



“FINANCING OUR DIRECTION”

2022 - 2032

LONG TERM FINANCIAL PLAN

June 2022

TABLE OF CONTENTS

1.	Introduction	2
2.	Financial Sustainability	2
3.	Financial Strategy	3
4.	Strategic Planning.....	3
5.	Long Term Financial Plan.....	3
6.	Assumptions	4
7.	New Initiatives	5
8.	Financial Sustainability Measures	5
9.	Long Term Estimation and Risk.....	9
10.	Sensitivity Analysis	9
11.	Cash Reserves & Borrowing	10
12.	Forecast Financial Position.....	10
	Table 1 Operating Statement.....	11
	Table 2 Balance Sheet.....	12

LONG TERM FINANCIAL PLAN

1. Introduction

This Long Term Financial Plan was revised by Northern Midlands Council on 27th of June 2022. It has been prepared to assist determine and illustrate Council's capacity to optimally meet our community's affordable service level preferences and the associated financial implications. The key objective of the Long Term Financial Plan (LTFP) is the achievement of financial sustainability in the medium to long term whilst achieving Council's strategic objectives.

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

2. Financial Sustainability

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

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

Many of Northern Midlands Council's services are asset based and the assets have long lives. Council has \$487m in gross assets (\$356m replacement cost) including physical assets of roads, bridges, buildings, stormwater infrastructure, plant and equipment etc.

In 2022-23 Council has a total budgeted operating revenue of \$30.6m including rate revenue of \$13.0m, operating grant revenue of \$4.6m, fees and charges revenue of \$2.5m, capital grant revenue of \$8.3m, and a total budgeted operating expenditure of \$21.9m, including wages costs of \$6.4m (69 full time equivalent employees), materials & services of \$6.3m, and depreciation of \$6.6m. Council's operating surplus is expected to be a surplus of \$8.7m, however the underlying result in 2022-23 is an expected very small surplus of \$9,470.

It is important for Council to adequately fund its asset management to ensure assets achieve their expected service standards, however Council also need to weigh up the continuing higher expectations and pressures to increase service levels from its community (population 13,800) while at the same time achieve sound long term financial management.

3. Financial Strategy

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

Council has embarked on a strategy to improve its ongoing financial sustainability. The level of operating revenue generated by Council in past years has been less than its operating expenses. The LTFP projects a balanced operating position moving forward with up to a 1 percent rate increase above the consumer price index.

Key measures proposed to help achieve this are as follows:

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

4. Strategic Planning

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

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

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

5. Long Term Financial Plan

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

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

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

6. Assumptions

In preparation of the LTFP the model assumptions include:

- Service delivery maintained at current levels
- Asset Renewal requirements are based on Council's Asset Management Plans for major assets classes, and depreciation levels for minor classes
- Current debt level maintained (excluding State Stimulus funding)
- Receivables maintained at current averaged levels
- Liabilities maintained at current averaged levels
- Capital grants are not included in operating surplus
- Asset revaluations are not included as they are usually adjusted directly to equity
- Rate income increases after the current year, are forecasted up to 1 percent per annum for four years over the current level (plus cost indexation) without other identified operating savings, plus 0.75 percent for development. Rate income includes General Rate, Fire Levy Rate, Waste Management Charges, and associated interest and penalty.
- Fees & Charges maintained at current levels
- Operating Grants are forecast to be ongoing and at current levels
- Dividends are forecast to be received from TasWater based on the targeted distributions.
- Interest revenue is based on 2.70 percent of the average cash balance
- Capital income – Roads to Recovery grant funding is committed until 2024 and assumed to be ongoing
- Employees numbers maintained at current levels
- Salaries & Wages & Oncosts at expected Enterprise Bargaining Agreement 2022 provisions, and maintained at constant levels thereafter
- Materials & Services maintained at current levels
- Energy costs maintained at current levels
- Depreciation maintained in accordance with Asset Management Plans plus allowance for new/upgraded assets
- Other expenditure includes special committee costs, councilor allowances, sundry reimbursements and contributions at current levels.

