

17.5. REVIEW OF LONG-TERM FINANCIAL PLAN

REPORT INFORMATION

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Date of Meeting	28th June 2023
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 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 received 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 has not been available, any scenario (other than business-as-usual) would not be 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 have changed significantly since that Plan was prepared with increasing inflation and higher wage increases 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 2023-2024 budget development process. Once the draft 2023-2024 budget was approved for exhibition, the LTFP was revised again to project out for a further 9 years using the draft 2023-2024 budget as the base year.

The revised indexation factors are set out in the table below:

	2023/2024	2024/2025	2025/2026	Following 3 Years	Thereafter
Rates (income)	Up from 2.5% to 3.90%	4.20%	4.00%	2.50%	2.50%
User Charges (income)	Up from 2.00% to 5.00%	Up from 2.00% to 5.00%	3.00%	2.00%	2.00%
Fees & Charges (income)	Up from 2.50% to 5.00%	Up from 2.50% to 5.00%	3.00%	2.50%	2.50%
Employee Expenses (expenditure)	Up from 2.20% to 4.75%	4.50%	4.50%	3.00%	2.50%
Materials (expenditure)	Up from 2.50% to 7.00%	5.00%	3.00%	2.50%	2.50%
Utilities (expenditure)	Up from 2.50% to 7.00%	5.00%	3.00%	3.00%	3.00%
Insurances (expenditure)	Up from 5.00% to 10.00%	7.50%	7.50%	5.00%	5.00%

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 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.

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 2023-2024 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).

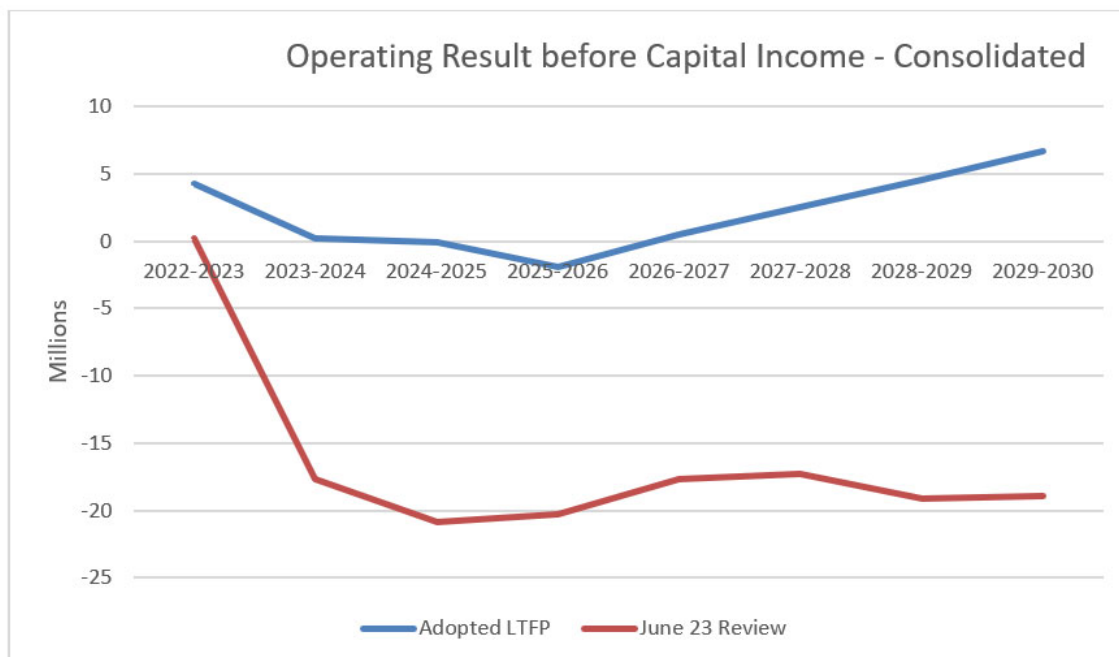
The movements in projected financial results (Operating Result before Capital Income) between the Long-Term Financial Plan adopted in June 2022 and the results of the review of the Long-Term Financial Plan are charted and discussed below.

Note that the chart only plots the changes out to 2029-2030 (for the purposes of presentation), however the trend in the remaining years is the same.

