



The Rural City of
**MURRAY
BRIDGE**

Bridge to Opportunity

Rural City of Murray Bridge

Long Term Financial Plan

2016 – 2026

Updated on 11 September 2017

152.3 LONG TERM FINANCIAL PLAN - UPDATE

Author Anthony Brown

Legislative ()

Corporate (X)

Other ()

Purpose

To present for adoption by Council the updated Long Term Financial Plan (LTFP).

Background

Council is required to adopt a LTFP covering a period of at least 10 years, along with Asset Management Plans, both of which form part of Council's suite of Strategic Management Plans (SMPs).

The *Local Government Act 1999* requires a Council's SMPs to address:

- the sustainability of the Council's financial performance and position;
- the maintenance, replacement or development needs for infrastructure within its area; and
- identification of any anticipated or predicted changes that will have a significant effect upon the costs of the Council's activities/operations.

Council is required to review its LTFP annually, as soon as practicable after the adoption of its Annual Business Plan. Council approved the last version of the LTFP on 12 September 2016 (Item 176.1). This was produced to enable Council to consider the longer term impact of decisions made and assumptions used in the preparation of the Annual Budget and Business Plan.

Council approved the Annual Budget and Business Plan on 13 June 2017 (Item 110.3). This LTFP takes account of the actual results for 2016-17 and the 2017-18 adopted budget.

LTFP Assumptions

CPI/LGPI	<ul style="list-style-type: none"> • The Local Government Price Index (LGPI) has increased by 2.1% for the year to 31st March 2017. This is the highest it has been since June 2014. • The Consumer Price Index (CPI) for Adelaide increased to 2.0% in March 2017 and subsequently fell to 1.6% in June 2017. Adelaide has the lowest inflation of all Australian capital cities with ranges from 1.8% to 2.2%. • CPI Forecasts vary but for the Country as a whole they are expected to increase from 1.9% to 2.2% in 2020. • The financial model assumes a CPI rate of 2.0% throughout the 10 year period assuming Adelaide's CPI remains slightly lower than the other capital cities.
Rates	<ul style="list-style-type: none"> • Growth in the number of ratable properties is estimated to increase by 2% per annum throughout the life of the plan which is consistent with the growth estimate of the 30 Year Plan for Greater Adelaide. • Council has delivered underlying operating surpluses since 2014/15 which enables Council to invest in new capital projects without increasing debt significantly. • These new investments can be achieved with only small increases in rates. • The rate increases included in this plan are consistent with the previous plan being 2.5% in 2018/19. Thereafter it is anticipated there will be no real increases in rates i.e.

	increases will be limited to CPI. (Assumed to be 2.0% in this model).
Statutory and User Charges	<ul style="list-style-type: none"> Charges are assumed to increase by 1% growth plus CPI of 2.0% per annum.
Grants	<ul style="list-style-type: none"> Grant income is assumed to increase by 0.5% growth plus CPI of 2.0% per annum.
Reimbursement and Other income	<ul style="list-style-type: none"> Are assumed to increase by 1.0% growth plus CPI of 2.0% per annum.
Salaries	<ul style="list-style-type: none"> The salary increase for Year 2 is 2.5% which reflects the current Enterprise Bargaining Agreements (EBA's). After this period, the plan assumes salary increases of 2.5% per annum reflecting 2.0% CPI plus 0.5% growth in costs resulting from providing services to a higher population.
Non-salary costs	<ul style="list-style-type: none"> The non-salary costs are assumed to increase by 2.5% per annum representing 2.0% CPI plus 0.5% growth.
Salaries and Non-salary Costs	<ul style="list-style-type: none"> In addition there is an increase in 2018/19 of \$425k and a further increase of approximately \$300k to take into account the increased operating costs associated with the investments in the Riverfront Strategy and the Linear Park. These increases are split evenly between salary and non-salary costs.
Key Projects	<ul style="list-style-type: none"> Key Projects are assumed to increase by 4.0% per annum which reflects 2.0% growth plus CPI of 2.0%.
Depreciation/capex	<ul style="list-style-type: none"> Depreciation charge is forecast to increase steadily from 2.5% per annum in Year 2 to 3.1% in Year 10 reflecting revaluations of the assets plus investments in new infrastructure.
Interest rates	<ul style="list-style-type: none"> Interest received on deposits has been calculated at 2% being the current interest rate the Council receives on deposits placed with the Local Government Finance Authority (LGFA). Interest on loans is calculated at 4.25% which is higher than current rates, as there are several long term loans taken out several years ago when interest rates were higher than current levels.

Statement of Comprehensive Income

The current and next ten years Statement of Comprehensive Income is shown in **Attachment 1**, including a graph of the Normalised Operating Result in **Attachment 2**.

The next four years are summarised below:

Rural City of Murray Bridge				
Statement of Comprehensive income				\$000's
	2017/18	2018/19	2019/20	2020/21
Rates	23,611	24,685	25,683	26,720
Other	10,961	13,215	13,582	13,950
Total Operating income	34,572	37,900	39,264	40,670
Expenses				
Employee costs	15,269	15,865	16,288	16,747
Depreciation	6,892	7,020	7,198	7,370
Other expenses	13,920	13,207	13,576	13,981
	36,081	36,091	37,062	38,098
Operating surplus	-1,509	1,809	2,203	2,572

The operating result for 2017-18 is a deficit of \$1,509k which reflects an underlying surplus of \$300k taking into account the timing of the receipt of the Financial Assistance Grant Income.

The operating surplus increases to \$1,809k in 2018-19, the last year of the term of the current Council and to \$5,622k in 2025-26.

