portfolio, the target may be quite low. If old, it may be greater than 100%. Over time, if it averages at or near 100% the service of the asset portfolio is being maintained.

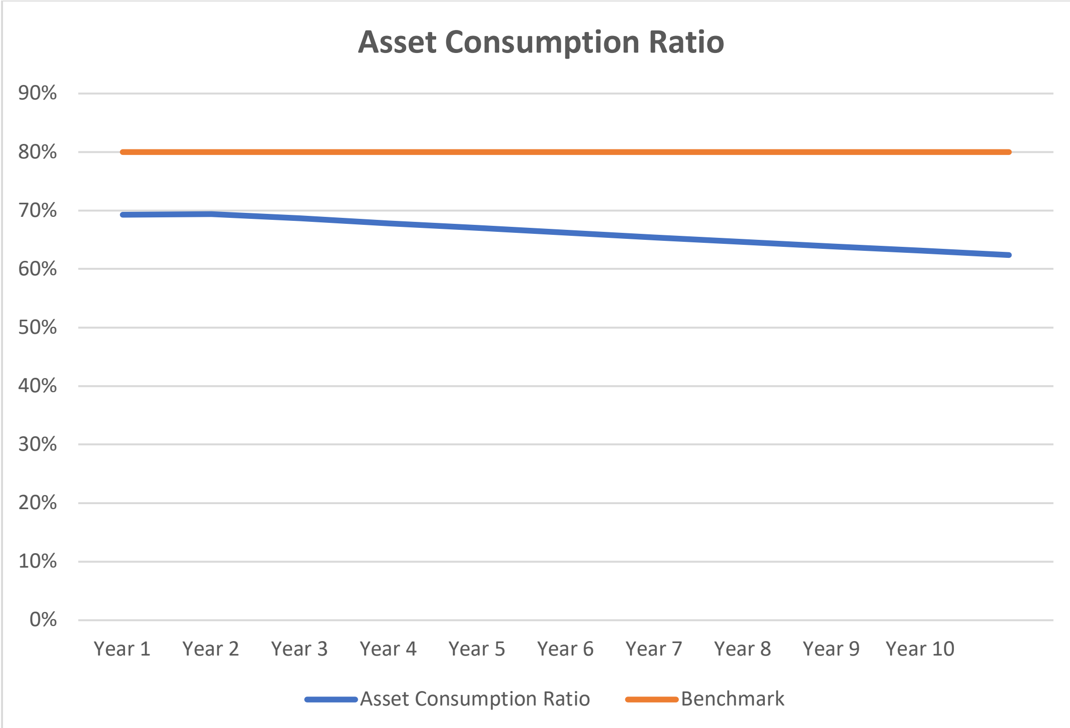


Council's LTFMP indicates through the graph above that it will operate at an average of more than 100% across most of the plan period. Local government proposed targets are typically set at 100%, however this does not allow for the sometimes legitimate periods of less than 100% or more than 100%.

Indicator 6 – Asset consumption ratio

This indicator expresses asset written-down value as a percentage of replacement cost and thus seeks to measure the proportion of life remaining in assets. A lower measure indicates an older, on average, portfolio of assets and could indicate the potential for large renewal expenditure.

However, a low or declining ratio is not a concern provided assets are being maintained/replaced in accordance with asset management plans and the organisation is operating sustainably i.e. recording a breakeven or better underlying operating result. The cash generated by operating sustainably funds the renewal of assets when required.

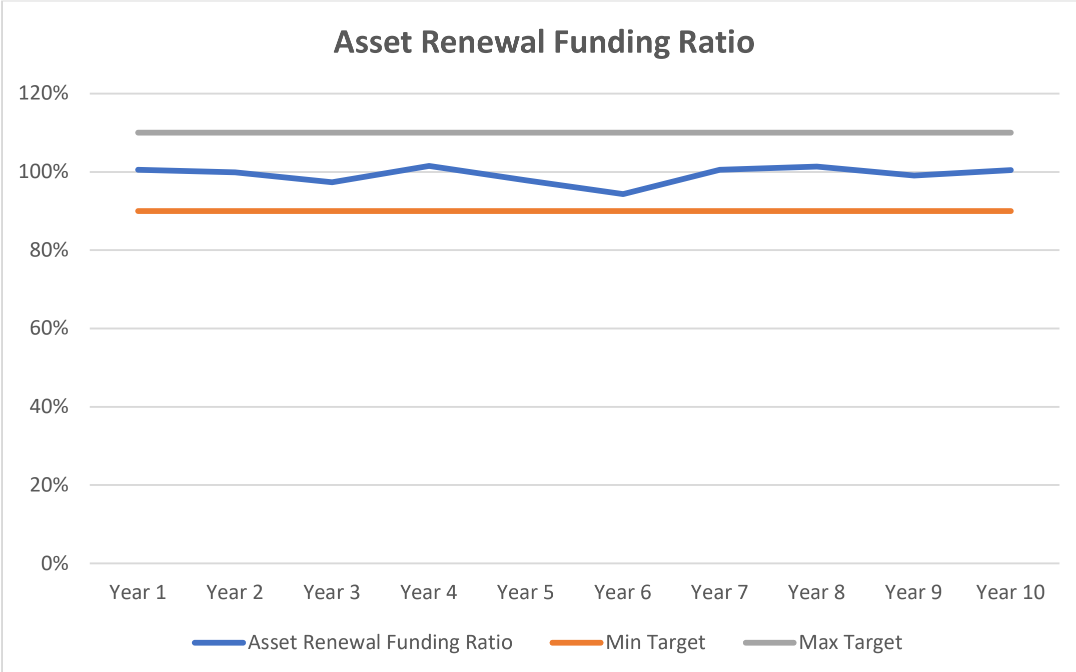


Council's LTFMP indicates through the graph above that the asset consumption ratio will decline over the plan period.

