Latrobe Council

Financial Management Strategy

Incorporating the

Long Term Financial Plan

Adopted on 12 October 2020

Contents

Latrobe Council

1. Executive Summary

The Latrobe Council's Financial Management Strategy (FMS) is an important component of the Council's financial planning process as it underpins financial sustainability whilst meeting the needs and expectations of the community in delivering on Council's Strategic Plan. The FMS is a requirement under s70A of the *Local Government Act 1993.*

An integral part of this FMS is the inclusion of the Long Term Financial Plan (LTFP). A LTFP is a requirement under s70 of the *Local Government Act 1993*.

The development of the FMS is integral to Council in setting the high level financial parameters which will guide the development and refinement of Council's annual budget, strategies, and actions. Council aims to achieve the following outcomes for the forward 10-year period:

- a financially sustainable operating position,
- maintaining a cash balance of approximately 3 months of annual operating cash payment expenses,
- comfortably meeting financial obligations as and when they fall due,
- being able to respond to unexpected events (ie floods, fires, etc), and
- balanced and responsible rating decisions.

In determining the minimum cash balance Council has relied on information provided by the Tasmanian Audit Office (TAO). The TAO in 2019 determined the following benchmarks to assess the adequacy of cash balances held by a council:

- less than 3 months expense coverage – level of cash considered low
- 3 to 6 months – level of cash considered adequate
- 6 to 12 months – level of cash considered high
- greater than 12 months – level of cash considered excessive

Note: TAO benchmark does not take into consideration capital expenditure requirements.

Based on operating cash payments the range identified during the life of the Plan is for a cash balance between $2.2m and $3.2m at the end of each financial year. This level of cash on hand will likely allow Council to have sufficient financial capacity to deal with any unforeseen impacts (i.e. floods, pandemic, etc).

Council has determined to incorporate both the FMS and LTFP into a single document to ensure it meets its statutory obligations, but more importantly it allows a single point of reference when it comes to future financial planning.

The LTFP generates information that will assist Council decision making relating to the mix, timing, and affordability of future outlays on normal operating activities, renewal and replacement of existing assets and the creation and funding of new assets. The LTFP is instrumental in ensuring Council delivers enhanced services now and into the future by providing optimal value in the delivery of community outcomes.

The Latrobe and Kentish Councils have developed a shared workforce with common management and common systems. This allows the two Councils' to share resources, knowledge, and skills to optimise the efficiency and effectiveness of service delivery to their separate communities. Significant efficiencies have been achieved (with more to come) through this arrangement which places both Councils' on a more sustainable trajectory moving forward.

In developing the LTFP, several key assumptions have been applied. The 2020/21 'Budgeted Statement of Comprehensive Income' forms the base data for Year 1 of the Plan. The LTFP presents ten inclusive years of financial projections underpinned and influenced by this base data.

The community has been materially impacted by the COVID-19 pandemic. As a result, it was necessary for the Council to be cognizant of the impact COVID-19 had had when setting its 2020/21 rates and charges. Council's LTFP has by necessity been adjusted to allow for the future financial impacts of Council's COVID-19 response in its forward projections. Due to past prudent financial management Council has been able to respond to COVID-19 in a positive manner.

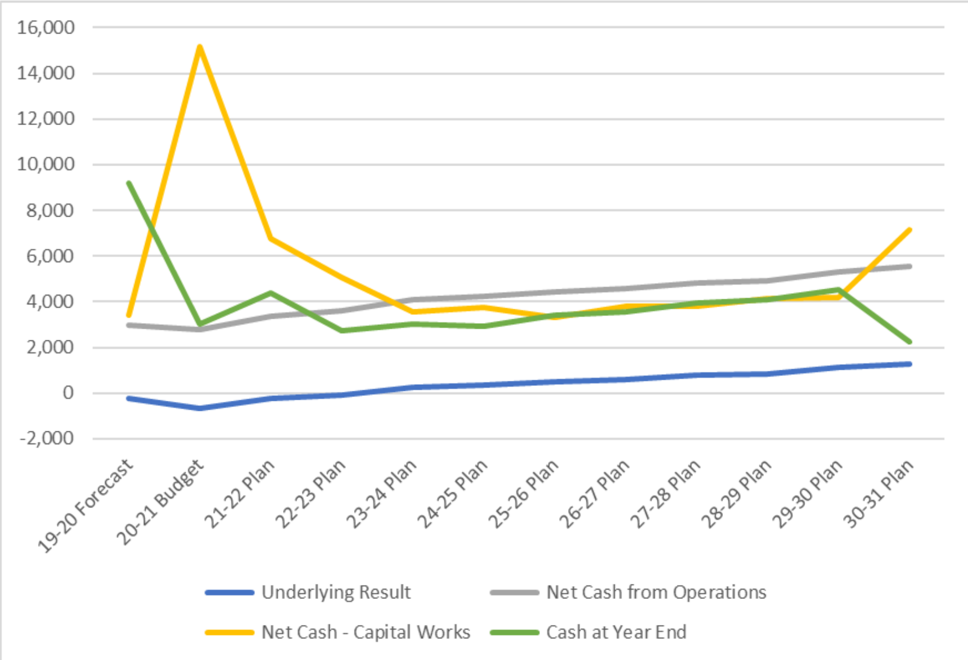
Generally, Council assumes overall service levels will remain largely unchanged throughout the 10-year forward projection period. The principles which will guide the Council in determining its financial management strategies are as follows:

- finances will be managed responsibly,
- maintain principles of equity across generations,
- a sustainable financial position will be maintained,
- community benefit will underpin decision-making, and
- a balanced operating result.

Other influences which the Council may consider in making financial decisions includes:

- impact of new/increased/additional services,
- provisions for future works,
- grant funding opportunities which may arise,
- awareness of impacts of events such as COVID-19, floods, etc; and
- improved revenue raising options.

With these principles in mind, this Plan is based on, and achieves, the following outcomes:



- Underlying Result deficits of $690k in 2020/21, $365k in 2021/22 returning to surplus in 2022/23 and remaining there for the balance of the Plan.
- New borrowings of $6.25m in 2020/21 and a further $5.0m in 2021/22 to assist with funding major infrastructure projects. No further borrowings are projected as being required for the life of the Plan. By 2030/31 the Council's loan debt will reduce to $6.4m.
- Renewal and replacement of existing assets equalling $3.0m in 2020/21 and totalling $27.8m during the life of the Plan.
- New and upgraded assets equalling $14.6m in 2020/21 and totalling $44.5m across the life of the Plan.
- Capital grants of $11.6m during the life of the Plan. The major components of grants funding relate to contributions for the Camp Banksia Project of $4.0m and the Latrobe Flood Mitigation Project of $3.4m. It is noted that the State Government $1.0m grant funding has already been received for this project.

Based on the assumptions outlined in this Plan it can be demonstrated that the Latrobe Council is financially sustainable into the future.

2. Strategic Context

The statutory requirements Council is to follow in relation to the preparation of the FMS is provided at s70A of the *Local Government Act 1993*.

70A. Financial management strategies

(1) A council is to prepare a financial management strategy for the municipal area.

(2) A financial management strategy for a municipal area is to –

(a) be consistent with the strategic plan for the municipal area; and

(b) contain at least the matters that are specified in an order made under section 70F as required to be included in a financial management strategy.

An integral part of this FMS is the inclusion of the Long Term Financial Plan (LTFP). The *Local Government Act 1993* at s70 outlines what is to be included in the LTFP.

70. Long-term financial management plans

(1) A council is to prepare a long-term financial management plan for the municipal area.

(2) A long-term financial management plan is to be in respect of at least a 10 year period.

(3) A long-term financial management plan for a municipal area is to –

(a) be consistent with the strategic plan for the municipal area; and

(b) refer to the long-term strategic asset management plan for the municipal area; and

(c) contain at least the matters that are specified in an order made under section 70F as required to be included in a long-term financial management plan.

The *Local Government (Content of Plans and Strategies) Order 2014* further outlines the disclosure expectations as to what is to be included in the FMS and the LTFP. This FMS complies with the disclosure requirements of the Order.

The FMS is an integral component of the Council's overall strategic planning framework:

The FMS and LTFP translates the objectives and strategies outlined in the Strategic Plan into projected financial outcomes predicted over a 10-year period.

Optimising the integration between Council's Strategic Plan intentions, ensures the development and implementation of a robust and transparent system of financial management which is aimed at upholding and maintaining Council's long-term financial sustainability.

