

18.5. REVIEW OF LONG TERM FINANCIAL PLAN

REPORT INFORMATION

Report Author	Phil Brennan, Manager Finance
Date of Meeting	26 June 2024
Authorising Director	Steve Embry, Director Corporate Services

SUMMARY OF REPORT

This report provides the Council with a report on the annual review of the adopted Long-Term Financial Plan.

RECOMMENDATION

That the review of the adopted Long-Term Financial Plan be noted and a copy of this report and the attachments be included as an Annexure to the adopted Long Term Financial Plan.

FINANCIAL / RESOURCE IMPLICATIONS

Nil.

LEGAL IMPLICATIONS

Nil.

RISK IMPLICATIONS

Nil.

BACKGROUND

Under the Integrated Planning & Reporting Guidelines, Council is required to prepare and adopt a Long-Term Financial Plan (LTFP). This draft Plan is to be publicly exhibited and submissions considered prior to Council adopting the final Plan.

The Long-Term Financial Plan forms part of the Resourcing Strategy that informs the development of Council's 4-year Delivery Program. This work was undertaken after the December 2021 election with the development of the 2022-2026 Delivery Program.

A Long-Term Financial Plan was developed, exhibited and formally adopted by Council in June 2022.

It is acknowledged that the adopted Long-Term Financial Plan is deficient in that it does not contain a range of scenarios as outlined within the IP&R Guidelines. This requirement has been discussed with Council previously. The ability to create scenarios relies on accurate and current asset and service information being available. As that information was not available, when the Plan was developed any scenario (other than business-as-usual) would not have been evidence based and would not be reliable for decision-making purposes. On that basis, alternate scenarios have not been developed.

Once the Long-Term Financial Plan is adopted, the IP&R Guidelines (page 17) provide that:

"3.7 The key underlying assumptions on which the Long-Term Financial Plan is based, and the projected income and expenditure, balance sheet and cash flow statement contained in the Long-Term Financial Plan, must be reviewed and updated at least annually as part of the development of the Operational Plan.

3.8 The Long-Term Financial Plan must be reviewed in detail as part of the 4-yearly review of the Community Strategic Plan.”

REVIEW OF ASSUMPTIONS

A review of the underlying assumptions on which the adopted Long-Term Financial Plan was based has been completed.

As mentioned above, Council adopted a Long-Term Financial Plan in June 2022 which reflected a Business-As-Usual operating environment. This was based on the 2022-2023 budget (with the 2.25% additional special variation (ASV) included). That LTFP applied indexation factors to the various income and expenditure components based on economic factors and historical advice at that time. The result across the 10-year timeframe of the Plan was for ongoing Operating Deficits (before Capital Grants & Contributions). These deficits were in the vicinity of \$16 – \$18.5 million per annum.

Economic conditions continue to change since that Plan was prepared with higher ‘sticky’ inflation being experienced, higher wage increases and borrowings rates now projected for the next several years. It is prudent to consider the impact that this could have on our long-term position. A re-indexation of the adopted LTFP was undertaken to inform the 2024-2025 budget development process. Once the draft 2024-2025 budget was approved for exhibition, the LTFP was revised again to project out for a further 9 years using the draft 2024-2025 budget as the base year.

The revised indexation factors are set out in the attachments for the General Fund.

Other work undertaken to complete this review of the adopted Long-Term Financial Plan included updating loan principal and interest payments (based on new and renewed borrowings), revising and indexing capital works program projections across the life of the Plan (where available) and ensuring internal consistency within the model and across the 10-year timeframe.

There has been a major review of the Water & Sewer Fund Long-term Financial Plans to include the capital works programs that are included within the Integrated Water Cycle Management Plan that has been adopted by Council since the last review of the LTFP. Pricing paths, major infrastructure upgrades and increased borrowings are the result of this review.

It is important to note that this does not represent the development of a new Long-Term Financial Plan. It is a review to ensure that the Plan continues to cover a 10-year timeframe and incorporates the draft 2024-2025 budget. This does not require the exhibition of the revision of the Long-Term Financial Plan nor the adoption of the outcome of the revision.

