



District Council of Franklin Harbour **LONG TERM FINANCIAL PLAN 2017-2026**



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1. Long Term Financial Planning Defined

1.1 Purpose

The purpose of a long-term financial plan (LTFP) is to guide the future direction of Council in a sustainable manner.

It is to be linked with Council's objectives, goals and desired outcomes in financial terms.

It is a guideline for future action and encourages council to think about the future impact decisions made today have on council's long-term sustainability.

1.2 Principles

The Local Government Act 1999 requires councils to prepare strategic management plans including an annual business plan and long term financial plan.

Under section 122(1a) each council must prepare a long term financial plan for a period of at least 10 years.

Pursuant to section 122(2)(b) of the Act, a long-term financial plan must include—

- (a) an estimated income statement, balance sheet, statement of changes in equity and statement of cash flows with respect to the period of the long-term financial plan presented in a manner consistent with the Model Financial Statements;*
- (b) a summary of proposed operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances;*
- (c) estimates with respect to an operating surplus ratio, an asset sustainability ratio and a net financial liabilities ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.*

The first projected year of the LTFP is consistent with the Annual Budget adopted for the current 2016/2017 financial year.

It assumes that council intends to maintain the existing asset stock in a sustainable manner. It also assumes that council wants to maintain the current service levels.

2 Impacts upon the Current Planning Environment

2.1 Depreciation

Depreciation is the difference between the value of the council's assets at the beginning of a stipulated period and the end. If no maintenance is performed on assets they have a finite life. That is they will depreciate over time and their value will decrease. With ongoing maintenance the life of these assets is extended. For some assets, if components are renewed on a regular basis, the life can be further extended.

It is recommended that an amount be spent on renewing or replacing asset components equivalent to depreciation expense. This would ensure their value is maintained.

Therefore, in line with the mandated LTFP requirements, operating expenditure includes any depreciation expense. Capital expenditure on asset renewal or replacement is then shown net of depreciation. That is if an amount equivalent to depreciation is spent then net capital expenditure is nil. If spending is less than the depreciation expense then the net expenditure will show as income for the purposes of the model.

For example;

The operating cost of maintaining roads per annum is \$0.8m which includes \$0.4m of depreciation expense. If the amount spent on road renewal and replacement equates to the depreciation expense then the rates required to maintain roads would be \$0.8m. If only \$0.2m was spent on road renewal then this would mean the road value would reduce by \$0.2m during the year. This is because insufficient rates have been used to renew roads at the rate that they are being consumed.

2.2 Accounting Standards

Annually the council has to produce a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. This report is externally audited.

2.3. Presentation of Council Budgets

Both the Annual Budget and LTFP's are required to be summarised in a similar format as that in the annual financial report. The Income Statement describes revenues and expenses by type such as Statutory Charges and Employee costs. Council considers it's budget by function or program eg sport and recreation or waste collection. The LTFP is driven from council's existing functional or program budget. It is then summarised and linked to the annual financial report format.

3. Financial Planning Considerations

3.1 Councils Vision/Mission

A proud, growing and unified community benefiting from a diverse and environmentally sustainable economic base.

The District Council of Franklin Harbour will provide our community with:

- ~ A high standard of essential services in a sustainable manner
- ~ Representation of our needs to the wider population
- ~ Stimulus for economic growth
- ~ Sound management of our valuable natural environment

3.2 Strategic Management Plans

As part of the Strategic Plan, Council have agreed to the following 4 goals:

Goal 1: Community Wellbeing

To maximise the benefit to the community from improved community services.

Goal 2: Economic Wellbeing

To foster a diverse and growing economic base that results in an increase in employment and population.

Goal 3: Natural and Built Environment

To maintain our high quality living environment.

Goal 4: Governance and Organisation

To be a professional, effective and customer oriented organisation playing the lead role in community development.

3.3 Service Delivery

The waste generated by the community also has to be collected by council. However, in line with council's strategic objectives, policies can be made that encourage a reduction in waste going to landfill, increasing recycling and how frequently hard rubbish collections are undertaken.

In relation to new assets, such as roads, council budget policy determines the program for new roads.

