District Council of Coober Pedy

Long Term Financial Plan 2013/14 – 2022/23

March 2013

1. Introduction

The purpose of the long-term financial plan (LTFP) is to express, in financial terms, the activities that the Coober Pedy District Council (Council) proposes to undertake over the medium to longer term to achieve its stated objectives as outlined in its Strategic Management Plan and Asset Management Plans.

It is a guide for future action based on the longer-term impact of revenue and expenditure proposals. The aggregation of future intended outlays and anticipated revenues enables the accumulating overall financial implications to be readily identified and if warranted, for proposed future activities to be revised.

Long-term financial plans are particularly important for local governments as they are responsible for managing a high level of long-lived assets relative to their income base. A council may have long-periods with modest levels of asset renewal requirements and then other periods when very significant outlays are necessary. All councils need to generate revenue in an equitable manner over time and ensure they have capacity to finance peaks in asset management and other outlays when, and including by way of borrowings where, necessary.

The preparation of a LTFP generates improved information to guide decisions about the mix and timing of outlays on operating activities and additional assets and the funding implications of these. Without a soundly based LTFP & AMP an organisation with significant asset management responsibilities is unlikely to have sufficient data to determine sustainable service levels and affordable asset stockholding strategies, appropriate revenue targets or optimal treasury management.

2. Key assumptions

The following assumptions have been built into the forecast calculations:

- The content of the LTFP is based on real (2012/13) dollar values for all future years to facilitate comparisons between years;
- That rate revenue will not increase in real terms. i.e. rates will only increase by inflation;
- Investment revenue has been calculated on the assumed rate of 4% per annum;
- Finance Charges have been calculated on the assumed rate of 7% per annum;
- Council will spend an amount on asset renewal equal to the annual road network depreciation amount in relation to its roads network;
- Council will fully fund asset renewal expenditure as identified in Councils asset management plans for all other categories of assets;
- Revenue from Utilities service charges will be increased in line with any increase in utility expenditure such that utility activity will always produce a small surplus;
- Unsealed road maintenance savings of $150k per annum will be achieved due to the implementation of a road and footpath sealing program;
- Wages will continue to increase in real terms by 1.5% per annum;
- Savings in electricity costs of $50k per annum will be achieved due to the installation of solar panels to power water supply to the community;
- A zero growth or decline in population is assumed;

- $300k per annum has been included to fund the relocation of Councils electricity supply assets which are currently located on private property;

- Maintenance costs are maintained at current levels;

- Service range & standards are maintained at current levels;

- A pool of funds approach to financing is assumed. Accordingly any accumulations of cash will be offset against any debt that may exist;

- Forecast debt and cash reserves in future years have been discounted by 2%p.a. in recognition of the fact that inflation reduces the real value of financial assets and liabilities;

- Commonwealth Financial Assistance Grant (FAGs) revenue is not expected to vary over the planning period;

- Minimal new assets will be constructed;

- Commonwealth Roads to Recovery funding is maintained at current levels throughout the planning period;

3. Financial Strategy

The LTFP projects a Council's financial position and performance over time will remain steady. This is based on the continued achievement of the financial strategy described below.

- Utility and local government activities will be budgeted for and accounted for as two separate departments of Council;
- Both utilities and local government activities will be priced such that each activity will return a small surplus;
- Separate assets plans and asset register will be maintained and updated regularly to reflect asset additions and disposals;
- Significant quantities of debt will not be incurred until a strategy has been identified that will highlight how Council will repay the additional debt. This will be reflected in an updated LTFP to be prepared at that time;
- The ceiling target for net financial liabilities will be sufficient enough to allow Council flexibility should unforeseen circumstances lead to a shortfall in funding;
- Budgeting will continue to focus on ensuring electricity activities are fully costed thereby ensuring that the full value of subsidies from the government is obtained.
- It is intended to maintain rates in real terms throughout the life of this plan. Council's average residential rating levels/property is currently significantly below those of other rural and regional councils in South Australia. Accordingly should the need arise increases in rating levels could be justified however it would be unlikely that any significant additional revenue would be achieved as Councils rates base is so low. A 1% real increase would only provide an extra $13k per annum;
- Community Wastewater Management Schemes (CWMS) service charges will be increased in real terms gradually over time to bring the Council into line with the average equivalent rate charged by Water SA for sewage in order to help fully offset long-run average costs associated with provision of such services;
- Grant revenue will be targeted in a strategic manner. This means that grant revenue to build new assets would only be pursued and accepted if the new