It is proposed that this report and the principal Financial Statements included in the attachment be annexed to the adopted Long-Term Financial Plan.

RESULTS OF REVIEW OF LONG-TERM FINANCIAL PLAN

The principal statements that make up the Long-Term Financial Plan (Income Statement, Balance Sheet, Cash Flow Statement) are attached for the Consolidated Fund and each of the 3 Funds (General, Water, Sewer).

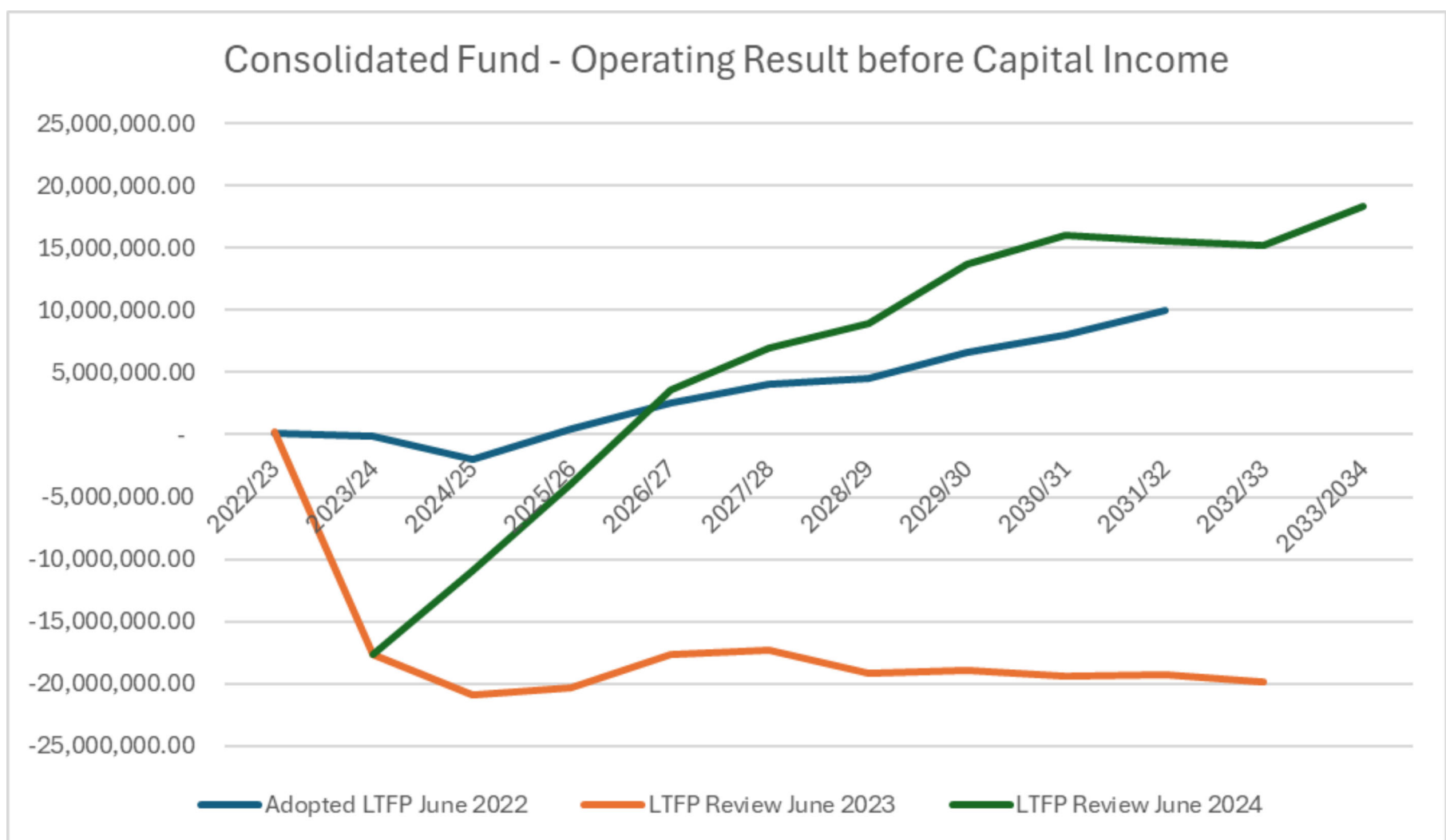
An additional scenario to model the projected cash savings in the General Fund from the Business Transformation Program has also been prepared and is included in the attachments.