Consolidated Result

Income Statement – the chart below highlights the deterioration 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 the General Fund projected result and these are commented upon below.



General Fund

The General Fund Income Statement result after the completion of the June 2023 review confirms the information provided to Council during the budget development process that Council's projected financial position has deteriorated since the adoption of the Long-Term Financial Plan in June 2022.

The review of Indexation Factors indicates a significant impact on the projected result, if those assumptions are realised. This deterioration in the projected financial position is also obvious within the Cash Flow Statement which shows decreasing levels of cash and investments over the period of the Plan. The draft 2023-2024 budget does not contain short-term specific measures that will contribute to an immediate improvement in the projected results.

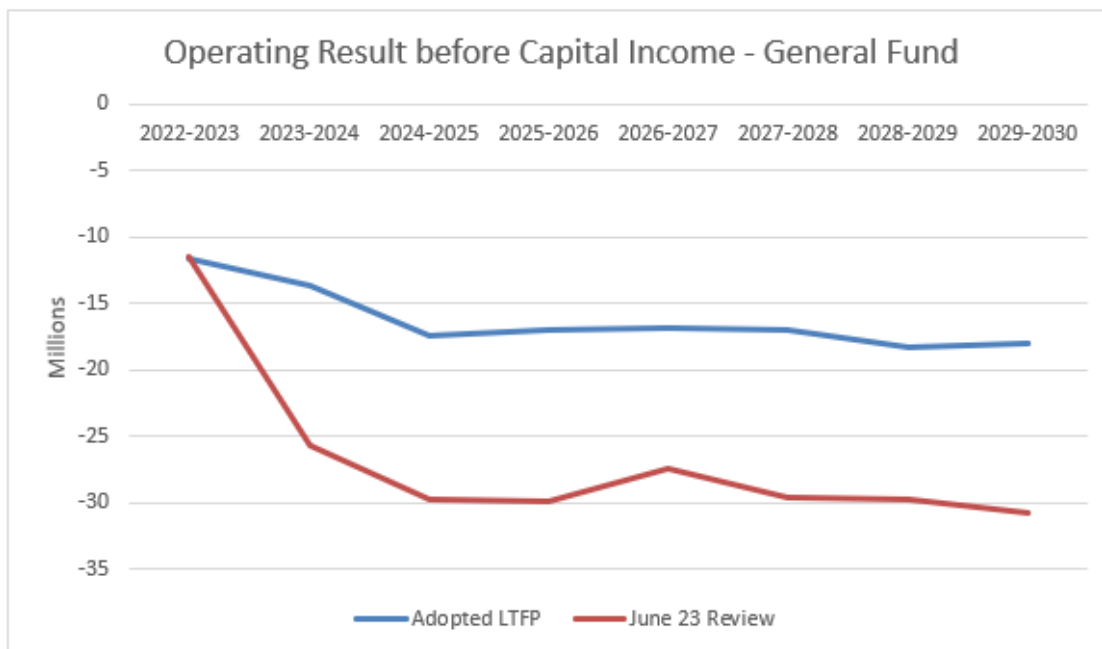
The projected General Fund results are concerning but not surprising. They indicate a trend based on a single set of assumptions and a relatively conservative approach with respect to projected income. There are also a number of budget areas within the model that need to be given attention

in the outer years as they currently project deficit positions that do not align with current budget settings. This worsens the current projections.

Council is aware of the medium-term actions that are being taken to inform a Financial Sustainability Strategy - 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.

The engagement of external assistance to review Council's financial settings and develop a Financial Sustainability Strategy is becoming increasingly critical and is scheduled for completion by the end of December 2023. This will provide recommendations for Council's consideration and set out a path to long-term financial sustainability.

The completion of the Asset Management Plans (reported to the June 2023 Ordinary Meeting) provides an essential input to that review. It will also allow for the development of Long-Term Financial Plan scenarios as required by the IP&R Guidelines and recommended in the NSW Audit Office Report 'Financial Management and Governance in MidCoast Council' which was released during the preparation of this report.