7. New Initiatives

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

New initiatives included are:

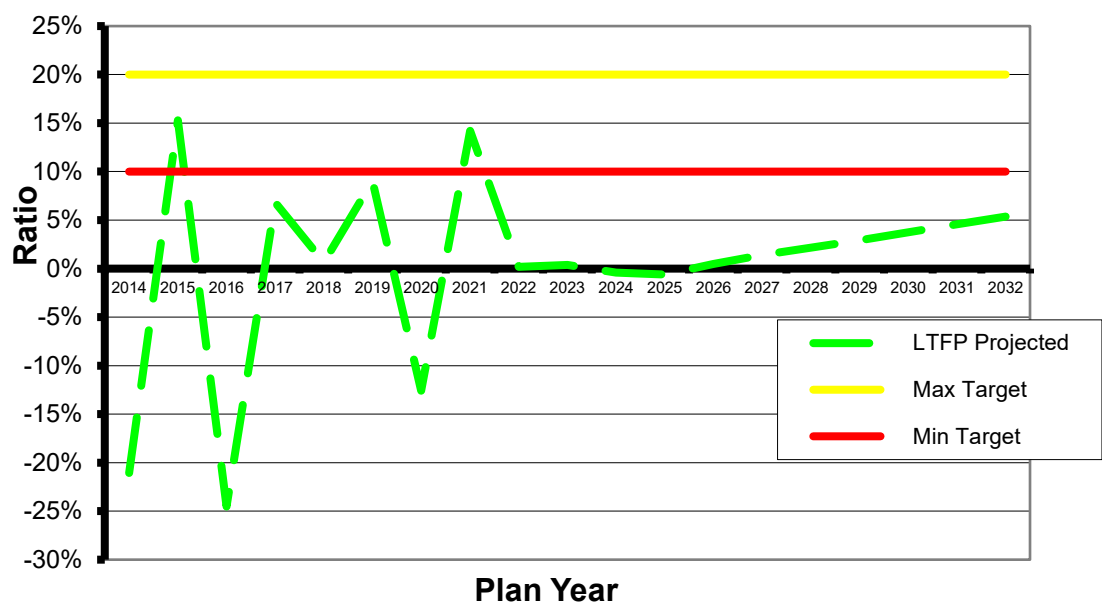
- Major road renewal programs.
- Extension of the stormwater, and footpath infrastructure.
- Building Stimulus Program.

8. Financial Sustainability Measures

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

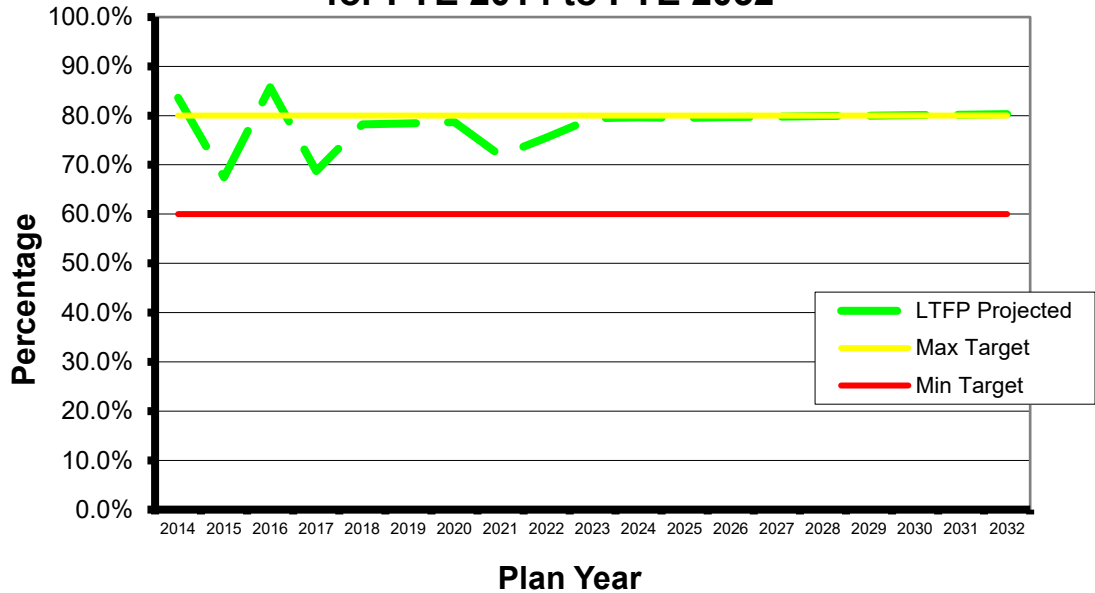
- Operating result – The operating surplus (deficit) before amounts received specifically for new or upgraded assets and physical resources received free of charge (and excluding capital grants such as Roads to Recovery). **See Table 1 – Operating Statement, page 11.**
- Operating surplus ratio - The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