The movements in projected financial results (Operating Result before Capital Income) between the Long-Term Financial Plan adopted in June 2022 and the results of the review of the Long-Term Financial Plan in both 2023 and 2024 are charted and discussed below.

Consolidated Result

Income Statement – the chart below highlights an improvement in the budget / projected ‘Operating Result before Capital Income’ since the adoption of the Long-Term Financial Plans. The Consolidated Result is the sum of the 3 Fund results and while the Consolidated result is reported within the Financial Statements, Council needs to focus on what is happening within each individual Fund to understand this result.

The chart highlights the projected consolidated financial position of Council over the next 10-years. The result is driven predominantly by surpluses within the Water and Sewer Funds. The General Fund projected result remains negative, although improved since the 2023 review and these results are commented upon below.

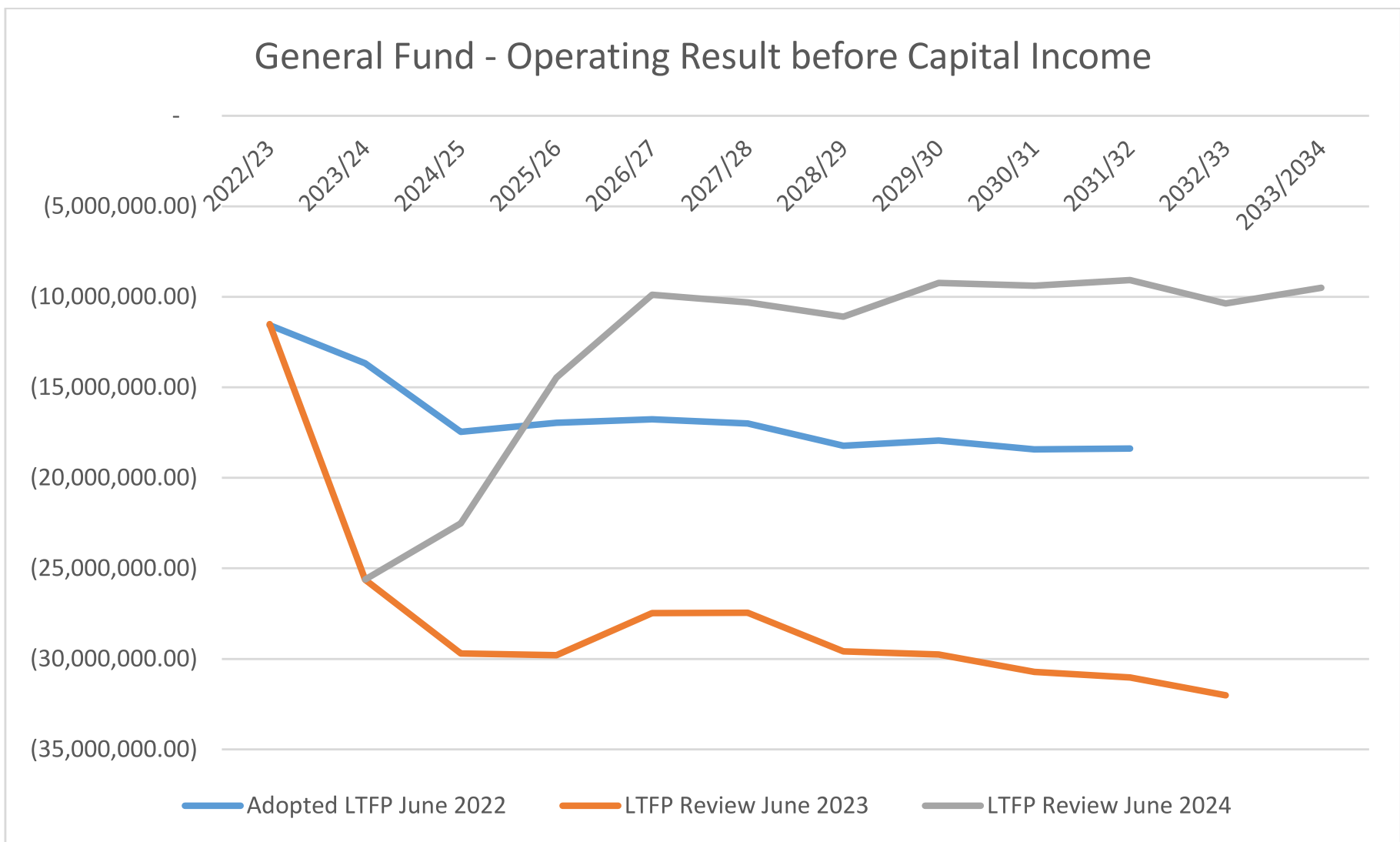


General Fund

The General Fund Income Statement result after the completion of the June 2024 review confirms the information provided to Council over the last two to three years that there is a structural deficit within this Fund. Council is aware of this and is taking action through its Financial Sustainability Action Plan. The long-term projection has improved since the last review but still indicates ongoing deficit results.

Council is aware of the medium-term actions that are being taken to contribute to this Action Plan - Asset Management Plans, Service Optimisation, Business Transformation, Property Strategy. This will provide an evidence base on which to engage with the community around service levels, willingness to pay for current or future services etc. and may inform future consideration of revenue raising options. This will assist in re-prioritising Council’s budget for the future.

With a major revision of the Long-term Financial Plan scheduled to occur during the next 12 months (as part of the development of the Resourcing Strategy and the 4-year Delivery Program for the new Council) much of the asset related information will be incorporated into that review. This will allow for the development of scenarios that are targeted at addressing Council’s asset management challenges while achieving ongoing financial sustainability.



