Long Term Financial Plan

2022 - 2032

Contents

Introduction

The City of Greater Geraldton Long Term Financial Plan (LTFP) 2022-2032 is a high level informing strategy that outlines the City's approach to delivering infrastructure and services to the community in a financially sustainable and affordable manner. It also demonstrates the City's commitment to managing its operations in a way that avoids unsustainable rate increases for ratepayers. The Plan is aligned to other core planning documents by which the City is accountable to the community including the Strategic Community Plan and the Corporate Business Plan.

The LTFP is a dynamic tool which analyses financial trends over a ten-year period on a range of assumptions and provides the City with information to assess resourcing requirements to achieve its strategic objectives and to allow the City to ensure its future financial sustainability.

The LTFP covers the period 2022-23 to 2031-32. The City undertakes a broad review of its Strategic Community Plan every two years and a full review is planned every four years. This LTFP will be reviewed every year and in conjunction with Corporate Business Plan reviews. As Annual Budgets are developed from the LTFP, there may be some annual variations between both, which will be explained in the Annual Budget process.

2. Our Integrated Planning Framework

In 2011, the Department of Local Government introduced the *Integrated Planning and Reporting Framework* to encourage a movement towards best practice strategic planning and reporting standards across the Western Australian local government industry.

A significant component of the Framework is the development of a long-term financial plan to inform the resourcing requirements and financial capacity of a local government to achieve its stated objectives and priorities.

The following diagram shows how the components of the Integrated Planning Framework work together to inform and provide resources for achieving the goals of the Community Strategic Plan.

3. Key Statistics

The following shows key statistics for the City of Greater Geraldton.

SNAPSHOT:

TOTAL AREA

of City of Greater Geraldton

9,908km²

RESIDENT POPULATION

38,632

NUMBER OF BUSINESSES

in City of Greater Geraldton

3,134

Top THREE Industry Sectors

BY OUTPUT

Construction
$1,074.6m

Manufacturing
$756m

Services
$727m

BY EXPORT

Mining
$457.8m

Manufacturing
$382.2m

Agriculture/Fishing
$301.6m

BY EMPLOYMENT

Health Care & Social Services
2,376

Retail
1,980

Education & Training
1,819

GROSS REGIONAL PRODUCT

Greater Geraldton
$3.7b

Midwest region
$6.6b

Remplan data as at 15 June 2021

4. Who We Are

Located over 400 kilometres north of the state capital, Perth, in the Midwest Region, Greater Geraldton has been named one of Australia's regional capitals. The Greater Geraldton region encompasses the communities of Geraldton, Greenough, Mullewa and Walkaway and with an enviable mix of coastal and rural lifestyles, the area offers beautiful places to live, work, study and play with opportunities backed by strong industry sectors that continue to grow.

The City and the Midwest Region are recognised as having the most diversified economy in the State through industries including mining, fishing, aquaculture, agriculture, manufacturing, construction, retail and tourism. The region has the potential to be a home for projects that build on existing strengths, as well as new and innovative enterprises.

Geraldton is the major regional centre of Australia's Coral Coast overlooking the Indian Ocean and is a city steeped in indigenous and pioneering history, including some of Western Australia's premier heritage buildings and agricultural land that has been farmed since its settlement over 170 years ago. Within easy driving distance to Perth, Geraldton has all the major services you would expect in a city including cultural, shopping and sporting facilities, yet offers a more relaxed pace of life. It has regular air services and exports to the rest of the world via the Geraldton Port.

Education at all levels is catered for by numerous public and private schools and tertiary institutions including Central Regional TAFE, Batavia Coast Maritime Institute, the Geraldton Universities Centre and the Western Australian Centre for Rural Health (WACRH).

Facilities in the region are world class including – WA Museum, Regional Art Galleries, Regional Libraries, Queens Park Theatre and community-based Arts and Cultural Groups, among others – highlight Greater Geraldton's cultural diversity.

In recent years Greater Geraldton has undergone enormous development, revitalising the foreshore with the Beresford Foreshore Enhancement Project, Eastern Breakwater, Multi-User Facility and Youth Precinct. These developments have created spaces where people can connect with each other while enjoying the benefits of living in this special space.

The City also invested in the revitalisation of the City Centre with the completion of The Rocks Laneway Project creating a major pedestrian connection between the CBD and the Foreshore, and features spaces for year round community events and activities, including opportunities for local artists to exhibit and perform. Other elements include the Town Square and Ghost Office, and Post Office Lane with provides an important connection between the Geraldton Regional Art Gallery, Town Square and the Rocks Building.

The Geraldton Airport Upgrade project was completed in 2019 extending the main airport runway to 2400m. The expansion allows for larger aircraft types to be accommodated at Geraldton representing an important whole-of-network role for WA aviation and tourism and export industries.

The City is also working closely with the private sector and the local community to realise the visions in the Geraldton Jobs and Growth Plan 2020-2023. This Plan aims to increase jobs, population and economic growth for the Midwest region and continues the collaborative approach, under the umbrella of Progress Midwest, to growing the region's capital, led by industry and supported by local government, state government, and the research and education sector.

5. Our Services

The City provides an extensive range of services to the community including:

- Building and Planning approvals
- Environmental Health services
- Community development and youth services
- Libraries, festivals, concerts, art gallery and other cultural events
- Leisure and recreation services and facilities
- Rangers and community safety
- Waste collection and landfill facilities
- Land development
- Parking facilities
- Airport services
- Tourism services
- Infrastructure including roads, footpaths and street lighting
- Parks and natural areas and management of the environment
- Economic development

New Services

Council at its May 2019 meeting, supported the implementation in 2019-20 of a Food Organic and Garden Organic kerbside collection trial involving 500 households. In 2022-23, it is proposed to continue household education and carry on with this trial for a further year. Modelling suggests that our current waste stream is made up of approximately 48% FOGO material. Introducing a FOGO kerbside program has the potential to increase the City's performance diversion rate to 35 - 45% (currently 0%) depending on contamination rates. Depending on the success of the trial, Council will then make a determination on the future of this service.

Council at its May 2022 meeting, supported the return of the annual verge side collection, this service is on offer for all residents that receive a domestic rubbish collection. The bulk verge side collection allows for the separating of waste types at the source. This is an important consideration in Council efforts to increase waste segregation and diversion from landfill. This program will allow many residents that are unable to take large bulky items to the Meru Waste Disposal Facility the opportunity to remove the items and assist the City in reducing unsightly properties.

The LTFP also gives consideration to potential changes to the delivery of waste services and the impact on the fees and charges structure.

