



# LONG TERM FINANCIAL PLAN 2022-2031 EXPLAINED

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## What is the Long Term Financial Plan (LTFP)?

The purpose of the LTFP is to forecast the financial outcomes for Council over the next ten years.

The key objective of the long term financial plan remains the achievement of financial sustainability across the short, medium and longer term whilst still achieving Council's broader vision and community goals.

The Plan provides a framework for sustainable financial management balancing our environmental, social, economic and governance objectives whilst delivering services and facilities to the people of the Uralla Shire.

The Plan provides direction for future service planning and is a critical tool in identifying, leveraging and managing Council's key strengths, risks and opportunities with regard to Council's ongoing capacity and long term financial stability. It also provides a prudent and sustainable financial framework for the longer term from which Council will develop its Operating and Delivery Programs.

The Plan is not a static document and should be reviewed annually as part of Council's strategic planning and budget process so that it remains reflective of the prevailing internal and external environment.

The Long Term Financial Plan is updated to:

- ✓ confirm and communicate Council's financial objectives and forecasts for the planning period to the community and all of Council's stakeholders; and
- ✓ guide the preparation of Council's Annual Budget and Delivery Program within the context of long term financial sustainability.

The LTFP 2022-2031 is located on Council's website here:

<https://www.uralla.nsw.gov.au/files/assets/public/community/community-information/consultation/lftp/uint-21-7605-lftp-2022-2031-draft-with-base-and-balanced-cases.pdf> or under the Community Consultation tab on the website.

## Where do we want to be?

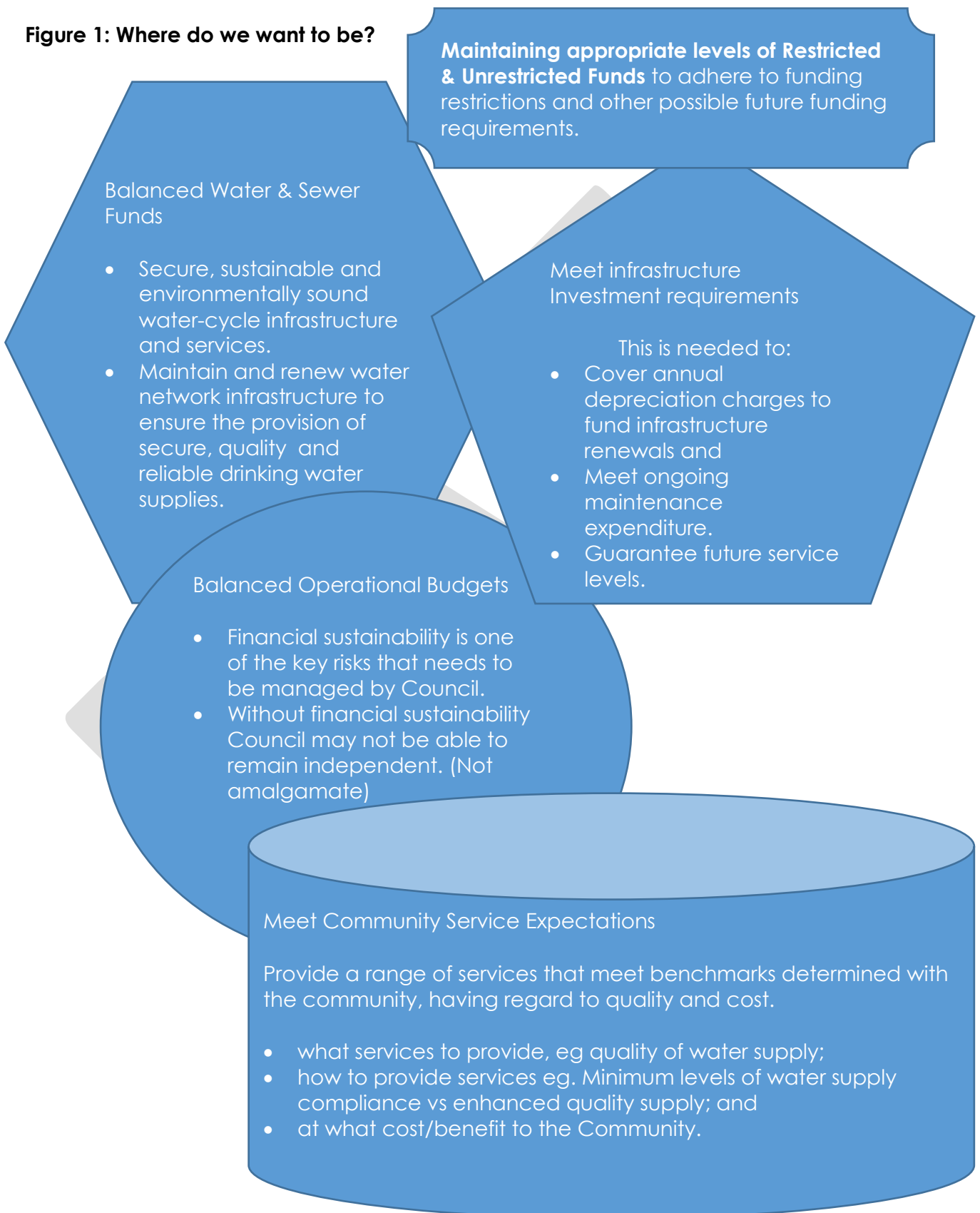
**Purpose.** The purpose of the LTFP is to forecast the financial outcomes for Council over the next ten years.

**Council Resolutions.** Council has resolved to set a strategic objective for the:

- General Fund: to achieve a balanced operating result before capital grants by 2022/2023 - including the full funding of depreciation, amortisation and impairment of intangible assets and infrastructure, property, plant & equipment, and to build reserves of \$4 million over the remaining seven years of the long term financial plan (LTFP)\*. See OM 04.08/20 : OM 04.08/20.
- Water and Sewer Funds to operate during the next ten years at a balanced operating position including the full funding of depreciation, amortisation and

