Draft Long Term Financial Plan (Overview) 2017/18 to 2026/27

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Table of Contents

1. Introduction

Councils are required to prepare a ten-year Resourcing Strategy to identify the resources needed to implement their Community Strategic Plan, Delivery Program and Operational Plan. The Resourcing Strategy consists of the Asset Management Plan, Workforce Plan and Long Term Financial Plan (LTFP). This document provides an overview of Council's LTFP. The LTFP is a comprehensive document based on a financial planning period of ten years. The information in this document provides a summary of the LTFP including:

- Overview of methods for monitoring financial performance
- major assumptions used to develop the LTFP
- projected income and expenditure, cash movements and balance sheets
- details of any proposed special rate variations and
- financial modelling for different scenarios.

What is a LTFP and what is its purpose?

A LTFP is a financial decision making tool. It is the point at which long-term community aspirations are tested against financial realities. It consists of expenditure and revenue projections, based on a number of assumptions.

The LTFP is a tool for stakeholders (Council and the community) in deciding what resources Council needs to deliver on the outcomes contained within the Community Strategic Plan.

The primary purpose is to inform financial decision-making and to monitor Council's financial performance, along with balancing the short, medium and long term expectations of the community. The LTFP seeks to answer the following questions:

- Can we survive the financial pressures of the future?
- What are the opportunities for future income and economic growth?
- Can we afford what the community wants?
- How can we go about achieving these outcomes?

The LTFP is updated annually in conjunction with the annual review of Council's Delivery Program and Operational Plan.

2. Long Term Financial Sustainability

The international Public Sector Accounting Standards Board defines financial sustainability as "the ability of the entity to meet service delivery and financial commitments both now and in the future".

This means that a financially sustainable council is one that has the ability to fund ongoing service delivery and the renewal and replacement of assets, without incurring excessive debt or rate increases.

Sustainability can be translated into four key financial objectives:

1) Council must aim for a fully funded operating position, reflecting that Council collects enough revenue to fund operational expenditure, repayment of debt and depreciation
2) Council must maintain sufficient cash reserves to ensure that it can meet its short-term working capital requirements
3) Council must have a fully funded capital expenditure program, where the source of funding is identified for capital renewal and new capital works
4) Council must maintain its existing asset base by renewing ageing infrastructure in a timely manner.

How do we measure our Financial Sustainability?

The indicators for measuring financial sustainability can be divided between short, medium and long term performance indicators.

a) Short and Medium Term Performance Indicators – Quarterly Budget Review

Within two months of the end of each quarter, a report must be submitted to the elected Council that complies with the Quarterly Budget Review Statement Guidelines set down by the NSW Office of Local Government (OLG). These guidelines identify three key financial performance indicators that measure our short and medium term financial sustainability. The indicators are outlined in the following table.

Short and Medium Term Performance Indicators – Quarterly Budget Review

Ratio	Calculation	What is Being Measured?	Target and Indicator Source
Operational Liquidity - Short Term Focus			
Unrestricted Current Ratio	Unrestricted Current assets divided by unrestricted current liabilities. Measured as a ratio.	Council's ability to meet its short term liabilities with its short term assets.	>1.5:1 (NSW TCorp)
Fiscal Responsibility - Medium Term			
Operating Performance Ratio	Net operating result from continuing operations (excluding capital items) as a percentage of operating revenue (excluding capital items).	Measures whether the Council is sustainable in terms of its operating result.	>0% (OLG)
Debt Service Ratio	Loan principal and interest payments divided by revenue from continuing operations excluding capital items and specific purpose grants and contributions. Measured as a percentage.	A measure of whether Council has excessive debt servicing costs, relative to operating revenue.	<12% (Local Govt Managers Assoc Health Check)

b) Medium and Long Term Performance Indicators - Fit for the Future Program

The NSW State Government has stated that councils must be "Fit for the Future" to ensure that we have "strong councils providing the services and infrastructure communities need". A Fit for the Future council is one that is:

- Sustainable
- Effectively managing infrastructure and delivering services for communities
- Efficient and saves money on bureaucracy and administration, freeing up funds for front-line services and community facilities

- Of a scale and capacity that can contribute to projects and tackle issues that impact on its residents and extend beyond the council boundary; and has credibility and influence across councils, across government, and with industry.

The OLG has developed seven financial criteria, including targets and benchmarks, for a Fit for the Future Council, as per the following table.

Medium and Long Term Performance Indicators – Fit for the Future

Objective / Ratio	Rationale for Criteria from OLG	Rationale and calculation for Benchmark	Benchmark
Objective – Sustainability **Definition - Generate sufficient funds over the longer term to provide the agreed level and scope of services and infrastructure for communities**			
Operating Performance Ratio	Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements. Ongoing operating deficits are unsustainable. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.	NSW Treasury Corporation (TCorp) recommended that all councils should at least have a break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a three year period. This indicator is the annual operating result, being operating revenues less operating expenses.	Greater than or equal to break even over three years
Own Source Revenue Ratio	Measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges. Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.	TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All councils should aim to meet or exceed this benchmark over a three year period. This indicator is calculated from Total Continuing Operating Revenue less all grants and contributions divided by Total Continuing Operating Revenue inclusive of capital grants and contributions.	Greater than 60% of total operating revenue averaged over three years
Building and Infrastructure Asset Renewal Ratio	Represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration. A higher ratio is an indicator of strong performance.	This indicator is calculated based on Expenditure on Asset renewals (building and infrastructure) divided by the total of depreciation, amortisation and impairment (building and infrastructure) expenses	Greater than 100% averaged over three years
Objective - Effective Infrastructure and Service Management **Definition - Maximise return on resources and minimise unnecessary burden on the community and business, while working strategically to leverage economies of scale and meet the needs of communities**			
Infrastructure Backlog Ratio	Indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability. High infrastructure backlog ratios and an inability to reduce this ratio in the near	This ratio is calculated by dividing the total estimated cost to bring the assets to a satisfactory condition, divided by the total value (written down value) of infrastructure, buildings, other structures and depreciable land improvement assets.	Less than 2%

Objective / Ratio	Rationale for Criteria from OLG	Rationale and calculation for Benchmark	Benchmark
	future indicate an underperforming Council in terms of infrastructure management and delivery.		
Asset Maintenance Ratio	The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council. The ratio provides a measure of the rate of asset degradation (or renewal) and has a role in informing asset renewal and capital works planning.	The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.	Greater than 100% averaged over three years
Debt Service Ratio	Prudent and active debt management is a key part of a council's approach to both funding and managing infrastructure and services over the long term. Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.	Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management. This indicator is calculated by the cost of debt service (interest expense and principal repayments) divided by total continuing operating revenue (excluding capital grants and contributions)	Greater than 0% and less than 20% (this target is higher than that recommended by the Local Govt Managers Assoc Health check as outlined earlier)
Objective - Efficiency **Definition - Efficient service and infrastructure delivery, achieving value for money for current and future ratepayers**			
Decrease in Real Operating Expenditure Per Capita over time.	The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover. It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively councils: • can realise natural efficiencies as population increases • can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs). Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).	The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a five year trend.	Decrease in real operating expenditure based on a five year trend

Councils must comply with the benchmarks by 2019/20 to be Fit for the Future. The preparation of Council's LTFP is based on achieving these benchmarks by 2019/20, or earlier.