assets were deemed to be warranted particularly if additional funding was to be contributed by Council. Where an operating grant is sought and additional Council funds are required to be contributed, then careful consideration will be given to long-run benefits and costs. This will ensure activities that may better fit Council's strategic objectives are not being delayed in lieu of the activity being funded by the grant;

- Depreciation will be reviewed on an ongoing basis to ensure it is not over or understated;

4. Financial Sustainability – Key Indicators

The financial sustainability evaluation of a Council is undertaken with reference to a properly developed and complete LTFP. The financial plan includes the forecast achievement of projected performance against agreed financial sustainability targets. By achieving these targets Council can claim to be operating in a financially sustainable manner.

In order to demonstrate that the financial strategies above are being achieved Council need to monitor three variations of the operating surplus ratio being:

- Consolidated operating surplus ratio
- Local government operating surplus ratio
- Utilities operating surplus ratio

Further to this two additional ratios will be reported on to demonstrate that assets are being replaced in line with the requirements of the asset management plan whilst maintaining sensible debt levels. These ratios are:

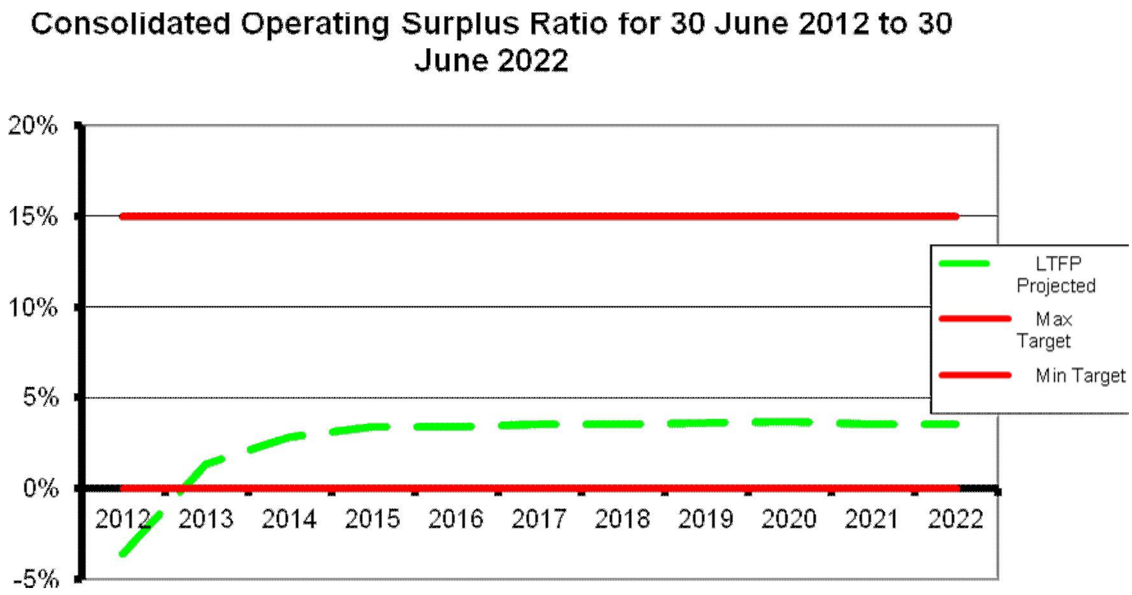
- Net financial liabilities ratio
- Asset renewal ratio

Current calculations, ratio definitions and recommended target ranges will be discussed in the sections to follow.