6. Service Delivery

Over previous financial years, the City of Greater Geraldton's financial position meant that many community needs and aspirations were unlikely to be delivered within the short term, without significant increases in rates or reduction in expenses.

In coming up with solutions to these challenges, the City has long recognised that the best solutions are those that are made collaboratively between Council, the Community and its staff, utilising the principles of engagement and deliberative democracy. This has provided staff with a more focused approach on the delivery of services and some level of certainty for the community about what services they can expect Council to deliver in the coming years.

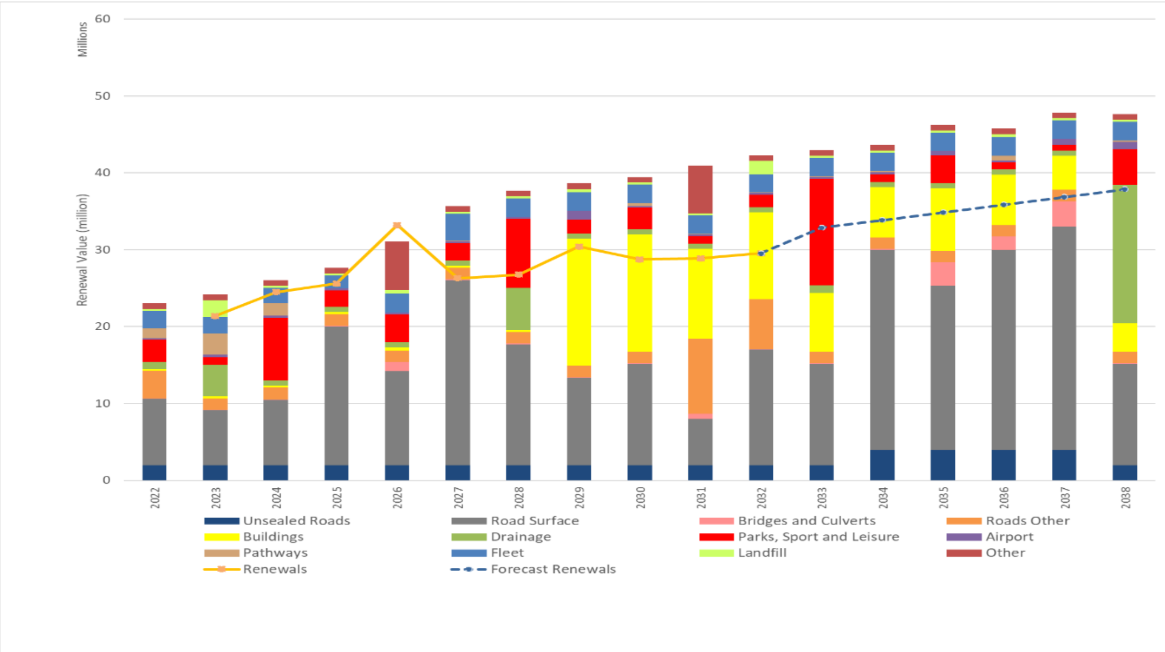
#ChangesCGGcommunity (deliberative democracy process) was a community engagement activity developed to empower local residents in making decisions that affect the City's budget. The City recognised there was a need for change concerning future financial sustainability, community aspirations and growing community expectations and a history of implementing deliberative democracy principles to inform decision-making.
It successfully:

- Incorporated the principles of participatory budgeting into the recommendations on the range and level of services the City provides;
- Developed an assessment framework for current and not yet identified services;
- Improved civic participation in decision making;
- Improved alignment of City services with the needs of the community;
- Increased the community's knowledge of responsible budget management; and
- Increased community acceptance of Council decisions.

Under the banner of "Community Voice Project" and in continuation of deliberative democracy processes, a review of services and prioritisation of capital works was undertaken by a demographic representation of community members. This two part review was completed in 2020-21 and presented to Council for consideration as part of a major review of the City's Integrated Planning Framework.

7. Asset Management

The City has developed a strategic approach to asset management and developed a strategic asset management plan based on the total life cycle of assets. Individual Asset Management Plans are currently being reviewed and updated to assist Council in better predicting infrastructure consumption and asset renewal needs and identify at a more mature level the cost required to renew or preserve the asset (renewal gap). This renewal gap is being addressed in the LTFP and will be the focus of future annual budgets.



In consideration that the asset renewal data contained in the above graph is currently the subject of a profile needs review, applying the proposed rating model of between 2% and 3% increase per annum, the City is able to financially resource to an acceptable level in the short term the required asset renewal demand over the ten year life of the LTFP. As we move to the outer years of the LTFP, the gap between the level of funding, compared to the cost to renew, becomes a greater challenge.

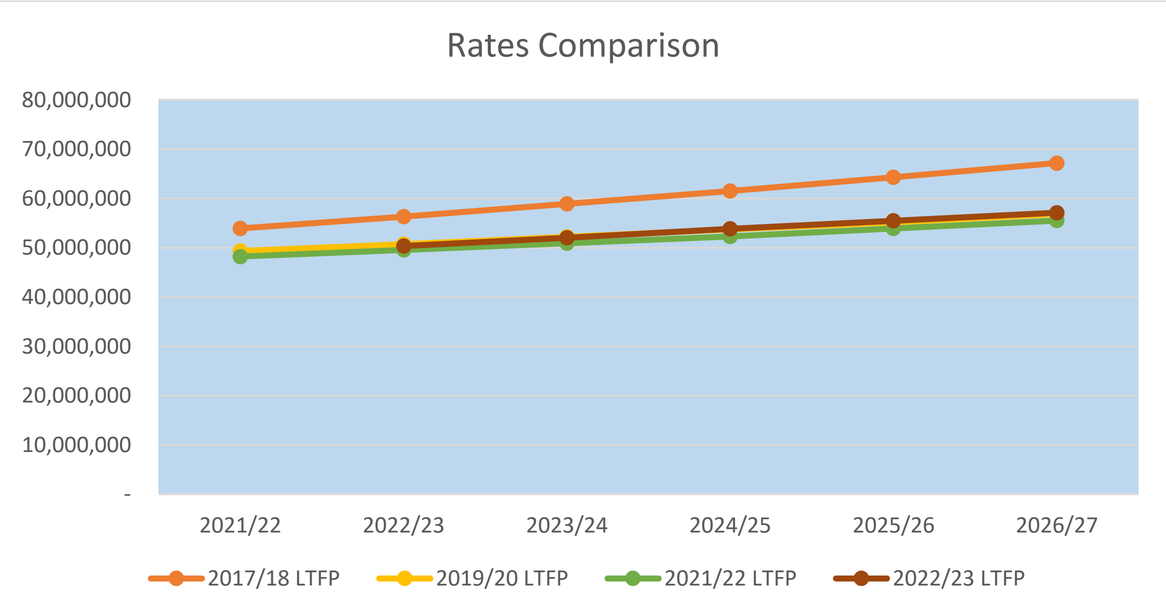
Funding for the renewal of assets is to be increased annually at a level that enables the City to fund its annual renewal expense between a range of 90% to 100% of the City's annual depreciation expense. The continued allocation of funding towards the renewal of assets and funding for maintenance and upgrades will result in a positive investment for the community into the future. Asset acquisitions and capital works projects are funded from general revenue, sales of existing land/property assets, government grants or external borrowings.