3. Fund Management

Ballina Shire Council is a general purpose local government authority, undertaking a wide range of activities including the provision of water and wastewater (sewer) services. All revenues raised from charges levied for the provision of water and wastewater services must be expended on those activities.

To ensure a high level of accountability Council operates its water and wastewater functions as separate business activities. This is often referred to as Fund Accounting (i.e. Water Fund and Wastewater Fund). This process ensures that the income and expenses from these activities is not mixed with Council's general purpose activities. All the remaining Council activities are referred to as the General Fund.

4. Revenues

A council's ability to raise revenues is outlined in Chapter 15 of the Local Government Act (LGA), with Section 491 identifying the major sources of income as:

- rates
- annual charges
- fees
- grants
- borrowings
- investments

Rates Income (Sections 492 to 495 of the LGA)

Rate income is one of the main sources of revenue for Council, representing approximately 23% of our total operating revenues. Council has the following rating categories of rateable land, as prescribed in the LGA, with each rateable property categorised based on its dominant use:

- Residential
- Farmland
- Business

Council's rating structure consists of a base charge and a rate in the dollar on the land value. The base charge is a standard amount which is applied to all properties. The rate in the dollar is a distribution of the residual rating income, calculated as a proportion of property land valuations. The land valuation calculated for each property is determined by the NSW Valuer General.

Council calculates its rating charges with the intention of generating 50% (or as close thereto as possible) of the total rate levy for residential properties from the base charge. That base charge amount is then applied to the other rating categories (i.e. farmland and business).

Council considers a rating structure that maximises revenue from the base charge, as the fairest and most equitable distribution of the rate levy, as it reduces the impact of land valuations and more accurately reflects the level of service received by properties.

Council has also set a benchmark that 20% of the total rate levy will come from business properties. This benchmark was set, as prior to this, Council's average business rates were one of the lowest in the State for similar sized councils. This change has resulted in Council's average business rates becoming commensurate with similar sized councils and our neighbouring councils.

Once the rate in the dollar and the base charge is confirmed for the business properties, based on the 20% benchmark, the rate in the dollar for farmland and residential properties is calculated, with farmland being set at a proportionate level below residential, based on historical rating structures (approximately a 20% discount).

The rate income yield for NSW councils has been constrained for many years by NSW State Government rate pegging. This is a legislative instrument whereby the maximum increase in rate revenue is set by the Independent Pricing and Regulatory Authority (IPART). This is referred to as the rate peg limit.

NSW is the only State in Australia that has rate pegging.

Council has a low average residential rate levy per property, as compared to similar councils and the majority of our neighbouring councils. This provides Council with the opportunity to apply to IPART for special variations above the rate pegging limit, to fund additional projects and provide additional services, where those projects and services are identified as a priority by Council and the community.

Annual Charges (Sections 496, 496A, 496B, 501 and 611 of the LGA)

Annual charges are statutory charges that Council is allowed to levy on properties for the provision of particular services, even if the property owner elects not to receive that service.

Revenue raised from these charges can only be expended on the services to which they relate.

The annual charges levied by Council are as follows:

- Domestic Waste Collection – Levied on all properties where the domestic waste collection service, including vacant land, is available. This charge raises revenue to finance the collection service along with waste disposal charges.
- Stormwater - Levied on identified business properties for stormwater improvements.
- Water Access – This represents a fixed annual access charge where the water service is available. A water consumption charge is also applied based on water usage. The revenue from these charges assists in financing Council's water operations.
- Wastewater (Sewerage) Access – This represents a fixed annual access charge where the service is available. For business properties the wastewater charge includes a component based on water usage. This revenue assists in financing Council's wastewater operations.
- On-site Septic Management – Levied on all properties with on-site septic management systems (OSSMs) with the revenue funding an inspection and compliance program for Council to progressively check those systems.

Income from these charges represents approximately 32% of our total operating revenues.

User Charges, Discretionary and Regulatory Fees (Sections 502 and 608 of the LGA)

Council has the ability to raise revenues through the adoption of a fee for the provision of services or facilities. The fees Council charges can be split into two categories:

1) Usage Charges (Section 502) – Section 502 of the LGA allows council to set usage charges for items such as water consumption, waste management services and wastewater usage. The revenues raised from these usage charges must be expended on the services to which they relate.

2) Regulatory and Discretionary Fees – Regulatory fees are typically set by State Government legislation and relate mainly to building, development or compliance activities, whereas for discretionary fees Council has the capacity to determine a fee for any discretionary works or services, such as the use of community facilities or access to Council services. Typically revenues from regulatory or discretionary fees can be expended on any council activity.

The principles under which Council sets its fees and charges take into account the works and services provided, the comparable commercial value of the works and services provided, and the ability of residents to pay, at the pricing level determined appropriate. Income from fees and charges represents approximately 25% of Council's total operating revenues.

Section 94 and Section 64 Developer Contributions

Development contributions are a charge that Council can impose on development consents to help fund the delivery of infrastructure that is needed for that development. They can only be imposed as a condition of consent. They are usually payable when a linen plan is released for subdivision purposes, or alternatively prior to a development commencing.

In order to levy a contribution, Council must first adopt a Contributions Plan. The plan sets out what infrastructure is needed, the likely timing of its construction, the cost of the works and how the cost is to be shared by developers and Council. Council can only levy a contribution if it is in accordance with an adopted Contributions Plan.

The Environmental Planning and Assessment Act sets out the rules for development contributions. The Minister for Planning issues Directions that can provide further detail to the rules, such as imposing a cap on the contributions.

Implications of Section 94 and Section 64 Contributions on the LTFP include:

1. In 2010 the State Government introduced a cap of $20,000 on the amount of money councils could collect for each residential lot under a Section 94 plan. This impacts on Council's ability to fund the works required to build new communities. Any shortfall must be financed by Council.

2. The works within the Section 94 and Section 64 Plans must be continually reviewed to ensure that cash flow projections and the value of works remain accurate.

3. The timing of Section 94 and Section 64 cash flows cannot always be matched with the timing of when the work is required. Where a cash shortage is identified as a result of timing, Council will consider forward funding the works, subject to budgetary constraints.

Grants

Council receives a variety of grants for recurrent services such as libraries and rural fire services, with the major discretionary grant being the Federal Government's Financial Assistance Grant (FAG).