Northern Midlands Council - Operating Surplus Ratio for FYE 2014 to FYE 2032



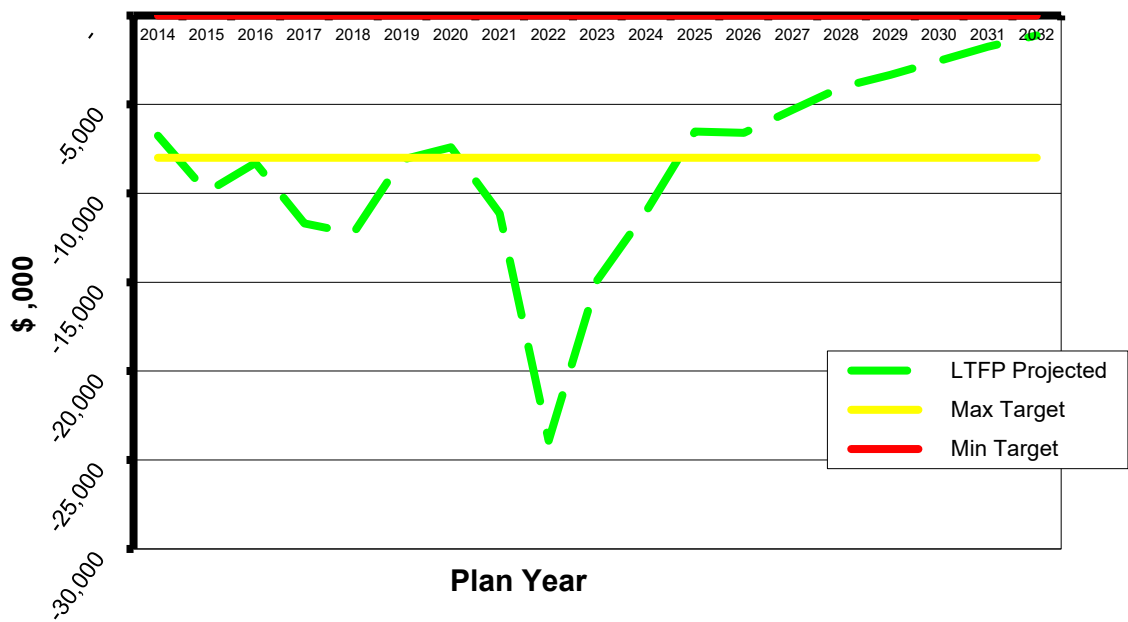
- Own Source Revenue Ratio – The ratio of revenue raised by Council excluding grant income.