Water Fund

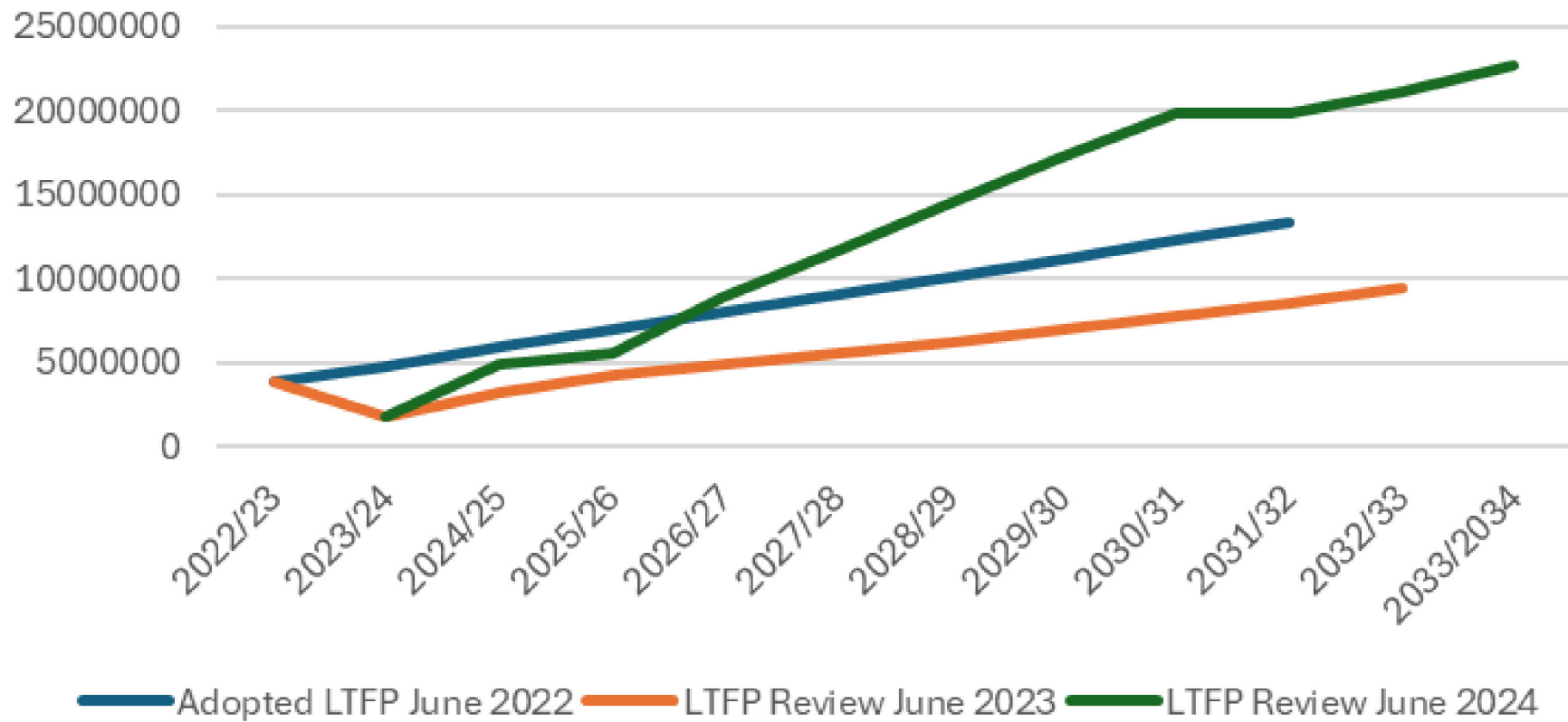
The Water Fund result after the completion of the June 2024 review reveals an improvement in the projected result when compared with the adopted Long-Term Financial Plan. This reflects the impact of the inclusion of the Integrated Water Cycle Management Plan (IWCM) assumptions which projects income increasing at a rate greater than inflation in order to fund a \$450 million capital works program over the 10- years from 2025/2026. This will also involve additional borrowings of approximately \$40 million and relies on significant State Government grant funding towards several of these projects.

There will be pressure on the Water Fund will be over this 10 year period. This is highlighted in the Cash Flow Statement which indicates that total cash and investments will decrease significantly over the next 3 – 7 years. This is shown in the second chart below. Borrowings are necessary to ensure the ability to fund these works.