The FAG is initially distributed to the State Governments, who then distribute the funding to all NSW councils based on a formula that applies horizontal equalisation principles; i.e. the formula is based on the perceived needs of each council.

The FAG is currently $4.1m per annum and the income from this grant is able to be distributed on any services, as determined by Council.

The Federal Government notified all councils in 2014/15 that they would not be applying any indexation to this grant for a period of three years from 2014/15 to 2016/17, which means the value of the grant has reduced in real terms in recent years.

Income from grants can be for operating purposes or for capital works. Operating grants represent approximately 8% of our total operating revenues, whereas capital grants for capital projects varies from year to year dependent on Council's success in obtaining grants.

Loan Borrowings

Council's strategy on funding expenditure through loan borrowings is:

1. Funds will only be borrowed for capital projects

2. Council will consider the use of loans to ensure existing residents are not burdened with the cost of infrastructure, which will be enjoyed by future generations. This is known as inter-generational equity

3. Loan borrowings will only be considered, after all other potential funding strategies have been investigated, including the use of existing cash reserves and external funding opportunities

4. The use of loans to fund operational shortfalls or service expansion is not supported

5. Council must ensure there is capacity to service the debt from recurrent revenues

6. Council's debt ratios should always remain within industry defined benchmarks.

Cash Reserves, Investment Principles and Interest Income

Council has a number of cash reserves, which are established by either a legislative requirement (externally restricted) or by a Council decision (internally restricted). Externally Restricted Reserves can only be used for the purpose for which the funds were collected, whereas Internally Restricted Reserves are allocated by Council.

Council has an adopted Investment Policy that outlines how Council will invest any surplus cash monies held. The overall objective of this policy is to ensure that Council invests its available cash funds:

1. in accordance with the requirements of the LGA and

2. to maximise the return on investments after taking into account the level of risk attributable to the type of investment made, and the level of funds required to ensure that Council meets its budget obligations.

Council has control over the interest it earns on General Fund revenues and internally restricted reserves however the interest earned on all externally restricted reserves (i.e. Section 94 and Section 64 developer contributions, domestic waste management reserve, water and wastewater reserves) must be allocated to those reserves, as the use of those funds is restricted by external legislation.

The following table outlines the major reserves held by Council, the purpose of that reserve, along with the closing balance as at 30 June 2016.

Major Cash Reserve Balances – 30 June 2016

Reserve Title	Reserve Purpose	($'000)
Externally Restricted		
Domestic Waste Management	Funds held from domestic waste operations	1,384
Section 94 Contributions	Contributions collected and unexpended	5,191
Section 64 Conts – Water	Contributions collected and unexpended	7,425
Section 64 Conts – Wastewater	Contributions collected and unexpended	6,182
Water Infrastructure	Funds held from Council's water operations	4,090
Wastewater Infrastructure	Funds held from Council's wastewater operations	6,431
Internally Restricted		
Employee Leave Entitlements	Funds held to finance employee leave liabilities as taken	2,793
Property – Community Infrastructure	Funds sourced from Council's property development activities set aside for the provision of community infrastructure	1,142
Property – Property Development	Funds sourced from Council's property development activities set aside for further property development investments	3,220
Airport	Funds held from the operation of the Ballina Airport	(354)
Quarry Operations	Funds held from the operation of the Council owned quarries	1,336
Plant Replacement	Funds set aside to finance plant and equipment replacement	1,004
Waste Management	Funds sourced from the operation of the Ballina landfill	3,526

The management of Council's reserves is considered annually as part of the budget process and the need for new reserves is also considered as part of Council's long term financial planning.

Other Revenues - Property Management

The majority of Council's property assets are held to deliver on services such as:

- Transport infrastructure such as land for roads, footpaths etc
- Environmental services, such as stormwater and waste management
- Community facilities
- Operational assets, including administration buildings
- Utility infrastructure such as water and wastewater pumping stations and treatment plants
- Commercial property to generate current and future revenues.

As per this last dot point, Council is somewhat unique in that we hold a major property portfolio that assists in generating non-standard revenues for Council.

The major commercial properties owned by Council are industrial land holdings within the Southern Cross Industrial Estate, Ballina and the Russellton Industrial Estate, Alstonville, along with residential land holdings in Wollongbar and Lennox Head. Council also owns four commercial buildings in Ballina (i.e. Wigmore Arcade, 89 Tamar Street, 2-6 Cessna Crescent, Fawcett Park Cafe) and the land on which the Shelly Beach café is located.

We also generate income from Crown Lands managed by Council, including Cafes at the Ballina Surf Club and the Northern Rivers Community Gallery.

In respect to the industrial and residential land holdings, funds surplus to any particular project are directed to either major community infrastructure projects or reinvested into further property development activities.

In respect to the commercial property holdings, sale of these properties has not been supported as the rental revenue provides recurrent funds for community infrastructure investment and the recurrent revenues help to improve our overall financial sustainability.

Council may consider sale where:

a) Market conditions indicate that the asset could provide a substantial return, which could be used to fund other capital investments

b) The asset is incurring a higher level of maintenance cost than would normally be expected; and

c) Council has an opportunity to leverage the sale proceeds to generate significant tangible outcomes to the community, without impacting on future service levels.

Whilst the revenues generated from the sale of commercial properties could be used to alleviate operational budget pressures, this is a financially unsustainable measure, as the funding is not re-current and only provides a short term, one-off, solution.

5. Expenditure

Expenditure in the LTFP is classified as either operating or capital.

Our operating expenditure is made up of:

- Employee Benefits and Oncosts – This figure is around 28% of our annual operating expenses, and is currently forecast at approximately $23m. This includes all salaries and wages, along with oncosts such as leave entitlements, workers compensation, superannuation, fringe benefits tax, training and development costs and payroll tax.

- Borrowing Costs – Represents all interest payable on loan borrowings

- Depreciation – This is a non-cash item that reflects the theoretical deterioration value for the assets held by Council. The current depreciation expense is approximately $19m reflecting the magnitude of Council's infrastructure assets, which are valued in excess of $1 billion.

- Materials and Contracts – This is the largest operating expense item with this figure normally ranging from 20% to 30% of our operating budget. Numerous Council services are delivered or supported through the use of external purchases and contracts.

Capital expenditure includes expenditure on capital projects and the repayment of loan principal. Expenditure on capital projects can vary significantly from year to year based on the timing of works and the funding sources available (i.e. grants).

As a general guide in preparing the LTFP:

- Council will try and minimise increases in operating expenses to improve the overall operating result and;

- Council will aim to increase the funding allocated to key capital infrastructure areas such as open spaces, drainage and roads, above CPI, over time, to improve our levels of asset investment and renewal.

6. Assumptions

The LTFP uses the current operating budget as its base point, then applies a number of internal and market driven assumptions to project revenue and expenditure for the following ten years.