4.1 Consolidated operating surplus ratio

The consolidated operating surplus ratio is calculated by dividing the consolidated operating result by total operating income. This effectively combined the local government and utility activities to give an aggregated result.

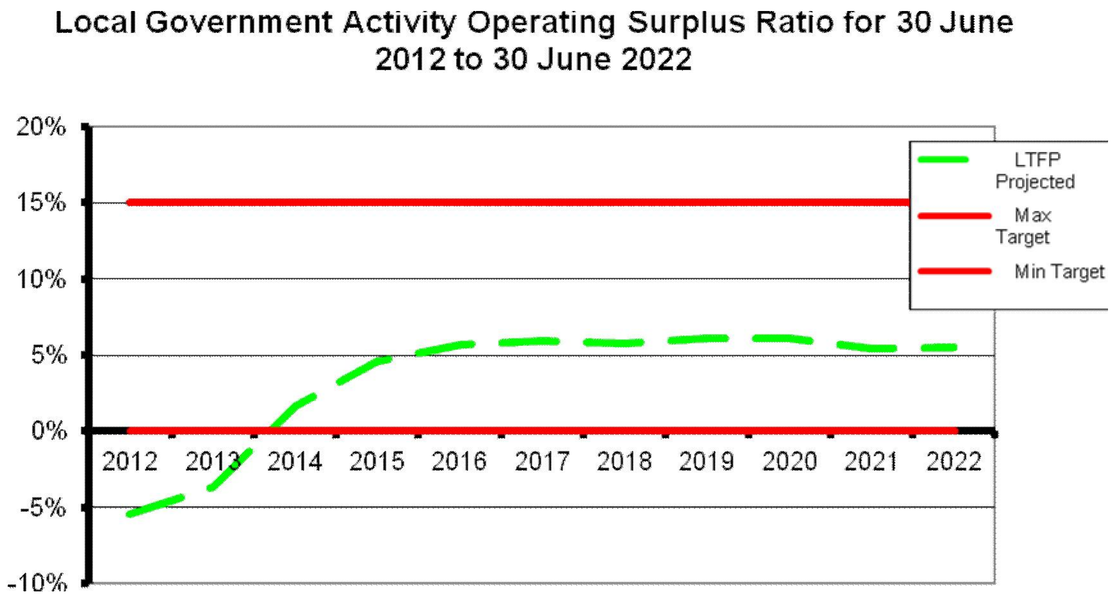
The local government sector considers that by achieving a result of between 0% to 15% Council is fully funding its operating services and deprecation from operating revenue. This target range has been adopted for all three indicators.



The graph above indicates that Council is operating within the target range over the life of the plan. The reasons for the improvement from the 2012 year will be explained in the following sections.

4.2 Local government activity operating surplus ratio

The local government activity operating surplus ratio is calculated by dividing the local government activity operating result by total local government operating income.