The result reflects an extremely robust statement of financial sustainability driven from the underlying operating result in 2016-17 which has been achieved through sound financial management and improved efficiency and performance in the provision of all services and asset management plans.

The operating surplus increases throughout the 10 year period of the plan which arises from a lower increase in costs than rates income achieved through generating further cost savings and efficiencies.

Statement of Financial Position

The Statement of Financial Position is shown in **Attachment 3**.

The net assets of the Council are forecast to increase from \$275.9m at June 2017 to \$381.2m in June 2027.

The cash position is shown on the Statement of Financial Position and is made up of 3 elements – cash, current liabilities (due within one year) and non-current liabilities (due after one year).

A graph of the net funding position is shown in **Attachment 4**.

The next four year's balances are shown below:

Rural City of Murray Bridge				
Net Funding Position				
\$000's				
Year ending 30 June	2017/18	2018/19	2019/20	2020/21
Cash and Cash equivalents	6,234	6,359	6,486	6,616
Short Term Borrowings	(1,114)	(1,136)	(1,159)	(1,182)
Long Term Borrowings	(8,050)	(7,924)	(7,881)	(7,841)
Net Funding Position	(2,930)	(2,702)	(2,554)	(2,407)

The cash balance at the end of 2017-18 is forecast to be \$6,234k, and is forecast to increase steadily year on year until it reaches \$7,450k in 2026-27. The improvements mainly reflect increases in restricted cash balances arising from the accommodation bond deposits received at Lerwin. The non-restricted cash will be kept to a minimum to enable borrowings to be paid off sooner.

The net funding position at the end of 2017-18 is forecast to be net borrowings of \$2,930k. This improves steadily in subsequent years principally due to the increasing operating surplus only partially offset by investment in the capital enhancement program. In 2026-27 the Net Funding position is forecast to improve to net borrowings of only \$1,324k.

Council should note that this much improved financial position is achievable whilst, continuing to invest over \$1.5m per annum (increasing) on Key Projects, satisfying an Asset Sustainability Ratio of 100% and making significant investments in the Capital Enhancement Program.

Capital Investment

The ASR is shown in **Attachment 5**. An ASR of 100% is forecast to be achieved from 2018-19 onwards ensuring that assets are being replaced at the same rate as they are wearing out and confirming Council's long term financial sustainability.

The Capital Enhancement Program is shown in **Attachment 6**. The new investment amounts are \$4.6m in 2017-18. The program continues at around \$4m per annum until 2021/22 then steadily increases to \$8.1m by 2026/27. The plan assumes securing grant income of between \$0.8m and \$2.3m per annum the majority of which relates to potential grants associated with the Riverfront Strategy Projects.

Council should note that a significant number of Council's strategies can be achieved including the Riverfront Trail, Town Entrance Enhancements, Playgrounds, Toilets and enhancement of roads and footpaths. Most significantly however, the plan allows for an investment in the Riverfront Strategy of \$30.3m (escalated) which is a high proportion of the \$38m included in the Riverfront Strategy proposal.

Financial Indicators

The key financial indicators required to be reported by Councils are the:

- Asset sustainability ratio (ASR)
- Operating surplus ratio
- Net financial liabilities ratio

These are shown in **Attachment 7** and they demonstrate an improving financial performance

throughout the 10 year period of the plan.

The ASR is at 100% throughout the life of the plan.

The Operating Surplus Ratio increases from 5% in 2018/19 to 11% in 2026/27, which generates the major part of the increased funding of the capital enhancement program.

The Net Financial Liabilities Ratio increases slightly to 32% in 2019/20 but then reduces year by year to reach 27% in 2026-27 and remains at a conservative level throughout the period of the plan.

The ratios for the next four years are shown below and are significantly better than Council or LGA guidelines.

Rural City of Murray Bridge						
Financial Indicators						
Year ending 30 June	2017/18	2018/19	2019/20	2020/21	Council Target	LGA Target
Underlying operating surplus ratio	0.8%	4.8%	5.6%	6.3%	> 0%	0% --> 10%
Net Financial Liabilities Ratio	29%	31%	32%	31%	0% --->75%	0% --->100%
Asset sustainability Ratio	96%	100%	100%	100%	90% ---> 120%	90% ---> 100%

Sensitivity Analysis

This is a plan at a point in time. It is a dynamic document that recognises changes to Council's economic environment, and plans will be regularly reviewed and updated.

The ASR, Net Financial Liabilities Ratio and Operating Surplus Ratio as a percentage of income is shown in **Attachment 7**. The operating result, capital spend and net funding position are shown in **Attachment 8**.

In 2026-27 the following ratios apply:

ASR - 100%

NFL - 27%

Operating Surplus - 11%

Sensitivity 1

Increase in interest rates from 4.25% to 6.5% p.a. refer to **Attachment 9**.

In 2026-27 the following ratios apply:

ASR – 100%

NFL – 31%

Operating Surplus – 10.6%

Council's financial performance will not be impacted to any significant amount as a result of increased interest rates, as Council's NFL is well within conservative levels.

The impact of increased interest rates means that extra cash is required to furnish the interest on the debt as opposed to paying off the principal, therefore the NFL ratio in 2025-26 increases from 27% to 31%. In this scenario net debt is not trending downwards, i.e. debt is not reducing but this could be achieved by a slight reduction in the capital enhancement program.

Sensitivity 2

Low growth – reduction of 0.5% p.a..

In 2026-27 the following ratios apply:

ASR – 100%

NFL – 44%

Operating Surplus – 7.8%

The financial performance of the Council is impacted fairly significantly by the rate of growth in population and businesses and therefore the income it receives from rates.