8. Financial Strategies and Principles

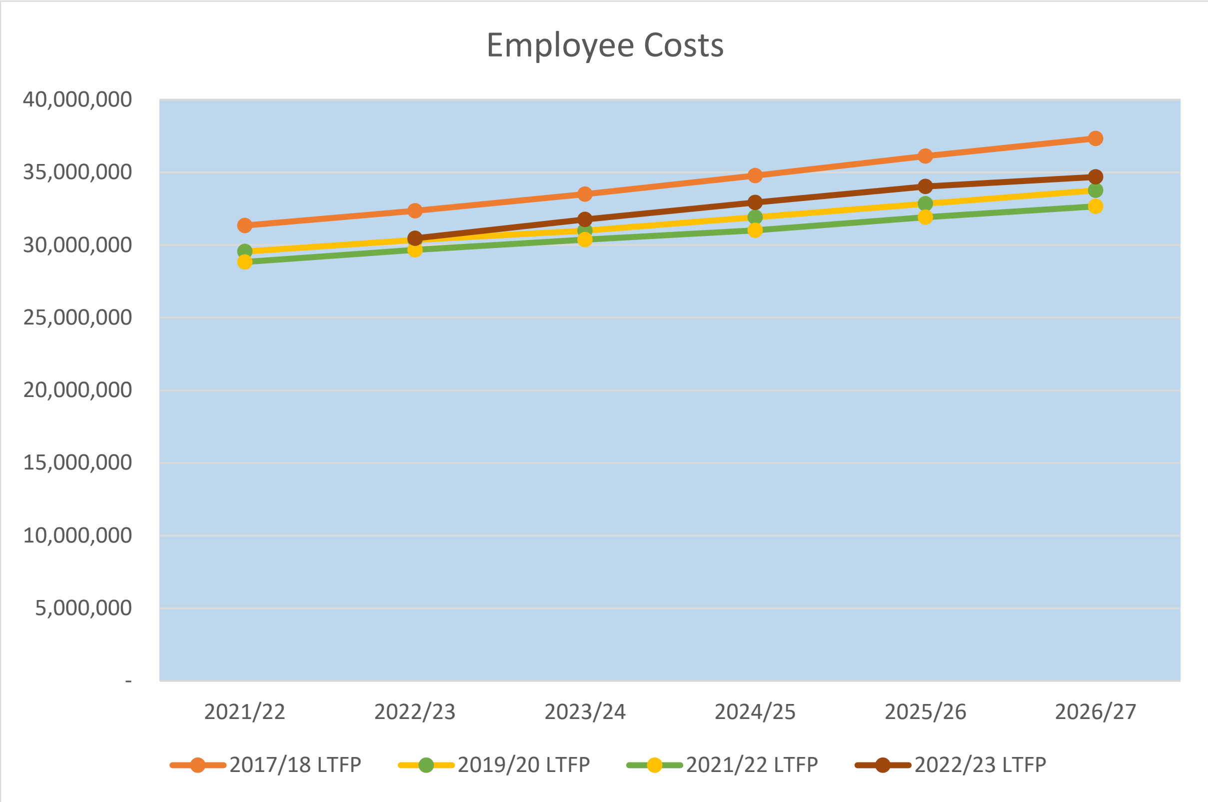
8.1 Rate increases

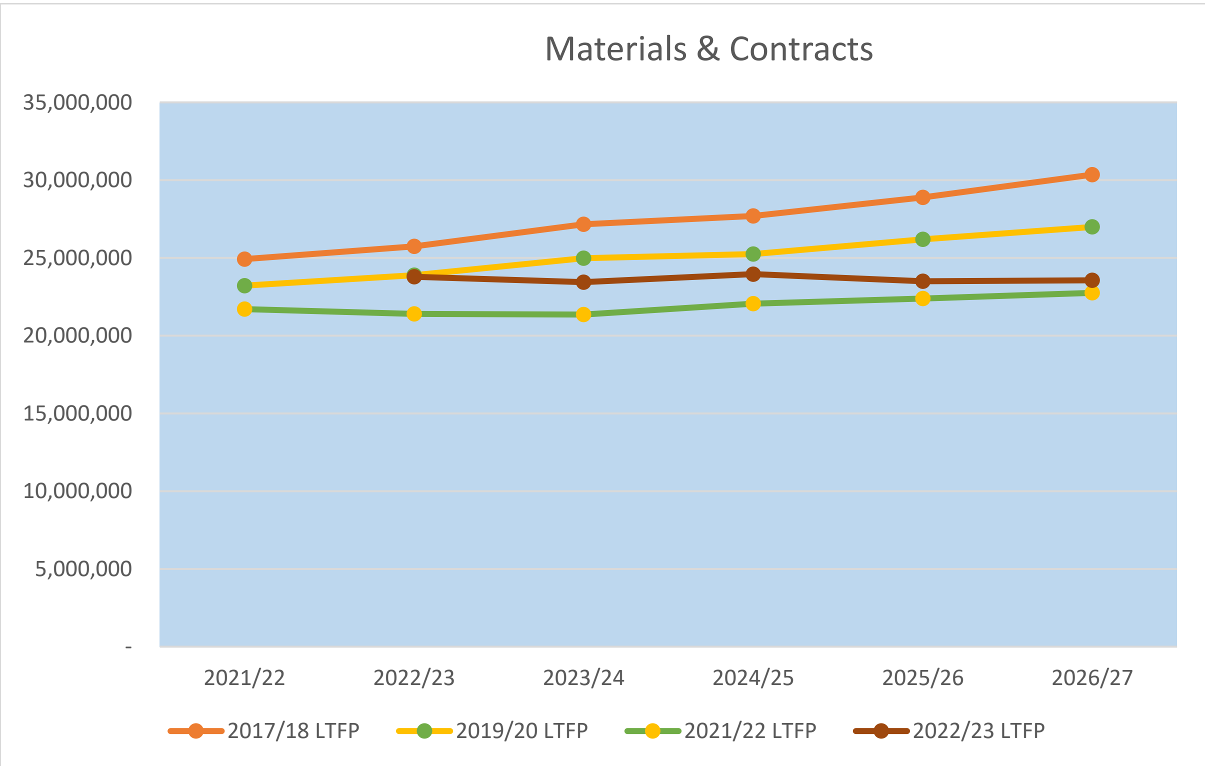
As a result of community needs and population growth, it is predicted that future budgets will be impacted by an increasing demand for services, increase expenditure to renew existing assets and new infrastructure. Council has given endorsement subject to the completion of the 2022-23 Budget process and endorsement of a new LTFP of an aggregate rates revenue increase of between 3.0% to 2.0% (plus growth) years 2 to 10. While over the last four years, annual rates revenue movements have been between 0% and 2.5%, the need to now adjust revenue movements is due to new and additional cost pressures due to inflationary rises and supply chain issues that have impacted the economy. The last 12 months has seen Perth CPI move by 7.6% and a greater percentage movement would be expected in the regions.