An appropriate target is difficult to define and one source suggests a ratio between 40% and 80%. The Tasmanian Auditor-General considers the road asset class in isolation and suggests a ratio of >60% to represent low risk, 40 to 60% moderate risk and less than 40% high risk. Council's road assets are currently at 67% (2021-2022).

<u>Indicator 7 – Asset renewal funding ratio</u>

This indicator is the ratio of future asset renewal expenditure as per this plan relative to the future asset renewal expenditure requirement sourced from asset management plans. It therefore measures the capacity to fund asset renewal requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels.



For the duration of the plan Council's focus will be on asset renewals, looking after the assets we have while the Council concentrates on reaching a financially sustainable position.

Across the entire plan period, known asset renewal requirements will be fully-funded. That is, 100% of known asset renewal needs, as identified in Council's asset management plans, will be funded by Council.

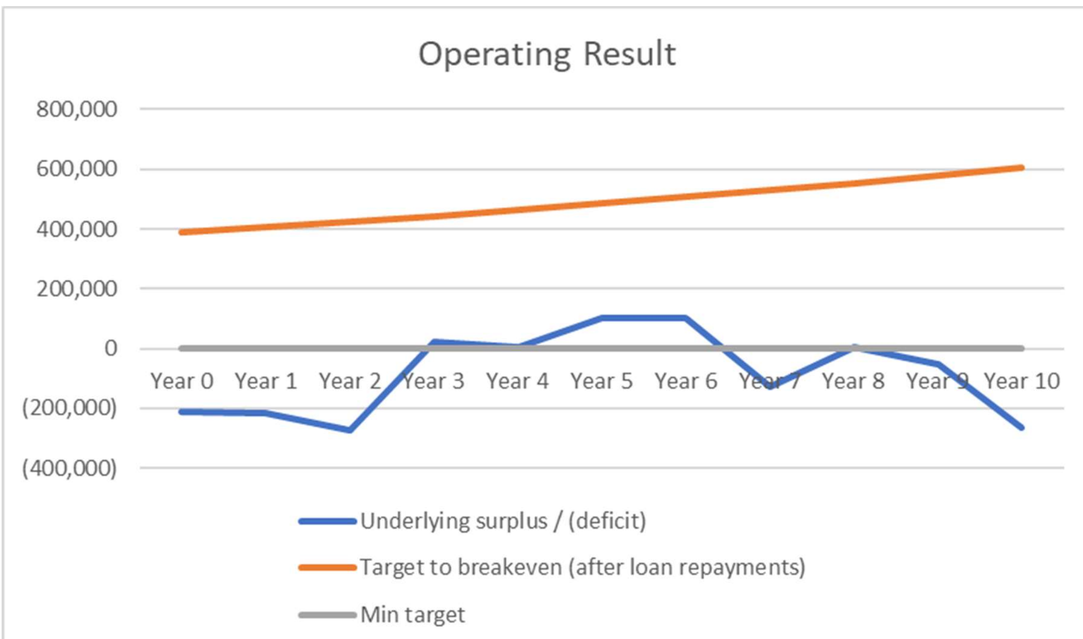
10. Sensitivity Analysis

As mentioned in chapter 7, Council's three largest expense items are employee salaries and wages, materials and services and depreciation. Council's largest revenue item is rate revenue. The outcomes of the LTFMP can be significantly affected if actual results for any of these items are different to forecast.

The analysis below demonstrates the sensitivity of the LTFMP to changes in assumptions for the above categories.