If growth is 0.5% less than the base case a healthy operating ratio of 7.8% is still achieved and the ASR remains at 100%. However, the NFL ratio increases to 44% and is not on a reducing trend.

In order to ensure the NFL ratio is on a reducing trend, the Capital Enhancement Program would need to be reduced by \$13.3m over the 10 year period. (Refer to **Attachment 10**).

Whilst low growth does have a material impact on the Long Term Financial Plan, it does not represent a significant risk to Council's financial sustainability, it would however lead to a delay in the Capital Enhancement Program.

Sensitivity 3

Increased CPI/LGPI.

If CPI were to increase by more than the 1.5% included in this plan, and therefore costs and income increase uniformly at the higher rate, than the operating result and resulting cash positions will improve against the base forecast. (Refer to **Attachment 11**).

Proposal

That Council notes the long term financial sustainability of the Council's LTFP including sensitivity analysis and adopts the LTFP.

Legislative Requirements

The Local Government Act 1999 requires each Council to develop and adopt a Long Term Financial Plan (LTFP) covering at least 10 years, along with an Infrastructure and Asset Management Plan (I&).

Council Policy

Financial Sustainability Policy

Financial Implications

Regularly updating and reviewing LTFP's enables Council to make short term decisions consistent with its long term strategy. The LTFP has been updated based on the 2017-18 adopted budget which reflects the financial management improvements achieved to date as well as the operating efficiencies which have been secured. This has resulted in an improved operating surplus forecast rising to \$2,572k (\$2.6m) in 2020/21.

Risk

Regularly reviewing and updating the LTFP, reduces the risk of unforeseen outcomes resulting from short term decisions.

WHS

Not applicable.

Asset Management

Asset Management Plans are regularly updated and have previously been adopted by Council.

Implementation Strategy

The LTFP will be considered during the process of adopting the 2016-17 Annual Business Plan and Budget.

Communication Strategy

The LTFP will appear on Council's website.

Strategic Plan

Goal 3 - Dynamic Economy

3.1 - Identity

Recommendation

1. That item number 152.3 on Council agenda of 11 September 2017 be received.
2. That Council adopt the revised Long Term Financial Plan.

Attachments

1.	Attachment 1 - LTFP - Statement of Comprehensive Income (819226)	Attachment
2.	Attachment 2 - LTFP - Normalised Operating Result	Attachment
3.	Attachment 3 - LTFP - Statement of Financial Position	Attachment
4.	Attachment 4 - LTFP - Net Funding Position	Attachment
5.	Attachment 5 - LTFP - Asset Sustainability Ratio	Attachment
6.	Attachment 6 - LTFP - Capital Enhancement Program	Attachment
7.	Attachment 7 - LTFP - Net Financial Indicators	Attachment
8.	Attachment 8 - Results	Attachment
9.	Attachment 9 - Sensitivity 1	Attachment
10.	Attachment 10 - Sensitivity 2	Attachment
11.	Attachment 11 - Sensitivity 3	Attachment

Council Resolution**Cr Weinmann moved**

1. That item number 152.3 on Council agenda of 11 September 2017 be received.
2. That Council adopt the revised Long Term Financial Plan.