Financial Sustainability *- A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disrupting impacts on the delivery of services.*

3. Financial Principles

The following principles serve to guide Council in setting its financial goals and strategies:

1. Finances will be managed responsibly

Council will only raise the revenue it requires to meet its needs to provide services and the management of the community assets. Council will responsibly manage all funds under its control in line with acceptable community standards and expectations.

2. Maintain principles of equity across generations

Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to recurrent expenses being met by revenue streams. When considering the creation of new assets, the Council will equally consider issues relating to inter-generational equity principles.

3. A sustainable financial position will be maintained

Council will accumulate enough financial resources and maintain the borrowing capacity to address unexpected events and volatility. Council's budget will allow enough flexibility to ensure volatility in revenues and expenses, resulting from a changing economic environment, can be appropriately managed.

4. Community benefit will underpin decision-making

Council will place a high emphasis on ensuring the appropriate allocation of resources through its budgeting processes. Council will regularly report to the community on its management of the financial resources which have been entrusted to it by its ratepayers.

5. A balanced operating result

Council is committed to the equitable and consistent generation of revenue and the effective delivery of services that are appropriate for the community. The Council will always aim for a balanced budget, but preferably the generation of a small adjusted underlying surplus. The generation of an underlying surplus indicates Council can continue to adequately fund existing services into the future. Achieving an underlying surplus assists Council in meeting its future debt repayments and the funding of infrastructure renewal projects and allows Council to deal with unforeseen events which may occur from time to time (i.e. COVID-19, floods, fires, etc).

The Council, providing it follows the principles contained within this Plan, when determining its Annual Plan and Budget Estimates, can demonstrate financial sustainability into the future.

4. Key Influences and Risks

The FMS generates information which is used to guide decisions about Council operations into the future. As with any forward looking plan, the outcomes achieved are subject to many inherent influences:

External Influences
items outside of Council's control

Internal Influences
items that Council can control

Community Influences / Drivers

4.1 External Influences

- Unforeseen economic changes or circumstances such as:
  - interest rates fluctuations,
  - localised economic growth including residential development and new business,
  - changes to specific programs such as Financial Assistance Grants, and
  - impacts from events such as floods, fire, and other emergencies (ie COVID-19)
  - changes in prices as influenced by:
    - Consumer Price Index (CPI)
    - Local Government Association of Tasmania (LGAT) Price Index

- Unforeseen political changes or circumstances such as:
  - changes to levies and their conditions (e.g. Environment Protection Authority, Waste Levy, Fire Levy),
  - cost of resources (e.g. fuel and water),
  - cost shifting from other levels of Government,
  - a change in the level of legislative compliance, and
  - increased environmental standards.

- Variable climatic conditions such as:
  - storm events,
  - climate change, and
  - sea level rise.

4.2 Internal Influences

- agreed service level review outcomes,
- asset management,
- depreciation estimate,
- risk of unforeseen cost increases on major capital projects,
- rate increases and other financial impacts,
- performance management,
- efficiencies in service delivery and administrative support, and
- salaries and wages.

4.3 Community Drivers

- community needs and expectations,
- Strategic Plan, and
- other key strategies.

To minimise the inherent risks of long term financial planning, Council will annually review and update the FMS to ensure the most recent economic data and forecasts are being used as the basis for informing future projections. Any material changes to the way in which the Council operates or which may be imposed on local government will also be updated through this annual review process.

5. Long Term Financial Plan - Basis of Preparation

The LTFP is key to establishing funding requirements of Council's Asset Management Plans and other strategic priorities, ensuring the Council continues to operate sustainably into the future. It enables the Council to effectively manage service levels, asset funding and revenue raising decisions, balanced with achieving the desired financial outcomes and identified key performance indicators.

In developing the LTFP, key financial principles are established that underpin Council's projected financial performance and position over the forward 10-year period. Due to the variable nature of the assumptions, Council will undertake an annual review of the LTFP. This will provide the Council with the opportunity to review its financial principles and assumptions allowing it to adapt to any internal or external influences, changes in proposed service levels or identified new/additional projects.

The financial projections contained within this Plan, provide an indication of Council's direction and financial capacity in the future, and are intended to be viewed as a guide. Council will ensure it only raises the revenue it needs and will do so in the most efficient and equitable manner possible.

The financial statements included in the Plan outline the projected long term financial position and performance of the Council over the next 10 years through the following statements:

Estimated Statement of Comprehensive Income - shows the expected operating result over the next 10-year period and is reflective of the Council's known recurrent income and expenditures.

Estimated Cashflow Statement - shows the projected net cash inflows and outflows over the same period.

Statement of Financial Position – shows the expected Balance Sheet outcome including assets, liabilities, and accumulated surpluses.

5.1 Finance Strategies

Council has adopted a strategic approach to its financial planning which is influenced by current and predicted economic environments, its financial position, and the impacts of both internal and external influences. Employing a strategic approach to its long-term planning is designed to ensure:

- the Strategic Plan is supported,
- long term financial sustainability,
- intergenerational equity,
- the needs and expectations of the community are catered for,
- delivery of appropriate, targeted, efficient and effective services, and
- responsible revenue raising and rating decisions.

This will lead Council to achieving:

- continued funding to ensure infrastructure is replaced and maintained when required,
- commitment to major projects which span more than one year,
- full life-cycle costing of any new or enhanced services or construction of new assets through savings, rate increases or grant funding, and
- maintaining services at appropriate levels.

5.1.1 Cost Index

For the purposes of developing the LTFP no adjustments have been included for normal cost of living increases. The only increases applied to revenue and expenditure are those which are likely to be outside of the normal cost of living influences (e.g. rates revenue greater than CPI and natural growth, additional employees or materials costs as a result of new assets or increased service delivery).

The LTFP shows an Underlying Operating deficit in 2020/21 and 2021/22 with Council returning to surplus in 2022/23 and remaining there for the balance of the Plan. This strategy is both prudent and essential to produce a balanced and financially sustainable LTFP. The latter years of the Plan show larger surpluses; however, these projections will be influenced by decisions made by future Council's with respect to projects and services which are to be delivered over the medium to longer term.

5.1.2 Revenue Strategies

5.1.2.1 Rating Strategy

Rates represents the largest share of Council's income each year and therefore is an important component of the financial planning process. Council aims to balance its service levels by considering the needs and expectations of the community and setting appropriate levels of rates to adequately meet its requirements. Each year in determining the rating levels to be applied Council will consider the following factors:

- level of State and Commonwealth Government funding,
- current economic climate,
- level of services to be delivered,
- impact of CPI increases and the Local Government Cost Index, and
- the capacity of the community to pay.

Council aims to spread the rate burden across the community with those having the greatest capacity to pay, paying more than those with lesser capacity. Council must balance this principle with the benefit principle acknowledging that some groups of the community have a greater impact on services and derive a greater benefit from some services provided. Council acknowledges that service levels provided will vary between localities, but equally valuation levels which influence the rates charged, will be reflective of this.

Council has a Rates and Charges Policy which sets out the property valuation basis used by Council in setting rates.

5.1.2.2 Fees and Charges Strategy

Council will review fees and charges each year with a view to balancing the community's need for the services provided and the capacity of the ratepayers to pay for those services. Council adopts the general philosophy that users should pay for the service provided but recognises that full cost recovery may not be possible in all situations.

5.1.2.3 Other Revenue Strategy

Other revenue streams include investment income from dividends and grant income. Council holds a 1.9% equity investment in the Tasmanian Water Corporation (TasWater) and an 11.25% share in the Dulverton Regional Waste Management Authority. As part owners of these entities Council receives dividends and tax equivalents. Due to the impact of COVID-19 TasWater temporarily suspended dividends payments which has been factored in the LTFP.

While allowance has been provided for TasWater Dividends to be paid in the future, Council accept that the payment of dividends is not necessarily guaranteed. If at some point in the future, there is further change to TasWater's dividend policy this Plan will need to be updated to reflect the impact.

The main source of grant income is the Financial Assistance Grant (FAG), administered by the State Grants Commission on behalf of the Federal Government. Council will continue to participate in the review of this grant and provide information to the State Grants Commission to assist it in determining the most equitable distribution of the funds.

Council will identify and apply for operational and capital grant funding as and when opportunities arise.