In preparing the 2017/18 LTFP, the following underpinning principles have been adopted:

- the range and service level for existing services offered to the community is maintained
- the financial position must remain secure
- our financial performance should aim towards meeting industry benchmarks and the long term financial sustainability of Council
- we should retain a minimum working capital balance of at least $3 million for the General Fund.

Rate Pegging and Special Rate Variations

IPART has determined that the standard rate peg limit increase for 2017/18 is 1.5%. Council has obtained IPART approval for a special variation of 4.9% for 2017/18, with this being an interim approval for one year only.

In order to meet and maintain the Fit for the Future benchmarks, as outlined in Section 2 of this document, Council will need permanent rate income increases of at least 5.9% in 2018/19 and 5.9% in 2019/20 based on an estimated standard rate peg limit increase of 2.5%. These figures are also based on the 4.9% increase for 2017/18 continuing on a permanent basis.

The additional revenue, above the standard rate peg limit, generated for the three year period from 2017/18 to 2019/20 will finance increased capital works in areas such as roads and community buildings, along with a healthy waterways program.

Also as the 3.5% approval above the standard rate peg limit for 2017/18 (i.e. 4.9% less 1.5%) is for one year only Council will need to reapply for this additional 3.5% in 2018/19 to ensure it remains as a permanent increase to our rate income.

A summary of the annual and cumulative increases of this proposal are as follows:

Assumed Special Variation Application to IPART

Financial Year	Rate Peg Limit Percentage (%)	Additional Percentage Requested (%)	Total Annual Percentage (%)	Cumulative Percentage Impact from 2017/18 (%)	Cumulative Impact on $100 ($)	IPART Application Percentage (%)	Cumulative Impact on $100 for 2018/19 onwards ($)
2017/18	1.50 (actual)	3.40	4.90	4.90	104.90	4.90 (1)	N/A
2018/19	2.50 (estimate)	3.40	5.90	11.09	111.09	9.30 (2)	109.30 (2)
2019/20	2.50 (estimate)	3.40	5.90	17.64	117.64	5.90 (2)	115.75 (2)

(1) This percentage has been approved by IPART for 2017/18 for one year only.

(2) These figures represent the actual application percentages relevant to IPART for Council's application for 2018/19 and 2019/20.

The 2018/19 percentage figure represents the 2.5% assumed rate peg limit, the 3.4% requested variation for 2018/19, along with the 3.4% approved for one year only for 2017/18 to ensure it is retained as a permanent income stream. The 5.9% for 2019/20 is the 2.5% assumed rate peg limit, along with the 3.4% request variation for that year. On a cumulative basis the application for 2018/19 and 2019/20, based on the 9.3% and 5.9% requested, represents a 15.75% increase.

The objectives behind this three year schedule of additional rate increases, which then provides a permanent increase to our revenue stream, are as follows:

a) Council's asset management modeling identifies that we are underfunding our investment in asset renewal. Over time this will mean the long term deterioration of our existing asset base. A large part of the funds raised will be invested into increased expenditure on core infrastructure assets such as roads, stormwater, open spaces and community buildings. Undertaking these works in a timelier manner will assist in maintaining the condition of our assets and save maintenance expenditure, as deteriorating assets result require maintenance expenditure of at least 15% per annum above well maintained assets.

b) The Richmond River has been identified as one of the unhealthiest rivers on the NSW coastline. The Coastal Zone Management Plan (CZMP) for the Richmond River Estuary outlines a number of actions that can be undertaken to improve the health of that waterway. In addition to this Council has CZMPs in place for Shaws Bay and the Ballina Shire Coastline, and a new CZMP will be prepared for Lake Ainsworth.

   All of these plans will help guide the expenditure of the funds allocated to the Healthy Waterways Program, with Council currently have very little in the way of recurrent funding to implement these plans.

c) Our long term financial modelling indicates that without the additional special rate variation revenues our General Fund will continue to operate at a deficit. What this means is that Council's asset base is deteriorating over time in that Council is not fully funding depreciation.

The implementation of the special rate variations will ensure that the General Fund generates an operating surplus in the medium to long term. This will also assist in ensuring that the Council complies with the State Government's Fit for the Future Program.

For further details on our financial modelling refer to Section 7 of this document.

Population Growth

Our average growth, as per Australia Bureau of Statistics figures for the period to 2000/01 to 2011/12, is 0.73%.

Growth in recent years has been below the NSW State average due to a number of reasons, particularly high land values, although growth now appears to be rapidly increasing.

The NSW Department of Planning and Environment (DPE) have advised Council that their latest estimate for population growth for the Ballina Shire is approximately 0.5% to 2031.

Council is of the opinion that higher growth than this will eventuate due to major land releases at Lennox Head (Pacific Pines), Wollongbar (WUEA) and Ballina (Ferngrove / Riveroaks / Cumbalum), however for consistency with the DPE, our modelling is based on their figures; i.e.

Year Ending 30 June	Resident Population	Change in Number	Change in Percent
2000/01	37,856		
2001/02	38,417	561	1.48
2002/03	38,870	453	1.18
2003/04	39,120	250	0.64
2004/05	39,305	185	0.47
2005/06	39,538	233	0.59
2006/07	39,824	286	0.72
2007/08	40,020	196	0.49
2008/09	40,295	275	0.69
2009/10	40,571	276	0.68
2010/11	40,747	176	0.43
2011/12	41,015	268	0.66
2012/13	41,321	306	0.75
2013/14	41,417	96	0.23
2014/15	41,617	200	0.48
2015/16	41,964	347	0.83
2016/17 - 2020/21	42,889	1,056	2.50
2021/22 - 2025/26	43,972	1,083	2.50
2026/27 - 2030/31	45,082	1,110	2.50

Council estimates a dwelling will average around 2.3 persons. Based on these population growth figures the average number of new dwellings constructed per annum will be approximately 100.

Employee Costs

Increases in employee costs are determined by Local Government NSW (the NSW Local Government employer association) in conjunction with the various unions.

Council has applied an increase of 2.8% for 2017/18 based on an assumed outcome from Award negotiations. A figure of 2.50% has been applied for 2018/19 onwards, in line with the CPI and other increases in the LTFP.

Dividends

Council is able to source dividends from our Water and Wastewater operations and transfer funds to the General Fund, based on criteria determined by the State Government. A mandatory dividend based on this criterion of $34,000 from water and $20,000 from wastewater is included in the LTFP. These figures are set by legislation and have not changed for many years.

Council can source additional optional dividends from the Water and Wastewater operations subject to their financial position meeting defined financial criteria that ensures the activity is financially strong enough to fund the dividends.

To date Council has not chosen to take optional dividends as this will result in further price increases in the water and wastewater charges. There are also equity concerns in that only residents, who have access to water and wastewater services, pay those charges, whereas services in the General Fund are usually available to all residents.

Council does source dividends from a number of General Fund activities to assist in delivering services to the community, with the Airport, Cemetery, Waste and Property Operations being the main contributors.