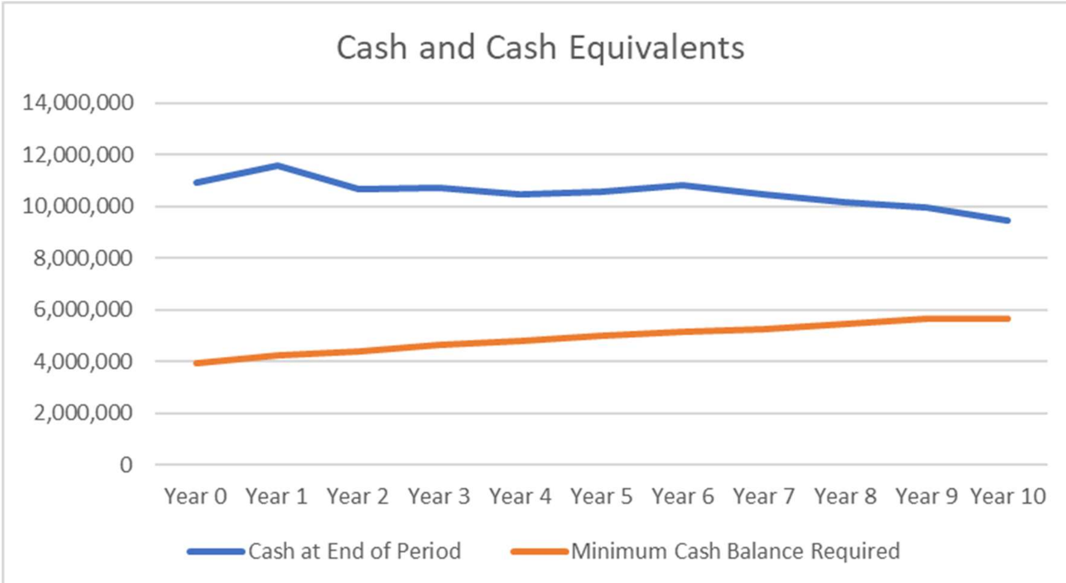
Rates

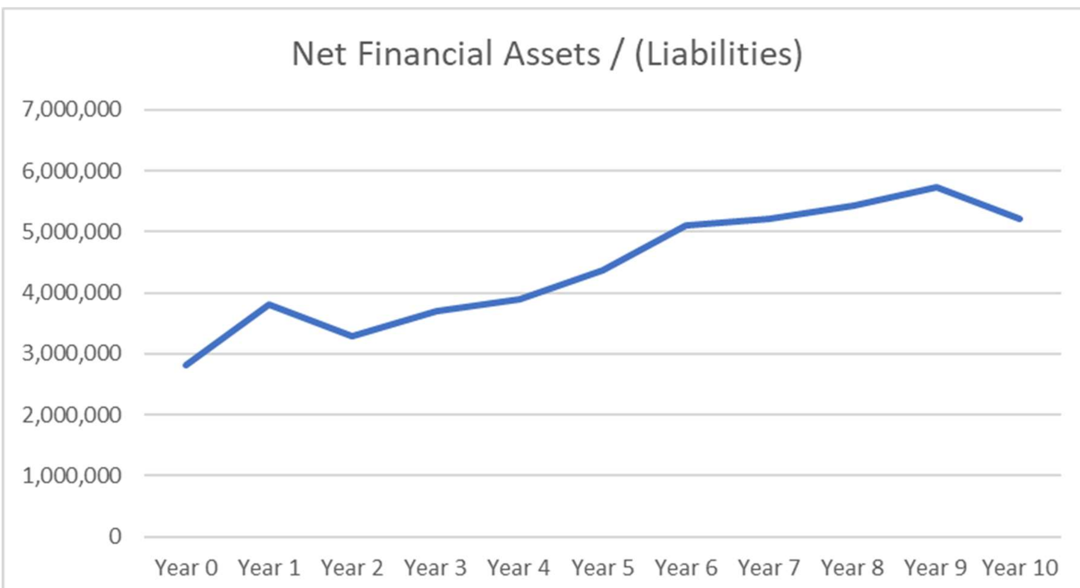
The LTFMP assumes general rate increases (for Council operations) of 8-10% per annum in the short term (over 3 years) then decreasing to 5.10% (for 3 years) and then 4.6% per annum (for 4 years). If these rate increases are 0.5% per annum lower over the next ten years the effect is as shown below.



With rate increases 0.5% per annum lower over the next ten years, surpluses would not be recorded in most years and the operating surplus would remain below the benchmark to fund principal loan repayments in all years.

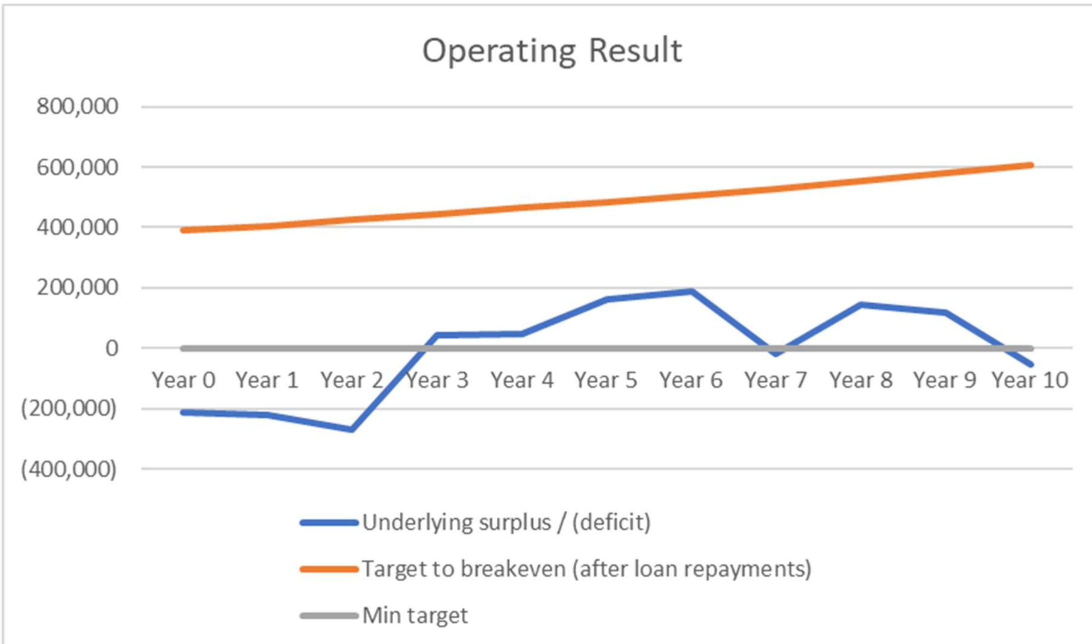
The graphs below show the impact on the cash balances and net financial assets/(liabilities) if rate revenue was 0.5% lower over the 10 year period.