Seconded by Cr Wilson and CARRIED Unanimously

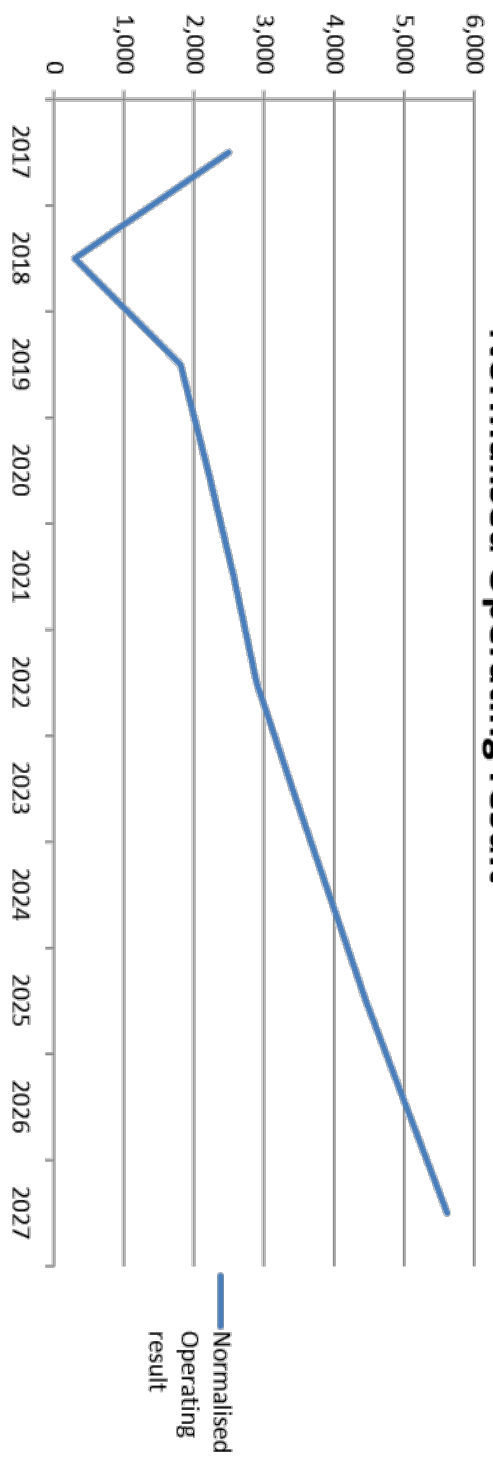
Rural City of Murray Bridge

Attachment 1

Statement of Comprehensive Income

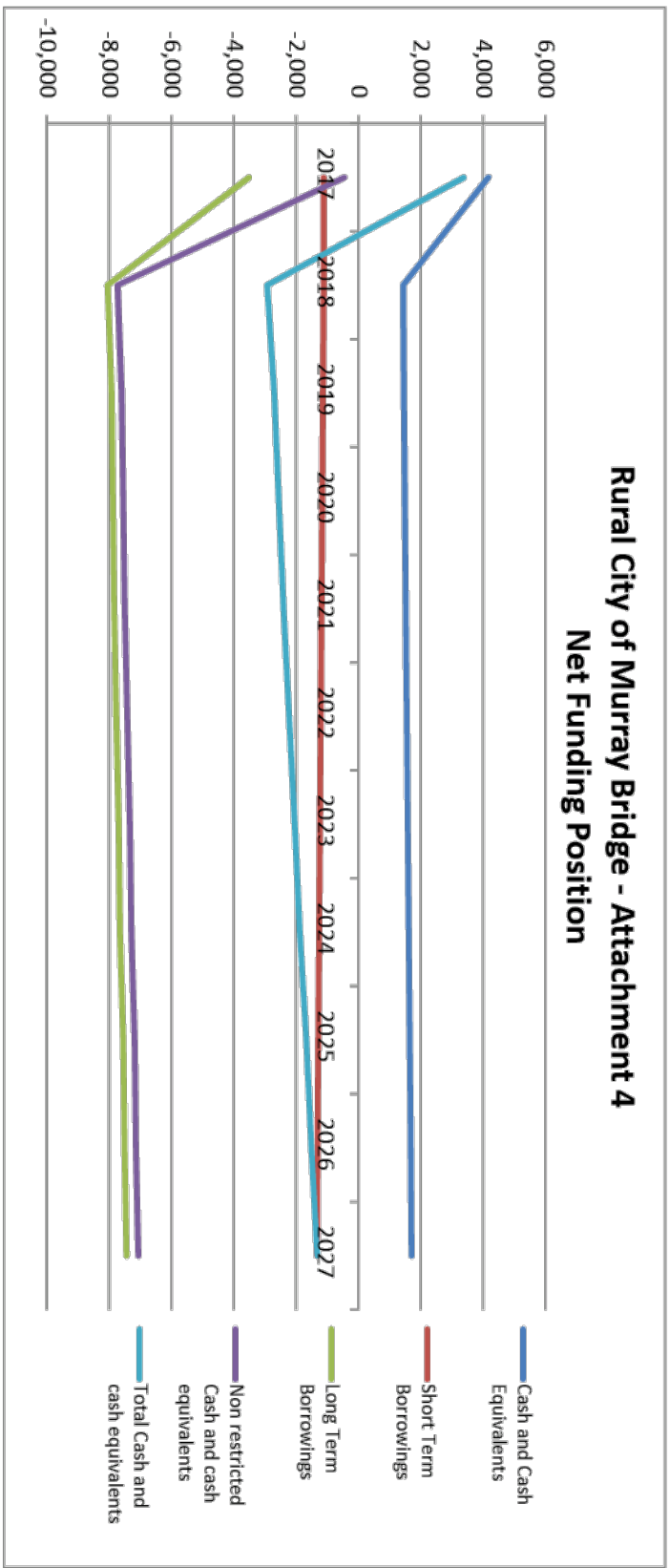
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Income											
Rates	22,802	23,611	24,685	25,683	26,720	27,800	28,923	30,091	31,307	32,572	33,888
Statutory charges	596	636	655	675	695	716	738	760	783	807	831
User charges	2,244	2,408	2,481	2,556	2,633	2,712	2,794	2,879	2,966	3,055	3,147
Grants, subsidies and contributions	10,871	7,299	9,352	9,587	9,828	10,074	10,327	10,586	10,852	11,124	11,404
Investment income	117	80	127	130	132	135	138	140	143	146	149
Reimbursements	459	177	182	188	194	199	205	212	218	225	231
Other income	417	361	372	383	395	407	419	432	445	458	472
Equity accounted investments	0	0	45	63	73	83	94	102	89	112	122
Total	37,506	34,572	37,900	39,264	40,670	42,127	43,638	45,202	46,803	48,499	50,244
Expenses											
Employee costs	14,599	15,269	15,865	16,288	16,747	17,252	17,685	18,129	18,584	19,051	19,529
Material and contracts	10,564	10,886	11,317	11,626	11,968	12,353	12,663	12,981	13,307	13,641	13,983
Key Projects	1,136	2,548	1,551	1,614	1,679	1,747	1,817	1,891	1,967	2,046	2,129
Depreciation	6,330	6,892	7,020	7,198	7,370	7,545	7,733	7,938	8,162	8,401	8,663
Finance	344	357	339	337	335	333	330	327	325	321	319
Equity Accounted Investments	226	129	-0	-0	-0	-0	-0	-0	-0	-0	-0
Total	33,199	36,081	36,091	37,062	38,098	39,230	40,228	41,265	42,344	43,459	44,623
Operating Surplus / (Deficit)	4,307	-1,509	1,809	2,203	2,572	2,897	3,410	3,937	4,459	5,039	5,622
Physical resources free of charge	134	57	58	59	60	62	63	64	65	67	68
Grants for new or upgraded assets	4,496	1,927	836	550	1,045	1,196	1,419	1,660	1,855	2,138	2,360
Gain / Loss on Disposal	0	0	0	0	0	0	0	0	0	0	0
Net Surplus / (Deficit)	8,937	475	2,704	2,812	3,678	4,155	4,892	5,661	6,379	7,244	8,050
Changes in revaluation	-1,997	0	5,726	5,924	6,116	6,312	6,521	6,750	6,999	7,267	7,559
Total Comprehensive Income	6,940	475	8,429	8,737	9,794	10,467	11,413	12,411	13,379	14,511	15,609