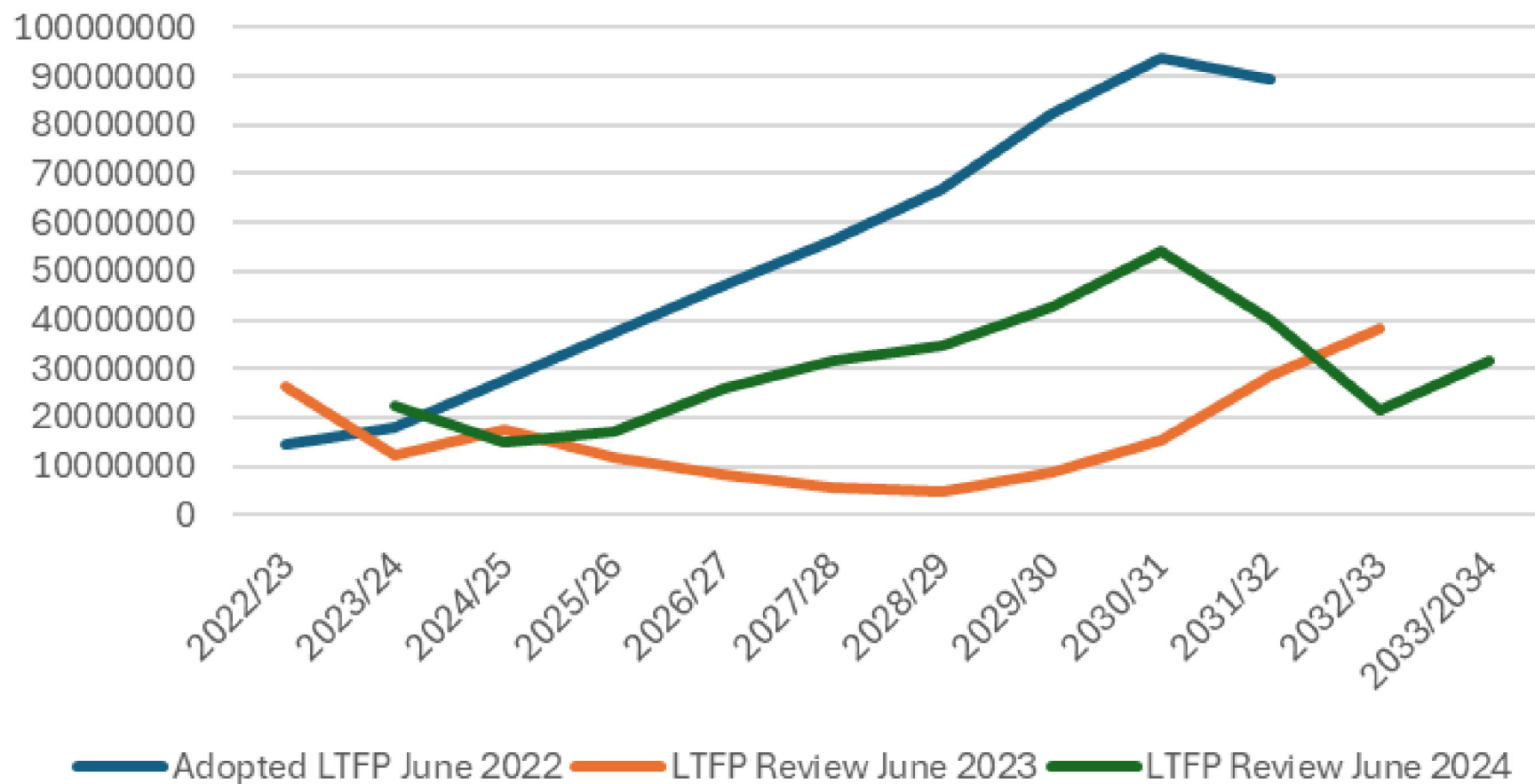
It is important to note that the IWCM is a 30 year Plan while this LTFP only covers the first 10 years of that Plan. The following 10 years within the IWCM show significantly reduced levels of capital works which will allow the cash position of the Fund to recover and for level of debt to be reduced.

The Key financial ratios for debt indicate that the Water Fund can afford the projected level of borrowings proposed within this Plan. The debt service ratio holds at around 12% across the 10 year horizon which is an acceptable level for an infrastructure focussed service.