Water, Wastewater and Waste Charges

These three activities generate a significant percentage of our total revenues from the application of annual and usage charges. Individual business plans are formulated for these activities and the forecast increases in the relevant charges are based on modelling in the business plans.

Summary of Revenue and Expenditure Assumptions - LTFP

The following tables summarises Council's core financial planning assumptions.

Revenue Assumptions (%)	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Rate Income Increase	4.90	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Rate Growth	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Financial Assistance Grant	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Fees	2.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Domestic Waste	2.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Waste Operations	Charge removed									
Stormwater	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water – Access	2.00	2.50	2.50	2.50	3.00	3.00	3.00	3.00	3.00	3.00
Water – Consumption	2.00	2.50	2.50	2.50	3.00	3.00	3.00	3.00	3.00	3.00
Wastewater – Access	3.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Wastewater – Usage	3.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50

Expenditure Assumptions (%)	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Employee Costs	2.80	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Recurrent Costs	1.50	2.50	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00
Capital Expenditure	4.00	4.00	4.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50

Higher percentage increases have been applied for recurrent Capital Expenditure related projects to increase Council's overall commitment to capital expenditure and to improve our asset renewal ratios.

7. Scenario Modelling

There are three financial models that we have analysed for the next ten years. They each consider current services and service levels, workforce planning and asset management.

Model One

Model One is based on the financial planning assumptions outlined in the previous section, with the additional key assumptions being:

- Permanent rate income increases of 4.90% for 2017/18, 5.90% for 2018/19, 5.90% for 2019/20 and 2.50% thereafter. The 4.90% and 5.90% figures are calculated as follows:

Item	2017/18	2018/19	2019/20
Rate Pegging Limit %	1.50	2.50	2.50
Fit for the Future %	1.90	3.40	3.40
Healthy Waterways %	1.50	0.00	0.00
Total	**4.90**	**5.90**	**5.90**

Council's Fit for the Future submission was based on three percentage increases of 2.90% above the rate pegging limit. This proposal still provides an average of 2.90% for the Fit for the Future submission, plus an additional 1.50% in 2017/18 to raise revenue to implement works to improve the health of our waterways.

- Dividends from Waste Management from 2019/20 onwards with those funds invested in increased asset renewal expenditure.

This model is largely consistent with Council's submission to the Fit for the Future Program.

Model Two

Model Two is similar to Model One however instead of permanent rate increases of 4.90% and 5.90% from 2017/18 to 2019/20, 1.50% is applied for 2017/18 and 2.50% onwards. It also assumes that no waste dividends are available based on the assumption that the Waste Management operating result is not financially sound enough to support such a dividend.

To replace this lost revenue the Roads to Recovery Grant is maintained at $1.7m for 2017/18, plus CPI from 2018/19 onwards. The Federal Government significantly increased this grant for 2015/16 and 2016/17 however for 2017/18 onwards it is currently forecast that the grant will revert back to its historical levels (around $600,000 to $900,000). There is the possibility the higher level of funding will continue and Model Two highlights the benefits that this brings.

Model Three

This model is a worst case scenario where Council does not apply for rate pegging increases above CPI for 2017/18 onwards, the Roads to Recovery Grant reduces to its traditional level in 2017/18 and our waste operations are not financially sound enough to support the dividends proposed from 2020/21 onwards.

The financial results, on a Consolidated basis and for the General Fund, for all three models, along with the Fit for the Future benchmarks are provided in the following pages.

Model One – Consolidated Operating Results ($'000)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Revenues										
Rates / Annual Charges	47,394	49,438	51,588	53,020	54,512	56,047	57,625	59,246	60,913	62,627
User Charges and Fees	19,007	19,625	20,182	20,688	21,205	21,739	22,286	22,850	23,426	24,021
Investment Revenues	1,677	1,732	1,920	1,686	1,757	1,680	1,644	1,671	1,632	1,828
Operating Grants	7,719	7,400	7,630	7,632	7,733	7,843	7,986	8,143	8,305	8,470
Other Revenues	6,236	6,567	6,639	6,841	7,026	7,211	7,493	7,601	7,804	8,012
Sub Total	**82,032**	**84,763**	**87,958**	**89,867**	**92,233**	**94,520**	**97,034**	**99,510**	**102,079**	**104,958**
Operating Expenses										
Employee Costs	23,059	23,775	24,513	25,274	26,059	26,868	27,703	28,563	29,450	30,365
Materials and Contracts	22,270	22,813	23,553	23,632	24,195	24,569	25,197	25,713	26,000	26,357
Borrowing Costs	5,603	5,150	4,871	4,469	4,451	4,090	3,774	3,473	3,197	2,938
Depreciation	18,539	18,963	19,435	19,825	20,223	20,629	21,043	21,465	21,896	22,335
Other Expenses	12,441	12,698	13,031	13,632	13,745	14,178	14,520	15,214	15,339	15,765
Sub Total	**81,912**	**83,398**	**85,402**	**86,833**	**88,673**	**90,333**	**92,237**	**94,429**	**95,881**	**97,760**
Operating Result	**120**	**1,364**	**2,556**	**3,034**	**3,560**	**4,187**	**4,797**	**5,082**	**6,198**	**7,199**

Model Two – Consolidated Operating Results ($'000)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Revenues										
Rates / Annual Charges	46,699	47,991	49,319	50,683	52,105	53,567	55,071	56,615	58,203	59,837
User Charges and Fees	19,007	19,625	20,182	20,688	21,205	21,739	22,286	22,850	23,426	24,021
Investment Revenues	1,677	1,732	1,920	1,686	1,757	1,680	1,644	1,671	1,632	1,828
Operating Grants	8,519	8,642	8,765	8,789	8,913	9,047	9,214	9,395	9,583	9,774
Other Revenues	6,234	6,563	6,633	6,835	7,021	7,206	7,488	7,595	7,798	8,006
Sub Total	**82,135**	**84,554**	**86,819**	**88,682**	**91,001**	**93,239**	**95,702**	**98,127**	**100,641**	**103,465**
Operating Expenses										
Employee Costs	23,059	23,775	24,513	25,274	26,059	26,868	27,703	28,563	29,450	30,365
Materials and Contracts	22,270	22,813	23,553	23,632	24,195	24,569	25,197	25,713	26,000	26,357
Borrowing Costs	5,603	5,150	4,871	4,469	4,451	4,090	3,774	3,473	3,197	2,938
Depreciation	18,539	18,963	19,435	19,825	20,223	20,629	21,043	21,465	21,896	22,335
Other Expenses	12,441	12,698	13,031	13,632	13,745	14,178	14,520	15,214	15,339	15,765
Sub Total	**81,912**	**83,398**	**85,402**	**86,833**	**88,673**	**90,333**	**92,237**	**94,429**	**95,881**	**97,760**
Operating Result	**223**	**1,155**	**1,416**	**1,849**	**2,328**	**2,906**	**3,466**	**3,698**	**4,760**	**5,705**