3.4 Roles and Responsibilities

The Local Government Act 1999 specifies the services that councils are to provide. Sometimes councils provide additional services on behalf of State or Federal governments. Grants, subsidies or reimbursements are provided to fund these services. When funding is insufficient or ceases Council has to determine whether it will fund the shortfall by increasing rates or continue to provide the service.

3.5 Infrastructure and Asset Management Strategy

Under section 122(1a) of the Local Government Act 1999 councils must prepare an infrastructure and asset management plan for a period of at least ten years.

In the plan Council is required to distinguish between the replacement or renewal of existing assets and the acquisition of construction of new assets. The income raised to offset the depreciation expense is generally used to fund asset replacement and renewal.

New assets require additional funding either from additional grants, subsidies or contributions, loans or additional rates revenue.

The South Australian Model Financial Statements 2016 contain the following definition;

“Definitions are as follows:

- A new asset is additional to Council’s previous asset complement.*
- An upgraded asset replaces a previously existing asset with enhanced capability or functionality, where an option existed for replacement without the enhanced capability or functionality.*

3.6 Revenue and Financing Strategy

Council needs to continue to identify services and facilities that are provided to specific groups rather than the general community. Rate funding of these services needs to be considered where user charges or where applicable grant funding could be increased.

3.7 Rating Strategy

Historically sufficient rates were raised to “balance” the budget. The tendency now is to adopt a rating policy that limits the annual increase in rates revenue with an allowance for new property development. Debt and reserves then become the “balancing item”. Surplus funds could be set aside in reserves for future capital expenditure. Deficits in the future could be funded from these reserves. Debt could also be used with loan repayments being funded from future budgets. Council rating policy also considers who bears the rates burden. Whilst property valuations are the main factor, fixed rates, service charges and selective capping can shift some of the burden between ratepayer classes based on the perceived ability to pay.

3.8 Treasury Strategy

In the past council’s borrowed for specific projects. They are now encouraged to globally fund their budget over a longer timeframe.

Holding cash whilst also borrowing may result in an interest differential cost to council. It depends on what interest rate Council is currently paying on its existing loans compared to what interest could be earned on investing surplus funds. If Council was currently earning 6.5% on its invested cash there would be no financial benefit in paying off any existing loans where the interest rate is less than 6.5%.

4. Performance Indicators

The legislation requires that council’s strategic management plans, which include the Long Term Financial Plan, state the measures (financial and non-financial) that are to be used to monitor and assess the performance of the council against its objectives. There are different types of service level indicators some of which are;

4.1 Service Levels

These are measures of the levels of service being provided. As indicated above some of these levels are externally determined. Others depend on council policy. For instance if council wishes to construct new assets then that is an increase in service level.

4.2 Population

Expressing council net expenditure, for a particular function or program, as a factor of population is a good relative indicator of where council's resources are being spent. An alternative would be to use the number of rateable properties. However, unless the average number of persons resident in households changes significantly, the comparison would be the same.

4.3 Operating Efficiency - Infrastructure

This is the money being spent per km on infrastructure assets. If more money is spent per km this may ensure more efficient maintenance of infrastructure assets in the longer term. Council's Infrastructure and Asset Management Strategy should indicate optimal expenditure levels to ensure long term asset sustainability.

5. Explanation of Terms

Below is a brief explanation of some of the terms used in the Long Term Financial Plan.

Operating Expenses – this is what it costs to operate the Council services including financing costs and depreciation. Financing costs represent the interest on loans taken out to fund capital expenditure. Assets purchased to aid with the provision of a service only have a limited life before they need to be replaced. Depreciation expense represents the cost of using the asset over its life.

Operating Income – this represents any revenue generated by the provision of the service including any service rates and charges raised.

Operating Surplus/(Deficit) before capital amounts- income less expenditure before capital amounts.

Capital Expenditure on Renewal Replacement of Existing Assets - Council expenditure on assets has two parts. The first is maintenance. This is included in operating expenditure. The second is capital. That is expenditure on the renewal of Council assets. This is not shown under operating expenditure. It is included in the Balance Sheet of the Council as an asset. Generally the asset is subsequently depreciated. As indicated above this depreciation expense is included in the operating expenses.