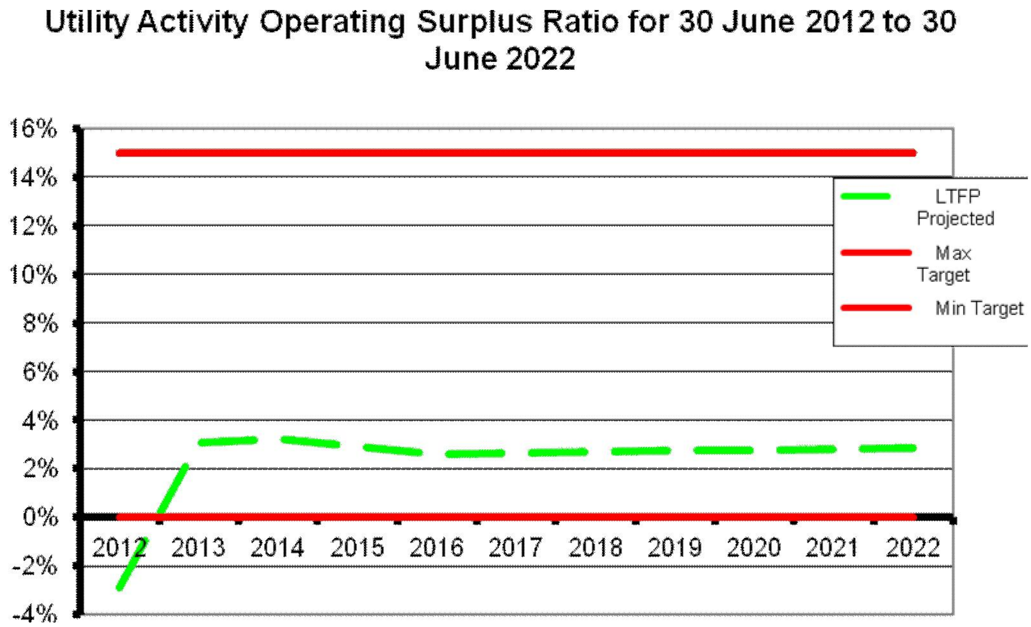


The local government operating surplus starts at $200k in deficit for the 2012 year and increases to a $200k surplus from 2015 onwards.

Timing differences in relation to financial assistance grants as well as expected maintenance savings on unsealed roads are the reasons for the improvement from the 2015 year onwards.

4.3 Utility activity operating surplus ratio

The utility activity operating surplus ratio is calculated by dividing the utility activity operating result by total utility operating income. Effectively this ratio is a measure of Councils ability to repay debt.



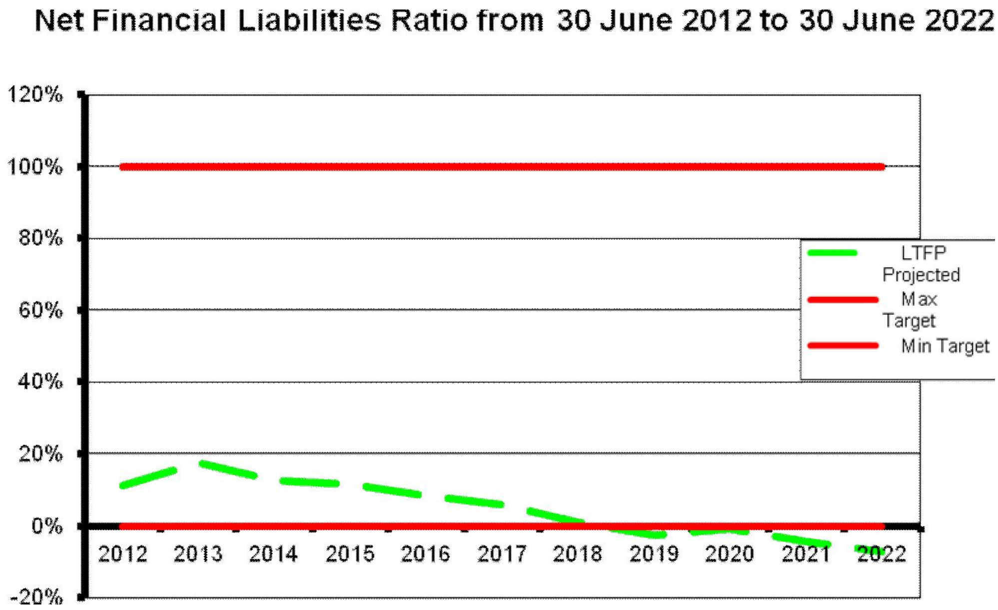
The utilities operating surplus starts at $300k in deficit for the 2012 year and increases to a $300k surplus from the 2015 year onwards.

This has occurred due to a combination of expected budget savings on the 2012 expenditure levels as well as an increase in service charges generated from utility activities.