Model Three – Consolidated Operating Results ($'000)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Revenues										
Rates / Annual Charges	46,699	47,991	49,319	50,683	52,105	53,567	55,071	56,615	58,203	59,837
User Charges and Fees	19,007	19,625	20,182	20,688	21,205	21,739	22,286	22,850	23,426	24,021
Investment Revenues	1,677	1,732	1,920	1,686	1,757	1,680	1,644	1,671	1,632	1,828
Operating Grants	7,719	7,400	7,630	7,632	7,733	7,843	7,986	8,143	8,305	8,470
Other Revenues	6,234	6,563	6,633	6,835	7,021	7,206	7,488	7,595	7,798	8,006
Sub Total	**81,335**	**83,312**	**85,684**	**87,524**	**89,820**	**92,035**	**94,474**	**96,874**	**99,364**	**102,161**
Operating Expenses										
Employee Costs	23,059	23,775	24,513	25,274	26,059	26,868	27,703	28,563	29,450	30,365
Materials and Contracts	22,270	22,813	23,553	23,632	24,195	24,569	25,197	25,713	26,000	26,357
Borrowing Costs	5,603	5,150	4,871	4,469	4,451	4,090	3,774	3,473	3,197	2,938
Depreciation	18,539	18,963	19,435	19,825	20,223	20,629	21,043	21,465	21,896	22,335
Other Expenses	12,441	12,698	13,031	13,632	13,745	14,178	14,520	15,214	15,339	15,765
Sub Total	**81,912**	**83,398**	**85,402**	**86,833**	**88,673**	**90,333**	**92,237**	**94,429**	**95,881**	**97,760**
Operating Result	**(577)**	**(87)**	**282**	**692**	**1,147**	**1,702**	**2,237**	**2,445**	**3,482**	**4,402**

Model One – General Fund Operating Results ($'000)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Revenues										
Rates / Annual Charges	28,018	29,566	31,208	32,120	33,059	34,026	35,021	36,044	37,098	38,182
User Charges and Fees	10,655	11,027	11,331	11,579	11,830	12,092	12,357	12,631	12,908	13,195
Investment Revenues	1,000	1,118	1,386	1,093	1,094	1,119	1,153	1,193	1,181	1,219
Operating Grants	7,432	7,111	7,339	7,339	7,439	7,547	7,688	7,843	8,004	8,167
Other Revenues	4,931	5,229	5,267	5,434	5,584	5,732	5,977	6,046	6,210	6,378
Sub Total	**52,035**	**54,051**	**56,531**	**57,565**	**59,005**	**60,515**	**62,197**	**63,757**	**65,400**	**67,141**
Operating Expenses										
Employee Costs	17,157	17,690	18,239	18,805	19,389	19,991	20,613	21,253	21,913	22,594
Materials and Contracts	15,423	15,791	16,429	16,364	16,779	16,953	17,479	17,841	18,039	18,244
Borrowing Costs	1,353	1,271	1,204	1,030	1,212	1,041	918	815	733	672
Depreciation	13,384	13,704	14,071	14,354	14,642	14,936	15,236	15,543	15,855	16,173
Other Expenses	5,632	5,801	5,960	6,382	6,281	6,442	6,608	7,068	6,951	7,129
Sub Total	**52,949**	**54,257**	**55,902**	**56,934**	**58,302**	**59,363**	**60,853**	**62,519**	**63,492**	**64,812**
Operating Result	**(914)**	**(206)**	**629**	**631**	**703**	**1,152**	**1,343**	**1,238**	**1,909**	**2,329**

Model Two – General Fund Operating Results ($'000)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Revenues										
Rates / Annual Charges	27,322	28,119	28,939	29,783	30,651	31,546	32,467	33,413	34,388	35,391
User Charges and Fees	10,655	11,027	11,331	11,579	11,830	12,092	12,357	12,631	12,908	13,195
Investment Revenues	1,000	1,118	1,386	1,093	1,094	1,119	1,153	1,193	1,181	1,219
Operating Grants	8,232	8,353	8,474	8,497	8,619	8,751	8,917	9,096	9,281	9,471
Other Revenues	4,930	5,226	5,262	5,429	5,578	5,727	5,971	6,040	6,203	6,371
Sub Total	**52,138**	**53,842**	**55,392**	**56,380**	**57,773**	**59,234**	**60,865**	**62,373**	**63,962**	**65,647**
Operating Expenses										
Employee Costs	17,157	17,690	18,239	18,805	19,389	19,991	20,613	21,253	21,913	22,594
Materials and Contracts	15,423	15,791	16,429	16,364	16,779	16,953	17,479	17,841	18,039	18,244
Borrowing Costs	1,353	1,271	1,204	1,030	1,212	1,041	918	815	733	672
Depreciation	13,384	13,704	14,071	14,354	14,642	14,936	15,236	15,543	15,855	16,173
Other Expenses	5,632	5,801	5,960	6,382	6,281	6,442	6,608	7,068	6,951	7,129
Sub Total	**52,949**	**54,257**	**55,902**	**56,934**	**58,302**	**59,363**	**60,853**	**62,519**	**63,492**	**64,812**
Operating Result	**(811)**	**(415)**	**(511)**	**(554)**	**(529)**	**(129)**	**12**	**(145)**	**471**	**835**

Model Three – General Fund Operating Results ($'000)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Revenues										
Rates / Annual Charges	27,322	28,119	28,939	29,783	30,651	31,546	32,467	33,413	34,388	35,391
User Charges and Fees	10,655	11,027	11,331	11,579	11,830	12,092	12,357	12,631	12,908	13,195
Investment Revenues	1,000	1,118	1,386	1,093	1,094	1,119	1,153	1,193	1,181	1,219
Operating Grants	7,432	7,111	7,339	7,339	7,439	7,547	7,688	7,843	8,004	8,167
Other Revenues	4,930	5,226	5,262	5,429	5,578	5,727	5,971	6,040	6,203	6,371
Sub Total	**51,338**	**52,600**	**54,257**	**55,223**	**56,592**	**58,030**	**59,637**	**61,121**	**62,684**	**64,344**
Operating Expenses										
Employee Costs	17,157	17,690	18,239	18,805	19,389	19,991	20,613	21,253	21,913	22,594
Materials and Contracts	15,423	15,791	16,429	16,364	16,779	16,953	17,479	17,841	18,039	18,244
Borrowing Costs	1,353	1,271	1,204	1,030	1,212	1,041	918	815	733	672
Depreciation	13,384	13,704	14,071	14,354	14,642	14,936	15,236	15,543	15,855	16,173
Other Expenses	5,632	5,801	5,960	6,382	6,281	6,442	6,608	7,068	6,951	7,129
Sub Total	**52,949**	**54,257**	**55,902**	**56,934**	**58,302**	**59,363**	**60,853**	**62,519**	**63,492**	**64,812**
Operating Result	**(1,611)**	**(1,657)**	**(1,645)**	**(1,711)**	**(1,710)**	**(1,333)**	**(1,217)**	**(1,398)**	**(807)**	**(468)**