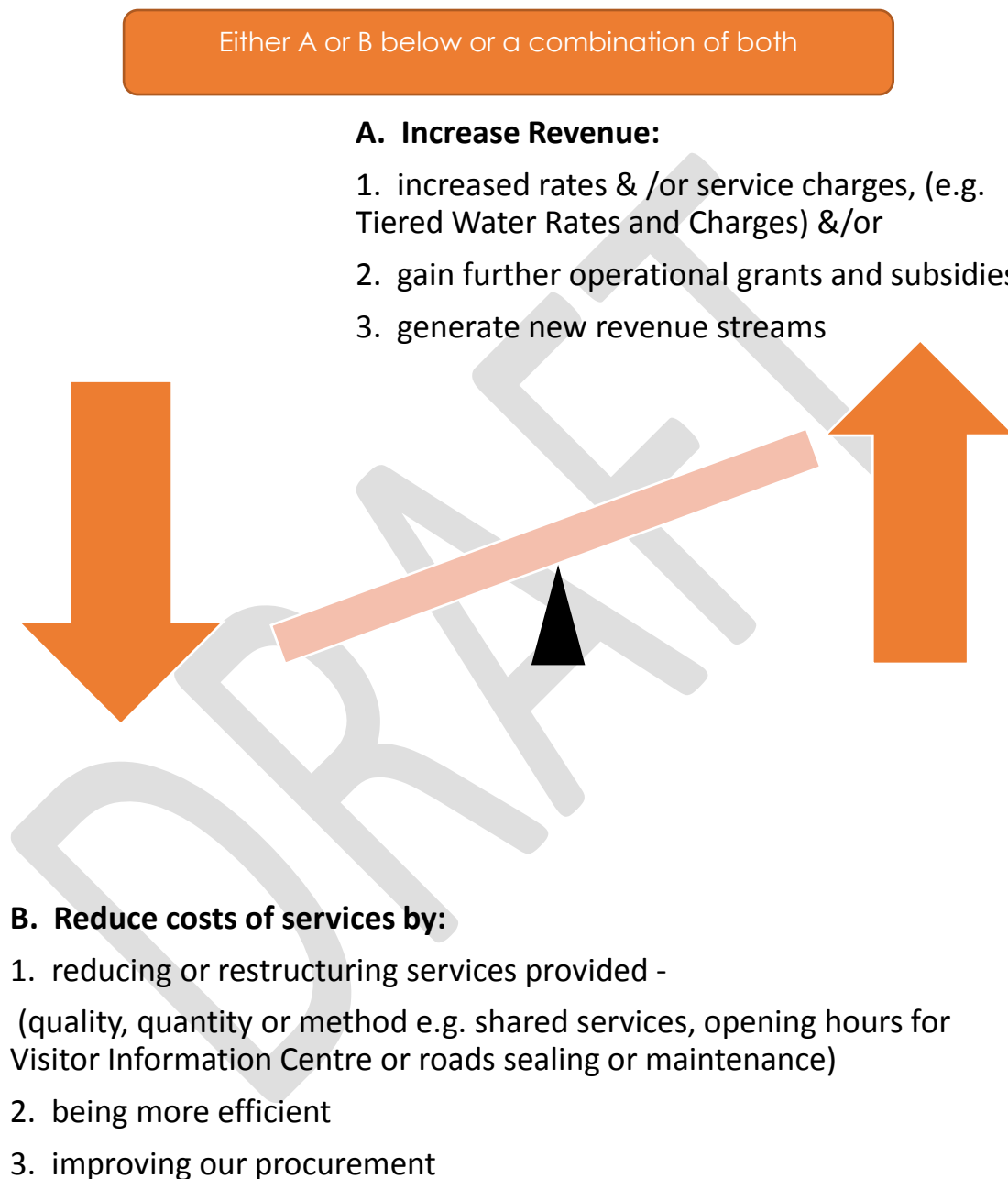
impairment of intangible assets and infrastructure, property, plant & equipment, and the modelling of tiered water pricing\*. See OM12.02/20.

**Figure 1: Where do we want to be?**



## What do we need to do to achieve a balanced Long Term Financial Plan?

Figure 2



## What's in this Proposed Balanced LTFP?

1. To achieve Council's resolutions, the attached Long Term Financial Plan has been built based on a number of factors, including:
2. 2019 -2020 actual costs
3. 2020 - 2021 current operating budget
4. known capital costs and asset management plan projections
5. work force management plan projections
6. resolutions of Council for other specific items
7. one-off items, e.g. 2021/22 includes \$53,162 for election costs
8. specific projects, particularly capital; e.g. Bundarra Sewer Scheme
9. indexation assumptions, generally taken from State or Federal estimates in the initial years and extrapolated
10. statutory obligations
11. specific indexation variations as noted in table 1 below.
12. other key issues as noted in table 2 below

<b>Table 1 – Specific LTFP model indexation variations</b>										
INDEXATION YEAR	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Water Fund - Annual Charges	10%	10%	10%	10%	10%	10%	10%	2.5%	2.5%	2.5%
Sewer Fund - Annual Charges	2%	10%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
General Fund - Rates – cumulative and ongoing	2%	25%	10%	10%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

**Table 2 – Other Key Issues**

CONSOLIDATED FUND	GENERAL FUND	SEWER FUND	McMAUGH FUND
<ul style="list-style-type: none"> <li>• No change in full-time equivalent staff numbers</li> <li>• No estimated employee grade increases in years beyond 2021-22</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance costs for new infrastructure:</li> <li>• Capital grants included:                             <ul style="list-style-type: none"> <li>○ RMS Regional Road capital – indexed annually \$184,148</li> <li>○ Fixed Local Roads – 2021/22 \$555,400</li> <li>○ Fixed Local Roads – 2022/23 \$516,000</li> <li>○ Fixed Local Roads – 2023/24 \$516,000</li> <li>○ Local Roads &amp; Community Infrastructure Program – 2021/22. \$810,465</li> <li>○ Local Roads &amp; Community Infrastructure Program – 2022/23. \$550,000</li> </ul> </li> <li>• Remove industrial land development other than \$490,600 initial costs in 2021/22, awaiting government grant funding to continue. Save \$1m</li> <li>• No maintenance costs for new infrastructure being built under Public Spaces Legacy Fund- No Known Estimates</li> <li>• Specific data on road rehabilitations &amp; reseals is still being developed by Council's engineer</li> </ul>	<p>No capital expenditure for Bundarra Sewer scheme other than initial construction costs. <i>No Known Estimates</i></p>	<p>Estimated capital expenditure relates only to furniture, fixtures &amp; fittings \$50,000</p>

## How can we achieve this Balanced LTFP?

Significant work has been undertaken over a number of years to consider ways to reduce the operating deficit before capital grants. A summary of the work undertaken and Council's response can be found at **attachment 1**.

## Why do we need a rate increase?

Without an increase in revenue, the council will have no option but to see a significant reduction in services provided to the community and the asset renewal backlog will increase. Roads, buildings and public spaces will deteriorate placing a significant financial burden on future generations and threaten our independence.

A special rate variation (SRV) is one of the tools available to Councils to balance their operating results, whilst retaining existing service levels to community expectations, maintaining and replace assets and providing financial security into the long term.

Without the annual charge and rate increases noted in **table 1**, all Funds would be in loss for the entirety of the LTFP, resulting in negative unrestricted funds or significant borrowings. Council should never borrow money to support operating losses.

The model has therefore been presented to achieve the desired strategic outcomes articulated by the Budget Review and Finance Committee, to balance the Funds over the term of the LTFP.