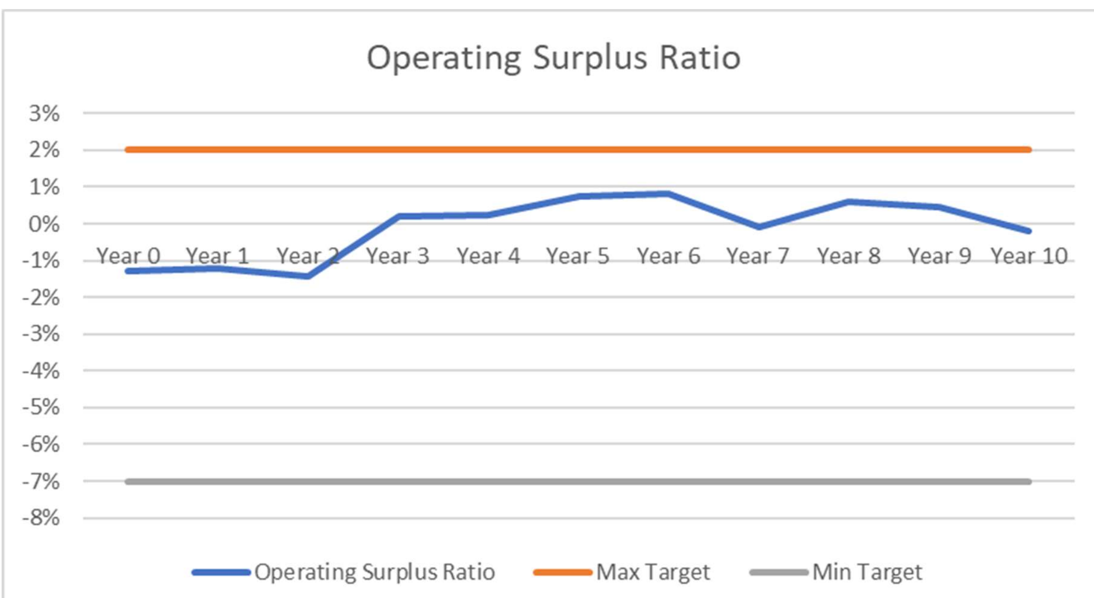


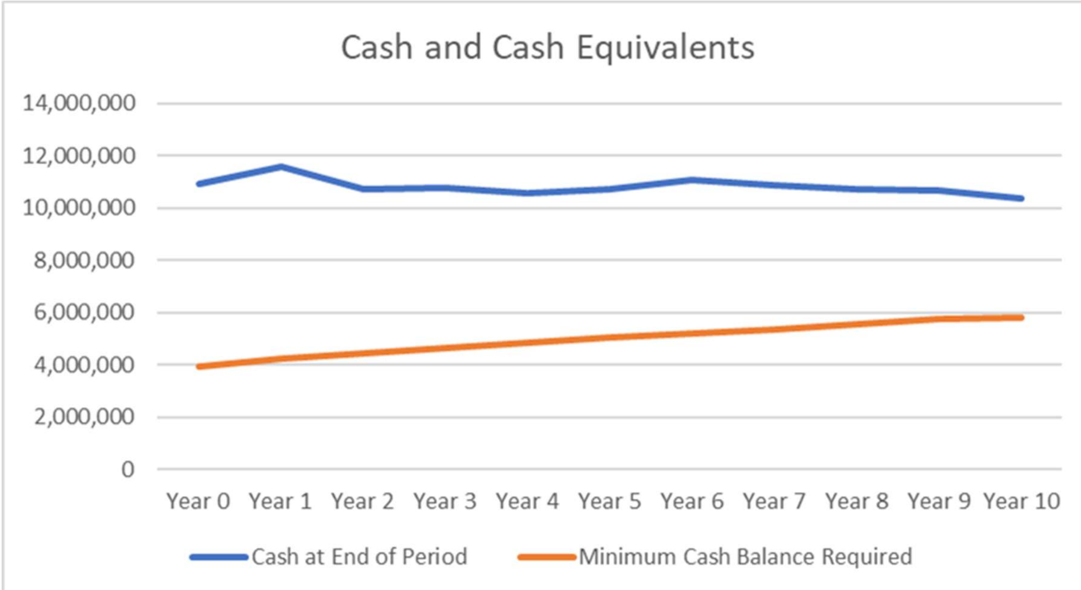


Employee Salaries and Wages

The LTFMP assumes increases in employee salaries and wages of 4% per annum in 2023-24 and 2024-25 and then reducing to 3% for the remaining 7 years. If employee salaries and wages increases are 0.5% per annum higher over the next ten years the effect is as shown below.