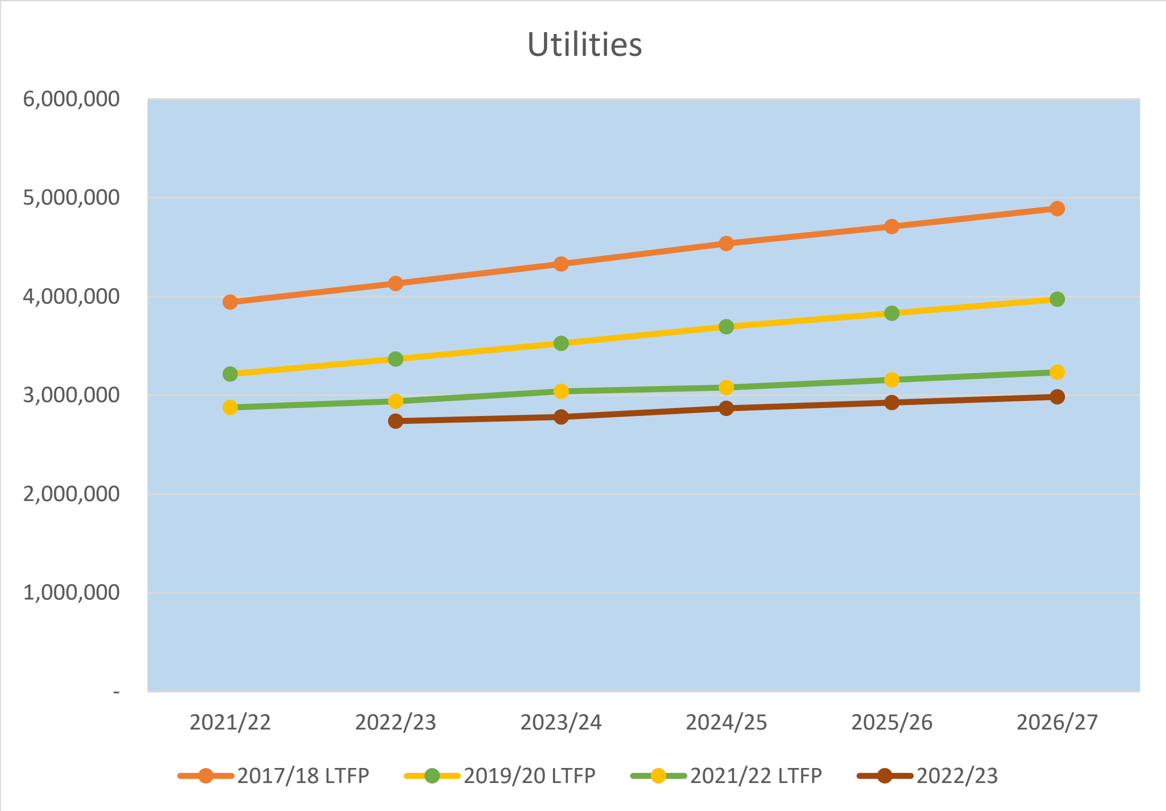
The City will also face future expenditure pressures stemming from demand for greater wage increases to combat rising costs of living and higher depreciation expense that is likely to result from an infrastructure revaluation due to increases in unit rates caused by inflationary factors and supply chain issues.



The following graphs provide useful representation of cost actuals and projection movements when comparing previous LTFP iterations:







Rates Modelling (2022-23):

The proposed rates model in 2022-23 forms part of a response and recovery strategy to bring the City's budget over an appropriate timeframe back from an operating deficit to surplus position. This model is based on the following:

- Merge existing Differential Rates CGG Residential & CGG Non-Residential, and have one general GRV rate in 2022-23.
- Reducing by 17% GRV Residential RID from 15.1128 to 12.927 cents in the dollar. Non-Residential under the proposed merge option will also have the same proposed RID as Residential.
- Reducing CGG UV RID from 0.7654 to 0.6770 cents in the dollar.
- 4.4% increase plus 0.6% growth to overall rates revenue which includes and accounts for both GRV & UV property revaluations that will take effect from 1 July 2022.
- Average rate increase of around 3.6% for residential properties.
- No proposed change to minimum payments.

The table below summarises the amount to be levied by rating categories in 2022-23.

Rating Category	Proposed Rates Billing to be levied 2022-23	Number of Rateable Properties
CGG GRV	$46,726,692	19,533
CGG UV	$ 3,390,130	1,099
Total	**$50,116,822**	**20,632**

The growth in the annual rate base has been downgraded from 1.0% in 2021-22 to 0.6% in 2022-23. This reflects activity in relation to new residential and commercial development which is expected to remain consistent in the short to medium term.

8.2 Budget surpluses

The previous LTFP's have been underpinned by a gradual movement out of a deficit position and achieving a positive surplus position within a fiscally responsible timeframe. The new LTFP underpins this strategy by planning to move out a deficit position (result of COVID-19) by year 5 and maintain a small and annual operating surplus from ordinary activities for the balance life of the plan.

8.3 Cost recovery of services

Discretionary Fees and Charges revenue is based upon a unit rate increase of 2% per every triennial period and 1% increase in-between. An activity growth factor of 0.5% is also applied per annum.

Where appropriate, changes will be made on a per annum basis due to the following:

- Service no longer provided so no fee or charge applicable;
- New service being provided;
- Cost of service has changed; and
- Change to service delivery requiring an alteration to the fee or charge structure.

City does not currently recover the full cost of providing all of its services as a number of these services are sub vented as they are community and socially based.

Within function areas relating to building licences, planning and development approvals and health approvals the City is limited by statutory regulations and capping on fees and/or charges applied, preventing full cost recovery of these services.