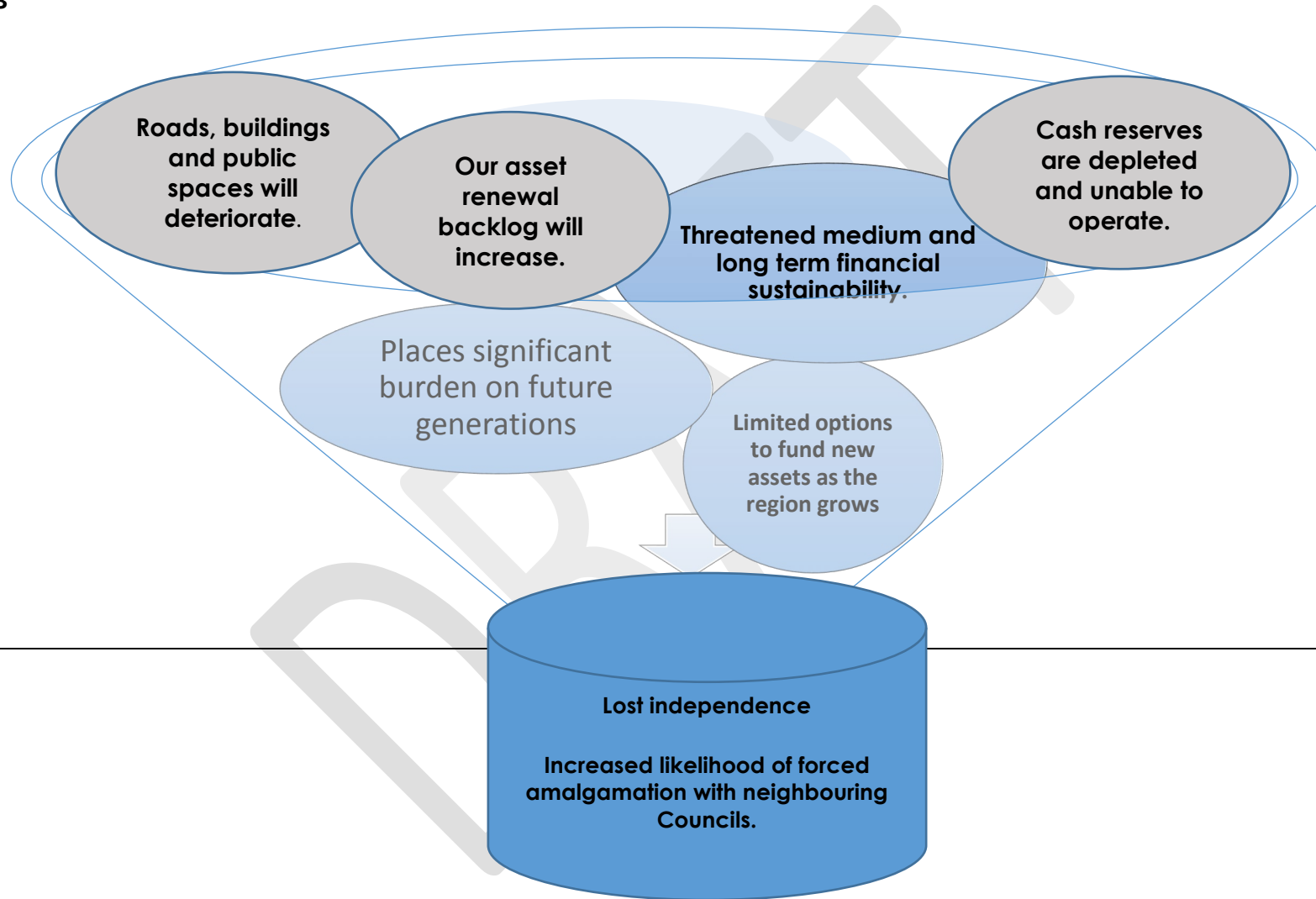
To spread the increase and to achieve a balanced result the rates increases are spread over a minimum of 3-4 years.

The modelled revenue increases might be able to be reduced to some extent with a range of agreed service cost reductions.



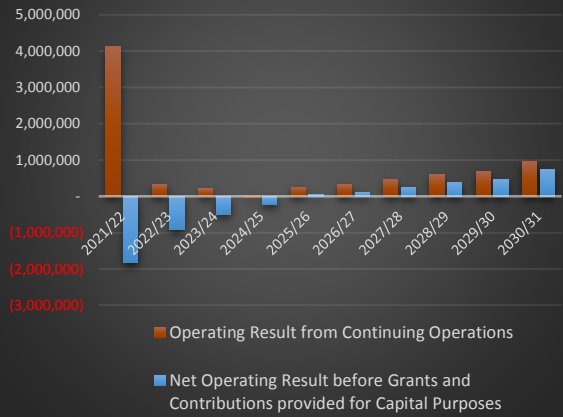
## What happens if we don't make changes to balance our financial plans?

Figure 3

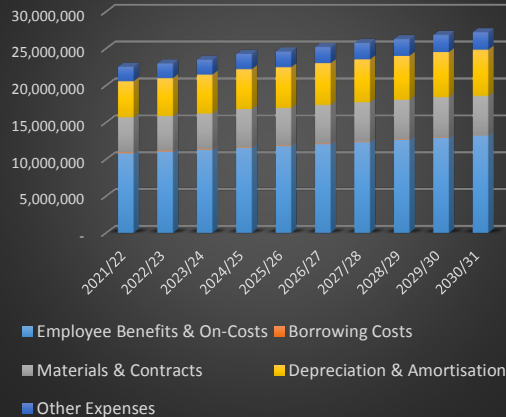


# Snapshot: Proposed Balanced 2022-31 LTFP

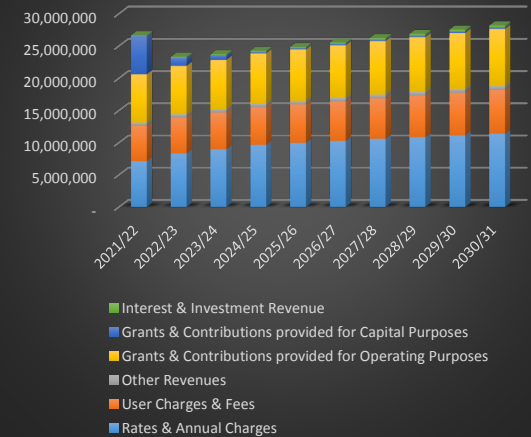
**LTFP 2022-31 - CONSOLIDATED FUNDS Profit & Loss**



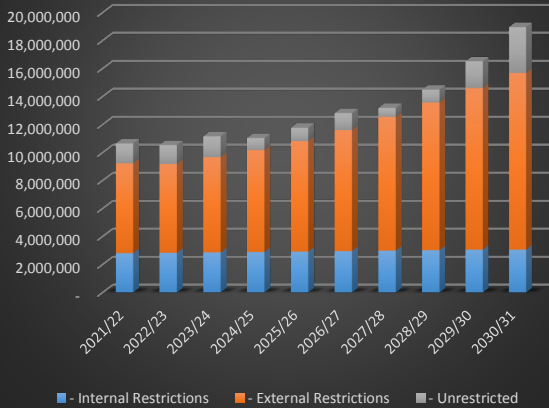
**LTFP 2022-31 - CONSOLIDATED FUNDS Expenses \$**



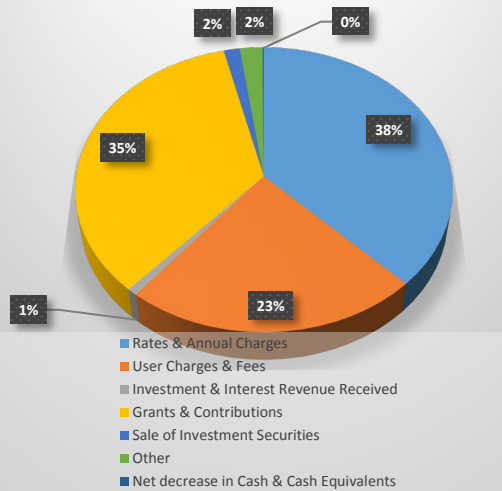
**LTFP 2022-31 - CONSOLIDATED FUNDS Revenue \$**



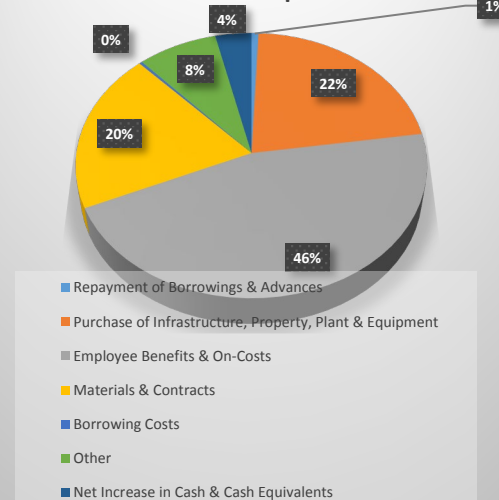
**LTFP 2022-31 Cash, Cash Equivalents & Investments**