Model One – Fit for the Future Benchmarks ($'000) (green = pass, red = fail)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Infrastructure Backlog (< 2.0%)	0.45%	0.44%	0.44%	0.44%	0.43%	0.43%	0.42%	0.42%	0.42%	0.41%
Asset Maintenance (three year average > 100%)	107.0%	104.4%	104.1%	102.8%	103.5%	102.6%	103.3%	102.4%	103.0%	102.2%
Debt Service (three year average < 20%)	9.5%	8.9%	8.7%	8.1%	8.0%	7.6%	6.9%	5.8%	4.6%	3.9%
Own Source Operating Rev (three year average > 70%)	65.9%	68.5%	72.2%	74.1%	73.1%	74.7%	78.1%	81.4%	81.6%	82.2%
Real Operating Expenditure Per Capita (Decreasing in real terms)	92.0%	90.1%	90.8%	88.4%	88.5%	86.1%	86.4%	84.8%	84.2%	84.0%
Asset Renewal (three year average > 100%)	152.7%	140.8%	85.3%	110.6%	145.0%	150.9%	112.2%	96.1%	99.4%	101.4%
Operating Performance (three year average > 0%)	-2.4%	-0.6%	0.0%	1.0%	1.5%	1.8%	2.1%	2.4%	2.7%	3.1%

The asset renewal ratio average for the ten year period is 119%

Model Two – Fit for the Future Benchmarks ($'000) (green = pass, red = fail)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Infrastructure Backlog (< 2.0%)	0.45%	0.44%	0.44%	0.44%	0.43%	0.43%	0.42%	0.42%	0.42%	0.41%
Asset Maintenance (three year average > 100%)	107.0%	104.4%	104.1%	102.8%	103.5%	102.6%	103.3%	102.4%	103.0%	102.2%
Debt Service (three year average < 20%)	9.5%	8.9%	8.7%	8.2%	8.1%	7.7%	7.1%	5.9%	4.7%	4.0%
Own Source Operating Rev (three year average > 70%)	65.5%	67.4%	70.3%	71.9%	70.9%	72.5%	75.9%	79.1%	79.3%	79.9%
Real Operating Expenditure Per Capita (Decreasing in real terms)	92.0%	90.1%	90.8%	88.4%	88.5%	86.1%	86.4%	84.8%	84.2%	84.0%
Asset Renewal (three year average > 100%)	154.9%	146.4%	93.9%	117.3%	148.8%	152.3%	113.7%	97.8%	101.2%	103.4%
Operating Performance (three year average > 0%)	-2.4%	-0.6%	-0.7%	-0.5%	-0.6%	-0.4%	0.0%	0.2%	0.5%	0.9%

Model Three – Fit for the Future Benchmarks ($'000) (green = pass, red = fail)

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Infrastructure Backlog (< 2.0%)	0.45%	0.44%	0.44%	0.44%	0.43%	0.43%	0.42%	0.42%	0.42%	0.41%
Asset Maintenance (three year average > 100%)	107.0%	104.4%	104.1%	102.8%	103.5%	102.6%	103.3%	102.4%	103.0%	102.2%
Debt Service (three year average < 20%)	9.5%	9.1%	8.9%	8.4%	8.3%	7.9%	7.2%	6.0%	4.8%	4.0%
Own Source Operating Rev (three year average > 70%)	65.8%	68.1%	71.6%	73.2%	72.2%	73.8%	77.3%	80.7%	80.8%	81.5%
Real Operating Expenditure Per Capita (Decreasing in real terms)	92.0%	90.1%	90.8%	88.4%	88.5%	86.1%	86.4%	84.8%	84.2%	84.0%
Asset Renewal (three year average > 100%)	152.7%	140.8%	85.3%	108.0%	139.9%	143.4%	104.8%	88.9%	92.3%	94.4%
Operating Performance (three year average > 0%)	-2.9%	-2.0%	-2.8%	-2.8%	-2.7%	-2.5%	-2.1%	-1.9%	-1.6%	-1.1%

8. Scenario Comments

Model One highlights that Council is generating operating surpluses on a consolidated basis from 2017/18 and the General Fund from 2018/19 onwards.

All Fit for the Future benchmarks are met from 2018/19 onwards excluding the Asset Renewal Ratio, however this ratio does meet the benchmark based on a ten year average. Council needs to continue to invest extra funds in asset renewal works to achieve total compliance with this ratio.

On balance Model One places Council in a strong financial position and ensures Council is financially sustainable in the long term as operating surpluses are consistently being generated. This is the preferred model.

Model Two highlights that if the Roads to Recovery grant funding is continued at current levels, into the future, Council achieves operating surpluses on a consolidated basis in 2017/18 without the need for the additional rate funding increases and waste dividends, however the operating surplus is not achieved for the General Fund until 2023/24.

The Asset Renewal Ratio does improve from Model One under this model as the Roads to Recovery monies are being expended directly on asset renewal.

This model helps to highlight the importance of this grant to Council and it will be interesting to see whether the Roads to Recovery funding continues at current levels. Unfortunately Federal Governments do not provide long term commitments in respect to this funding, which makes reliance on Roads to Recovery monies for long term financial planning uncertain.

Even with this additional income Council does not achieve a break even operating result in the short to medium term.

Model Three is a business as usual approach with Council not pursuing extra rate income or major dividends from our waste operations. It also assumes that Roads to Recovery funding will not continue at the current high levels.

Under this model the General Fund does not achieve an operating surplus. This model confirms that Council cannot continue with a business as usual approach, if it wishes to remain as a standalone financially viable Council.

Savings will continue to be pursued in operating expenditure however there is little chance of generating sufficient savings to match the extra capital expenditure needed to meet all the Fit for the Future benchmarks as Council has very little in the way of discretionary expenditure programs. Also when expenditure (and revenue) benchmarks are compared to industry averages Council typically rates very favourably.

With lower expenditure in many areas than many other councils, every effort needs to be made to secure additional revenues from increased rates, extra dividends or grants to achieve all necessary benchmarks particularly with respect to asset renewal.

9. Conclusion

Long term, Council is working towards financial sustainability, but this will be difficult due to the high value of Council's asset base and our comparatively low rate yield. This means every effort must be made to reduce expenses and minimise increases in service levels.

The Model One scenario represents our agreed strategy to achieve financial sustainability and it is essential that Council complies with this strategy, whilst reviewing our performance against that strategy each year, to ensure we achieve the Fit for the Future and financial sustainability benchmarks.

Finally balance sheets are provided in appendix one for scenario Model One, as this is the preferred model and also represents the LTFP.