Water Fund - Operating Result before Capital Income



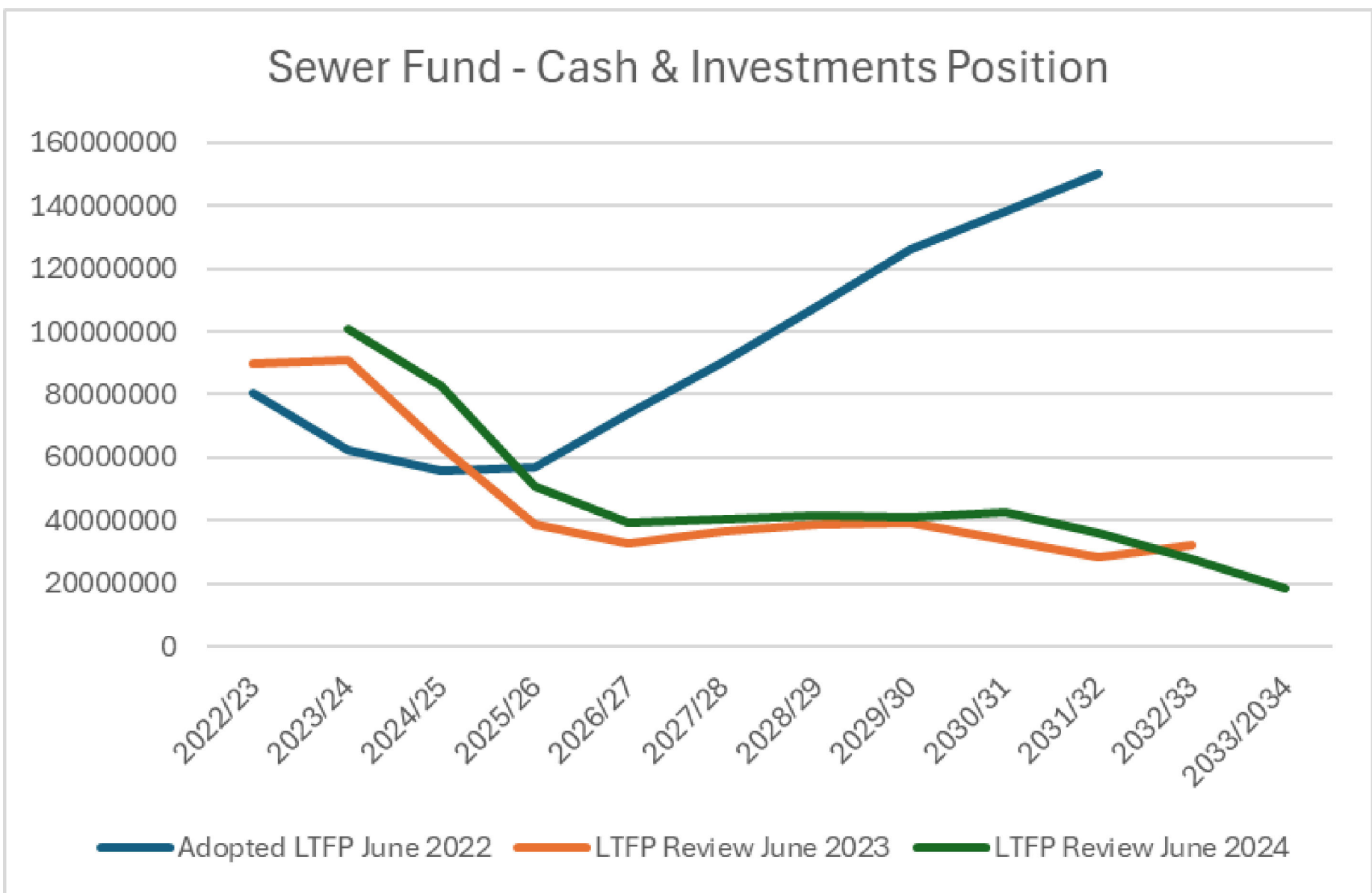