**LTFP 2022-31 CONSOLIDATED FUNDS - Where will funds come from in 2022?**

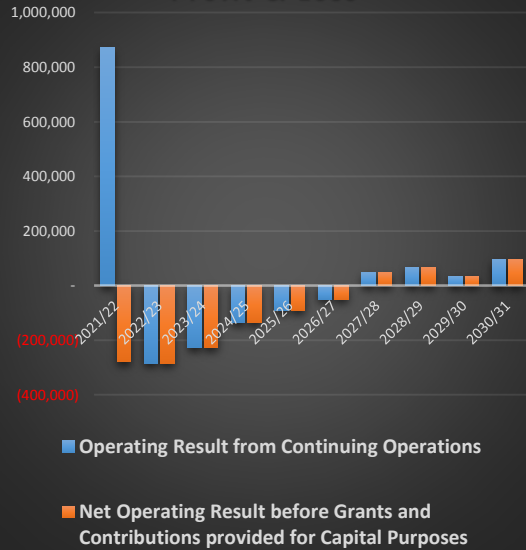


**LTFP 2022-31 CONSOLIDATED FUNDS - How will funds be spent in 2022?**

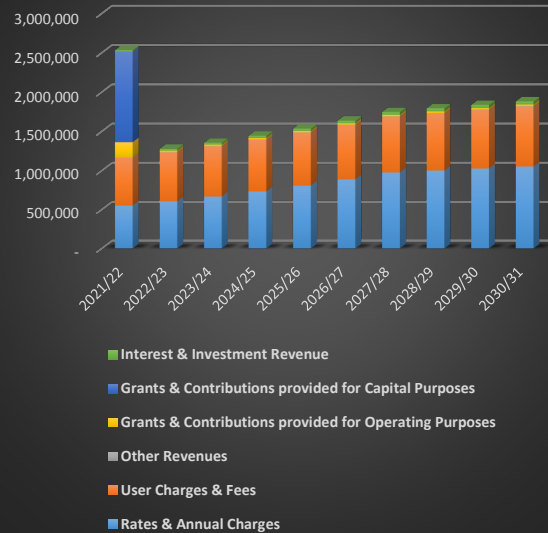


# Snapshot: Water Fund

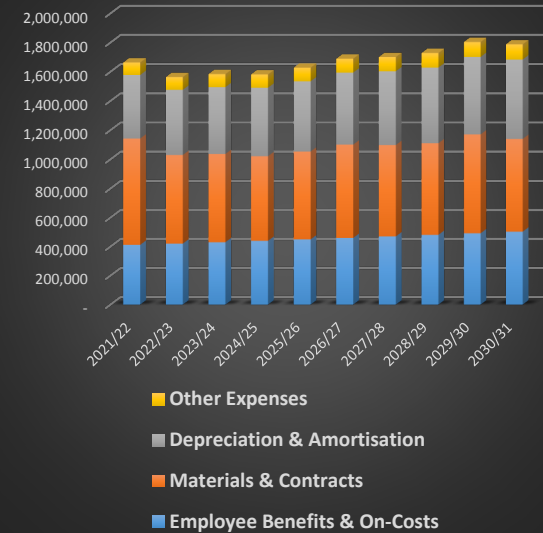
## LTFP 2022-31 - WATER FUND Profit & Loss



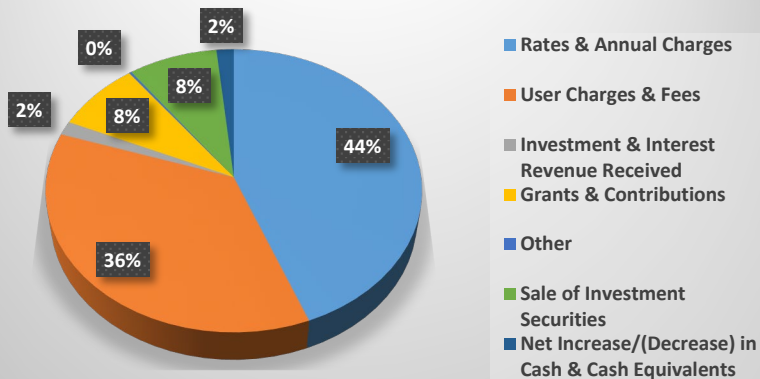
## LTFP 2022-31 - WATER FUND Revenue \$



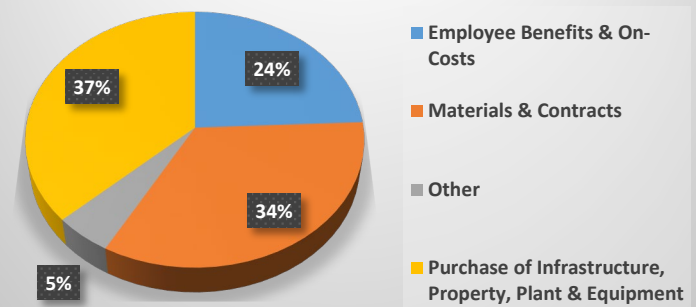
## LTFP 2022-31 - WATER FUND Expenses \$