5.1.3 Expenditure and Service Delivery Strategies

5.1.3.1 Service Delivery and Cost Management Strategy

Council will regularly review its service levels and delivery arrangements to ensure they are provided as efficiently as possible and continue to meet community needs. Council has a focus of developing a cost management culture, encouraging all managers to be involved in maximising value through accountability in the annual budget process, involvement with ongoing monitoring, reporting, and forecasting.

Any additional expenditure highlighted in new strategies developed through the year will be considered through the annual budgeting process.

5.1.3.2 Procurement Strategy

Council will comply with its Purchasing Policy and Code for Tenders and Contracts to ensure that all expenditure is subjected to the appropriate controls and represents best value.

5.1.3.3 Prudent management of assets and liabilities, including debt and cash reserves

Council aims to ensure its assets and liabilities are managed in a manner which will provide sustainable service delivery.

5.1.3.4 Asset Management Strategy

The key objective of Council's asset management process is to maintain existing assets at desired condition levels. The appropriate management of assets should ensure that they continue to deliver services into the future. Council will aim to meet the asset renewal requirements as outlined in its Long Term Asset Management Plans (LTAMP).

Council has an Asset Management Policy which influences the Asset Management Strategy and individual Asset Management Plans. Together these documents form the framework for how Council plans to manages its assets. The documents will be reviewed regularly to ensure compliance with relevant legislative requirements and contemporary asset management practices.

5.1.3.5 Investment Strategy

Council's cash balances will be managed to achieve the best available investment returns while at the same time ensuring cash is available when needed for the payment of planned expenditures. Any investment of Council funds will be cognizant of the need to manage any associated risks and be in accordance with the Council's Investment Policy.

Council will utilise the Cash Flow Projections contained in the LTFP to assist in the management of cash and investments and to maintain an acceptable cash balance within the target range.

5.1.3.6 Debt Strategy

Council will consider the use of debt to fund major new capital expenditure which provide benefits to ratepayers into the future. Where appropriate, Council will assess the term of the debt in relation to the life of the asset. The use of debt in this manner attempts to address the issue of inter-generational equity.

When considering new debt, Council will evaluate the impact of borrowing costs on current and future budgets and capacity to repay the debt.

Council will utilise the Cash Flow Projections contained in the LTFP to assist in the management of debt and cash reserves.

When borrowing, Council will raise all external debt at the most competitive rates and from sources available as defined by legislation.

5.1.3.7 Timely and accurate disclosure of financial information

Council will prepare regular financial reports which will contain summaries of the information contained in the Statement of Comprehensive Income, Statement of Financial Position, Capital Expenditure Report and other relevant financial data and commentary. Council will also prepare an Annual Plan and Budget Estimates which will set out the information for the next financial year and the goals and actions for the period.

Council will comply with all statutory requirements in relation to the preparation of its Annual Financial Statement and external audit and will maintain an Audit Panel to provide oversight of risk management and financial performance.

5.2 Key Economic Assumptions

It is important the LTFP reflects the most recent economic data and forecasts which are available to the Council at a point in time. A review will be conducted each year to ensure that the underlying parameters and key assumptions remain reasonable given the current economic conditions and known influences.

5.2.2 Salaries and Wages

The 2020/21 budget for salaries and wages has been undertaken following a bottom up approach and includes 77.6 Full Time Equivalents (FTE) spread across both the Latrobe and Kentish Councils as part of its Shared Services arrangements. Approximately 61 per cent of the FTE are allocated to Latrobe. There will be an additional approximate 4 FTE during the final stages of implementation of the new TechOne Information Technology system, with these costs included in the Plan as part of the capital project cost.

Staff costs are dependent on future Enterprise Agreement outcomes; however, the plan has assumed any Enterprise Agreement increases will be consistent with normal cost of living increases.

5.2.3 Rates

In setting its rates each year Council considers the current economic climate and external impacts which can potentially impact the community's capacity to pay. The aim in setting Council's rates and charges policy is to ensure the spread of the burden is fairly distributed across the community.

The LTFP has used zero rates increase for the 2020/21 financial year as a mandated outcome of the Council's response to COVID19.

The Latrobe Council area continues to experience above average growth in building activity. Natural growth has therefore been projected to increase at a steady rate of 2 per cent per year for the life of the Plan.

Council has also allowed a 1 per cent increase above CPI each year from 2021/22 onwards, to ensure it remains on a sustainable forward trajectory. In recent years Latrobe has had significant population growth above the Tasmanian average. Keeping pace with the development of new facilities and programs to meet the community's needs requires additional revenue raised through the rating processes.

Over the life of the plan, rating can be affected by external influences which are not currently known (i.e State-wide waste management levy). When the plan is reviewed on an annual basis it will be updated to reflect any such likely impacts. Another example would be the introduction of new services such as a Food Organics & Garden Organics (FOGO) collection.

5.2.4 Capital Works

The Council is responsible for the management, operation and maintenance of a diverse asset portfolio that provides services and facilities to the community. The renewal of assets is tied to community service level expectations and the various Asset Management Plans.

This LTFP has been prepared based on available capital expenditure forecasts and includes:

- renewal and replacement of existing assets totalling $27.8m, and
- $44.5m on new and upgraded assets.

5.2.5 Debt levels

A major component of the services Council provides are asset intensive which often requires a significant investment, initially for acquisition and then the ongoing costs because of maintenance and future renewal obligations.

Council has for many years had low debt levels. It is recognised though that without the use of debt, it can prove difficult for Council to finance the acquisition of new assets. At times it is appropriate when considering the creation of new assets for these to be funded using debt. Using debt, when done equitably and responsibly, helps reduce the impact of new asset creation being totally funded by current ratepayers as it spreads the cost out over an extended period – otherwise known as intergenerational equity.

New debt has been built into the LTFP based on a position of drawing down loans when required and repaying loans when excess cash is available.

Council has taken advantage of the State Government's COVID-19 loan interest subsidy to borrow $6.25m to assist in funding its higher than normal $17.6m capital works program in 2020/21. Specifically, this loan will contribute to the funding of $2.5m towards the Port Sorell Caravan Park upgrade, $1.3m for the Banksia Park redevelopment, $700k for Wild Mersey Bike Bridge, $1.5m for Tarleton Road and $250k for Bosworth Park. The loan interest subsidy is for a 3 year period and is reflected in the plan as both an expense and as revenue.

Borrowings have been assumed at an interest rate of 1.26 per cent for the first 3 years and 1.90 per cent thereafter based on rates provided by TasCorp.

The plan proposes the Council will secure a further $5,000,000 through new borrowings in 2021/22 to assist in the funding of the Latrobe Flood Mitigation Project. The interest rate assumed for this loan is 1.90 per cent.

The loan debt summary for the life of the Plan is as follows:

YEAR	OPENING DEBT BALANCE $'000	NEW LOANS $'000	REPAYMENTS $'000	CLOSING DEBT BALANCE $'000	NEW CAPITAL SPEND $'000
2020/21	250	6,250	-	6,500	17,640
2021/22	6,500	5,000	250	11,250	11,089
2022/23	11,000	-	208	11,042	7,058
2023/24	11,042	-	212	10,830	4,209
2024/25	10,830	-	598	10,232	3,647
2025/26	10,232	-	610	9,622	3,116
2026/27	9,622	-	621	9,001	3,614
2027/28	9,001	-	633	8,368	3,625
2028/29	8,368	-	645	7,723	3,646
2029/30	7,723	-	657	7,066	6,514
2030/31	7,066	-	670	6,396	6,464

6. Overview of the Long Term Financial Plan

6.1 Estimated Statement of Comprehensive Income (Summary)

	19-20 Forecast	20-21 Budget	21-22 Plan	22-23 Plan	23-24 Plan	24-25 Plan	25-26 Plan	26-27 Plan	27-28 Plan	28-29 Plan	29-30 Plan	30-31 Plan
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Recurrent Income	12,541	11,816	12,394	12,919	13,155	13,331	13,605	13,887	14,177	14,477	14,786	15,104
Recurrent Expenses	12,790	12,506	12,759	12,889	12,880	12,972	13,099	13,298	13,498	13,508	13,649	13,833
Underlying Result	**(249)**	**(690)**	**(365)**	**30**	**275**	**359**	**506**	**589**	**679**	**969**	**1,137**	**1,271**
Capital Income	1,965	2,461	4,331	2,011	651	311	311	311	311	311	311	311
Infrastructure Donations		6,000										
Adjustment for Grants												
Comprehensive Result	**1,715**	**7,771**	**3,966**	**2,041**	**926**	**670**	**817**	**900**	**990**	**1,280**	**1,448**	**1,582**