4.4 Net Financial Liabilities Ratio

Net financial liabilities is a comprehensive measure of the indebtedness of the Council as it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account of the level of Council's available cash and investments. Specifically Net Financial Liabilities equals total liabilities less financial assets, where financial assets for this purpose includes cash, cash equivalents, trade and other receivables, and other financial assets, but excludes equity held in Council businesses, inventories and land held for resale.

It is generally accepted across the Local Government sector that appropriate level of net financial liabilities should range from between 0% to 100% of operating revenue. Council's with sound projected financial performance could well operate satisfactorily with even higher net financial liabilities if so needed (e.g. to finance assets associated with rapid growth or generation of future income).



Based on the implementation of the financial strategies outlined earlier in this document the forecast net financial liabilities ratio will be well below the ceiling of 100%.

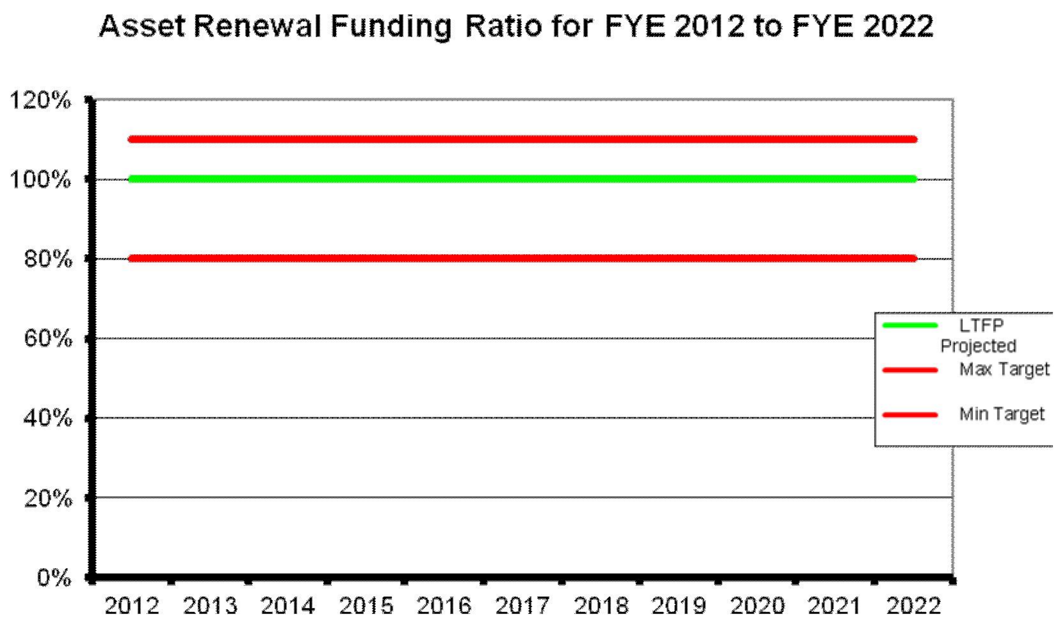
It should be noted that just because the ceiling is 100% does not mean Council need borrow this money it is just a safeguard for Council to be able to borrow to this level should circumstances ever warrant it. The financial strategy requires an income stream be identified to repay any significant increases in debt prior to taking the additional debt on.

4.5 Asset Renewal Funding Ratio

This ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with what is needed to cost-effectively maintain service levels. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in a Council's asset management plan.

If capital expenditure on renewing or replacing existing assets is at least equal to the level proposed in the AMP, then a Council is ensuring optimal timing of replacement of physical assets to maintain service levels. Any material underspending on renewal and replacement over the medium term is likely to adversely impact on the achievement of preferred, affordable service levels and could potentially progressively undermine a Council's financial sustainability.

The sector has adopted a range of between 90% to 110% for this ratio.



The above graph is at 100% for the life of the plan. Indicating that asset renewal directly reflects the requirements of Councils asset management plan.

4.6 Conclusion

Council is operating in a financially sustainable manner as it is funding its operating services from operating revenue as well as fully funding its asset renewal requirements without the need to incur high levels of debt.