Less Depreciation, Amortisation & Impairment – depreciation is an expense that recognises the consumption of Council assets. It is considered that councils should spend an amount, equivalent to the depreciation expense, each year on renewing assets. This would ensure that the values of Council's assets are maintained.

Capital Expenditure on New/Upgraded Assets - the amount spent on new or upgraded assets.

Amounts Received Specifically For New or Upgraded Assets – Generally this would be grants received from State or Commonwealth governments to help fund new

assets. It would also include any contributions made by the private sector or community organisations towards capital works.

Cash and Cash Equivalents

“Cash Assets include all amounts readily convertible to cash on hand at Council’s option with an insignificant risk of changes in value with a maturity of three months or less from the date of acquisition.” (South Australian Model Financial Statements 2008)

Loans Received – loans drawn down and received during the year.

Loan Repayments – loan principal repaid during the year.

Net Lending/(Borrowing) for the financial year - The South Australian Model Financial Statements 2016 definition is;

“Net lending / (borrowing is a ‘flow’ measure that takes account of both operating and capital activities for the financial year. Achieving a zero result on the net lending / (borrowing) measure in any one year essentially means that the Council has met all of its expenditure (both operating and capital) from the current year’s income (with income including amounts received specifically for new / upgraded assets).”

It does not allow for funds set aside by way of reserves.

Net Impact on Budget – this is the surplus that can be used to fund other services or the final deficit after capital expenditure. It allows for any reserves that Council may wish to set aside for future capital expenditure.

Reserves – Council may elect to nominate funds that will be required for specified future capital expenditure. Until these funds are required they may be used to fund other capital expenditure that would otherwise require a loan.

6. Explanation of financial indicators

Operating Surplus/(Deficit)

The difference between day to day income and expenses for the period.

Calculated as:

Operating revenue minus operating expenses

Operating Surplus Ratio

By what percentage does the major controllable income source vary from day to day expenses?

Calculated as;

Operating surplus (as above)

Divided by:

Rates revenues

Less: NRM levy raised

Council's target is between 0% and 15% per annum.

Net Financial Liabilities

What is owed to others less money held, invested or owed to Council

Calculated as:

Total Liabilities (from Balance Sheet)
Less: Current cash and cash equivalents
Current trade & other receivables
Current other financial assets
Non current financial assets

Net Financial Liabilities Ratio

Calculated as;

Net financial liabilities (as above)
Divided by:
Total operating revenues
Less: NRM levy raised

Asset Renewal Funding Ratio

Capital expenditure on renewal or replacement of existing depreciable assets/depreciation expenses.

Calculated as:

Expenditure on renewal/replacement of assets (*Cash Flow Statement*)
Less: Sale of replaced assets (*Cash Flow Statement*)
Divided by:
Depreciation, amortisation & impairment expense (*Income Statement*)

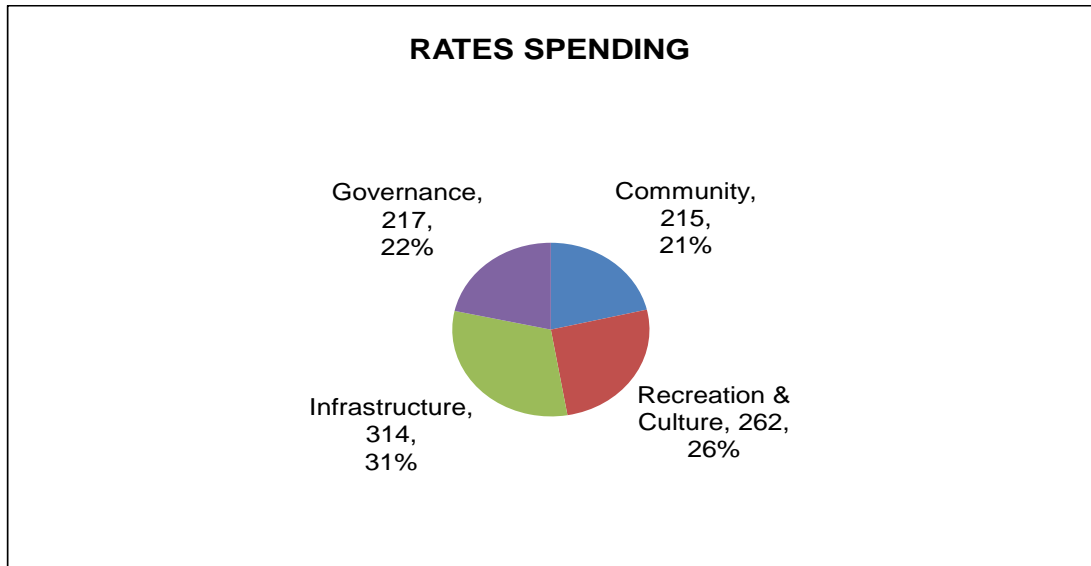
Council's target is 100%. That is Council spending an amount each year equivalent to the depreciation expenses on asset renewal