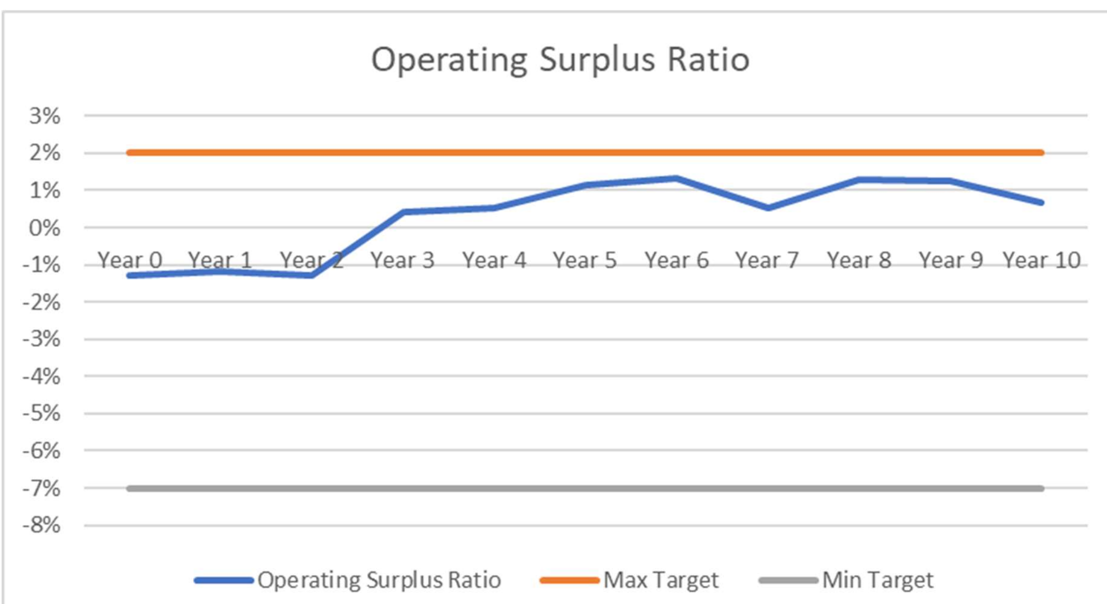


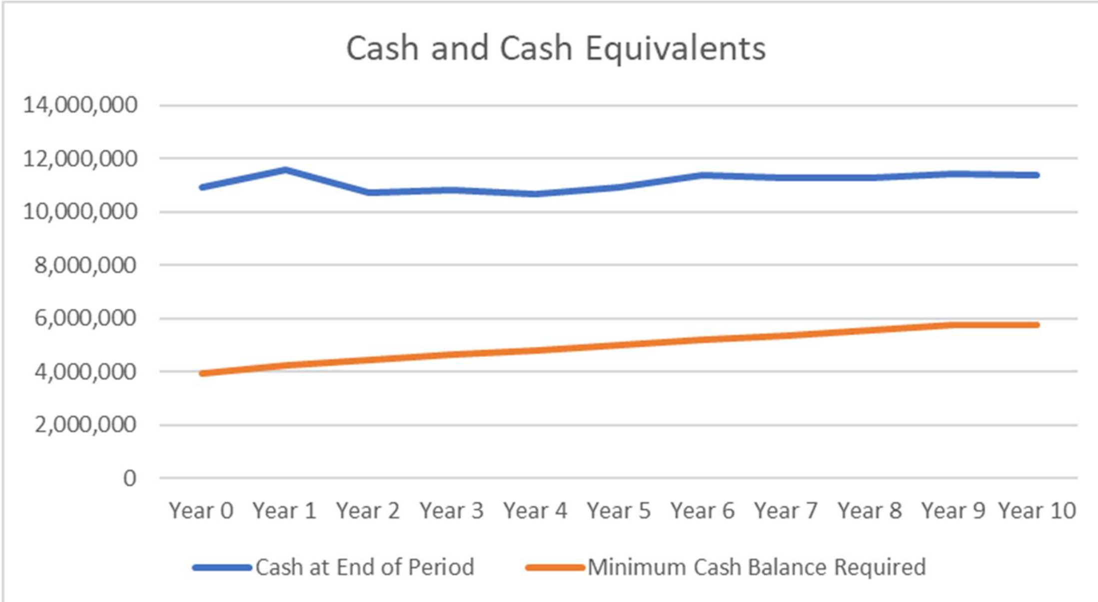


With employee salary and wage increases 0.5% per annum higher over the next ten years, surpluses would continue to be recorded, but the benchmark level would not be achieved over the 10 year period. Cash balances would be significantly lower by the end of the plan period. To restore the status quo, rate increases would need to be approximately 0.3% per annum higher over the next ten years.

Materials and Services

The LTFMP assumes increases in materials and services of 6% per annum in 2023-24, 4.5% in 2024-25, 3.5% for the next 3 years, then reducing to 3% for the following 2 years and 2.5% per annum for the last 3 years. If these materials and services increases are 0.5% per annum higher over the next ten years the effect is as shown below.





With materials and services increases 0.5% per annum higher over the next ten years, surpluses would continue to be recorded, however further below benchmark levels. Cash balances would reduce by $0.788 million by the end of the plan period. To restore the status quo, rate increases would need to be approximately 0.15% per annum higher over the next ten years.

11. Conclusions

The purpose of the LTFMP is to express, in financial terms, the activities that Council proposes to undertake over the medium to longer term to achieve its stated objectives. It is a guide for future action. Without a LTFMP Council would have insufficient data to determine sustainable service levels, affordable asset management strategies, appropriate revenue targets or appropriate treasury management.

Council has worked with the community to establish a 10-year vision for the municipality and a strategic framework outlining the key strategies that will need to be undertaken by the Council to achieve the community vision.

Long-term financial planning provides for the optimum allocation of available resources to deliver Council's strategic and corporate objectives. Long-term financial planning supports the delivery of Council's community vision.

Long-term financial sustainability can only be said to have been achieved when Council is providing expected services at defined levels to its community that is adequately funded, not only on an annual basis, but over the long-term. This includes infrastructure asset renewal funding requirements.

In financial terms, it will result in: -

- A manageable and affordable level of debt.
- The funding of 100% of forecast asset renewal requirements over the Plan period.
- Cash balances maintained above estimated minimum levels over the plan period.

These outcomes, together with the underpinning assumptions of revenue and cost growth indicate annual rate increases (including base growth) in the order of 10% reducing to 4.6% (excluding fire levy and waste increases, any redistributive effects of revaluations, AAV indexation or changes to council rating policy).

12. Appendices

Appendix 1 – Financial Sustainability Indicators

Financial Indicator	Calculation	Description
Underlying Operating Result	($) Operating income (excluding amounts received specifically for new or upgraded assets, physical resources received free of charge and revaluation increments) less operating expenses for the reporting period.	The difference between day-to-day income and expenses for the period.
Operating Surplus Ratio	(%) Operating surplus (deficit) divided by total revenue – adjusted (excluding amounts received specifically for new or upgraded assets, physical resources received free of charge and revaluation increments).	The operating surplus ratio is the operating surplus (deficit) expressed as a percentage of total revenue (adjusted by excluding capital grants, contributed PP&E and asset revaluation increments/decrements).
Net Financial Liabilities	($) Total liabilities less financial assets (cash and cash equivalents + trade & other receivables + other financial assets).	What is owed to others less money held, or invested or owed to the entity. Net financial liabilities equals total liabilities less financial assets.
Net Financial Liabilities Ratio	(%) Net financial liabilities divided by operating income.	Indicates the extent to which net financial liabilities could be met by operating income.
Asset Sustainability Ratio	(%) Capital expenditure on replacement/renewal of existing plant and equipment and infrastructure assets divided by their annual depreciation expense.	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.