6.2 Estimated Cashflow Statement (Summary)

	19-20 Forecast	20-21 Budget	21-22 Plan	22-23 Plan	23-24 Plan	24-25 Plan	25-26 Plan	26-27 Plan	27-28 Plan	28-29 Plan	29-30 Plan	30-31 Plan
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Operating Activities												
Receipts	12,241	11,748	12,314	12,855	13,112	13,300	13,574	13,856	14,146	14,446	14,755	15,073
Payments	9,274	8,990	9,084	9,113	9,044	9,078	9,153	9,293	9,434	9,380	9,457	9,534
Net Cash from Operations	**2,967**	**2,758**	**3,230**	**3,742**	**4,068**	**4,222**	**4,421**	**4,563**	**4,712**	**5,066**	**5,298**	**5,539**
Investing Activities												
Receipts	965	2,461	4,331	2,011	651	311	311	311	311	311	311	311
Payments	4,399	17,640	11,089	7,058	4,209	4,047	3,616	4,114	4,125	4,446	4,514	7,464
Net Cash - Capital Works	**(3,435)**	**(15,179)**	**(6,758)**	**(5,047)**	**(3,558)**	**(3,736)**	**(3,305)**	**(3,803)**	**(3,814)**	**(4,135)**	**(4,203)**	**(7,153)**
Financing Activities												
Receipts	8	6,250	5,000	-	-	-	-	-	-	-	-	-
Payments	-	-	250	208	212	598	610	621	633	645	657	670
Net Financing Cost	**8**	**6,250**	**4,750**	**(208)**	**(212)**	**(598)**	**(610)**	**(621)**	**(633)**	**(645)**	**(657)**	**(670)**
Cash at Beginning	9,644	9,184	3,013	4,235	2,723	3,021	2,909	3,416	3,555	3,820	4,106	4,544
Cash at Year End	**9,184**	**3,013**	**4,235**	**2,723**	**3,021**	**2,909**	**3,416**	**3,555**	**3,820**	**4,106**	**4,544**	**2,260**

7. Key Outcomes

The LTFP achieves the following projected outcomes:

- A comprehensive result (surplus) of $7.7m in 2020/21 and surpluses across all remaining years.
- An underlying deficit of $690k in 2020/21, $365k in 2021/22, returning to surplus in 2022/23 and remaining there for the balance of the Plan.
- Total borrowings of $6.5m in 2020/21, $11.3m in 2021/22, then reducing over the life of the Plan to $6.4m in 2030/31.
- Financial indicators are generally acceptable throughout the life of the Plan.
- Renewal and replacement of existing assets equalling $3.0m in 2020/21 and totalling $27.8m during the life of the Plan.
- new and upgraded assets equalling $14.6m in 2020-2021 and totalling $44.5m across the life of the Plan.

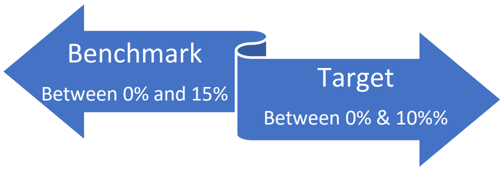
7.1 Financial Indicators

To remain financially sustainable, Council must have enough capacity to be able to manage future financial risks. There is no better example of this than recent events including the 2016 floods and the COVID19 pandemic.

To enable Council to measure performance, the State Government identified several ratios and indicators which are to be applied to all local government entities. These indicators are contained in the *Local Government (Management Indicators) Order 2014*. A number of these indicators have been included in this Plan.

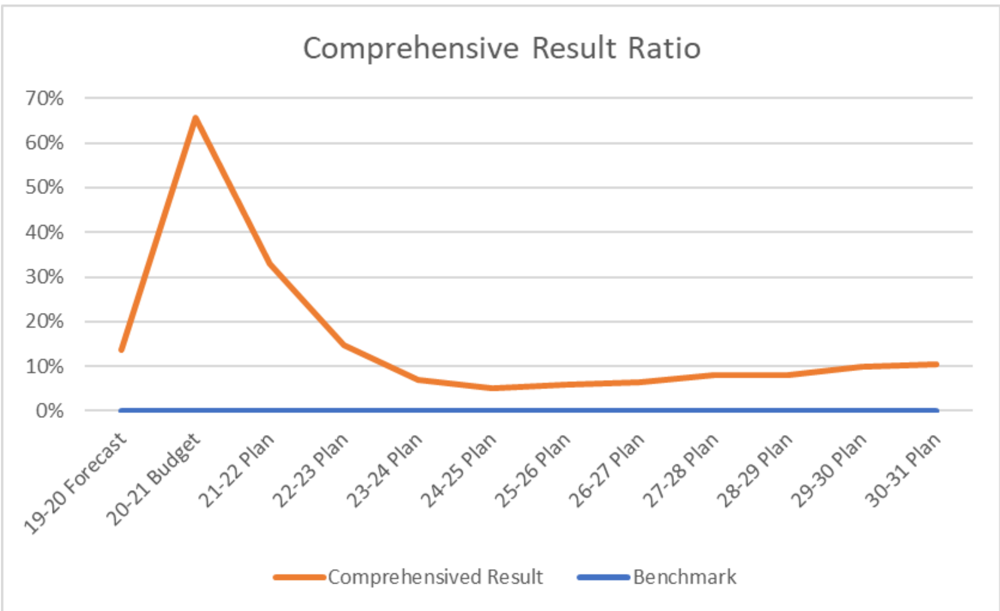
7.1.1 Financial Operating Performance

Comprehensive Result Ratio - *the comprehensive result ratio expresses the comprehensive result as a percentage of the recurring operating income.*

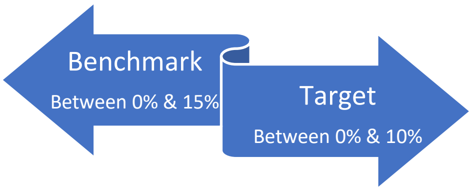


This ratio serves as an overall measure of financial operating effectiveness. To ensure long-term financial sustainability Council should budget and operate to break even, thereby avoiding underlying deficits. Achieving a break even position indicates Council can generate sufficient revenue to fulfil the operating requirements including coverage of its depreciation expense. Breaking even is represented by an underlying surplus ratio of zero. A result greater than 0% indicates a surplus, the larger the surplus the stronger the result and therefore stronger assessment of sustainability. A negative result indicates a deficit which cannot be sustained in the longer-term.

Over the life of this plan, Council will record a positive comprehensive result ratio. The result in the first 3 years is influenced by the recognition of donated assets and capital grant income.

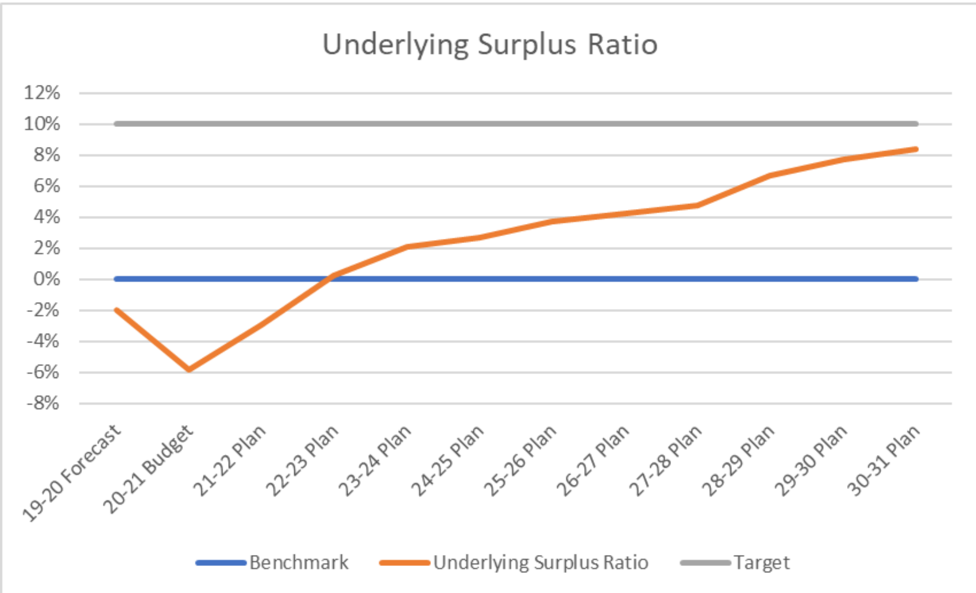


***Underlying Surplus Ratio** - the underlying surplus is the amount that is the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) for a financial year less the recurrent expenses for the financial year. The underlying surplus ration expresses the recurrent income as a percentage of recurrent expenditure.*



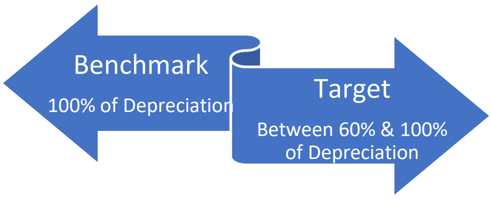
A result greater than 0.0% indicates a surplus, the larger the surplus the stronger the result and therefore the stronger assessment of sustainability. A negative result indicates a deficit which cannot be sustained in the longer-term. The Underlying Surplus Ratio is calculated from using revenue from the comprehensive income statement adjusted for capital grants income, developer contributions and any other material one-off (nonrecurring) items of revenue.