Water Fund

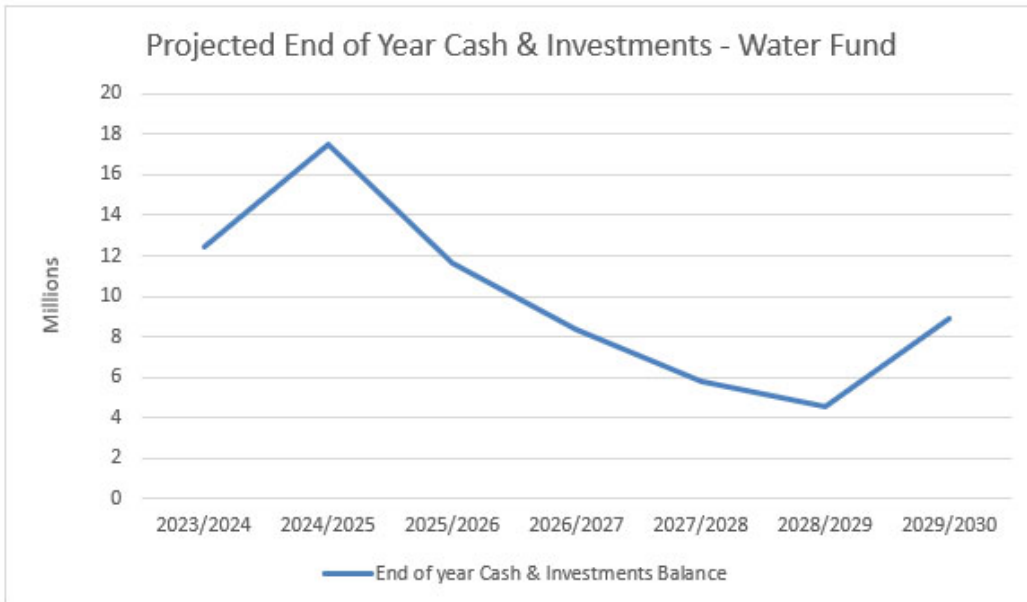
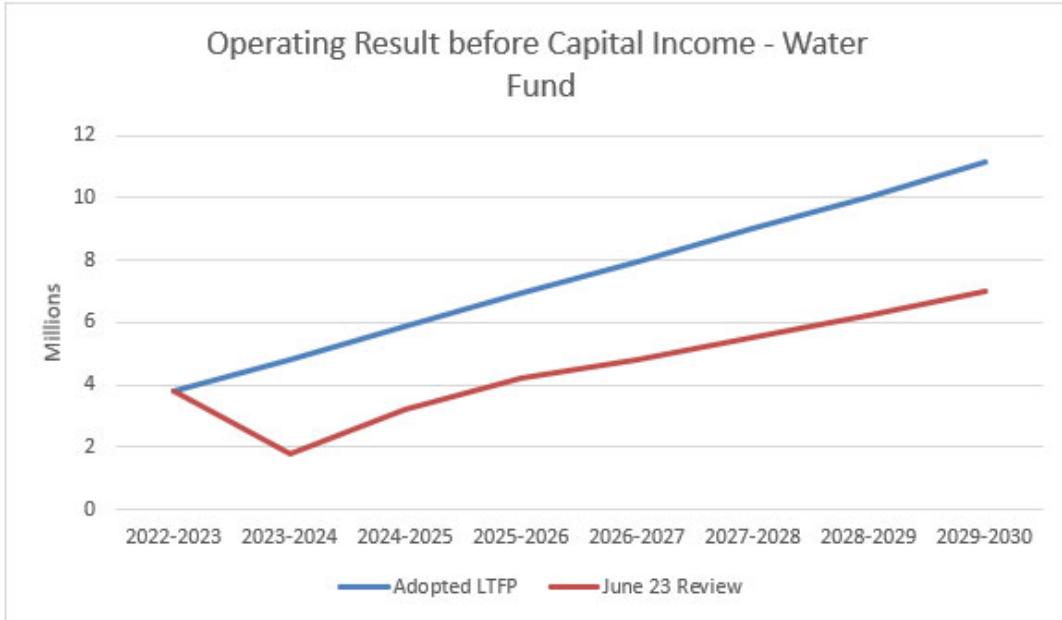
The Water Fund result after the completion of the June 2023 review reveals a deterioration in the projected result when compared with the adopted Long-Term Financial Plan. This reflects the impact of the review of Indexation Factors where cost increases are out-stripping revenue growth. However, the Fund is still projected to generate an Operating surplus each year (which includes funding depreciation).