Northern Midlands Council - Own Source Revenue for FYE 2014 to FYE 2032



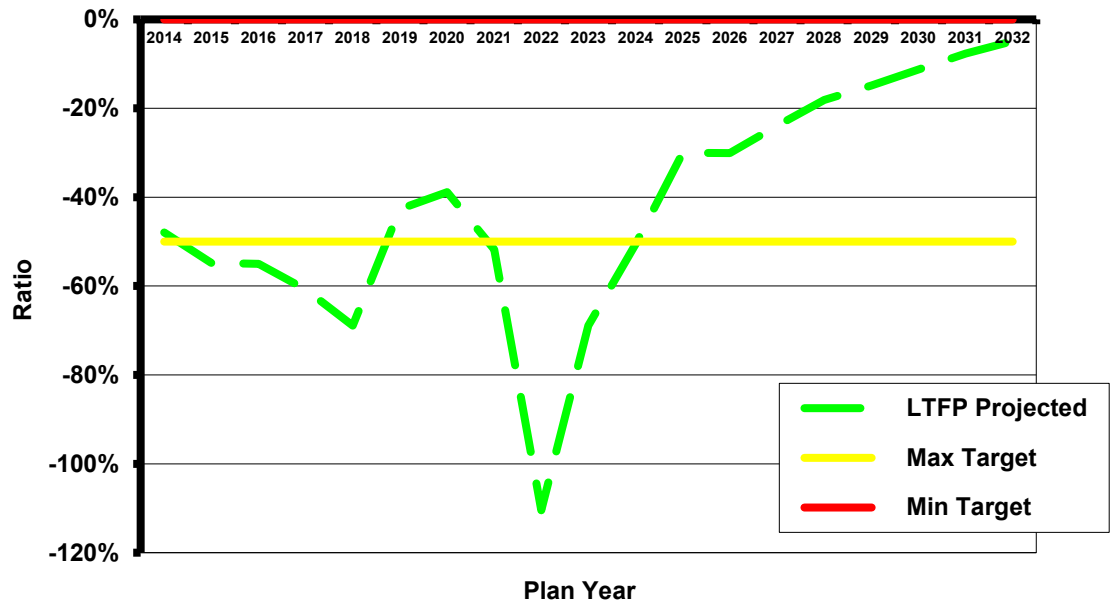
- Net financial liabilities – What is owed to others less money held, invested or owed to the entity. **See also Table 2 – Operating Statement, page Error! Bookmark not defined..**

Northern Midlands Council - Net Financial Liabilities from FYE 2014 to FYE 2032



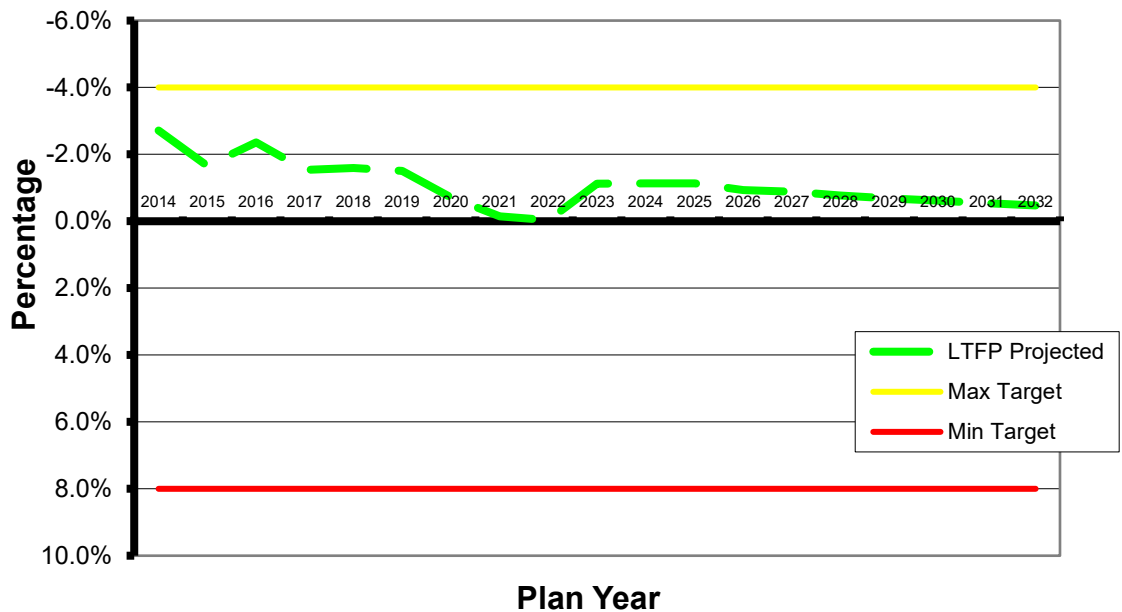
- Net financial liabilities ratio – The significance of net amount owed compared with the period’s income.