The Underlying Surplus Ratio for 2020/21 and 2021/22 is below the minimum benchmark of 0.0%, however this is rectified over the life of the Plan with Council projecting to return to surplus in 2023/24. Over the balance life of the Plan, Council will record an underlying surplus ratio above the minimum benchmark. By 2029/30 the Plan indicates Council will be achieving an Underlying Surplus of 8.4%.



7.1.2 Asset Management Performance

Asset Sustainability Ratio - *the asset sustainability ratio indicates whether a Council has been maintaining existing assets at a consistent rate.*

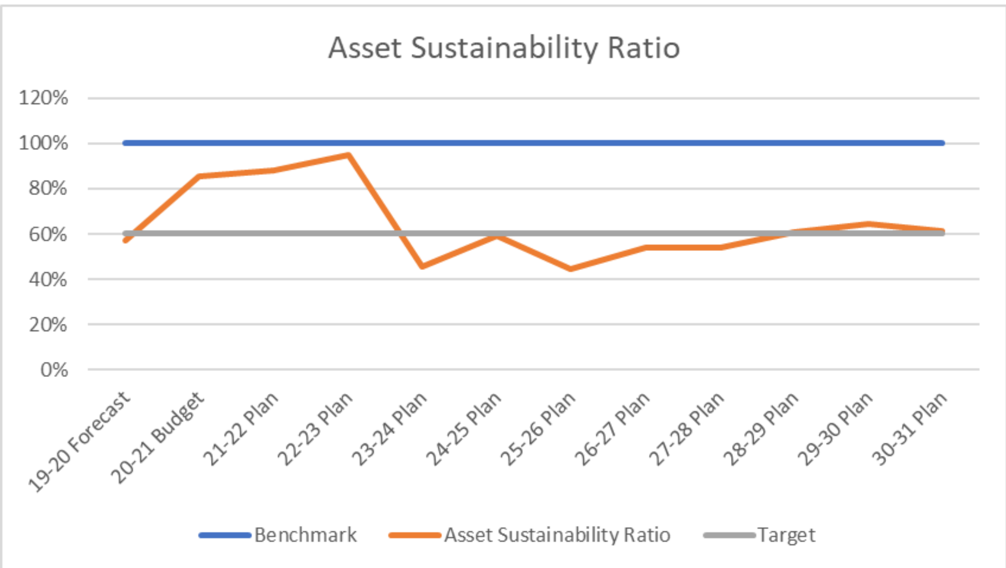


This ratio is calculated as the total capital renewal expenditure divided by depreciation expense. A result of greater than 100% indicates that spending on existing assets is greater than the rate of depreciation base. The benchmark result is 100%.

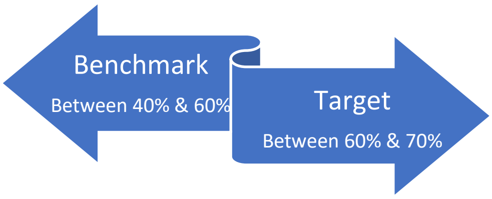
The graph shows that Council does not meet the 100% benchmark for capital expenditure on asset renewal at any time during the life of the Plan. While this shortfall is sustainable in the medium term, Council plans to address this issue in the future.

In recent years due to population growth and increased service demands the Council has undertaken an aggressive program of new asset creation. In the early part of the asset life the requirements for maintenance is generally lower and therefore has an impact on this ratio calculation.

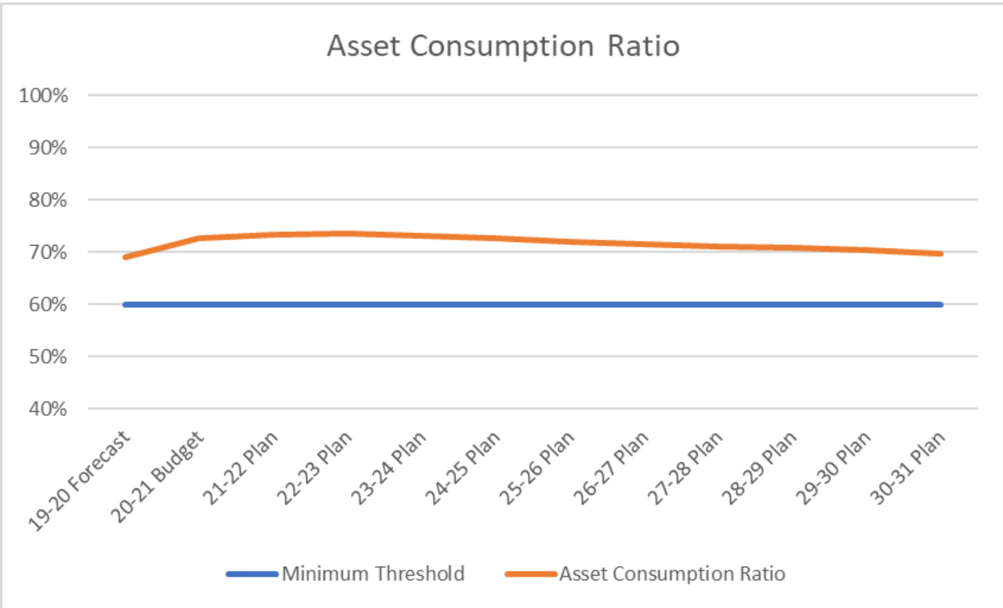
This ratio highlights the need for Council to continue to build cash reserves, through the generation of underlying surpluses, to allow increased expenditure on maintaining existing asset infrastructure.



Asset Consumption Ratio - *the asset consumption ratio indicates the level of service potential available in Council's existing asset base.*

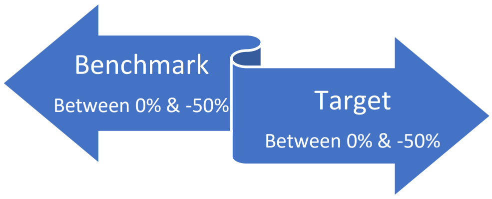


The ratio is calculated by dividing the depreciated replacement cost over the current replacement cost and is an indicator of the remaining useful life of the infrastructure asset. During the life of the Plan, Council maintains a ratio above the minimum threshold of 60%.