Rural City of Murray Bridge - Attachment 2 Normalised Operating result

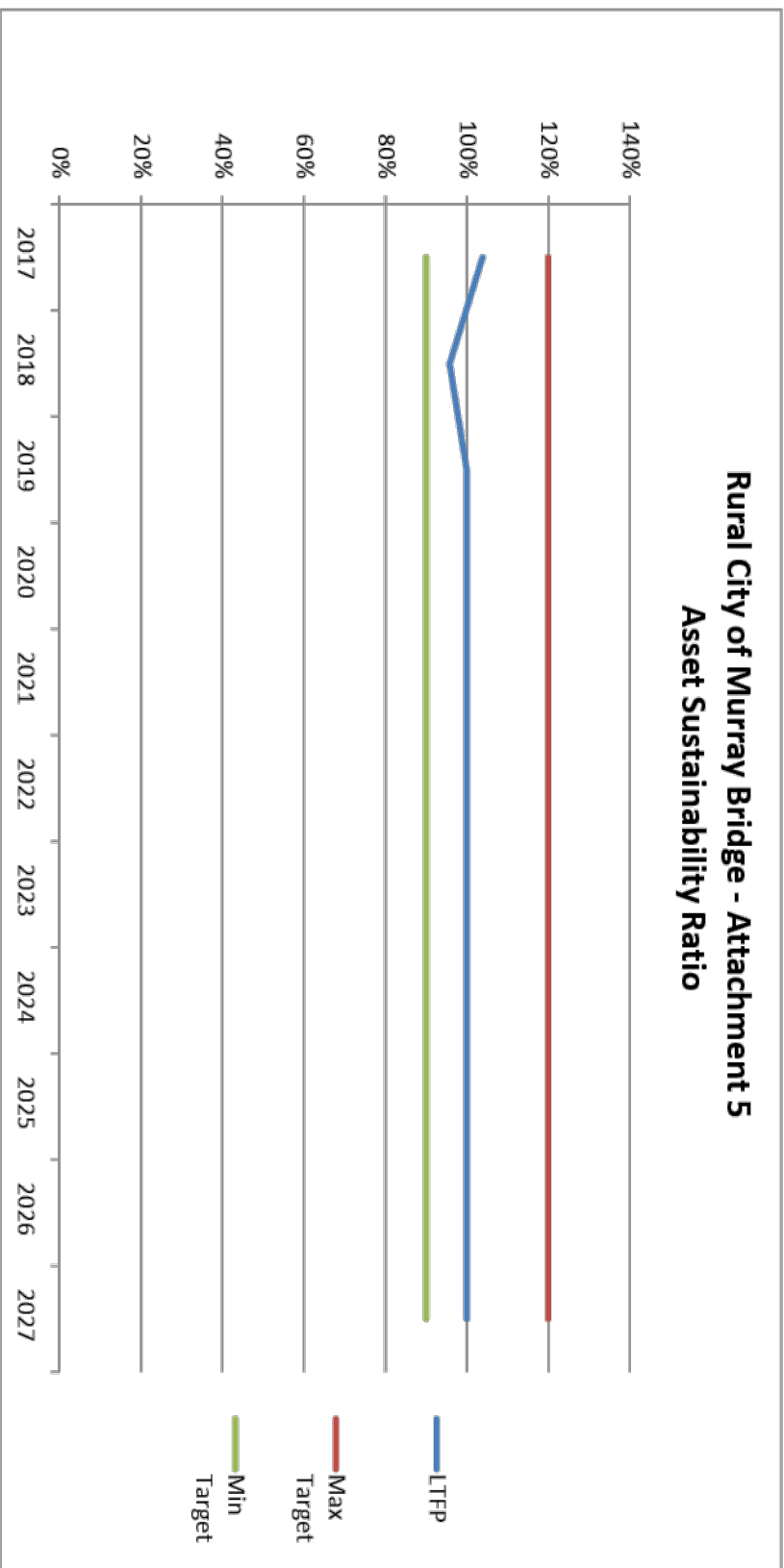


BALANCE Sheet		Rural City of Murray Bridge										Attachment 3
		Statement of Financial Position										\$000's
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
ASSETS												
Current Assets												
Restrukted Cash		3,894	4,799	4,895	4,993	5,093	5,195	5,298	5,404	5,513	5,623	5,735
Cash and Cash Equivalents		4,173	1,435	1,464	1,493	1,523	1,553	1,584	1,616	1,648	1,681	1,715
Trade & Other Receivables		2,846	2,924	2,370	2,418	2,466	2,516	2,566	2,617	2,670	2,723	2,777
Inventories		353	155	158	161	164	168	171	175	178	182	185
Total Current Assets		11,764	9,313	8,887	9,065	9,246	9,431	9,620	9,812	10,008	10,209	10,413
Non Current Assets												
Equity accounted Investments		69	69	114	178	251	334	428	530	619	731	853
Infrastructure, Prop, Plant & Equip		279,448	286,275	296,212	305,809	315,586	326,065	337,500	349,971	363,345	377,935	393,561
Total Non-current Assets		279,517	286,344	296,327	305,987	315,837	326,400	337,928	350,501	363,964	378,666	394,413
Total Assets		291,281	295,657	305,214	315,052	325,084	335,831	347,548	360,313	373,973	388,875	404,826
LIABILITIES												
Current Liabilities												
Trade & Other Payables		2,496	833	1,879	2,812	2,875	3,008	3,164	3,330	3,480	3,671	3,839
Deposits and payments in advance		4,697	4,165	4,248	4,333	4,420	4,508	4,598	4,690	4,784	4,880	4,978
Short Term Borrowings		1,114	1,114	1,136	1,159	1,182	1,206	1,230	1,255	1,280	1,305	1,331
Provisions		2,842	4,518	4,608	4,701	4,795	4,890	4,988	5,088	5,190	5,294	5,399
Total Current Liabilities		11,149	10,630	11,872	13,005	13,271	13,613	13,980	14,363	14,734	15,149	15,547
Non-current Liabilities												
Long Term Borrowings		3,509	8,050	7,924	7,881	7,841	7,768	7,692	7,651	7,549	7,511	7,443
Provisions		688	564	575	587	599	610	623	635	648	661	674
Total Liabilities		4,197	8,614	8,500	8,468	8,439	8,379	8,315	8,287	8,197	8,172	8,117
Net Assets		275,936	276,413	284,842	293,579	303,373	313,840	325,253	337,663	351,042	365,553	381,162
EQUITY												
Accumulated Surplus		91,382	98,322	98,799	101,503	104,315	107,993	112,148	117,040	122,700	129,080	136,324
Asset Revaluation Reserves		177,614	177,614	183,340	189,264	195,380	201,692	208,213	214,963	221,962	229,229	236,788
Other Reserves		6,940	477	2,704	2,812	3,678	4,155	4,892	5,661	6,379	7,244	8,050
Total Equity		275,936	276,413	284,842	293,579	303,373	313,840	325,253	337,663	351,042	365,553	381,162