8.4 Prudent use of debt finance

The new LTFP proposes a continuation of no new borrowings in the short term. This proposed constraint will reduce debt financing costs which in turn reduces cost pressures on the Income Statement, especially in a scenario where the City is striving to move out of a significant operating deficit position and into small surpluses.

The purpose and timing associated with the use of loan finance is aligned to the following principles:

- To support major infrastructure projects which will have significant community based and economic benefits.
- Development of revenue producing infrastructure (Meru Landfill).

- Maintain or improve delivery service levels in consideration of growth and the requirements of being a Regional Centre.
- Intergenerational equity in relation to services and infrastructure provided by the City.

By Council continuing to not to borrow over the next three years the following will be achieved:

- Interest expense will be reduced from 2021-22 figure of $983,421 to 2024-25 of $548,969.
- Principal payments over the same period will reduce from $4.65m to $3.2m.
- Overall Debt Liability over the same three year period will reduce from $20.1m to $13.8m.

8.5 Cash reserves

With the steady improvement over the last few years of the City's financial health and liquidity position, the establishment of reserves, like other savings plans, are mechanisms for accumulating cash for future capital outlays, meeting liability provisions and other allowable purposes. Part of any overall savings achieved in any financial year are channelled into reserves for the above mentioned purposes. The 2022-32 LTFP strategy is to keep reserve levels above $28million for the duration of the plan to future proof for any unforeseen capital requirements or allow for any funding opportunities that may arise.

The practice of planning and systematically saving for capital acquisitions and other contingencies is considered prudent management. Saving for future capital needs can reduce or eliminate interest and other costs associated with debt issuances. Similarly, certain reserve funds can be utilized to help protect the budget against known or new emergent risks. An important concept to remember is that a reserve fund should be established with a clear intent or plan in mind regarding the future purpose, use and, when appropriate, replenishment of funds from the reserve. The establishment of these new reserves is not a "parking lot" for excess cash but established with a clear purpose and plan in respect to the application of unspent funds and/or unbudgeted revenue and are used within the new LTFP as a mechanism to regulate the cyclical nature of capital expenditure requirements.

8.6 Land Development

Currently, the City has a property disposal portfolio estimated to be around $13m. The new proposed LTFP will remain consistent with the approach adopted in the previous LTFP's and not set revenue estimates within the life of the plan for land and property sales. The rationale behind this approach is due to the high level of uncertainty and risk associated with not realising these sales against forecast revenue that would significantly affect achieving benchmark indicators.

This City will continue in its effort to realise sales from property disposal over the life of the plan with timing dependent on market conditions and any revenue generated will be applied to either increasing the level of capital renewal or replacement expenditure, fund new and high prioritised emergent capital projects and major initiatives. With the recent upturn in property market the City is currently releasing a portion of its portfolio to replenish its cash inflows impacted by COVID-19 and as a provision to deal with a notable price hike in construction contracting services.

Where opportunities arise for the City to acquire land parcels for strategic purposes and in future proofing services, this can be accommodated without raising new capital via funds appropriated from land sales and restricted for such purposes.

9. Workforce Planning Strategies

The City's current Workforce Plan 2019–2022 provides flexibility in dealing with changes to service levels and in resourcing new emerging priorities, and this is reflected in the life of the LTFP. Staff levels are reviewed on an annual basis, and assessed on a number of factors including the level of service required by the community, managing both new risks and statutory/legislative requirements.

The draft Workforce Plan 2022-2025 will propose a range of initiatives to attract, develop and retain employees. It will also propose building the City's leadership capability, focusing on succession planning and ensuring a commitment to workforce dynamics, including flexibility and diversity so that the City has the necessary skills to deliver the required level of service now and into the future.

Modelling and Sensitivity Analysis

All modelling and analysis undertaken was primarily concentrated around the following:

- High inflationary environment during the early years of the plan.
- Progressing towards an operating surplus from ordinary activities.
- Achievement of all financial and sustainability ratios. Continue to achieve a financial health indicator above benchmark score.
- Rates increases to be contained within a range of 3% to 2% per annum over the life of the plan.

The adopted model results in:

- Moving out of an operating deficit position by year 5 and then maintaining a small but positive accounting result from Ordinary Operating Activities (an effective operating surplus in accounting terms for the balance life of the plan.
- Maintaining a sustainable liquidity position within the life of the plan (measured by current ratio).
- Renewing assets when required to maintain capacity of performance and associated levels of services. The proposed new LTFP will see renewal expenditure set at levels that effectively manage asset renewal demand profiles, reached in year 3 (measured by Asset Renewal Funding Ratio).
- Contraction to debt service levels in the short to medium term delivering added capacity to borrow in the longer term when required.
- Limit spending on new capital to restrict and control escalation in depreciation expense and in turn to focus on the City's current infrastructure suite.

Key Assumptions Underpinning the Long Term Financial Plan

The following overarching assumptions and strategies will now underpin the development of a new LTFP:

- Years 1 to 10 the increase per annum in aggregate rate revenue would be between 3% and 2% (+ growth).
- The growth in the annual rate base has been downgraded from 1% to 0.5% per annum.
- Moving out of an operating deficit by year 5 of the plan to achieve and maintain a positive accounting result from Ordinary Operating Activities.
- Continually improving the City's liquidity position.
- Renewing assets when required to maintain capacity of performance and associated levels of services.
- Maintaining debt service levels within benchmark levels and having the capacity to borrow when required.
- Reserves to be either established or retained where there is a legal or statutory requirement to do so and are mechanisms for accumulating cash for future capital outlays, managing cyclical expenditure and meeting liability provisions.
- Interest rates for investment funds will be around 1.0% to 3% over the life of the plan with the dollar return adjusted according to the annual cash available for short-term investment.
- Interest rates for new borrowing will be between 2.5% and 5% over the life of the plan and within this range, consideration given to the loan term.