Northern Midlands Council - Net Financial Liabilities Ratio from FYE 2014 to FYE 2032



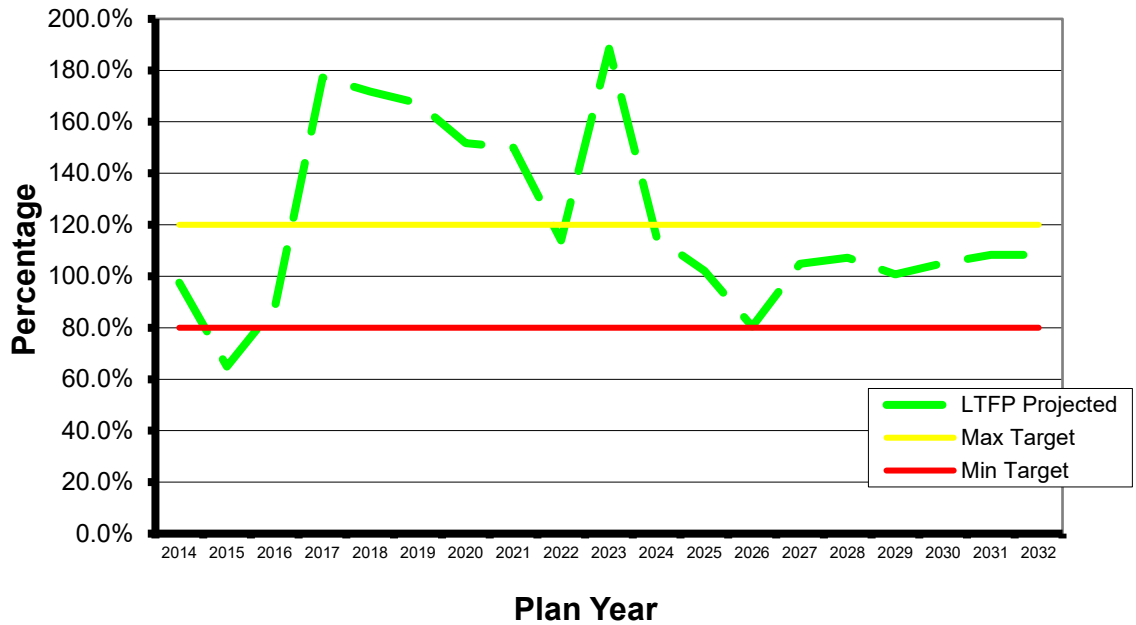
Interest cover ratio – The proportion of day-to-day operating income used to pay interest on loans net of interest income.

Northern Midlands Council - Net Interest Cover Percentage from FYE 2014 to FYE 2032



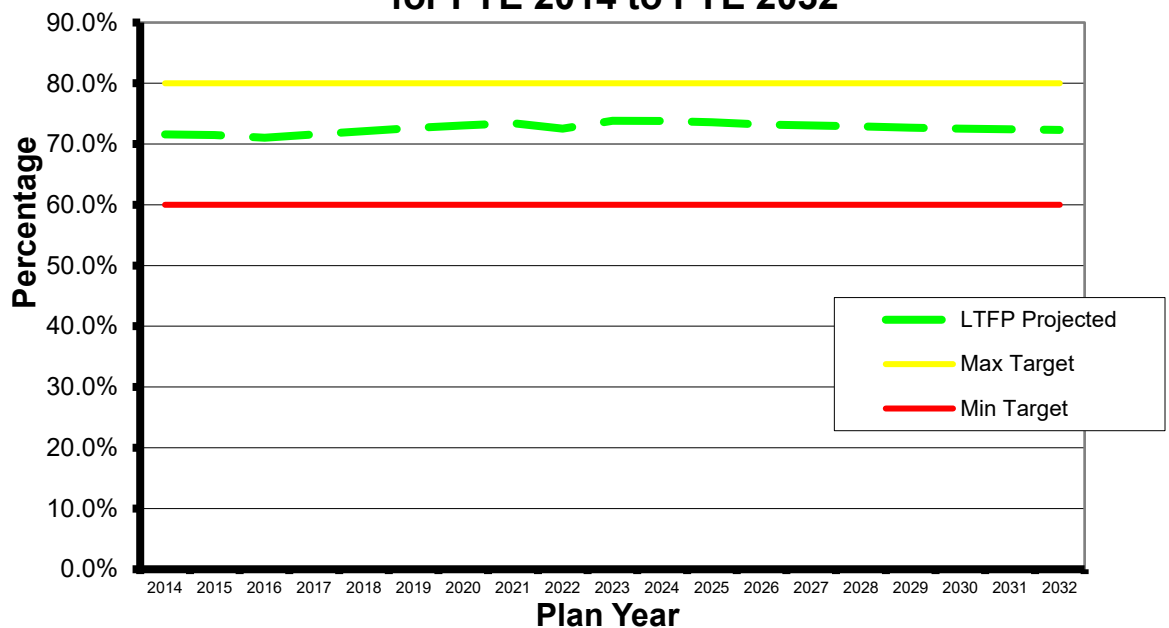
- Asset sustainability ratio – The ratio of asset replacement expenditure relative to depreciation for a period. It measures whether assets are being replaced at the rate they are wearing out.