7. What the key financial indicators tell us

- 1) Operating Surplus Ratio (graph A)** – providing that grant funding and land sales occur as estimated, the forecast expenditure for the next 10 years is achievable
- 2) Net Financial Liabilities (graph B)** – providing that grant funding and land sales occur as estimated, Council will have enough funds to pay its debts
- 3) Asset Renewal Funding – (graph C)** – this graph is showing that in the current Long Term Financial Plan all asset renewals are being funded for 100%

8. How are the rates currently spent

DISTRICT COUNCIL OF FRANKLIN HARBOUR LONG-TERM FINANCIAL PLAN - CHARTS



9. Assumptions made in the Long Term Financial Plan

Foreshore Upgrade

Item	2017/2018	2018/2019	2019/2020
Preliminaries	\$525,000		
Bulk Earthworks	\$1,620,000		
Marina		\$1,705,000	
Adjustments to Boat Ramp		\$295,000	
Build fill for built up areas	\$1,100,000		
Parking Areas		\$316,000	
Roads		\$440,000	
Buildings			\$3,296,000
Water park & pool		\$1,243,000	
Landscaping (trees and shelters)		\$1,243,000	
Solar Panels			\$200,000
Boardwalk			\$3,000,000
Contingency	\$325,000	\$524,000	\$650,000
Totals	\$3,245,000	\$5,766,000	\$7,146,000

Land Sales

Port Gibbon Blocks	\$2,600,000	between 2017 - 2023
Oyster Drive	\$ 350,000	between 2018 - 2019
Farr Street	\$2,450,000	between 2018 - 2022
Lucky Bay	\$5,000,000	between 2021 - 2025
Third Street	\$1,950,000	between 2018 – 2024

Grant Funding

Treasurers 20%	\$ 800,000
Places for People	\$ 800,000
SABFAC	\$1,448,000
Regional Development	\$ 800,000
Sport & Recreation	\$ 200,000
BBRF	\$4,805,600

10. Summary Statement

District Council of Franklin Harbour Long-term Financial Plan
Summary of Financial Performance and Position for the Years Ending 30 June 2016 to the 30 June 2026

Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Year 0 Actual \$'000	Year 1 Budget \$'000	Year 2 Plan \$'000	Year 3 Plan \$'000	Year 4 Plan \$'000	Year 5 Plan \$'000	Year 6 Plan \$'000	Year 7 Plan \$'000	Year 8 Plan \$'000	Year 9 Plan \$'000	Year 10 Plan \$'000
Operating Revenues	3,031	3,934	3,872	3,559	3,681	3,813	3,957	4,111	4,310	4,540	4,760
less Operating Expenses	4,162	3,238	3,398	3,583	3,657	3,587	3,672	3,735	3,738	3,803	3,869
Operating Surplus/(Deficit) before Capital Amounts	(1,131)	696	474	(24)	25	227	286	377	572	737	890
LESS: Net Outlays on Existing Assets											
Capital Expenditure on Renewal or Replacement of Existing Assets	1,510	1,616	847	863	807	879	865	810	810	810	810
less Depreciation, Amortisation & Impairment	(689)	(744)	(810)	(810)	(810)	(810)	(810)	(810)	(810)	(810)	(810)
less Proceeds from Sale of Replaced Assets	(201)	(143)	(247)	(163)	(117)	(123)	(210)	(70)	(70)	(70)	(70)
Net Outlays on Existing Assets	620	729	(210)	(110)	(120)	(54)	(155)	(70)	(70)	(70)	(70)
LESS: Net Outlays on New or Upgraded Assets											
Capital Expenditure on New/Upgraded Assets	0	0	3,570	3,567	2,199	3,845	3,300	0	0	0	0
less Amounts Specifically for New/Upgraded Assets	0	0	0	(1,600)	(2,736)	(1,600)	(1,318)	(800)	(800)	0	0
less Proceeds from Sale of Surplus Assets	0	(400)	(1,200)	(1,400)	(1,480)	(1,480)	(1,480)	(1,480)	(1,200)	(800)	0
Net Outlays on New or Upgraded Assets	0	(400)	2,370	567	(2,017)	765	502	(2,280)	(2,000)	(800)	0
EQUALS: Net Lending / (Borrowing) for Financial Year	(1,751)	367	(1,686)	(481)	2,162	(484)	(61)	2,727	2,642	1,607	960

11. Estimated Income Statement

District Council of Franklin Harbour - Operating Revenue and Operating Expense

Year Ending 30 June:	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Year 0	Year 1									Year 10
	Actual	Budget	Year 2 Plan	Year 3 Plan	Year 4 Plan	Year 5 Plan	Year 6 Plan	Year 7 Plan	Year 8 Plan	Year 9 Plan	Plan
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Revenue											
Rates	1,145	1,131	1,221	1,319	1,425	1,539	1,662	1,795	1,938	2,093	2,261
User Charges	297	498	513	528	544	561	577	595	612	631	650
Statutory charges	23	97	100	103	106	109	112	116	119	123	127
Grants - FAG	1,105	1,251	1,251	1,251	1,251	1,251	1,251	1,251	1,251	1,251	1,251
Grants - Non FAG	0	719	444	0	0	0	0	0	0	0	0
Reimbursements	71	36	37	38	39	41	42	43	44	46	47
Investment Income	49	36	135	143	135	127	120	114	140	186	208
Other	341	166	171	176	181	187	192	198	204	210	217
Total Operating Revenue	3,031	3,934	3,872	3,559	3,681	3,813	3,957	4,111	4,310	4,540	4,760
Operating Expenses											
Salaries & Wages	1,054	1,125	1,159	1,194	1,229	1,266	1,304	1,343	1,384	1,425	1,468
Contractual Services	1,331	714	735	757	780	804	828	853	878	904	932
Materials	998	374	385	397	409	421	434	447	460	474	488
Depreciation	689	897	810	810	810	810	810	810	810	810	810
Finance Charges	90	97	309	425	428	286	296	282	207	190	172
Other		31									
Total Operating Expenses	4,162	3,238	3,398	3,583	3,657	3,587	3,672	3,735	3,738	3,803	3,869
Operating Surplus / (Deficit)	(1,131)	696	474	(24)	25	227	286	377	572	737	890
Physical Resources Free of Charge	8	6,604	0	0	0	0	0	0	0	0	0
Amounts specifically for new or upgraded assets	3,260	0	0	1,600	2,736	1,600	1,318	800	800	0	0
Asset disposal & fair value adjustments	(28)										
Net Surplus / (Deficit)	2,109	7,300	474	1,576	2,761	1,827	1,604	1,177	1,372	737	890
Other Comprehensive Income	274	0	0	0	0	0	0	0	0	0	0
Total Comprehensive Income	2,383	7,300	474	1,576	2,761	1,827	1,604	1,177	1,372	737	890