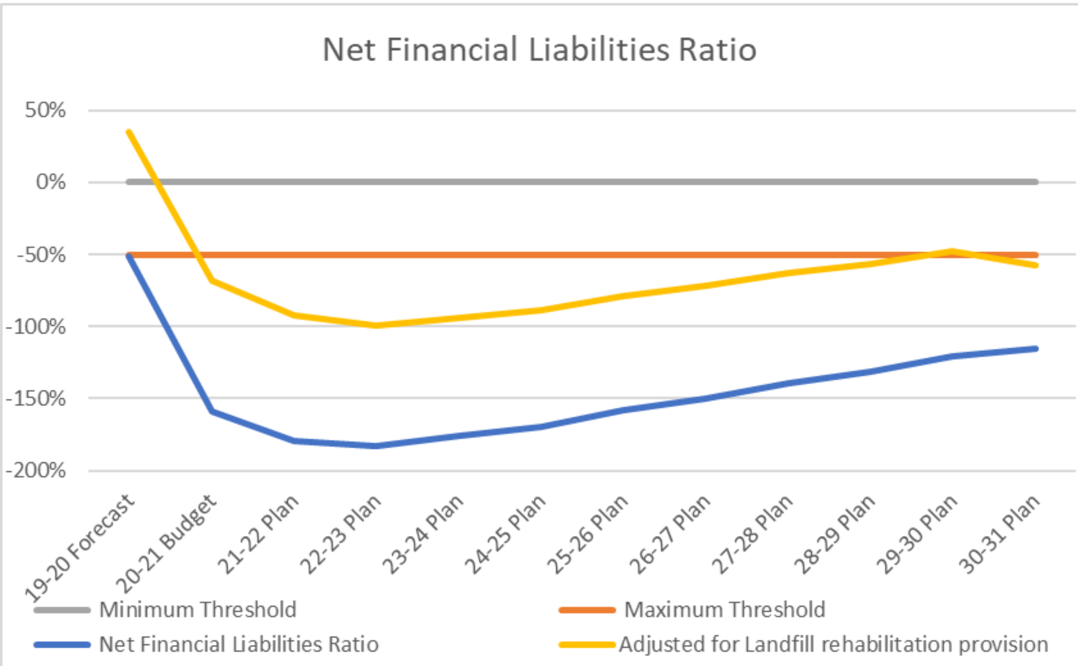
7.1.3 Liquidity Ratios

Net Financial Liabilities Ratio - *this measure shows whether Council's total liabilities can be met by its liquid assets.*



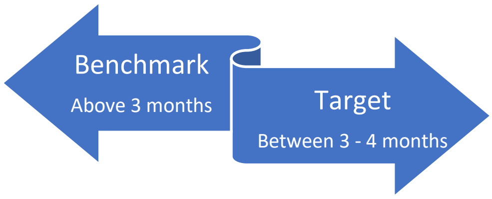
Net Financial Liabilities represent the total value of liabilities less cash and receivables. An excess of total liabilities over liquid assets means that, if all the liabilities fell due at once, additional revenue would be needed to fund the shortfall.

The net financial liabilities ratio exceeds the benchmark during the life of the Plan due in part to the Landfill Rehabilitation Site Provision. When this provision is excluded the ratio returns to within the benchmark range of 0% to -50% by 2028/29. Due to expected rehabilitation works at the Port Sorell Landfill the benchmark will slightly dip below the lower threshold in 2030/31.



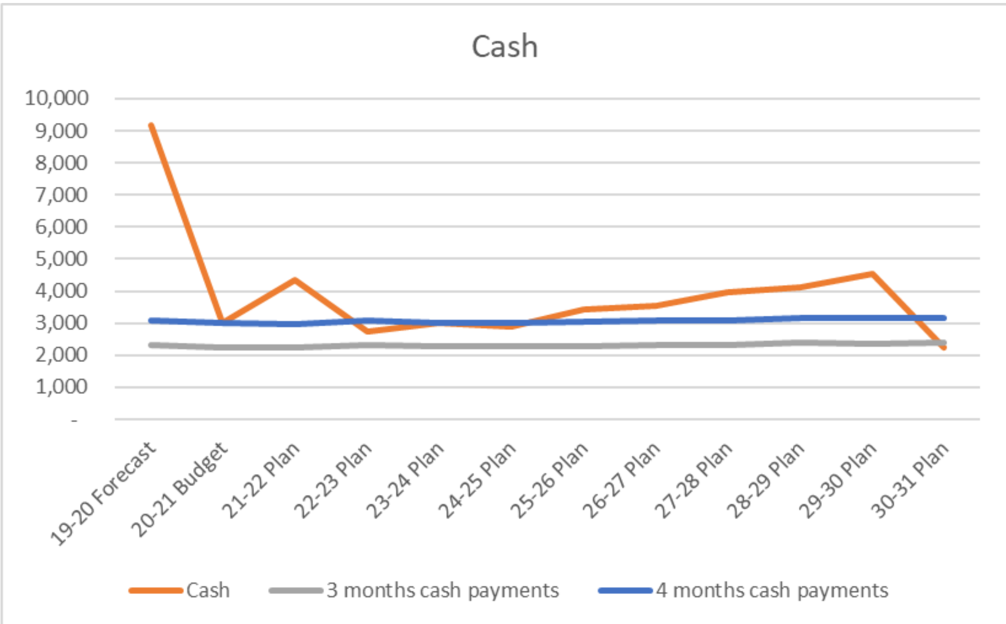
7.1.4 Cash at Bank

Cash at Bank - *looks at the amount of cash held by council compared to operating cash payments each year to demonstrate that Council is maintaining an adequate level of cash to meet its payment obligations with the determined target range.*



Council is holding sufficient cash to comfortably meet its obligations throughout the life of the Plan.

The reduction in cash in 2030-31 is a result of $3m being allocated to commence the Port Sorell Landfill Rehabilitation Project.



8. Long Term Financial Plan - General Assumptions

8.1 Indexation

All data is expressed at current value, that is, all projections are expressed in 2020/21 values based on Council's adopted budget. Revenue and expenses have not been indexed for CPI. Any material changes in revenue or expenses in excess of or below CPI are explained below.

8.2 Rounding

All amounts in the Plan are rounded to the nearest $1,000.

8.3 Income Assumptions

8.3.1 Rates

Council currently has two rating categories – General and Service rates.

General rates are levied based on the Annual Assessed Value of properties, as determined by the Valuer General. Council has adopted differential rating based on the use of the property/land. The service rates cover waste management. Council also collects the Fire Levy on behalf of the State Government as a Service rate.

In 2020/21 there was no increase in the rates due to Council's response to COVID-19. Council has also offered hardship grants to ratepayers adversely impacted by the pandemic.

The Plan assumes that for subsequent year a natural growth rate of 2 per cent due to the level of building and construction activity together with an increase of 1 per cent above CPI each year.

8.3.2 Statutory Fees and User Charges

This category covers a wide range of Council services including revenue from:

- planning and development applications
- inspections
- animal registrations
- user fees relating to various Council owned facilities, (eg, community housing)

Several allowances were provided in relation to fees and charges due to COVID-19 in the 2020/21 budget. A return to normal expected fees and charges during 2021/22 and 2022/23 is anticipated. As a result of natural growth in the municipal area statutory fees and charges are expected to increase by 2 per cent per year above CPI.

8.3.3 Government Grants

Operating grants are received from both State and Federal Government for the purpose of delivering Council services. The State Government has provided an interest subsidy to Council for new borrowings as a result of COVID-19. The interest subsidy has been included as income for a 3 year period.

The main source of grant revenue is through Financial Assistance Grants (FAG). The level of FAG revenue has been maintained at the same level going forward.

8.3.4 Interest

Interest on investments has been calculated on the estimated average cash balance. Historically, cash levels are higher in the first half of the financial year than in the second, due to the timing of rate receipts and Council's capital expenditure program. An average interest rate around 1% has been used to forecast interest revenue in the Plan. Interest income may fluctuate over the term of the Plan due to changing investment balances.

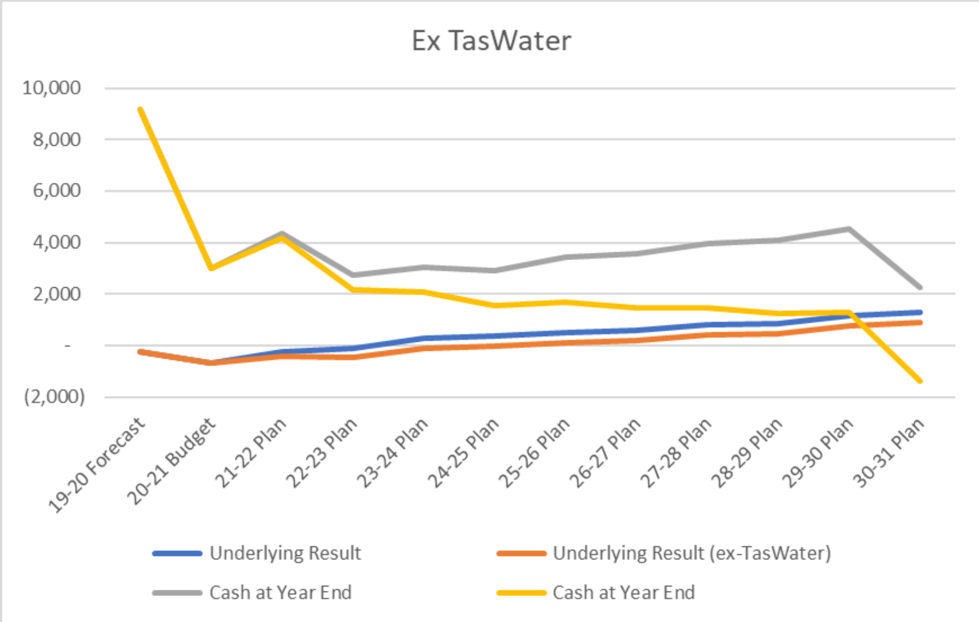
8.3.5 Dividends Received

Dividends from TasWater have been based on the estimates provided by the Corporation. In 2020/21 it is not expected that Council will receive any dividends due to the COVID-19 impact on the Corporation's activities.