Rural City of Murray Bridge - Attachment 4 Net Funding Position



Rural City of Murray Bridge - Attachment 5 Asset Sustainability Ratio

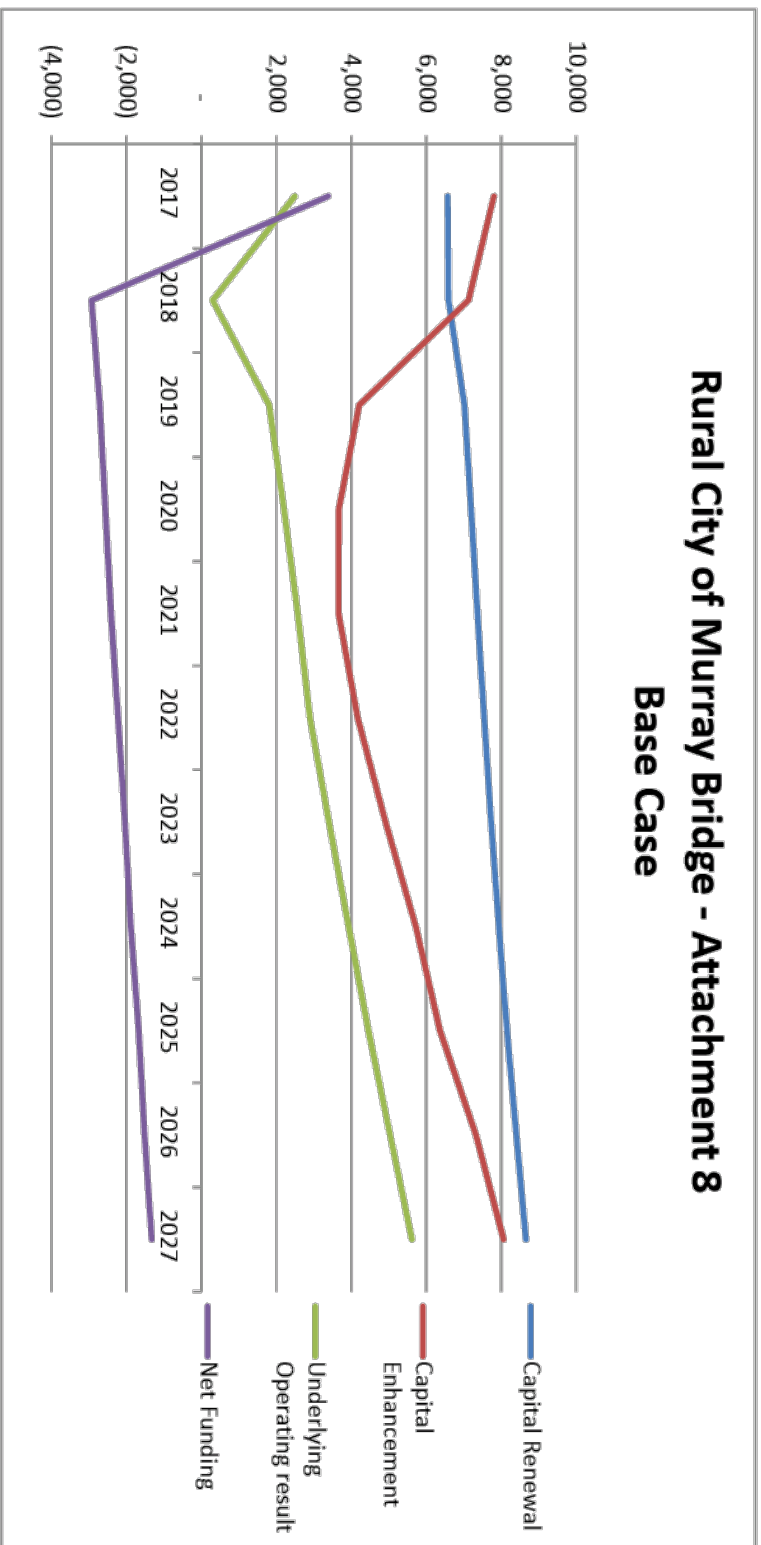


Capital Enhancements - Cost - Escalated	Rural City of Murray Bridge Capital Enhancement Program										Attachment 6
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
Carried Forward projects - latest estimate	2,200	0	0	0	0	0	0	0	0	0	0
ERP system - 30% included in renewal	0	0	728	0	0	0	0	0	0	0	0
Swimming pool - 50% included in renewal	0	0	572	0	0	0	0	0	0	0	0
Riverfront trail	40	122	125	127	130	132	135	138	141	143	
Town entrances	400	408	416	212	216	221	225	230	234	239	
Stormwater	390	102	104	106	108	110	113	115	117	120	
Playgrounds	100	1,020	125	127	130	132	135	138	141	143	
Traffic Management plans	220	153	156	0	0	0	0	0	0	0	
Riverfront Strategy	1,000	1,428	447	2,069	2,544	3,257	4,032	4,652	5,565	6,274	
Footpath and Kerbing	750	510	520	531	541	552	563	574	586	598	
Car Parks	209	0	0	0	0	0	0	0	0	0	
Roads	290	346	354	361	368	375	383	391	398	406	
Toilets	120	122	125	127	130	132	135	138	141	143	
Carry forwards and adjustments	0	0	0	0	0	0	0	0	0	0	
System and Service enhancements	175	0	0	0	0	0	0	0	0	0	
Roads to recovery	0	0	0	0	0	0	0	0	0	0	
Murray Bridge Lighting project	250	0	0	0	0	0	0	0	0	0	
CCTV	156	0	0	0	0	0	0	0	0	0	
Other	463	0	0	0	0	0	0	0	0	0	
	4,563	4,212	3,673	3,661	4,167	4,913	5,721	6,375	7,323	8,067	