12. Estimated Balance Sheet

District Council of Franklin Harbour - Balance Sheet

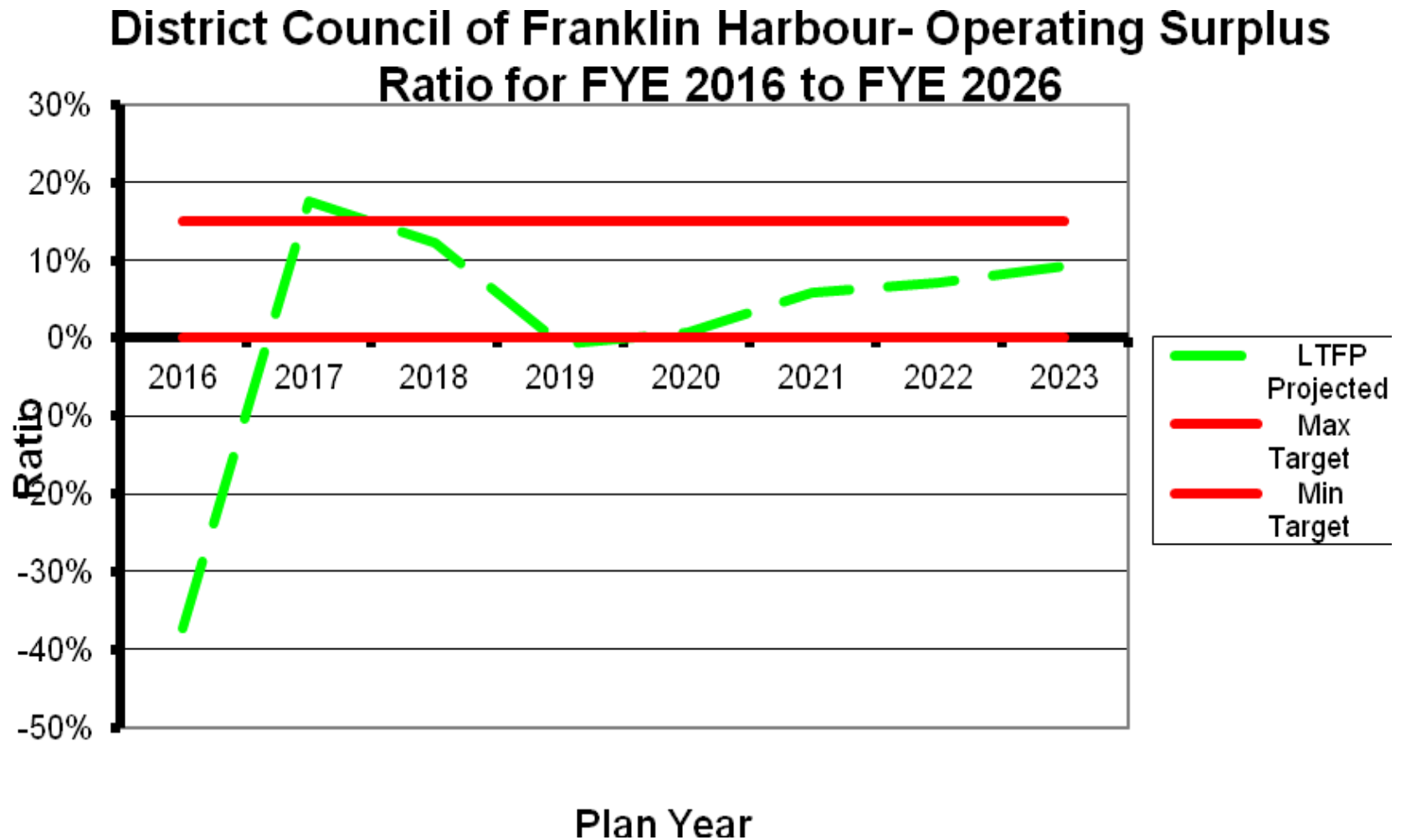
As at 30 June:

	2016 Year 0 Actual \$'000	2017 Year 1 Budget \$'000	2018 Year 2 Plan \$'000	2019 Year 3 Plan \$'000	2020 Year 4 Plan \$'000	2021 Year 5 Plan \$'000	2022 Year 6 Plan \$'000	2023 Year 7 Plan \$'000	2024 Year 8 Plan \$'000	2025 Year 9 Plan \$'000	2026 Year 10 Plan \$'000
ASSETS											
Financial Assets											
Cash and Cash Equivalents	1,084	4,560	4,871	4,539	4,218	3,974	3,717	4,773	6,599	7,469	7,756
Current Trade & Other Receivables	266	760	760	760	760	760	760	760	760	760	760
Current Other Financial Assets	0	84	84	84	84	84	84	84	84	84	84
Non Current Other Financial Assets	105	0	0	0	0	0	0	0	0	0	0
Total Financial Assets	1,455	5,404	5,715	5,383	5,062	4,818	4,561	5,617	7,443	8,313	8,600
Non Financial Assets											
Inventories	15	34	34	34	34	34	34	34	34	34	34
Investment Property	0	0	0	0	0	0	0	0	0	0	0
Infrastructure, Property, Plant & Equipment	26,474	33,407	35,567	37,624	38,223	40,534	42,199	40,649	39,379	38,509	38,439
Other Non-current Assets	529	0	0	0	0	0	0	0	0	0	0
Total Non Financial Assets	27,018	33,441	35,601	37,658	38,257	40,568	42,233	40,683	39,413	38,543	38,473
Total Assets	28,473	38,845	41,316	43,041	43,319	45,386	46,794	46,300	46,857	46,856	47,073
LIABILITIES											
Current Liabilities											
Trade & Other Payables	864	279	279	279	279	279	279	279	279	279	279
Borrowings	97	296	311	289	257	271	285	299	315	331	348
Provisions	242	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	0	0	0	0	0	0	0	0	0	0	0
	1,203	575	590	568	536	550	564	578	594	610	627

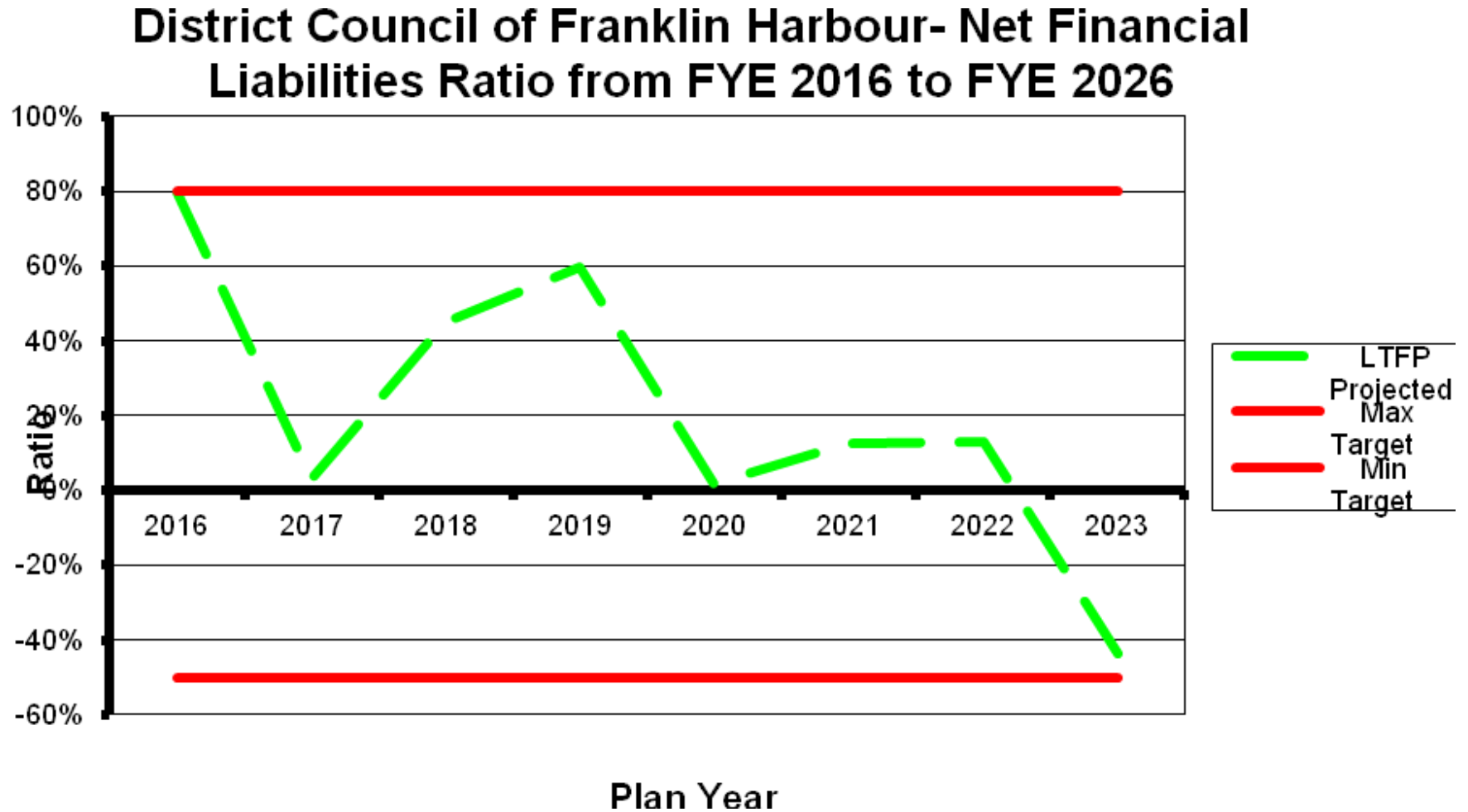
District Council of Franklin Harbour - Balance Sheet