Financial Indicator	Calculation	Description
Asset Consumption Ratio	(%) Depreciated replacement cost of plant and equipment and infrastructure assets divided by current replacement cost of depreciable assets.	Shows the depreciated replacement cost of an entity's depreciable assets relative to their 'as new' (replacement) value.
Asset Renewal Funding Ratio	(%) Future asset replacement expenditure as per long term financial plan divided by future asset replacement expenditure requirement as per asset management plans.	Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels.

Appendix 2 – Forecast Financial Statements

Profit and Loss

Break O'Day Council

LTFMP

Account	Actual YTD	2023 Annual Budget	Year 0 Forecast 2023	Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030	Year 8 2031	Year 9 2032	Year 10 2033
Trading Income													
Rates	10,887,463	10,840,244	10,887,812	11,831,342	12,850,517	13,801,247	14,460,526	15,151,902	15,876,957	16,576,387	17,306,983	18,070,144	18,867,330
User Fees	1,102,978	1,399,726	1,464,975	1,434,979	1,506,249	1,581,074	1,659,630	1,742,104	1,828,691	1,919,598	2,015,039	2,115,242	2,220,443
Operating Grants	994,341	2,423,090	3,006,874	3,897,036	3,811,494	3,943,188	4,079,491	4,220,564	4,345,716	4,474,623	4,585,268	4,698,679	4,814,926
Interest & Investment Income	493,850	563,369	735,467	816,457	679,457	589,457	559,457	559,457	539,457	539,457	539,457	539,457	519,457
Contributions	57,550	20,000	57,550	0	0	0	0	0	0	0	0	0	0
Other Revenue	101,100	32,000	131,100	88,550	88,550	88,550	88,550	88,550	88,550	88,550	88,550	88,550	88,550
Total Trading Income	**13,637,282**	**15,278,429**	**16,283,779**	**18,068,363**	**18,936,267**	**20,003,515**	**20,847,653**	**21,762,577**	**22,679,370**	**23,598,614**	**24,535,297**	**25,512,071**	**26,510,705**
Gross Profit	**13,637,282**	**15,278,429**	**16,283,779**	**18,068,363**	**18,936,267**	**20,003,515**	**20,847,653**	**21,762,577**	**22,679,370**	**23,598,614**	**24,535,297**	**25,512,071**	**26,510,705**
Capital Grants													
Grants - Commonwealth Capital	1,285,799	2,994,381	1,091,957	3,106,489	0	0	0	0	0	0	0	0	0
Grants - Roads to Recovery	159,536	647,000	647,000	647,000	647,000	647,000	647,000	647,000	647,000	647,000	647,000	647,000	647,000
Grants - State Capital	176,424	500,000	76,424	985,000	0	0	0	0	0	0	0	0	0
Total Capital Grants	**1,621,759**	**4,141,381**	**1,815,381**	**4,738,489**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**
Other Non Operating Income													
Net Gain/Loss on Disposal of Assets	14,087	120,000	40,654	120,000	0	0	0	0	0	0	0	0	0
Total Other Non Operating Income	**14,087**	**120,000**	**40,654**	**120,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Non Operating Revenue	**1,635,846**	**4,261,381**	**1,856,035**	**4,858,489**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**	**647,000**
Operating Expenses													
Employee Costs	4,072,134	5,839,111	5,452,801	6,083,306	6,330,014	6,523,118	6,722,095	6,927,123	7,138,386	7,356,074	7,580,380	7,811,507	8,049,660
Materials & Services	4,573,542	6,128,348	6,215,562	7,051,233	7,397,965	7,605,838	8,017,504	8,302,481	8,658,240	9,157,379	9,411,782	9,804,638	10,343,019
Interest Expense	160,535	271,341	265,707	247,912	229,301	209,837	189,478	168,185	145,913	122,614	98,245	74,553	46,084
Depreciation	3,179,668	3,918,626	4,240,279	4,632,560	4,935,060	5,201,813	5,471,903	5,755,498	6,053,273	6,365,937	6,694,234	7,038,945	7,400,893
Other Expenses	258,208	246,584	321,237	269,008	274,388	346,176	286,799	292,535	298,386	370,654	311,767	318,002	324,362
Total Operating Expenses	**12,244,086**	**16,404,010**	**16,495,586**	**18,284,019**	**19,166,728**	**19,886,781**	**20,687,778**	**21,445,822**	**22,294,199**	**23,372,658**	**24,096,407**	**25,047,644**	**26,164,017**
Operating Net Profit	**1,393,196**	**(1,125,581)**	**(211,807)**	**(215,656)**	**(230,461)**	**116,734**	**159,875**	**316,755**	**385,172**	**225,956**	**438,890**	**464,427**	**346,688**
Net Profit (Including Non Operating Revenue)	**3,029,042**	**3,135,800**	**1,644,228**	**4,642,833**	**416,539**	**763,734**	**806,875**	**963,755**	**1,032,172**	**872,956**	**1,085,890**	**1,111,427**	**993,688**