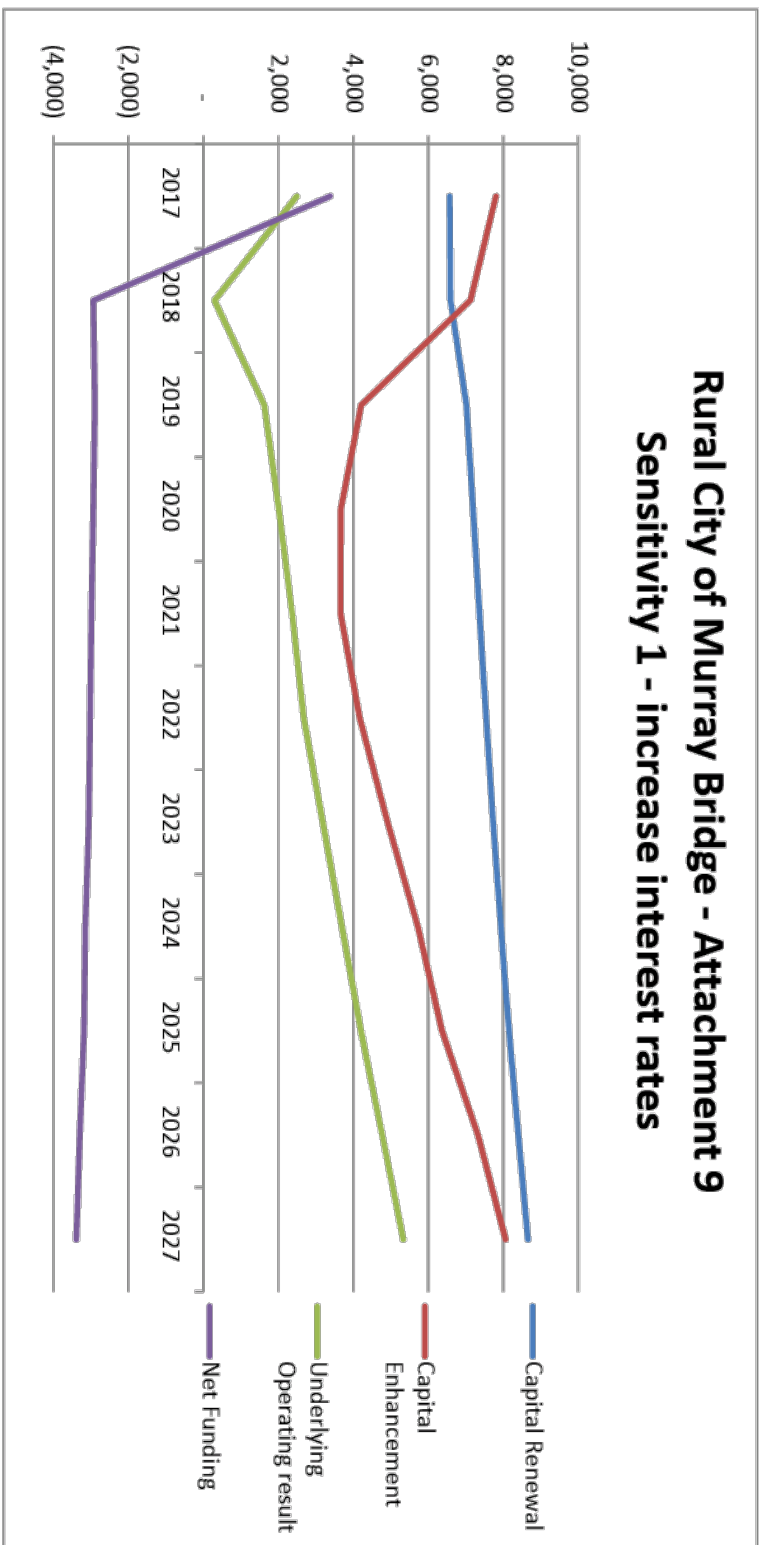
\$'000's

		Rural City of Murray Bridge										Attachment 7		
		Net Financial Indicators												
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	\$'000's	
Operating Surplus Ratio														
Operating Surplus		4,307	-1,509	1,809	2,203	2,572	2,897	3,410	3,937	4,459	5,039	5,622		
Total Operating Income		37,506	34,572	37,900	39,264	40,670	42,127	43,638	45,202	46,803	48,499	50,244		
		11%	-4%	5%	6%	6%	7%	8%	9%	10%	10%	11%		
Net Financial Liabilities Ratio														
Net Financial Liabilities		4,493	10,086	11,642	12,569	12,629	12,728	12,847	13,012	13,100	13,294	13,437		
Total Operating Revenue		37,506	34,572	37,900	39,264	40,670	42,127	43,638	45,202	46,803	48,499	50,244		