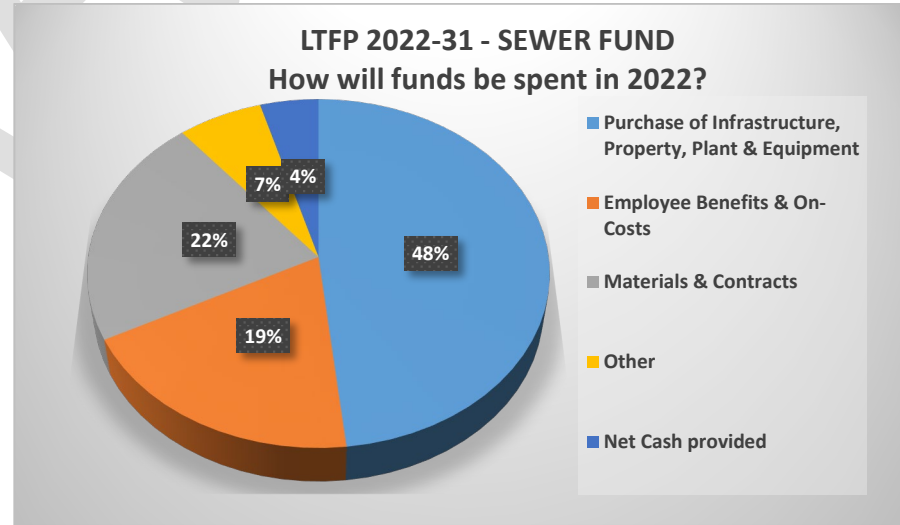
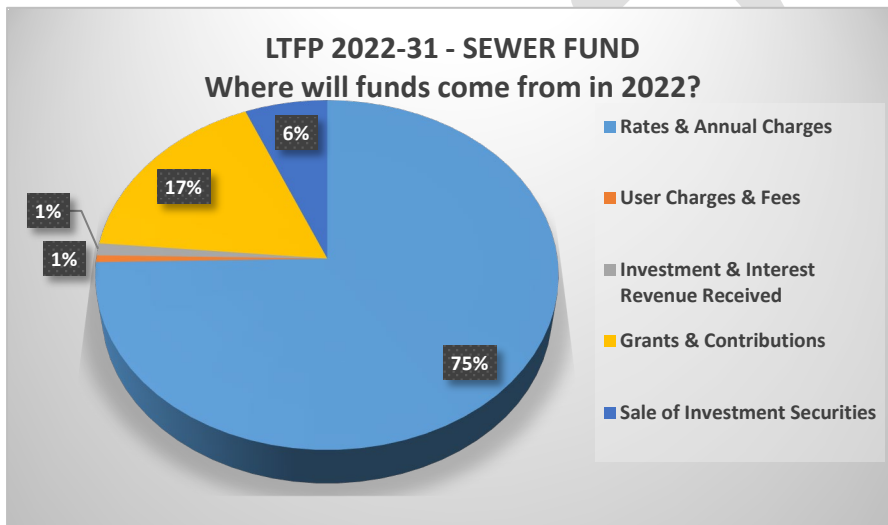
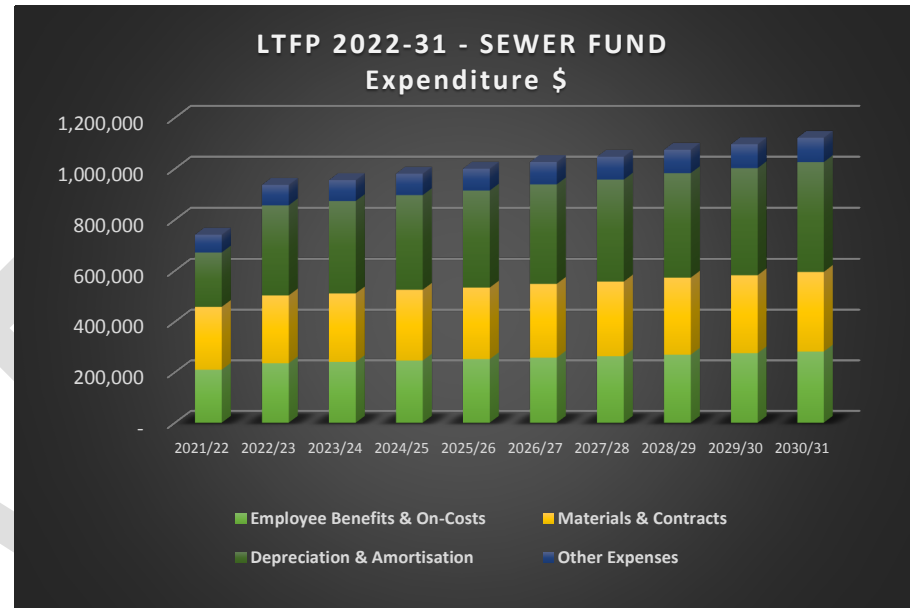
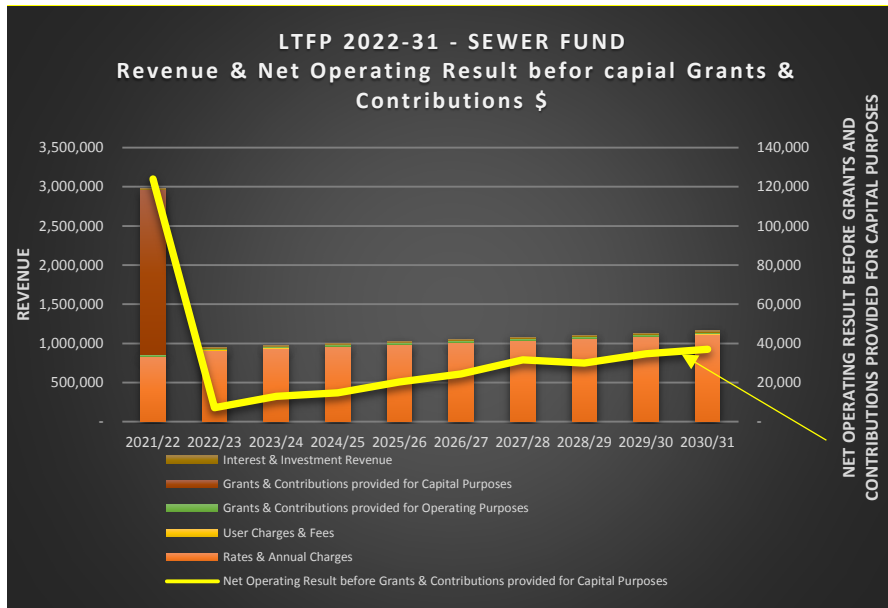
## LTFP 2022-31 - WATER FUND Where will funds come from in 2022?