Balance Sheet

Break O'Day Council
LTFMP

Account	31 Dec 2022	Year 0 Forecast 2023	Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030	Year 8 2031	Year 9 2032	Year 10 2033
Assets												
Current Assets												
Cash & Cash Equivalents	12,846,847	10,939,322	11,583,738	10,738,654	10,856,728	10,781,271	11,062,363	11,616,660	11,618,444	11,757,047	12,064,718	12,142,133
Trade & Other Receivables	1,624,895	726,000	769,560	804,190	832,337	861,469	891,620	918,369	945,920	969,568	993,807	1,018,652
Inventory	257,881	200,000	212,000	221,540	229,294	237,319	245,625	252,994	260,584	267,099	273,776	280,620
Total Current Assets	**14,729,623**	**11,865,322**	**12,565,298**	**11,764,384**	**11,918,359**	**11,880,059**	**12,199,608**	**12,788,022**	**12,824,948**	**12,993,713**	**13,332,301**	**13,441,406**
Non-current Assets												
Property, Plant & Equipment	178,405,353	201,495,213	225,351,530	237,691,915	249,996,155	263,134,383	276,711,102	290,738,698	305,840,158	321,747,258	338,283,124	355,734,144
Right of Use Asset	17,734	10,524	4,210	3,000								
Intangible Assets	52,455	46,147	20,917	0	200,000	166,667	133,333	100,000	66,667	33,333	0	270,000
Investment in Water Corporation	32,937,531	36,231,284	39,854,412	41,847,133	43,939,490	46,136,464	48,443,287	50,865,452	53,408,724	56,079,161	58,883,119	61,827,275
Other Investments	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Total Non-current Assets	**211,443,073**	**237,813,168**	**265,261,069**	**279,572,048**	**294,165,645**	**309,467,513**	**325,317,722**	**341,734,150**	**359,345,549**	**377,889,752**	**397,196,243**	**417,861,418**
Total Assets	**226,172,696**	**249,678,490**	**277,826,367**	**291,336,432**	**306,084,003**	**321,347,572**	**337,517,331**	**354,522,172**	**372,170,497**	**390,883,465**	**410,528,544**	**431,302,824**
Liabilities												
Current Liabilities												
Trade & Other Payables	885,194	1,100,000	1,166,000	1,218,470	1,261,116	1,305,256	1,350,939	1,391,468	1,433,212	1,469,042	1,505,768	1,543,412
Contract Liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Lease Liability	11,800	10,524	4,210	3,000	0	0	0	0	0	0	0	0
Interest Bearing Loans & Borrowings	165,951	406,544	424,868	444,035	464,083	485,054	506,991	529,939	553,947	579,062	605,339	525,860
Provisions	873,394	835,530	868,951	903,709	930,820	958,745	987,507	1,017,132	1,047,646	1,079,076	1,111,448	1,144,791
Trust Funds and Deposits	653,164	653,164	653,164	653,164	653,164	653,164	653,164	653,164	653,164	653,164	653,164	653,164
Total Current Liabilities	**2,589,503**	**3,005,762**	**3,117,193**	**3,222,378**	**3,309,184**	**3,402,219**	**3,498,602**	**3,591,703**	**3,687,969**	**3,780,344**	**3,875,719**	**3,867,228**
Non-current Liabilities												
Lease Liabilities	17,734	7,210	3,000	0	0	0	0	0	0	0	0	0
Interest Bearing Loans & Borrowings	5,866,821	5,460,277	5,035,409	4,591,374	4,127,291	3,642,237	3,135,246	2,605,307	2,051,360	1,472,298	866,959	866,959
Provisions	551,270	574,894	597,890	621,806	640,460	659,674	679,464	699,848	720,843	742,469	764,743	787,685
Total Non-current Liabilities	**6,435,825**	**6,042,382**	**5,636,299**	**5,213,180**	**4,767,751**	**4,301,911**	**3,814,710**	**3,305,155**	**2,772,204**	**2,214,767**	**1,631,702**	**1,654,644**
Total Liabilities	**9,025,329**	**9,048,144**	**8,753,493**	**8,435,558**	**8,076,935**	**7,704,130**	**7,313,312**	**6,896,858**	**6,460,173**	**5,995,111**	**5,507,421**	**5,521,872**
Net Assets	**217,147,367**	**240,630,346**	**269,072,875**	**282,900,874**	**298,007,068**	**313,643,443**	**330,204,019**	**347,625,314**	**365,710,324**	**384,888,354**	**405,021,123**	**425,780,952**
Equity												
Accumulated Surplus	41,363,496	42,693,959	47,336,792	47,753,331	48,517,065	49,323,940	50,287,694	51,319,866	52,192,822	53,278,712	54,390,138	55,383,827
Reserves	175,783,871	197,936,387	221,736,083	235,147,543	249,490,004	264,319,503	279,916,324	296,305,448	313,517,502	331,609,642	350,630,984	370,397,125
Total Equity	**217,147,367**	**240,630,346**	**269,072,875**	**282,900,874**	**298,007,068**	**313,643,443**	**330,204,019**	**347,625,314**	**365,710,324**	**384,888,354**	**405,021,123**	**425,780,952**