$191k has been provided in 2021/22 (50 per cent of the previous dividend amount) with a return to normal dividends of $383k expected from 2022/23 onwards.

While allowance has been provided for TasWater dividends to be paid in the future, Council accepts the payment of dividends is not necessarily guaranteed. If at some point in the future, there are further change to TasWater's dividend policy this Plan will be updated to reflect the likely impact. A loss of the TasWater dividend would have a negative impact on the financial performance of Latrobe. The dividend if no longer received would equate to an approximate 6 per cent General Rate increase to make up the shortfall in revenue, or alternatively Council may need to reduce service levels.

The following graph is provided to demonstrate the impact on the Underlying Surplus and Cash on Hand if the dividends are no longer available:



Dividends and tax equivalents from Dulverton Waste Management Authority have been factored in for the life of the Plan.

8.3.5 Other Income

Other income includes a range of revenue from Council facilities, reimbursements and other contributions. It is expected other income will remain stable during the life of the Plan.

8.4 Expenditure Assumptions

8.4.1 Service Levels and New Developments

The Plan assumes existing service levels will remain relatively constant throughout the period.

The Latrobe and Kentish Councils have developed a shared workforce with common management and common systems. This allows the two Councils' to share resources, knowledge, and skills to optimise the efficiency and effectiveness of service delivery to their separate communities.

Council is committed to building on the successes achieved to date through the shared services model. Both Councils' understand they are stronger together and can achieve more when working in collaboration. The challenge continues to be the delivery of outcomes and ensuring through cooperation, all initiatives provide a shared benefit to both communities. The benefits accrued from shared services will continue to mature during the life of the Plan.

Allowance has been made for the additional operating, maintenance and depreciation costs associated with capital expenditure on new assets.

Additional maintenance costs have been allocated evenly across employee benefits and general materials at 1 per cent per year from 2025/26 onwards.

Council is consistently focused on ensuring services are delivered as efficiently and effectively as possible. This involves regular reviews of service levels and the method of delivery to ensure costs are kept at sustainable levels.

8.4.2 Employees

Employee benefits include salaries and wages and all employment related expenses including payroll tax, employer superannuation, leave entitlements, fringe benefits tax, workers compensation insurance and professional development.

Employee benefits are expected to remain constant until 2025/26 after which a 1 per cent increase on the previous year's total has been factored in for the balance of the Plan.

8.4.3 Materials and Services

This category of expenditure covers a wide range of costs and represents the majority of Council's day to day operational expenditure. Despite constant cost increases, the cost management culture evolving throughout Council aims to maintain the level of expenditure in materials and services costs in line with CPI until at least 2025/26 after which a 1 per cent increase per year above CPI has been allowed.

8.4.4 Depreciation

Depreciation expense is based on the current replacement cost of property, plant and equipment, and increased for new capital additions. The asset base has not been indexed or revalued in this Plan so as to remain consistent in the presentation of figures in real dollar terms.

8.4.5 Finance Costs

Finance costs primarily relates to interest expense on borrowings. Interest expense over the period of the Plan is based on existing and new debt requirements.

8.4.6 Other Expenses

This category includes all other expenses not covered under other criteria. It includes expenses related to elected members, donations and sponsorships.

It is expected that these costs will remain constant over the life of the Plan with the only exception being that additional costs have been included to cover the holding of Council elections.

8.5 Capital Grants

It is assumed the Roads to Recovery program from 2020/21 will remain consistent for the life of the Plan.

The Plan allows for the following project specific capital grants:

PROJECT	2020/21 '000	2021/22 '000	2022/23 '000	2023/24 '000	TOTAL '000
Latrobe Flood Mitigation	340	1,020	1,700	340	3,400
Banksia Park Masterplan	1,000	3,000			4,000
Gilbert Street Roundabout	350				350
Wild Mersey	119			100	219
Latrobe Recreation Ground			1,350	450	1,800
Road Specific	622	311	311	311	1,555
TOTAL	**2,431**	**4,331**	**3,361**	**1,201**	**11,324**

9. Long Term Financial Plan Worksheets

9.1 Estimated Statement of Comprehensive Income

	2019-2020 Forecast '000	2020-2021 Budget - Adj '000	2021-2022 Plan '000	2022-2023 Plan '000	2023-2024 Plan '000	2024-2025 Plan '000	2025-2026 Plan '000	2026-2027 Plan '000	2027-2028 Plan '000	2028-2029 Plan '000	2029-2030 Plan '000	2030-2031 Plan '000
Recurrent income												
Rates and service charges	7,489	7,812	8,100	8,345	8,598	8,858	9,126	9,402	9,686	9,979	10,281	10,592
Statutory fees and fines	316	282	311	316	322	328	334	340	346	353	360	367
User fees	1,059	939	951	951	951	951	951	951	951	951	951	951
Government Grants	1,712	1,753	1,832	1,832	1,832	1,753	1,753	1,753	1,753	1,753	1,753	1,753
Contributions	-	-	-	-	-	-	-	-	-	-	-	-
Interest	95	98	60	60	60	60	60	60	60	60	60	60
Other revenue	1,378	744	745	845	845	845	845	845	845	845	845	845
Share of net profits/(losses) of Dulverton Waste Authority accounted for by the equity method		68	80	64	43	31	31	31	31	31	31	31
Investment revenue from TasWater	191	-	191	383	383	383	383	383	383	383	383	383
Investment revenue from Dulverton Waste Authority	300	120	124	123	121	122	122	122	122	122	122	122
Total recurrent income	**12,541**	**11,816**	**12,394**	**12,919**	**13,155**	**13,331**	**13,605**	**13,887**	**14,177**	**14,477**	**14,786**	**15,104**
Capital Items												
Capital grants received specifically for assets	326	2,431	4,331	2,011	651	311	311	311	311	311	311	311
Contributions - Cash	639	30	-	-	-	-	-	-	-	-	-	-
Contributions - non-monetary	1,000	6,000	-	-	-	-	-	-	-	-	-	-
Total Capital Items	**1,965**	**8,461**	**4,331**	**2,011**	**651**	**311**	**311**	**311**	**311**	**311**	**311**	**311**
Total Income	**14,506**	**20,277**	**16,725**	**14,930**	**13,806**	**13,642**	**13,916**	**14,198**	**14,488**	**14,788**	**15,097**	**15,415**
Recurrent expenses												
Employee costs	3,903	3,656	3,656	3,656	3,656	3,656	3,695	3,734	3,774	3,814	3,854	3,895
Materials and services	3,945	3,875	3,925	3,795	3,795	3,795	3,842	3,890	4,068	3,986	4,035	4,084
Depreciation	3,516	3,516	3,675	3,776	3,836	3,894	3,946	4,005	4,064	4,128	4,192	4,299
Finance costs	3	-	79	173	169	203	192	180	168	156	144	131
Net gain/(loss) on disposal of property, infrastructure plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-
Other expenses	1,423	1,459	1,424	1,489	1,424	1,424	1,424	1,489	1,424	1,424	1,424	1,424
Total expenses	**12,790**	**12,506**	**12,759**	**12,889**	**12,880**	**12,972**	**13,099**	**13,298**	**13,498**	**13,508**	**13,649**	**13,833**
Net Operating Result	**1,715**	**7,771**	**3,966**	**2,041**	**926**	**670**	**817**	**900**	**990**	**1,280**	**1,448**	**1,582**
Other comprehensive income												
Fair value adjustments on equity investment assets												
Net asset revaluation increment/decrement												
Share of other comprehensive income of associates and joint ventures accounted for by the equity method												
Increase in Provision for landfill rehabilitation												
Comprehensive Result - Surplus/(Deficit)	**1,715**	**7,771**	**3,966**	**2,041**	**926**	**670**	**817**	**900**	**990**	**1,280**	**1,448**	**1,582**
Underlying Result (Operating Surplus/(Deficit))	**(249)**	**(690)**	**(365)**	**30**	**275**	**359**	**506**	**589**	**679**	**969**	**1,137**	**1,271**