		12%	29%	31%	32%	31%	30%	29%	29%	28%	27%	27%		
Asset Sustainability Ratio														
Asset Renewal Expenditure		6,574	6,602	7,020	7,198	7,370	7,545	7,733	7,938	8,162	8,401	8,663		
Net Asset Renewal Expenditure per AMP		6,330	6,892	7,020	7,198	7,370	7,545	7,733	7,938	8,162	8,401	8,663		
		104%	96%	100%	100%	100%	100%	100%	100%	100%	100%	100%		

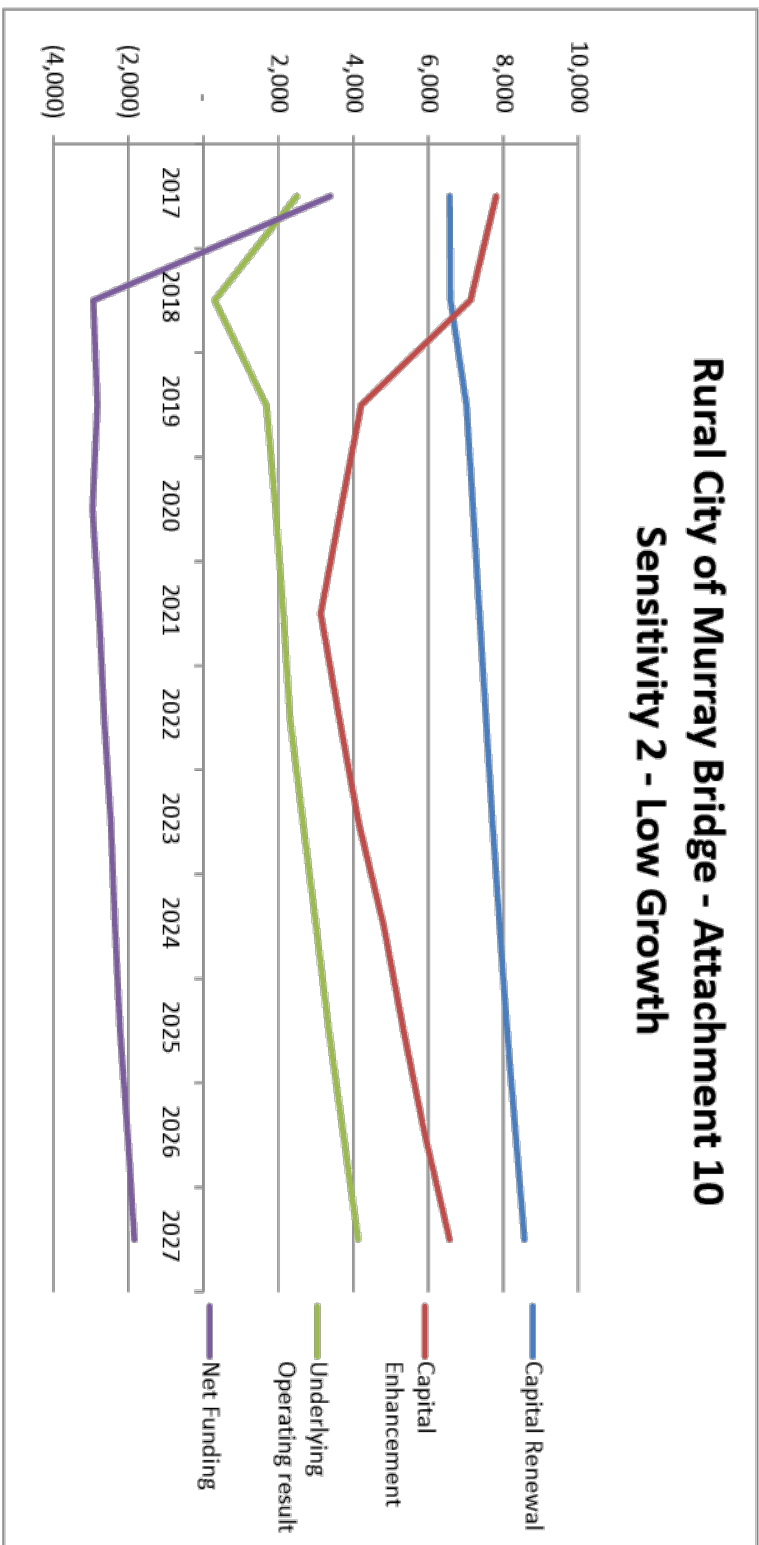
Rural City of Murray Bridge - Attachment 8 Base Case



Rural City of Murray Bridge - Attachment 9 Sensitivity 1 - increase interest rates



Rural City of Murray Bridge - Attachment 10 Sensitivity 2 - Low Growth



Rural City of Murray Bridge - Sensitivity 3