Appendix – Balance Sheets

Model One – Consolidated Balance Sheet

Item	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
ASSETS										
Current Assets										
Cash and Investments	42,710	51,100	42,720	42,800	39,100	43,430	47,540	44,490	54,960	65,910
Receivables	10,690	10,970	11,260	11,550	11,850	12,150	12,470	12,800	13,140	13,480
Inventories	850	880	910	940	970	1,000	1,030	1,060	1,090	1,120
Other	340	360	380	400	420	440	460	480	500	520
Sub Total	**54,590**	**63,310**	**55,270**	**55,690**	**52,340**	**57,020**	**61,500**	**58,830**	**69,690**	**81,030**
Non Current Assets										
Investments	5,852	5,852	5,852	5,852	5,852	5,852	5,852	5,852	5,852	5,852
Receivables	420	450	480	510	540	570	600	630	660	690
Inventories	3,330	3,510	3,700	3,890	4,080	4,270	4,460	4,660	4,860	5,060
Infrastructure, Property, Plant and Equipment	1,155,300	1,167,530	1,190,480	1,212,530	1,230,010	1,232,390	1,235,080	1,245,490	1,240,130	1,234,610
Investment Property	22,760	23,330	23,920	24,520	25,140	25,770	26,420	27,090	27,770	28,470
Sub Total	**1,187,662**	**1,200,672**	**1,224,432**	**1,247,302**	**1,265,622**	**1,268,852**	**1,272,412**	**1,283,722**	**1,279,272**	**1,274,682**
TOTAL ASSETS	**1,242,252**	**1,263,982**	**1,279,702**	**1,302,992**	**1,317,962**	**1,325,872**	**1,333,912**	**1,342,552**	**1,348,962**	**1,355,712**
LIABILITIES										
Current Liabilities										
Payables	7,370	7,570	7,770	7,980	8,190	8,410	8,630	8,860	9,090	9,330
Borrowings	6,448	6,669	5,571	6,275	6,012	5,475	5,408	4,980	5,180	3,824
Provisions	7,960	8,190	8,420	8,650	8,880	9,210	9,540	9,870	10,200	10,530
Sub Total	21,778	22,429	21,761	22,905	23,082	23,095	23,578	23,710	24,470	23,684
Non Current Liabilities										
Payables	0	0	0	0	0	0	0	0	0	0
Borrowings	77,666	73,497	67,926	69,990	63,978	58,503	53,095	48,115	42,935	39,111
Provisions	5,230	5,640	6,050	6,460	6,870	7,280	7,690	8,200	8,710	9,220
Sub Total	**82,896**	**79,137**	**73,976**	**76,450**	**70,848**	**65,783**	**60,785**	**56,315**	**51,645**	**48,331**
TOTAL LIABILITIES	**104,674**	**101,566**	**95,737**	**99,356**	**93,930**	**88,878**	**84,363**	**80,025**	**76,115**	**72,015**
NET ASSETS	**1,137,578**	**1,162,416**	**1,183,966**	**1,203,636**	**1,224,032**	**1,236,994**	**1,249,549**	**1,262,527**	**1,272,847**	**1,283,697**
EQUITY										
Retained Earnings	675,178	688,216	697,766	705,236	712,932	712,994	712,349	711,727	708,147	704,697
Revaluation Reserves	462,400	474,200	486,200	498,400	511,100	524,000	537,200	550,800	564,700	579,000
TOTAL EQUITY	**1,137,578**	**1,162,416**	**1,183,966**	**1,203,636**	**1,224,032**	**1,236,994**	**1,249,549**	**1,262,527**	**1,272,847**	**1,283,697**

Model One – General Fund Balance sheet

Item	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
ASSETS										
Current Assets										
Cash and Investments	24,300	32,500	20,500	18,500	17,100	19,700	20,700	18,100	22,800	27,900
Receivables	7,190	7,370	7,560	7,750	7,950	8,150	8,360	8,570	8,790	9,010
Inventories	850	880	910	940	970	1,000	1,030	1,060	1,090	1,120
Other	200	210	220	230	240	250	260	270	280	290
Sub Total	**32,540**	**40,960**	**29,190**	**27,420**	**26,260**	**29,100**	**30,350**	**28,000**	**32,960**	**38,320**
Non Current Assets										
Investments	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Receivables	130	140	150	160	170	180	190	200	210	220
Inventories	3,130	3,210	3,300	3,390	3,480	3,570	3,660	3,760	3,860	3,960
Infrastructure, Property, Plant and Equipment	876,400	883,030	902,880	925,730	937,910	936,890	939,680	946,290	945,730	945,210
Investment Property	22,760	23,330	23,920	24,520	25,140	25,770	26,420	27,090	27,770	28,470
Sub Total	**905,920**	**913,210**	**933,750**	**957,300**	**970,200**	**969,910**	**973,450**	**980,840**	**981,070**	**981,360**
TOTAL ASSETS	**938,460**	**954,170**	**962,940**	**984,720**	**996,460**	**999,010**	**1,003,800**	**1,008,840**	**1,014,030**	**1,019,680**
LIABILITIES										
Current Liabilities										
Payables	7,230	7,420	7,610	7,810	8,010	8,220	8,430	8,650	8,870	9,100
Borrowings	3,314	3,389	3,117	3,621	3,168	2,438	2,173	1,550	1,553	0
Provisions	7,300	7,500	7,700	7,900	8,100	8,400	8,700	9,000	9,300	9,600
Sub Total	**17,844**	**18,309**	**18,427**	**19,331**	**19,278**	**19,058**	**19,303**	**19,200**	**19,723**	**18,700**
Non Current Liabilities										
Payables	0	0	0	0	0	0	0	0	0	0
Borrowings	24,971	24,082	20,964	25,683	22,515	20,077	17,904	16,353	14,800	14,800
Provisions	5,000	5,300	5,600	5,900	6,200	6,500	6,800	7,200	7,600	8,000
Sub Total	**29,971**	**29,382**	**26,564**	**31,583**	**28,715**	**26,577**	**24,704**	**23,553**	**22,400**	**22,800**
TOTAL LIABILITIES	**47,814**	**47,691**	**44,991**	**50,914**	**47,993**	**45,635**	**44,007**	**42,754**	**42,123**	**41,500**
NET ASSETS	**890,646**	**906,479**	**917,949**	**933,806**	**948,467**	**953,375**	**959,794**	**966,087**	**971,907**	**978,180**
EQUITY										
Retained Earnings	529,546	536,279	538,449	544,806	549,667	544,575	540,694	536,487	531,507	526,680
Revaluation Reserves	361,100	370,200	379,500	389,000	398,800	408,800	419,100	429,600	440,400	451,500
TOTAL EQUITY	**890,646**	**906,479**	**917,949**	**933,806**	**948,467**	**953,375**	**959,794**	**966,087**	**971,907**	**978,180**