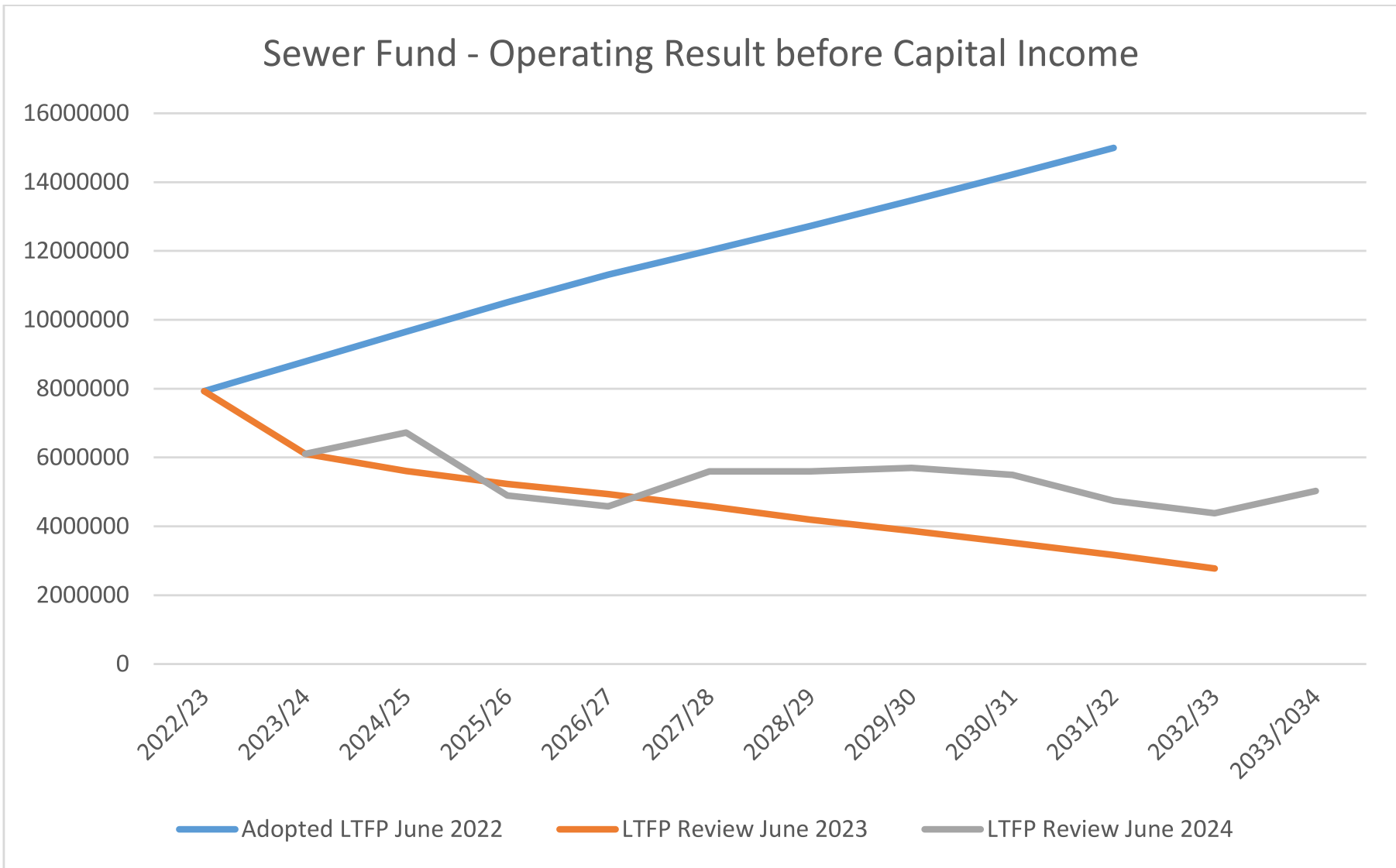
Water Fund - Cash & Investments Position