5. Projects & services not currently included

There are a number of potential projects that Council may or may not undertake in the near future. The plans have been prepared based on the current situation as accurate costings have not been available on the list of projects that follow. It is clear however that Council has significant capacity to take these projects on, however as each project is approved and costed out the impact on the current long term financial plan needs to be determined.

The following projects have not been included:

- Relocation of land fill site/waste transfer station
- Town Hall Redevelopment
- Extension of CWMS
- Regional Airport Project
- Urban Design Project
- Potential EPA/ESCOSA requirements

6. Planned Capital Renewal Expenditure (as identified in the asset management plan)

Capital Expenditure on Renewal or Replacement of Existing Assets:					
	2012	2013	2014	2015	2016
	$'000	$'000	$'000	$'000	$'000
LG - Roads	222	222	221	221	221
LG - Buildings	-	-	12	176	100
LG - Plant & Equipment	-	150	84	80	19
LG - Airport & Other	-	-	-	-	16
LG - Swimming Pool	-	-	20	10	30
Ute - Electricity Buildings	-	-	-	31	53
Ute - Electricity - Plant, Equipment & Other	-	477	40	322	208
Ute - Water Buildings	-	-	-	-	58
Ute - Water - Plant, Equipment & other	-	2,138	-	215	-
Ute - CWMS	-	-	-	4	-
Total	**444**	**1,071**	**377**	**840**	**647**

Capital Expenditure on Renewal or Replacement of Existing Assets:						
	2017	2018	2019	2020	2021	2022
	$'000	$'000	$'000	$'000	$'000	$'000
LG - Roads	221	221	221	221	221	221
LG - Buildings	70	4	103	86	-	87
LG - Plant & Equipment	38	-	40	248	-	48
LG - Airport & Other	266	110	-	-	-	-
LG - Swimming Pool	-	-	-	-	-	-
Ute - Electricity Buildings	-	-	-	-	-	-
Ute - Electricity - Plant, Equipment & Other	262	29	275	551	20	351
Ute - Water Buildings	-	-	-	-	-	21
Ute - Water - Plant, Equipment & other	13	65	32	484	365	85
Ute - CWMS	-	-	-	16	-	-
Total	**786**	**361**	**536**	**1,020**	**241**	**620**

7. Planned Expenditure on New Assets (as identified in the asset management plan)

Capital Expenditure on Renewal or Replacement of Existing Assets:					
	2012	2013	2014	2015	2016
	$'000	$'000	$'000	$'000	$'000
LG - Roads	1,738	129	250	250	250
LG - Buildings					
LG - Plant & Equipment		330			
LG - Airport & Other					
LG - Swimming Pool					
Ute - Electricity Buildings					
Ute - Electricity - Plant, Equipment & Other		209	300	300	300
Ute - Water Buildings					
Ute - Water - Plant, Equipment & other		160			
Ute - CWMS		113			
Total	**1,738**	**941**	**550**	**550**	**550**

Capital Expenditure on Renewal or Replacement of Existing Assets:						
	2017	2018	2019	2020	2021	2022
	$'000	$'000	$'000	$'000	$'000	$'000
LG - Roads	250	250	250	250	250	250
LG - Buildings						
LG - Plant & Equipment						
LG - Airport & Other						
LG - Swimming Pool						
Ute - Electricity Buildings						
Ute - Electricity - Plant, Equipment & Other	300	300	300	300	300	300
Ute - Water Buildings						
Ute - Water - Plant, Equipment & other						
Ute - CWMS						
Total	**550**	**550**	**550**	**550**	**550**	**550**

8. Summary of Financial Performance & Position Statement (SFPPS)

The Summary of Financial Performance &Position statement together with the results of the Key Financial Indicators provides a summarised report that focuses on Council's finances at a strategic level.

Readers are strongly encouraged to take the time to comprehend how this report is structured and what the implications of the various lines of this report are for the Key Financial Indicator calculations.

The Summary of Financial Performance & Position report highlights the operating surplus / (deficit) measure which is considered the most critical indicator of a Council's financial performance.