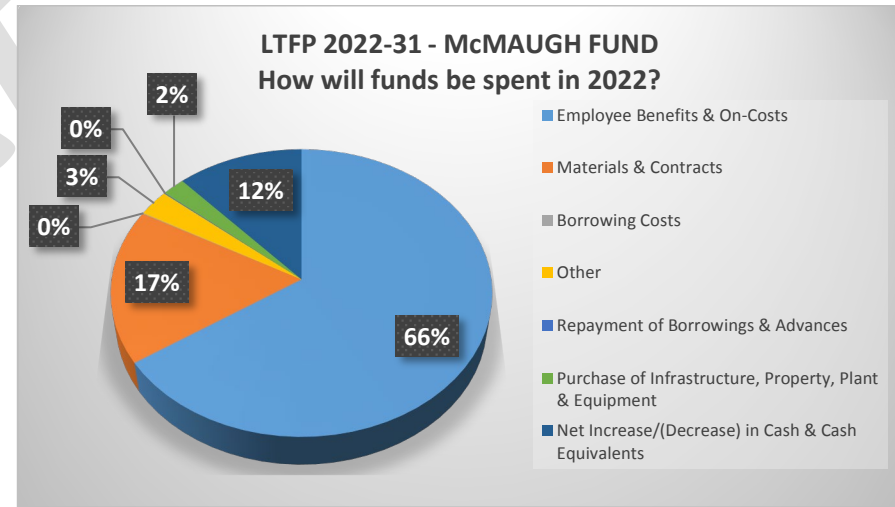
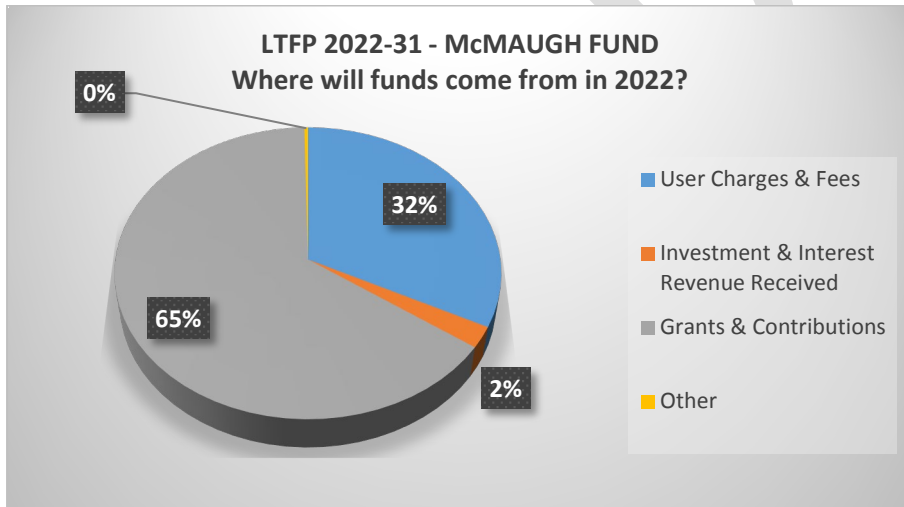
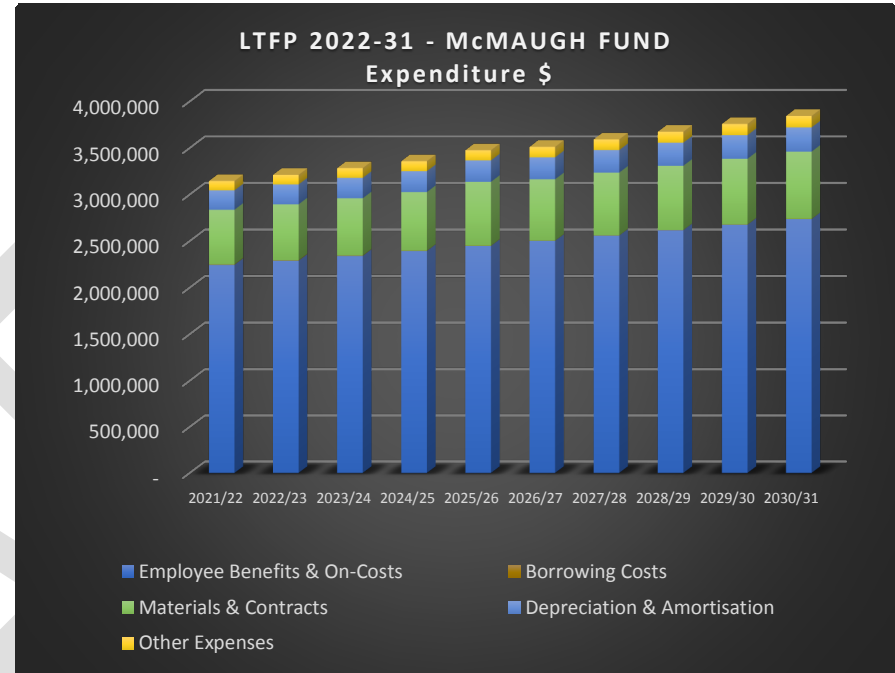
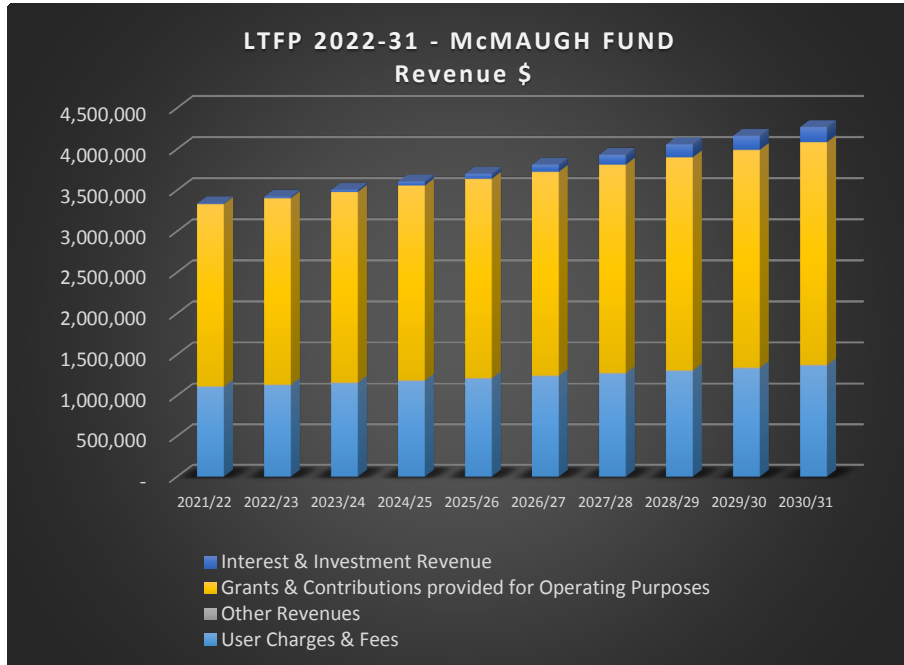
## LTFP 2022-31 - WATER FUND How will funds be spent in 2022?



# Snapshot: Sewer Fund



# Snapshot: McMaugh Gardens



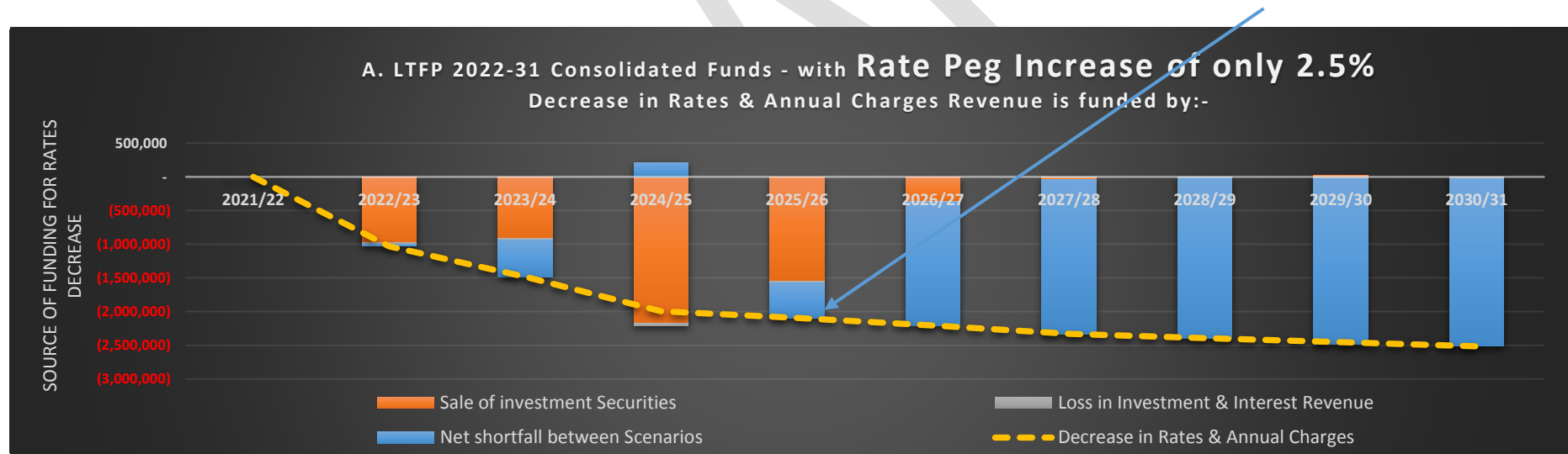
# Alternative Scenario (Not Proposed)