Sewer Fund

The Sewer Fund result after the completion of the June 2024 review reflects a similar position as the Water Fund. The Sewer Fund is projecting increasing Operating surpluses across the life of the Plan, due to an increase in income that will be required to fund a capital works program of \$360 million over the next 10 years. Borrowings in the order of \$140 million will be required over this period as minimal government will be available for these projects.

The impact on cash and investments can be seen in the chart below. From a debt service ratio perspective, the ratio will top 20% before returning to lower levels in the 10 years after the horizon of this Plan. Like the Water Fund IWCM Plan, the capital works program in the 2nd 10- year period is significantly smaller than what is required during the upcoming period.



CONCLUSION

The completion of the annual review of the Long-Term Financial Plan continues to highlight the challenges facing Council. It also confirms the General Fund trend in financial projections that have previously been provided and considered i.e. there is consistency in the underlying trend of LTFP model results over the past several years.

Council is aware that there is not a quick-fix solution to its long-term financial sustainability and that the required decisions need to be based on a detailed understanding of its asset position and service offerings / costings. The work required to provide that detailed information continues.

LIST OF ATTACHMENTS

The following attachment is available on the meeting page of Council's website under the 'Attachments to Agenda' heading:

Attachment 1 – Long Term Financial Plan – Principal Statements – June 2024