When combined with a large Capital Works program over the life of the Plan, the pressure on the Water Fund will be over the short to medium term. 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.

This is based on no new borrowings (internally or externally sourced) and minimal government grants being received for several capital works projects that may qualify for funding support. Without those additional sourcing of funding, the ability to schedule those works as planned will need review as the potential cash position is extremely tight.

As Council is aware, the development of the latest version of the Integrated Water Cycle Management Plan is approaching its final stages. There will be a need to translate the financial projections within those plans into the Long-Term Financial Plan so that both documents are in alignment.

That has not occurred at this time and will be undertaken as part of the same exercise that considers and models asset management plan requirements.



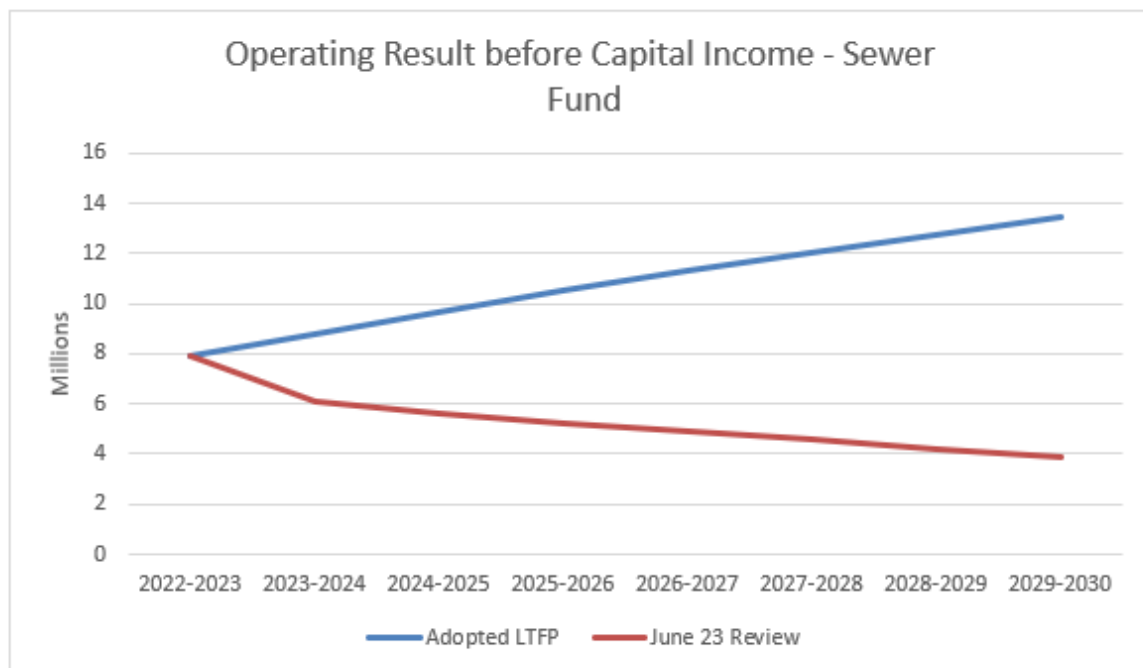
Sewer Fund

The Sewer Fund result after the completion of the June 2023 review reflects a similar position as the Water Fund. While the Fund is still projecting Operating surpluses across the life of the Plan, high costs will have an impact. From a cash and investments position, the Fund has sufficient accumulated funds for the delivery of an increased capital works program.

As Council is aware, the development of the latest version of the Integrated Water Cycle Management Plan is approaching its final stages. There will be a need to translate the financial

projections within those plans into the Long-Term Financial Plan so that both documents are in alignment.

That has not occurred at this time and will be undertaken as part of the same exercise that considers and models asset management plan requirements.



CONCLUSION

The completion of the annual review of the Long-Term Financial Plan highlights the challenges facing Council in a deteriorating economic environment. It also confirms the 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.

DISCUSSION

Nil.

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 2023 Review