Statement of Cash Flows

Break O'Day Council

LTFMP

Account	YTD 31 December 2022	2022	Year 0 Forecast 2023	Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030	Year 8 2031	Year 9 2032	Year 10 2033
Operating Activities													
Receipts from customers	1,119,170	1,352,000	1,396,265	1,391,419	1,471,619	1,552,927	1,630,498	1,711,953	1,801,943	1,892,047	1,991,391	2,091,002	2,195,598
Receipts from rates	9,564,859	10,203,000	10,887,812	11,831,342	12,850,517	13,801,247	14,460,526	15,151,902	15,876,957	16,576,387	17,306,983	18,070,144	18,867,330
Receipts from Operational Grants	996,032	4,316,000	2,864,903	3,897,036	3,811,494	3,943,188	4,079,491	4,220,564	4,345,716	4,474,623	4,585,268	4,698,679	4,814,926
Contributions	117,944	97,000	57,550	0	0	0	0	0	0	0	0	0	0
Interest received	202,850	118,000	270,467	351,457	291,457	201,457	171,457	171,457	151,457	151,457	151,457	151,457	131,457
Dividends received	291,000	466,000	465,000	465,000	388,000	388,000	388,000	388,000	388,000	388,000	388,000	388,000	388,000
Payments to employees	(4,211,193)	(5,354,000)	(5,468,554)	(6,026,890)	(6,271,341)	(6,477,353)	(6,674,956)	(6,878,571)	(7,088,377)	(7,304,565)	(7,527,326)	(7,756,860)	(7,993,374)
Payments to suppliers	(5,172,122)	(7,471,000)	(6,281,145)	(6,973,233)	(7,335,955)	(7,555,438)	(7,965,339)	(8,248,491)	(8,610,343)	(9,108,045)	(9,369,437)	(9,761,234)	(10,298,530)
Finance Costs	(160,535)	(303,000)	(265,707)	(247,912)	(229,301)	(209,837)	(189,478)	(168,185)	(145,913)	(122,614)	(98,245)	(74,553)	(46,084)
Cash receipts from other operating activities	647,976	730,000	131,100	88,550	88,550	88,550	88,550	88,550	88,550	88,550	88,550	88,550	88,550
Cash payments from other operating activities	7,380	0	(321,237)	(269,008)	(274,388)	(346,176)	(286,799)	(292,535)	(298,386)	(370,654)	(311,767)	(318,002)	(324,362)
Net Cash Flows from Operating Activities	**3,403,362**	**4,154,000**	**3,736,455**	**4,507,761**	**4,790,652**	**5,386,566**	**5,701,949**	**6,144,644**	**6,509,602**	**6,665,186**	**7,204,875**	**7,577,183**	**7,823,510**
Investing Activities													
Payment for property, plant and equipment	(2,641,179)	(4,737,000)	(5,758,366)	(8,339,356)	(6,007,868)	(5,621,456)	(6,110,323)	(6,175,498)	(6,245,314)	(6,930,462)	(7,309,326)	(7,487,449)	(7,937,756)
Capital Grants received	460,821	3,500,000	1,477,821	4,738,489	647,000	647,000	647,000	647,000	647,000	647,000	647,000	647,000	647,000
Proceeds from sale of property, plant and equipment	54,763	217,000	70,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Net Cash Flows from Investing Activities	**(2,125,595)**	**(1,020,000)**	**(4,210,545)**	**(3,450,867)**	**(5,210,868)**	**(4,824,456)**	**(5,313,323)**	**(5,378,498)**	**(5,448,314)**	**(6,133,462)**	**(6,512,326)**	**(6,690,449)**	**(7,140,756)**
Financing Activities													
Proceeds of trust funds and deposits	(21,284)	24,000	0	0	0	0	0	0	0	0	0	0	0
Repayment of loans	(223,073)	(1,882,000)	(389,024)	(406,544)	(424,868)	(444,035)	(464,083)	(485,054)	(506,991)	(529,939)	(553,947)	(579,062)	(605,339)
Repayment of lease liabilities	0	(11,000)	(11,000)	(5,934)	0	0	0	0	0	0	0	0	0
Net Cash Flows from Financing Activities	**(244,356)**	**(1,869,000)**	**(400,024)**	**(412,478)**	**(424,868)**	**(444,035)**	**(464,083)**	**(485,054)**	**(506,991)**	**(529,939)**	**(553,947)**	**(579,062)**	**(605,339)**
Net Cash Flows	**1,033,411**	**1,265,000**	**(874,114)**	**644,416**	**(845,084)**	**118,074**	**(75,457)**	**281,092**	**554,297**	**1,785**	**138,602**	**307,671**	**77,415**
Cash and Cash Equivalents													
Cash and cash equivalents at beginning of period	11,813,436	10,548,436	11,813,436	10,939,322	11,583,738	10,738,654	10,856,728	10,781,271	11,062,363	11,616,660	11,618,444	11,757,047	12,064,718
Net change in cash for period	1,033,411	1,265,000	(874,114)	644,416	(845,084)	118,074	(75,457)	281,092	554,297	1,785	138,602	307,671	77,415
Cash and cash equivalents at end of period	**12,846,847**	**11,813,436**	**10,939,322**	**11,583,738**	**10,738,654**	**10,856,728**	**10,781,271**	**11,062,363**	**11,616,660**	**11,618,444**	**11,757,047**	**12,064,718**	**12,142,133**

Capital Works

Break O'Day Council
LTFMP

	Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030	Year 8 2031	Year 9 2032	Year 10 2033
Plant & Equipment	877,148	917,148	755,329	1,005,889	1,028,574	856,044	797,572	883,791	754,638	882,304
Furniture & IT	34,400	83,713	87,898	92,293	96,908	101,753	106,841	112,183	117,792	123,682
Buildings	172,809	501,942	597,910	647,806	690,196	734,706	859,585	913,565	970,243	1,029,755
Parks, Reserves & Other	0	284,680	298,914	313,859	131,821	138,412	145,333	152,599	160,229	168,241
Roads & Footpaths	3,063,932	2,285,844	2,400,136	2,520,143	2,646,150	2,778,458	3,209,119	3,369,575	3,538,053	3,714,956
Bridges	559,499	488,690	513,125	538,781	565,720	594,006	686,077	720,381	756,400	794,220
Stormwater	48,006	417,886	438,780	460,719	483,755	507,943	586,674	616,007	646,808	679,148
Waste Management	40,000	27,966	29,364	30,833	32,374	33,993	39,262	41,225	43,286	45,450
Total Capital (Renewal)	**4,795,794**	**5,007,868**	**5,121,456**	**5,610,323**	**5,675,498**	**5,745,314**	**6,430,462**	**6,809,326**	**6,987,449**	**7,437,756**
Total Capital (New)	**3,543,562**	**1,000,000**	**500,000**	**500,000**	**500,000**	**500,000**	**500,000**	**500,000**	**500,000**	**500,000**