The last line or rather the result of this report is the movement in Net Financial Liabilities (Net Lending / Borrowing) for the year based on Council's planned capital and operating budgets for that year.

Achieving a zero result on the net lending / (borrowing) measure in any one year essentially means that the Council has met all of its expenditure (both operating and capital) from the current year's income (with income including amounts received specifically for new / upgraded assets).

8.1 Explanation / Examples of Components of Summary of Financial Position

Operating Revenue and Expenditure: Represent the totals from the relevant lines of the Statement of Comprehensive Income (operating statement) for the year being reported on.

Capital Expenditure on renewal and replacement of Existing Assets: e.g. Roads reseals, replacement tractor, building renovations, replacement computer hardware.

Proceeds from sale of replaced assets: e.g. trade in value of a tractor or motor vehicle being replaced.

Capital Expenditure on New & Upgraded Assets: e.g. constructing a new building, constructing a new catchment pond, purchasing a piece of machinery that was not previously on hand.

Amounts specifically for new or upgraded Assets: e.g. Capital grants to partly fund a new CWMS, funds received to build new footpaths that did not previously exist.

Proceeds from Sale of Surplus Assets: Proceeds from the sale of a council building that was no longer required, sale of surplus land.

8.3 Summary of Financial Position and Performance

Year Ending 30 June:	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000
Operating Revenues	14,266	14,413	14,656	14,617	14,617
less Operating Expenses	14,773	14,218	14,243	14,125	14,117
Operating Surplus/(Deficit) before Capital Amounts	**(507)**	**195**	**413**	**492**	**500**
LESS: Net Outlays on Existing Assets					
Capital Expenditure on Renewal or Replacement of Existing Assets	222	2,987	377	1,059	705
less Depreciation, Amortisation & Impairment	(1,185)	(1,186)	(1,229)	(1,244)	(1,259)
less Proceeds from Sale of Replaced Assets	0	0	0	0	0
Net Outlays on Existing Assets	**(963)**	**1,800**	**(852)**	**(185)**	**(555)**
LESS: Net Outlays on New or Upgraded Assets					
Capital Expenditure on New/Upgraded Assets	1,738	941	550	550	550
less Amounts Specifically for New/Upgraded Assets	0	(1,510)	0	0	0
less Proceeds from Sale of Surplus Assets	0	0	0	0	0
Net Outlays on New or Upgraded Assets	**1,738**	**(570)**	**550**	**550**	**550**
EQUALS: Net Lending / (Borrowing) for Financial Year	**(1,282)**	**(1,036)**	**715**	**127**	**504**

Year Ending 30 June:	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000
Operating Revenues	14,667	14,722	14,794	14,858	14,890	14,957
less Operating Expenses	14,150	14,203	14,257	14,311	14,367	14,423
Operating Surplus/(Deficit) before Capital Amounts	**517**	**519**	**537**	**547**	**523**	**534**
LESS: Net Outlays on Existing Assets						
Capital Expenditure on Renewal or Replacement of Existing Assets	869	429	672	1,606	607	812
less Depreciation, Amortisation & Impairment	(1,274)	(1,289)	(1,304)	(1,319)	(1,334)	(1,349)
less Proceeds from Sale of Replaced Assets	0	0	0	0	0	0
Net Outlays on Existing Assets	**(405)**	**(860)**	**(632)**	**287**	**(727)**	**(537)**
LESS: Net Outlays on New or Upgraded Assets						
Capital Expenditure on New/Upgraded Assets	550	550	550	550	550	550
less Amounts Specifically for New/Upgraded Assets	0	0	0	0	0	0
less Proceeds from Sale of Surplus Assets	0	0	0	0	0	0
Net Outlays on New or Upgraded Assets	**550**	**550**	**550**	**550**	**550**	**550**
EQUALS: Net Lending / (Borrowing) for Financial Year	**372**	**829**	**620**	**(291)**	**701**	**521**