## What if we only increase rates by the designated Rate Peg of 2.5%?

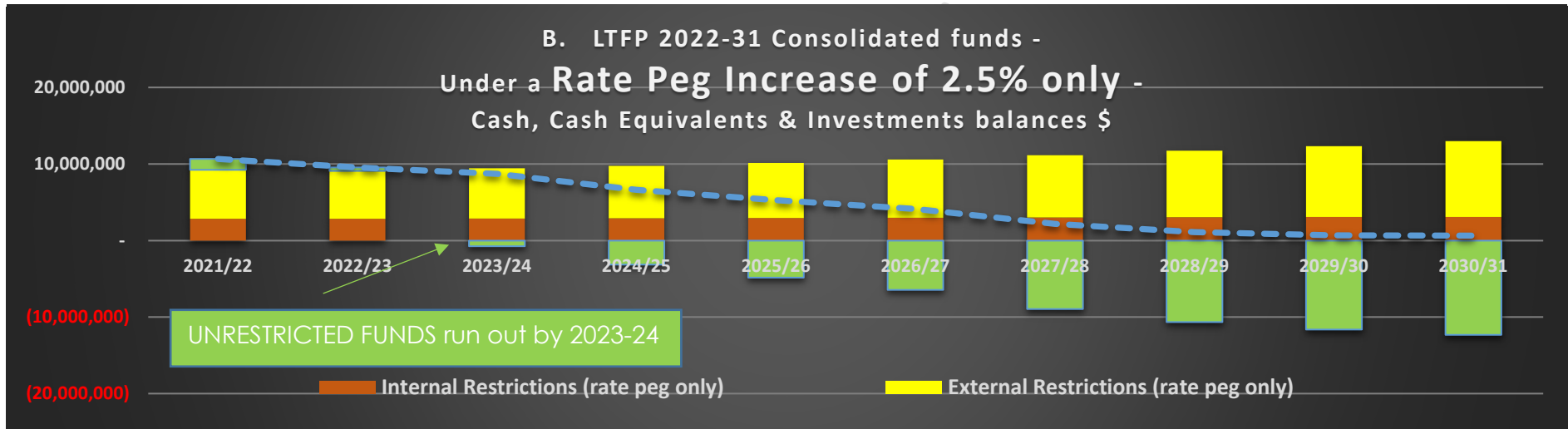
A rate increase of only 2.5% (compared to the "Balanced Case" scenario as recommended in this LTFP) would result in the following:-

1. Rates & user charges **revenue would fall by approximately \$18.5m** leaving a shortfall in funding for essential and expected services.
2. Existing Unrestricted Investments would need to be **sold (approx. \$6m)**. Resultant loss of **interest income of approx. \$180,000**.
3. Other funding measures would need to be sourced (**totalling approx. \$12.3m**) and would include:
  - a. Decrease in Cash and Cash Equivalents (estimated to run out by 2025-26, borrowing the short fall is not an option), and
  - b. Sale of or reduced replacement of Assets including Infrastructure assets, and
  - c. Drastic reduction in Services.

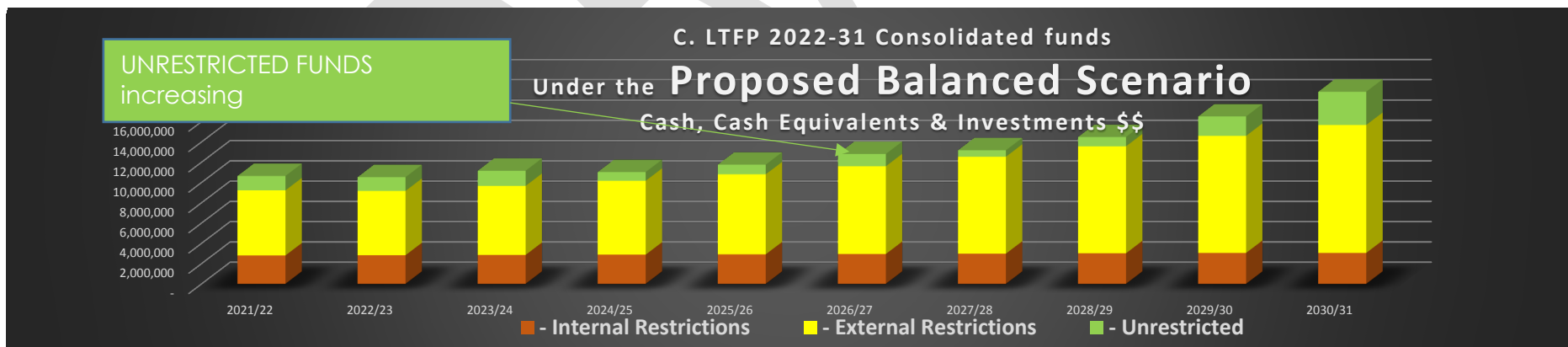
The graph below (A) highlights the loss of revenue (yellow line) and the consequential loss of funding (columns) of applying a Rate Peg increase of 2.5% instead of the rate increases proposed in the Balanced scenario. There is a net short fall in funding (after divestment in Investments) from 2025-26 onwards (refer blue columns)



The following graph (B) shows the fall in Cash, Cash Equivalents, and Investments in Unrestricted Funds under the **2.5% Rate Peg Only Scenario (not proposed)**. Unrestricted cash is expected to run out by 2023-24.

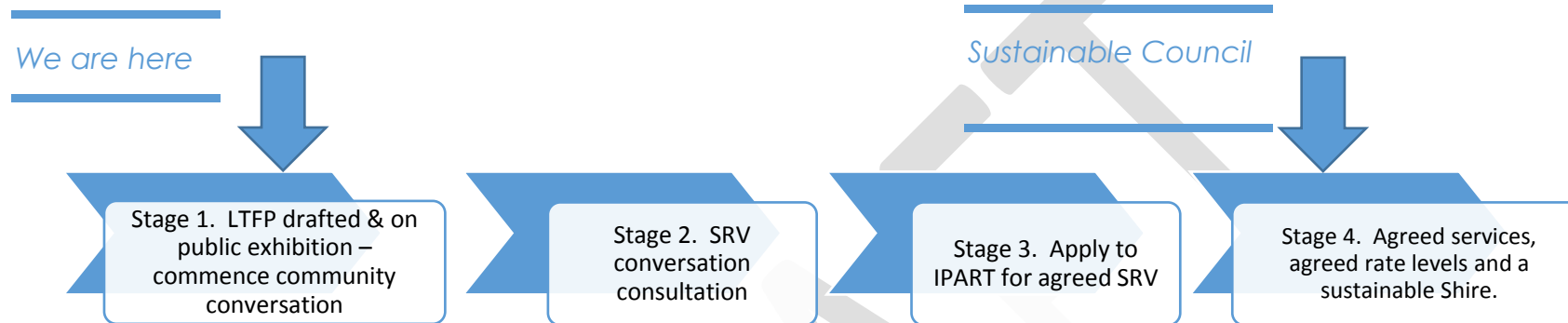


By comparison, the following graph (C) shows the increase in Cash, Cash Equivalents and Investments under the **Balanced Scenario (proposed)** with rate increases (refer Table 1. Above), illustrating an increase in UNRESTRICTED FUNDS over the 10yr period.



## The Process – What's next?

### Community Engagement



**Note: Council resolutions are required between each stage.**

### Community Survey

What do we need from our community?

We request your input on council's financial sustainability. As part of our commitment to Community Engagement and Communication, we have placed the LTFP on Public Exhibition until October 25<sup>th</sup> 2021.

To access the Long Term Financial Plan and Survey, visit: <https://www.uralla.nsw.gov.au/Community/Community-Consultation>

Or contact Customer Service if you would like a copy of the consultation materials posted to you on (02) 6778 6300.

Surveys can be completed online, or submissions can be sent by post Attention: Office of the General Manager, PO Box 06, Uralla NSW 2358 or via email to <mailto:council@uralla.nsw.gov.au>.