Income and Expenditure Assumptions

Income and expenditure scenarios are based on the following and per table below:

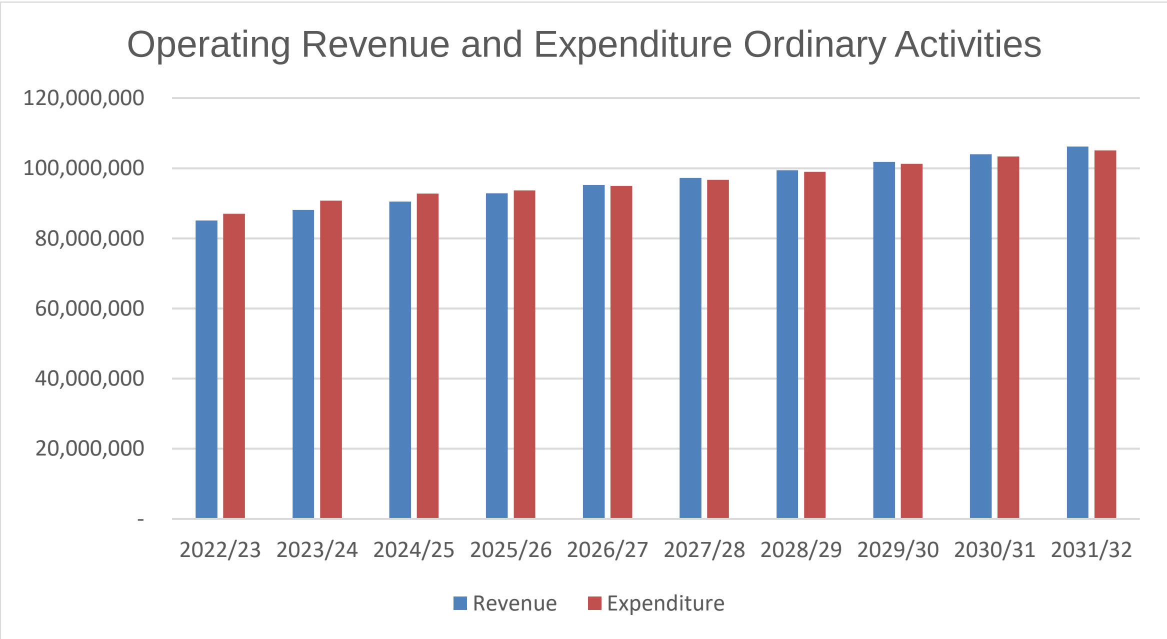
- Business as usual principle and impacts of higher inflationary environment.
- Gradual return of user pay revenue that was loss during COVID-19.
- Introduction of new services.
- Operating grants and contributions based on existing recurrent funding allowing for indexation movement of between 2% and 2.5% in years 2 to 10.
- Non-operating grants and contributions indexed to a level of known or likely capital contributions from other levels of government.
- Discretionary Fees and Charges revenue is based upon a unit rate increase of 2% per every triennial period and 1% annually in between. Revenue estimates include scenario adjustments for expected activity growth or decline.
- Interest Earnings are calculated upon the likely cash balances during each financial-year and allowing for marginal increases in the base cash rate between 1.0% and 3%.
- Employee costs indexed annually by potential Enterprise Agreement percentage increase of between 2.5% and 3.5% for the life of the plan. During the life of the plan, any movements outside the Enterprise Agreement range reflect changes to superannuation compulsory contribution rates, incremental pay level increases and changes to staff establishment.

- Materials and Contract costs to remain fixed in the short term and then increase by indexation for the remaining life of the plan.
- Interest Expenses reflect the expected borrowing rate and debt profile.

Global Scenarios

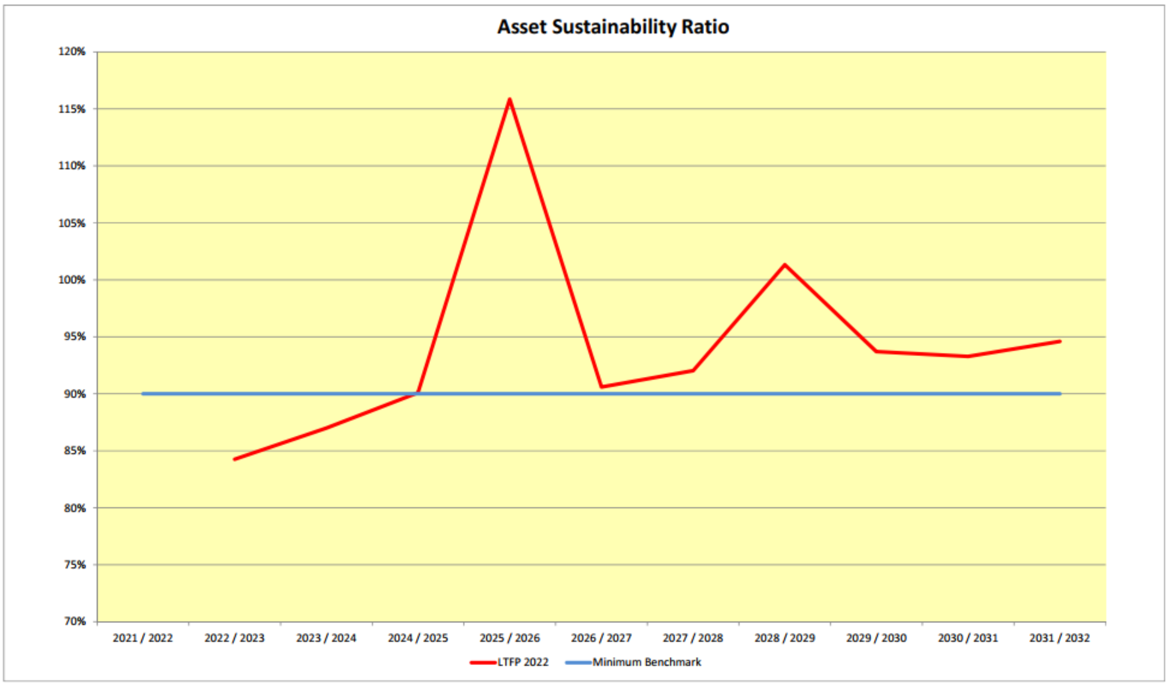
City of Greater Geraldton Long Term Financial Plan 2022-2032
Variable Assumptions Underpinning the Plan

	2023 / 2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
OPERATING REVENUES									
Rates	3.0%	3.0%	2.5%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
Fees & Charge	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%
Operating Grants	2.0%	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Interest Earnings (Investments) based on a cash rate between 1.0% and 3.0% during the life of the plan.									
Rates - Growth in Rate Base	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
OPERATING EXPENSES									
Employee Costs	3.5%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Materials and Contracts	0.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%
Insurance	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Utility Charges	0.0%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Interest Borrowing Costs (Loans) based on assumed interest rate of 2.5% and 5% according to the term and year loan is taken.									