Northern Midlands Council - Asset Sustainability Ratio for FYE 2014 to FYE 2032

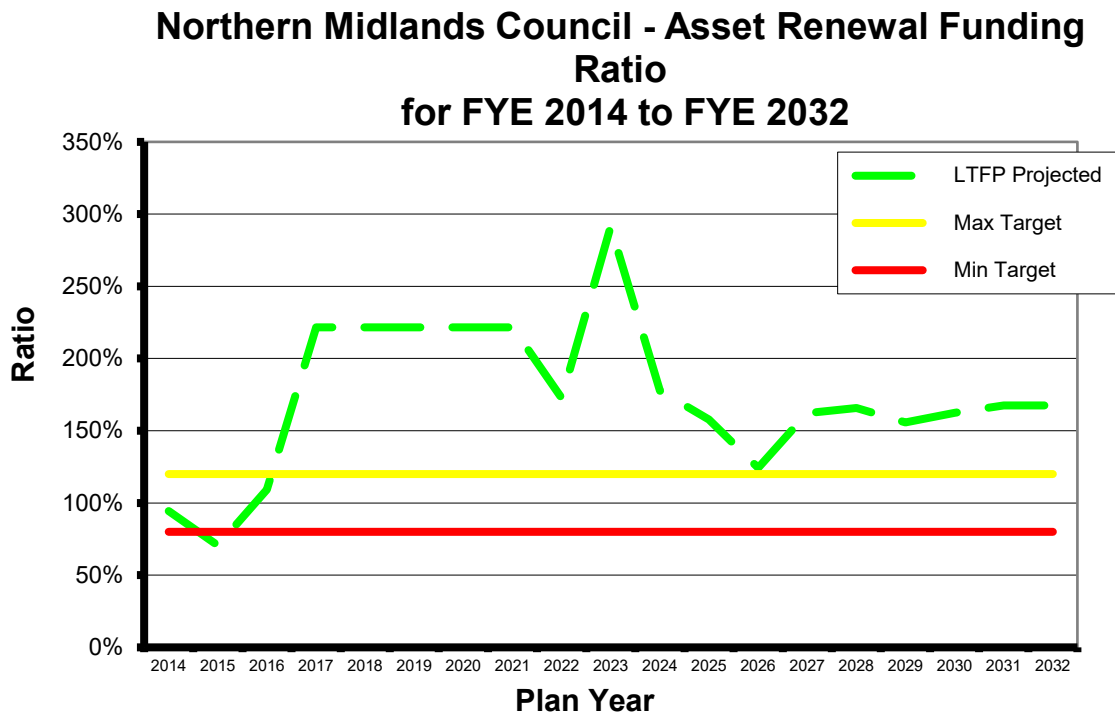


- Asset consumption ratio – The average proportion of ‘as new condition’ left in assets.

Northern Midlands Council - Asset Consumption Ratio for FYE 2014 to FYE 2032



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



9. Long Term Estimation and Risk

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

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

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

10. Sensitivity Analysis

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

11. Cash Reserves & Borrowing

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

- Employee provisions and contractual commitments \$2.6m
- Asset Replacement at a level of 1 percent of asset replacement value \$4.8m
- Loan repayment provision until 2023-24.

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

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

12. Forecast Financial Position

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