# Attachments

## 1: What has been recommended? What has been implemented?

A. IMPLEMENTED	
- Partially or Fully	
Opportunity Benefit \$	
Savings on phone and internet	7,000
Issue fines for infringements	39,000
Review current contracts and consultancies	
Review and increase pricing of <b>stock at the VIC</b>	1,500
<b>Solar power</b> – water and sewer services (Recurrent Benefit Under Implementation)	20,000
<b>Better fleet management</b> (of vehicles)/cost benefit of staff leaseback arrangements	10,000
Develop Section 7.11 & 7.12 <b>developer charges policy</b> to	

B. REJECTED	
Opportunity Benefit \$	
Implement full cost recovery for non-statutory fees and charges	150,000
Review overhead costs of community care for full recovery – N/A as already implemented	30,000
Reduce the number of councillors	30,000
Reduce service levels for nature strip mowing at Bundarra	30,000
Reduce number of newsletters (staff cost)/review print and delivery	13,000
Close the Bundarra Library	2,500
Privatise McMaugh Gardens	30,000

C. UNDER INVESTIGATION	
Opportunity Benefit \$	
Strategic review of <b>waste services</b>	25,000
<b>Dividends</b> from water and sewer funds	40,000
Reduce opening days at <b>tip</b>	19,500
Review and reduce the <b>customer service hours</b> at the Library and Visitors Information Centre	12,000
Review/Remove the <b>Community Grants Program</b> and other sponsorships	60,000
Joint Organisation – <b>shared services</b> across all back-end administration services	40,000
Reduce opening days of <b>swimming pool</b>	48,000

enable inclusion and associated revenue forecasts.	
Energy initiatives (e.g. solar and LED for street lighting)	15,000
Upgrade Bundarra maintenance <b>water truck</b>	
Reduce the <b>customer service hours</b> at the Council Office	12,000
Contract out general waste collection services	70,000

Solar power - pool	
Transition <b>indoor workforce</b> from 9 day fortnight RDO system to 19 day month (excluding TCS/TCT LG Staff)	70,000

Review of water and sewer reticulation condition	-
Review Transport Asset Management Plan for reduction of proposed service levels	100,000
Investigate: <ul style="list-style-type: none"> <li>• employment of a full time Health &amp; Building inspector,</li> <li>• upskilling a current employee, and</li> <li>• a shared service.</li> </ul>	
Implement business paper efficiencies (purchase software)	12,000

<p>Improve <b>procurement management practices</b>, including with Joint Organisation (Recurrent Benefit Under Implementation)</p>	<p>5,000  Ongoing</p>	<p>Special Rate Variation. Council has the option to apply to the Independent Pricing and Regulatory Tribunal (IPART) for either a Temporary or Permanent Variations. Refer Details above.</p> <p>The 2022 – 2031 LTFP models a special rate variation as noted in table 1 above. The 2021-22 Operational Plan includes an action “subject to Council resolution, undertake consultation and make an application for increase in rate revenue (Special Rate Variation) in accordance with the Independent Pricing and Regulatory Tribunal criteria (FFTF) (timing subject to a decision of the 2021-23 term of Council).</p> <p>In 2018 Council resolved “not to proceed with a Special Rate Variation this year”.</p>	<p><b>Investigate shared service opportunities with New England Joint Organisation (NEJO) and neighbouring councils.</b></p> <p>At the 28 September 2020 NEJO meeting the following shared services were considered:</p> <ul style="list-style-type: none"> <li>• Adopting a regional procurement model through NEJO</li> <li>• Establishing a project management office for the Councils</li> <li>• Providing central strategic planning services for the Councils</li> <li>• Establishing a legal services group</li> <li>• Providing a central records repository for the Councils</li> </ul> <p>No decision was made on any of these items at that meeting and the NEJO Executive Officer resigned shortly thereafter. Included as an Action in the 2021/22 Operational Plan.</p>	
<p>Employ project management staff</p>	<p>48,000</p>			<p><b>Investigate commercial income streams</b></p> <p>No action at this time</p> <p>Include as an Action in the 2021/22 Operational Plan.</p>
<p>Various <b>waste services ideas</b>, mostly already subject to service review.</p>	<p>Ongoing</p>			<p><b>Investigate options to diversify investments.</b></p>

<b>Ask community how we can make savings</b> (Recurrent Benefit Under Implementation)			A series of proposals from councillors have been made including the following: <ol style="list-style-type: none"> <li>1. Establish a medical centre Equipped for professionals to rent, i.e. chiropractor, doctor, physio, or perhaps a counselling clinic</li> <li>2. strata title units, catering to NDIS and extending services to the broader community</li> </ol> No progress has been made on these proposals to date. Included as an Action in the 2021/22 Operational Plan.		
Estimated improvement	244,053	Estimated improvement	342,500	Estimated improvement	371,500

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## 2. What is rate pegging?

The rate peg determines the maximum percentage amount by which a council may increase its general income for the year. The rate peg does not apply to stormwater, waste collection, water and sewerage charges.

Councils have discretion to determine how to allocate the rate peg increase between different ratepayer categories. The rate peg sets the maximum increase in each council's general rate income for the financial year. The rate peg applies to general rate income in total, and not to individual ratepayers' rates. As long as the general rate income remains within the set maximum increase, councils may increase different categories of rates by amounts higher or lower than the rate peg. Individual rates are also affected by other factors, such as land valuations which can affect percentage changes to rates alongside the rate pegging process.

Under the Local Government Act, councils are able to seek additional increases in general income beyond the annual rate peg, by applying to the Independent Pricing and Regulatory Tribunal (IPART) for a 'special rate variation' (refer SRV explanation below). IPART has set the 2021-22 rate peg for NSW councils at 2.0% and an assumed rate peg of 2.5% for 2022-23 and in future years, unless stated otherwise in the Office of Local Government's Guidelines.

## 3. What is a Special Rate Variation (SRV)?

A council can apply to IPART for a special variation above the rate peg which will be considered in accordance with the guidelines set by the NSW Office of Local Government, including the level of community awareness and how efficiently the council has been managing its finances. Council requests for special variations are often made in order to develop or maintain essential community services or regional projects. IPART can grant a general income variation for a single year or up to seven years. Over that time the council can set its own rates and fees as long as its total general rate income from those sources stays within the agreed increase.

### How special variation applications are assessed

IPART requires councils to actively engage residents in discussions about the proposed increase above the rate peg. Councils can do this with public hearings and other community engagement tools that suit their population. IPART will consider how effective each council's community inclusion has been before determining its application to increase rates above the rate peg. Councils need to show IPART there is:

- community awareness of their plans
- a reasonable impact on ratepayers
- a history of well-documented council productivity improvements
- a demonstrated need for higher increases to charges
- a sustainable financing strategy

In addition to council's evidence, IPART will assess any other information they consider relevant, including letters from ratepayers. IPART can wholly or partially approve or reject a council's application.

#### **4. Tiered Water Pricing**

Council recently considered the introduction of tiered water pricing. Whilst the proposal has not been progressed by Council in 2021-2022, consideration of the information may assist in understanding the need to increase revenue in the Water Fund. The report can be found here <https://www.uralla.nsw.gov.au/files/assets/public/community/water-rates-info-sheet-for-community-consultation.pdf> or under the Community Consultation tab on the website.

#### **5. Community Survey**

<https://www.surveymonkey.com/r/USC-LTFP>

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