	2016 Year 0 Actual \$'000	2017 Year 1 Budget \$'000	2018 Year 2 Plan \$'000	2019 Year 3 Plan \$'000	2020 Year 4 Plan \$'000	2021 Year 5 Plan \$'000	2022 Year 6 Plan \$'000	2023 Year 7 Plan \$'000	2024 Year 8 Plan \$'000	2025 Year 9 Plan \$'000	2026 Year 10 Plan \$'000
Non-current Liabilities											
Trade & Other Payables	0	0	0	0	0	0	0	0	0	0	0
Borrowings	2,656	4,855	6,771	6,850	4,507	4,663	4,417	3,147	2,848	2,533	2,201
Provisions	9	91	91	91	91	91	91	91	91	91	91
Other Non-current Liabilities	0	0	0	0	0	0	0	0	0	0	0
	2,665	4,946	6,862	6,941	4,598	4,754	4,508	3,238	2,939	2,624	2,292
Total Liabilities	3,868	5,521	7,452	7,509	5,134	5,304	5,072	3,816	3,533	3,234	2,919
Net Assets	24,605	33,324	33,864	35,532	38,185	40,082	41,722	42,484	43,324	43,622	44,154
EQUITY											
Accumulated Surplus	13,677	16,822	17,296	18,872	21,633	23,459	25,063	26,240	27,611	28,348	29,239
Asset Revaluation Reserves	10,928	16,502	16,502	16,502	16,502	16,502	16,502	16,502	16,502	16,502	16,502
Other Reserves	0	0	0	0	0	0	0	0	0	0	0
Adjustment to Cash & Borrowings for effects of inflation	0	0	66	158	51	121	157	(258)	(790)	(1,228)	(1,587)
Total Equity	24,605	33,324	33,864	35,532	38,185	40,082	41,722	42,484	43,323	43,622	44,154
	0	0	0	0	0	0	0	0	0	0	0
Total Outstanding Borrowings / (Cash & Cash equivalents) discounted for effects of inflation											
Annual Inflation (cpi) rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Total Borrowings / (Cash & Cash Equivalents)	1,669	591	2,277	2,758	596	1,081	1,142	(1,585)	(4,226)	(5,833)	(6,794)
Borrowings in real values			2,211	2,600	546	960	985	(1,327)	(3,436)	(4,605)	(5,207)
Cumulative Discount			66	158	51	121	157	(258)	(790)	(1,228)	(1,587)
P.a. Increase			66	92	(108)	70	36	(414)	(532)	(439)	(358)

13. Operating Result (graph A)



14. Net Financial Liabilities (graph B)



15. Asset Renewal Funding (graph C)

District Council of Franklin Harbour- Asset Renewal Funding Ratio for FYE 2016 to FYE 2026