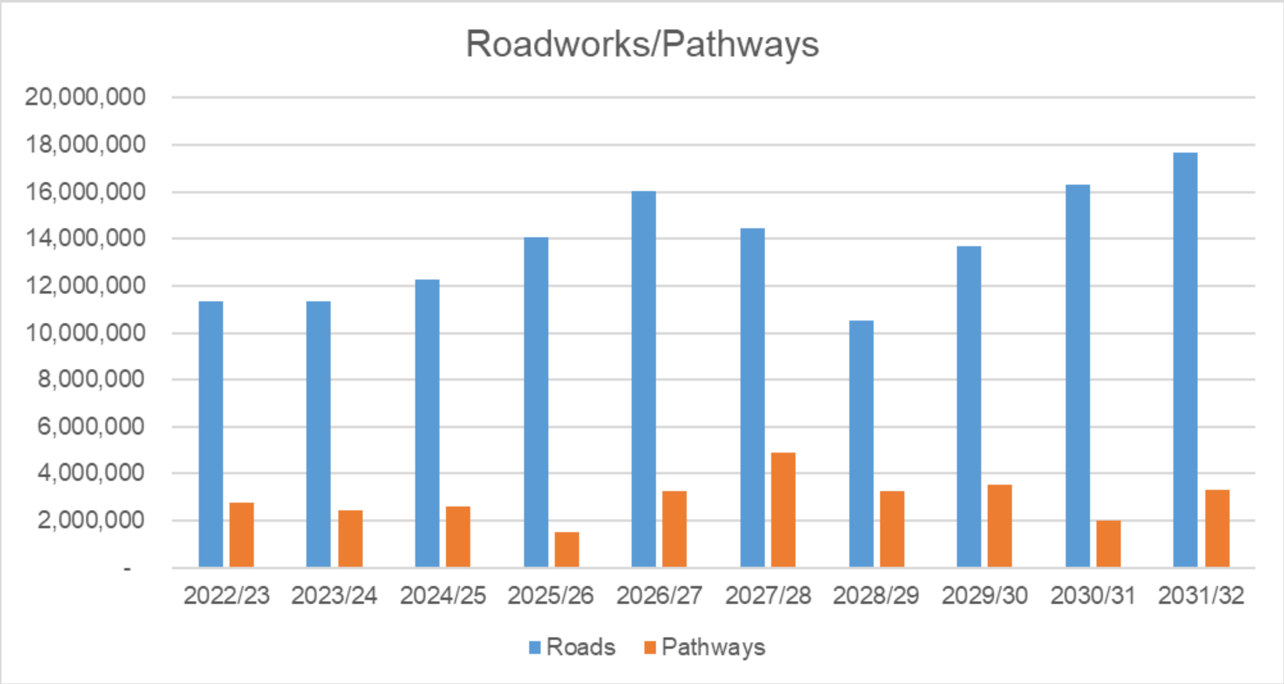
10 YR Capital Plan

- From year 3 of the Plan funding annually the renewal of assets will be maintained within the LTFP at the target range of between 90% and 100% of the City's annual depreciation expense. The continued allocation of this level of funding contributes to the timely renewal of infrastructure assets supports safe, reliable and maximum utilisation of infrastructure and enables business and community to grow and prosper. This level of investment into renewals also has the effect of reducing maintenance costs. Asset acquisitions and capital works projects are funded from general revenue, sales of existing land assets, government grants or external borrowings.



- Incorporates the City's Project Management Framework delivery strategy in relation to initiation, planning and procurement phases. This enables the City to establish a bank of projects that have progressed to the detailed design phase and are "shelf ready" to go when opportunity presents in relation to available funding both internally and externally.
- In years 2 to 10, the nature and type of capital expenditure are only indicative figures; however, the Capital Plan underpins the level of expenditure in relation to both resource capabilities and asset renewal demand profiles per asset category.
- In years 2 to 10, the amount of funding sourced from Non-Operating (Capital) grants and contributions are in the main based on confirmed funding agreements and/or known sources of recurrent funding. There are capital projects that have been included and are represented by unsecured funding. The actual delivery of such projects will be dependent on such funding being secured. The LTFP assumes that the current level of funding will continue to be available for the life of the plan in relation to road related grants such as Roads to Recovery and Main Roads.
- During the life of the LTFP, the City's debt level is such that it provides the ability and capacity to manage unexpected peaks in capital expenditure that may result from emergent works or other capital funding opportunities.

The following table profiles planned capital infrastructure expenditure on roads ($138million) and pathways ($29million) over the next ten years:



Measuring Sustainability

Several statutory key performance indicators (KPIs) are prescribed in the *Local Government (Financial Management) Regulations 1995* to measure the financial sustainability of local governments. The LTFP is assessed against these KPIs and will be compared with KPIs measured from the Annual Budgets and Annual Financial Statements to provide clear targets for the City to report its progress to the community each year.

The KPIs, target rates and results measured from the LTFP are tabled below:

Current Ratio

This is a measure of a local government's liquidity and its ability to meet its short-term financial obligation out of unrestricted current assets. It is measured as:

$$\frac{\text{Current Assets less Restricted Assets}}{\text{Current Liabilities less Current Liabilities associated with Restricted Assets}}$$

Target – greater than or equal to 1 : 1

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	1.10	1.10	1.12	1.09	1.15	1.12	1.18	1.20	1.21	1.28

The target of greater than or equal to 1:1. Improving the City's liquidity position has been a keen focus of Council over a number of years.

Operating Surplus Ratio

This is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes. This is measured as:

$$\frac{\text{Net Operating Surplus/Deficit}}{\text{Own Source Revenue}}$$

Target – between 0% and 15%

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	-2.24%	-3.34%	-2.73%	-0.94%	0.29%	0.62%	0.48%	0.61%	0.69%	1.20%

As per the base principles and assumptions adopted in previous and now in the proposed LTFP, the City has undertaken a fiscally responsible approach to return to surplus position within a manageable timeframe.

Rates Coverage Ratio

This is an indicator of a local government's ability to cover its costs through its own tax revenue efforts. This is measured as: <u>Total Rates Revenue</u> Total Expenses										
Target – greater than or equal to 40%										
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	57.84%	57.34%	58.07%	59.21%	60.13%	60.53%	60.61%	60.73%	60.99%	61.48%

The LTFP trend is for this ratio to remain fairly constant throughout the life of the plan. This indicates that the City's rating strategy as outlined, allows the City to raise an acceptable level of funds through its rating efforts (no rate shocks) to financially sustain annual operational costs.

Debt Service Cover Ratio

This is an indicator of a local government's ability to produce enough cash to cover its debt payments. This is measured as: <u>Operating Revenue less Operating Expenses except Interest Expense and Depreciation</u> Principal and Interest Expense										
Target – greater than or equal to 2 (advance standard greater than 5)										
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	4.78	5.91	7.13	8.76	9.48	10.93	8.94	12.82	13.00	15.73

This ratio currently indicates that during the life of the LTFP the City's debt level is such that it provides the ability and capacity to manage unexpected peaks in capital expenditure that may result from emergent works or react to capital funding opportunities.