9.2 Estimate Statement of Financial Position

	2019-2020 Forecast	2020-2021 Budget	2021-2022 Plan	2022-2023 Plan	2023-2024 Plan	2024-2025 Plan	2025-2026 Plan	2026-2027 Plan	2027-2028 Plan	2028-2029 Plan	2029-2030 Plan	2030-2031 Plan
Assets												
Current Assets												
Cash and cash equivalents	9,184	3,013	4,235	2,723	3,021	2,909	3,416	3,555	3,820	4,106	4,544	2,260
Receivables	379	379	379	379	379	379	379	379	379	379	379	379
Financial Assets	-	-	-	-	-	-	-	-	-	-	-	-
Inventories	89	89	89	89	89	89	89	89	89	89	89	89
Other Assets	389	389	389	389	389	389	389	389	389	389	389	389
Total Current Assets	**10,042**	**3,870**	**5,092**	**3,580**	**3,879**	**3,767**	**4,273**	**4,412**	**4,678**	**4,964**	**5,401**	**3,118**
Non-current Assets												
Financial Assets	-	-	-	-	-	-	-	-	-	-	-	-
Investment in Dulverton	2,180	2,248	2,329	2,393	2,436	2,467	2,498	2,529	2,560	2,591	2,622	2,653
Investment in TasWater	34,954	34,954	34,954	34,954	34,954	34,954	34,954	34,954	34,954	34,954	34,954	34,954
Property, plant and equipment	177,984	198,108	205,522	208,804	209,176	209,329	208,999	209,108	209,169	209,486	209,808	210,973
Total Non-current Assets	**215,118**	**235,311**	**242,805**	**246,151**	**246,566**	**246,750**	**246,451**	**246,591**	**246,682**	**247,031**	**247,384**	**248,580**
Total Assets	**225,160**	**239,181**	**247,897**	**249,731**	**250,445**	**250,517**	**250,724**	**251,003**	**251,360**	**251,995**	**252,785**	**251,697**
Liabilities												
Current Liabilities												
Payables	932	932	932	932	932	932	932	932	932	932	932	932
Trust funds and deposits	380	380	380	380	380	380	380	380	380	380	380	380
Provisions	1,407	1,407	1,407	1,407	1,407	1,407	1,407	1,407	1,407	1,407	1,407	1,407
Interest bearing loans and borrowings	-	250	208	212	598	610	621	633	645	657	670	683
Total Current Liabilities	**2,719**	**2,969**	**2,927**	**2,931**	**3,317**	**3,329**	**3,340**	**3,352**	**3,364**	**3,377**	**3,389**	**3,402**
Non-current Liabilities												
Trust funds and deposits	378	378	378	378	378	378	378	378	378	378	378	378
Provisions	12,622	12,622	12,622	12,622	12,622	12,622	12,622	12,622	12,622	12,622	12,622	10,622
Interest bearing loans and borrowings	250	6,250	11,042	10,831	10,233	9,623	9,002	8,369	7,724	7,066	6,396	5,713
Total Non-current Liabilities	**13,250**	**19,250**	**24,042**	**23,831**	**23,233**	**22,623**	**22,002**	**21,369**	**20,724**	**20,066**	**19,396**	**16,713**
Total Liabilities	**15,969**	**22,219**	**26,969**	**26,762**	**26,550**	**25,952**	**25,342**	**24,721**	**24,088**	**23,443**	**22,785**	**20,115**
Net Assets	**209,191**	**216,962**	**220,928**	**222,969**	**223,895**	**224,565**	**225,382**	**226,282**	**227,272**	**228,552**	**230,000**	**231,582**
Equity												
Accumulated Surplus	101,764	109,535	113,501	115,542	116,468	117,138	117,955	118,855	119,845	121,125	122,573	124,155
Asset Revaluation Reserves	107,427	107,427	107,427	107,427	107,427	107,427	107,427	107,427	107,427	107,427	107,427	107,427
Other Reserves												
Total Equity	**209,191**	**216,962**	**220,928**	**222,969**	**223,895**	**224,565**	**225,382**	**226,282**	**227,272**	**228,552**	**230,000**	**231,582**

9.3 Estimated Cashflow Statement

	2019-2020 Forecast '000	2020-2021 Budget '000	2021-2022 Plan '000	2022-2023 Plan '000	2023-2024 Plan '000	2024-2025 Plan '000	2025-2026 Plan '000	2026-2027 Plan '000	2027-2028 Plan '000	2028-2029 Plan '000	2029-2030 Plan '000	2030-2031 Plan '000
Cash Flows from Operating Activities												
Receipts												
Rates	7,489	7,812	8,100	8,345	8,598	8,858	9,126	9,402	9,686	9,979	10,281	10,592
Statutory fees and fines	316	282	311	316	322	328	334	340	346	353	360	367
User fees	1,059	939	951	951	951	951	951	951	951	951	951	951
Government grants	1,712	1,753	1,832	1,832	1,832	1,753	1,753	1,753	1,753	1,753	1,753	1,753
Developer contributions	-	-	-	-	-	-	-	-	-	-	-	-
Interest	95	98	60	60	60	60	60	60	60	60	60	60
Other receipts	1,378	744	745	845	845	845	845	845	845	845	845	845
Investment revenue from TasWater	191	-	191	383	383	383	383	383	383	383	383	383
Investment revenue from Dulverton Waste Management		120	124	123	121	122	122	122	122	122	122	122
Refund of GST tax credits	-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts	**12,241**	**11,748**	**12,314**	**12,855**	**13,112**	**13,300**	**13,574**	**13,856**	**14,146**	**14,446**	**14,755**	**15,073**
Payments												
Suppliers	3,945	3,875	3,925	3,795	3,795	3,795	3,842	3,890	4,068	3,986	4,035	4,084
Employees	3,903	3,656	3,656	3,656	3,656	3,656	3,695	3,734	3,774	3,814	3,854	3,895
Borrowing costs	3	-	79	173	169	203	192	180	168	156	144	131
Other payments	1,423	1,459	1,424	1,489	1,424	1,424	1,424	1,489	1,424	1,424	1,424	1,424
Total Payments	**9,274**	**8,990**	**9,084**	**9,113**	**9,044**	**9,078**	**9,153**	**9,293**	**9,434**	**9,380**	**9,457**	**9,534**
Net Cash from operating activities	**2,967**	**2,758**	**3,230**	**3,742**	**4,068**	**4,222**	**4,421**	**4,563**	**4,712**	**5,066**	**5,298**	**5,539**
Cash Flows from Investing Activities												
Receipts												
Proceeds from sale of non current assets												
Capital Grants	326	2,431	4,331	2,011	651	311	311	311	311	311	311	311
Other	639	30	-	-	-	-	-	-	-	-	-	-
Payments												
Asset renewals	2,000	3,001	3,242	3,577	1,752	2,296	1,756	2,167	2,198	2,508	2,692	2,642
New assets	2,399	14,639	7,847	3,481	2,457	1,751	1,860	1,947	1,927	1,938	1,822	4,822
Net Cash used in investing activities	**(3,435)**	**(15,179)**	**(6,758)**	**(5,047)**	**(3,558)**	**(3,736)**	**(3,305)**	**(3,803)**	**(3,814)**	**(4,135)**	**(4,203)**	**(7,153)**
Cash Flows from Financing Activities												
Receipts												
Trust Funds and Deposits	8											
New loans		6,250	5,000									
Payments												
Trust Funds and Deposits												
Loan principal repayments			250	208	212	598	610	621	633	645	657	670
Net Cash from (or used in) financing activities	**8**	**6,250**	**4,750**	**(208)**	**(212)**	**(598)**	**(610)**	**(621)**	**(633)**	**(645)**	**(657)**	**(670)**
Net Increase/(Decrease) in cash held	**(460)**	**(6,171)**	**1,222**	**(1,512)**	**299**	**(112)**	**507**	**139**	**265**	**286**	**438**	**(2,284)**
Cash at beginning of reporting period	9,644	9,184	3,013	4,235	2,723	3,021	2,909	3,416	3,555	3,820	4,106	4,544
Cash at end of reporting period	**9,184**	**3,013**	**4,235**	**2,723**	**3,021**	**2,909**	**3,416**	**3,555**	**3,820**	**4,106**	**4,544**	**2,260**