Asset Sustainability Ratio

This is an indicator of the extent to which assets managed by a local government are being replaced as they reach the end of their useful lives. This is measured as: Capital Renewal Expenditure Depreciation Expense										
Target – between 90% to 110%										
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	84.26%	86.98%	90.10%	115.85%	90.60%	92.03%	101.32%	93.70%	93.27%	94.60%

Consistent with the City's fiscal approach to move from a deficit to surplus position by year 3, proposed funding levels for renewal works sustains a ratio position above the target benchmark. This ratio may be impacted annual fair value adjustments.

Asset Consumption Ratio

This ratio highlights the aged condition of a local government's physical assets. This is measured by: Depreciated Replacement Cost of Assets (Written-Down Value) Current Replacement Cost										
Target – 60% or greater										
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	68.65%	67.89%	67.19%	67.42%	66.98%	68.56%	68.39%	67.99%	67.55%	68.87%

This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost. While this target measure meets the advance standard, there is still work to be completed at a componentised level re aged condition and useful life on some asset categories that would completely validate these percentages.

Asset Renewal Funding Ratio

This ratio indicates whether the local government has the financial capacity to fund asset renewal at continued existing service levels. This is measured as: Net present Value of Planned Renewal Expenditure Over 10yrs Net Present Value of Asset Management Plan Projections Over 10yrs										
Standard Target – between 75% and 95%										
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	84.69%									

The City's ratio is above the target range over the current ten-year period per a strategy that underpins the LTFP to increase renewal expenditure each year to levels commensurate to asset demand profile requirements.

Own Source Revenue Coverage Ratio

This is an indicator of a local government's ability to cover its costs through its own taxing and revenue efforts. Own Source Operating Revenue Operating Expense										
Intermediate Target – between 60% and 90%										
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Forecast	87.55%	86.94%	87.57%	88.97%	89.95%	90.21%	90.06%	90.13%	90.18%	90.56%

The City achieves the intermediate target for the first five years of the LTFP and at year six achieves the advanced target of greater than 90%. This indicates the City is not overly dependent on external recurrent funding for operational activities. However, any significant reduction to external funding would still require a review of existing range and level of services.

Risk Assessment

Due to unprecedented economic impacts caused by the Coronavirus (COVID-19) crisis the financial principles that underpin the City's budgetary outlook initially required revision to adapt to these impacts. In these unprecedented times, community leaders at all levels were initially required to provide financial relief to those impacted within their communities by the associated economic downturn from the COVID-19 pandemic.

As the City begins recovering from the financial impacts (short and longer term) incurred due to the pandemic crisis this represents new challenges especially around revenue forecasts that Council needed to consider as both part of their 2022-23 budget deliberations and in preparation of its new Long Term Financial Plan (2022-32). The new and proposed LTFP was also formed on the basis that during the life of the plan, it is realised that economic conditions have changed and will be impacted by inflationary movements.

Achieving annual operating surpluses are now subject to new risks around future expenditure pressures stemming from demand for greater wage increases to combat rising costs of living and higher depreciation expense that is likely to result from an infrastructure revaluation due to increases in unit rates caused by inflationary factors and supply chain issues.

The growth in the annual rate base has been downgraded from 1% in 2021-22 to 0.5% for the life of the LTFP. This is reflective of a stabilisation in activity in relation to new residential or commercial development which is expected to continue in the short to medium term.

Current challenges relate to managing the financial risk associated with the delivery of large projects due to current market conditions which has resulted in non-residential construction prices rising significantly due to COVID-19 government construction and building stimulus packages, increases in trade and head contractor margins and significant increases to materials costs as a result of supply chain issues. Increased demand for skilled trades, pushed up prices for securing labourers, and increased availability of jobs for tender allowed contractors to pass on the increases in material and labour cost previously absorbed by a reduction in margins. This has resulted in recent and actual tender prices being around 50% higher than detailed cost estimates.

The City has an extensive road renewal program, which to a significant extent is externally funded on a recurrent basis from Road to Recovery and Main Roads funding. If that funding reduces or is not available to the City, then the timing and scope of the associated works will require reassessment. The new LTFP assumes that external road funding levels will remain consistent throughout the life of the plan.

Financial Projections

The financial projections in this LTFP developed in a format that conforms to the Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards. This format has been chosen as it allows projections to feed into the statutory format of the Annual Budget and key performance measures in the LTFP to be compared with Annual Budgets and Annual Financial Reports. The Statutory schedules include:

- Statement of Financial Position (Balance Sheet) and Equity Statement
- Statement of Comprehensive Income
- Statement of Cash Flows
- Rate Setting Statement

The Statement of Comprehensive Income shows what is expected to happen during the year in terms of revenue, expenses and other adjustments from all activities. The LTFP continues the cycle of budgeting for an annual surplus position that will improve financial sustainability.

The Statement of Financial Position is a snapshot of the expected financial position of the City at the end of the financial year. It reports what is expected to be owned (assets) and what is expected to be owed (liabilities). The bottom line “Net Assets” represents the net worth of the Council. The assets and liabilities are separated into current and non-current. Current means those assets or liabilities, which will fall due in the next 12 months. Non-current refers to assets and liabilities that are either recoverable or which fall due over a longer period than 12 months.

The Statement of Cash Flows shows what is expected to happen during the year in terms of cash. The net cash provided by operating activities shows how much cash is expected to remain after paying for the services provided to the community. This can be used to fund other activities such as capital works and infrastructure. The information in this statement assists in the assessment of the ability to generate cash flows and meet financial commitments as they fall due, including debt repayments. Reflective of the current ratio, the City maintains the ability to meet all operating and capital commitments during the term of the LTFP.

In the LTFP, rates assessed and determined are within the accepted range of 90 to 110% and reflect cyclical movements in cash flow from year to year.

The statements supported by schedules of:

- loan borrowings and repayments
- capital works
- cash reserves
- depreciation calculations
- assumptions used in the LTFP
- schedule of KPIs

Conclusion - Implementation and Review of the LTFP

Council will consider the content of the LTFP when preparing the Annual Budget for 2022-23 and subsequent years with the expectation that adopted budgets will closely align with the proposals, underlying principles and assumptions of the LTFP.

Review of the LTFP will occur each year as budgets are prepared to account for performance information and changing circumstances.

The City is confident that the LTFP will allow the City to set priorities within its resourcing capabilities to recover from the financial impacts of COVID-19 and to sustainably deliver the assets and services required by the community in a fiscally responsible manner.