



Castlereagh Macquarie County Council

Long Term Financial Plan

2022/23 to 2031/32

Prepared in accordance with the provisions contained in the Local Government Act
1993

Contents

1. Introduction	3
2. Policy Framework	4
3. Financial Planning Assumptions, Uncertainties and Risks – Sensitivity Analysis	6
4. Planned Operating Income	8
5. Planned Operating Expenditure	8
6. Financial Forecast	9

1. Introduction

The Integrated Planning and Reporting Legislation requires that an effective Resourcing Strategy be established to underpin the four year Delivery Programme and annual Operational Plan. The Resourcing Strategy consists of a ten year Long Term Financial Plan (LTFP), a ten year Asset Management Plan and a four year Workforce Strategy.

The Long Term Financial Plan is an essential component of Council's strategic planning process. Its purpose is to provide the framework to assist with short, medium and long term financial planning and to ensure that when decisions are made they are based on sound financial government principles and practices. It also helps Councillors and management in their strategic and operational planning processes to ensure financial stability and achieve the most efficient and effective outcomes not only for the Council but also the constituent Councils of Coonamble Shire, Gilgandra Shire, Walgett Shire, Warren Shire and Warrumbungle Shire.

The Long Term Financial Plan is where all the elements of Council, the community and the constituent councils aspirations and plans in relation to management and the control of noxious and invasive weeds is tested against the Council's financial capacity to deliver. It also attempts to present both the Council and management with the answers to issues of financial viability and opportunities for income growth.

Our Long Term Financial Plan has a ten year horizon and underpins both the four year Delivery Programme as well as the annual Operational Plan. The first year of the LTFP is effectively the annual budget and will be rolled forward each year and updated with short, medium and longer term variables so as to provide a meaningful view of the Council's financial position in those timeframes.

The LTFP is an essential tool for identifying financial issues and providing a basis for problem solving. As such it is invaluable for addressing whole of life cycle matters.

The LTFP also sets financial targets and bench marks to guide Council's forward decision making. It is based on guidelines and aims to promote consistent financial directions during both the term of Council and the life of the Plan. The financial model predicts the Council's annual funding requirements required to maintain a continuing strong financial position and deliver the outcomes sought by the community and constituent councils.

In setting out to achieve the objectives and principle activities identified in the Business Activity Strategic Plan, the LTFP underpins the financial sustainability of the Council and ensures that there will be sufficient funds available in future years to achieve these objectives in a timely manner. The policy statements detailed in the Plan are given authority by the adoption of the Plan. These Statements provide the framework that guides decision making and the parameters in which management operates.

2. Policy Framework

The basic principle of financial management and budgeting is the process by which scarce resources are allocated to meet competing demands. The policy framework in this Plan is structured to provide a guide for the Council in developing Council's Budget and Long Term Financial Plan, and a format that management needs to work within the annual operating plan.

a) **Unrestricted Working Funds**

This is a measure of liquidity or net financial position. As part of Council's financial governance responsibilities, a level needs to be set at which working capital should be maintained.

The unrestricted cash of Council provides an appropriate buffer for unforeseen expenditure as well as the management of daily cash flows. As Council's budget grows, the amount allocated will also need to grow in line so as to keep the unrestricted cash at the designated level.

Council's target is to adopt as part of this plan, a minimum unrestricted working funds balance equivalent to **25%** of the unrestricted revenues in the same financial year, or a cash expense cover ratio of not less than 3 months of the annual expenses in accordance with the "Cash expense cover ratio".

Over the life of the LTFP Council is proposing to reduce its level of working funds from \$774,000 in 21/22 to \$262,000 in 31/32.

b) **Employee Leave Entitlements**

Council creates a liability in its balance sheet each year for outstanding annual leave and long service leave. This leave liability needs to be paid at some future point in time. However, Council does not expect to have to pay the liability in full in any given year.

As Council is a going concern, it should maintain a cash reserve equivalent to a reasonable amount that it can be expected to pay. Council's target cash reserve provision is 100%. However, given the current size of the liability and the employee profiles, the potential for large payments on termination, resignation or retirement of employees over the next ten years there is some flexibility to reduce the reserve provision to no less than **50%**.

c) **Investment Funds**

Council maintains a single investment portfolio across its entire operation.

Of the available funds, Council restricts certain amounts for future works or projects. Funds from the sales of assets, surplus equipment or functions with funded depreciation from operating income will be directed into an asset management reserve that is to be utilised as part of Council's new Asset Management Strategy.

d) External Borrowings

Council does not require external borrowings to carry out its functions and it is expected this policy will be continued for the life of the Plan.

Council funds new or upgraded vehicles, plant and equipment from its current income sources or from reserves set aside specifically for the purpose of plant replacement.

e) Operating Budget

In normal years Council's operating budget aims to achieve a balanced budget or slight surplus to maintain an adequate level of working capital and to fund asset replacements or renewals. The current level of working capital has far exceeded the benchmark and it's planned this balance be reduced over the life of this plan to a more realistic level as detailed in (a) above.

f) Current Financial Position

Council's estimated net operating result for 2021/22 is a deficit of \$118,000 had an operating deficit of \$250,000. Excluding non-cash transactions, Council decreased its cash available by \$101,000 from the previous reporting period.

Council discloses in the annual financial reports a series of key performance indicators that aim to present a concise picture of the organisation performance and where the financial position is trending over a longer period of time than just the annual result.

Unrestricted current ratio

2021	2020	2019
7.07:1	4.61:1	6.95:1

The unrestricted current ratio includes remaining cash relative to all other General Fund functions. A ratio of greater than 1.5 is generally viewed as acceptable. Council's current ratio will be reduced during the course of the three (3) Delivery Program.

Cash and investments

In 2021/21 Council held \$1,258,000 in cash and investments which is made up of cash, cash equivalents and investments. Term deposits will be invested with be invested at the best available rate in accordance with Council's Investment Policy.

Loans and interest bearing liabilities

Council has no loans or interest bearing liabilities and does not envisage requiring any external borrowings over the life of the Plan.

3. Financial Planning Assumptions, Uncertainties and Risks – Sensitivity Analysis

The following assumptions, risks and uncertainties have been identified in relation to the Council's ten year Business Activity Strategic Plan. Uncertainty increases as the financial information presented extends each year from the current financial data.

These forecast financial statements must be read with caution utilising the details of financial assumptions contained in this statement. Financial years 2022/23 to 2031/32 must be read with the understanding that the forecast is based on professional opinion and estimates, and that in broad terms the business of Council should continue in its current form in line with what has been forecast in the Business Activity Strategic Plan. Uncontrollable external events or change in State or Federal Government policy will significantly affect the forecast.

The most significant risks include unexpected changes to legislation and/or regulations. It has been assumed that the organisational structure of each of the constituent Councils will remain relatively unchanged for core services with reshaping of those organisations to cater for positions associated with their community strategic directions. Council will be impacted by the issues of an ageing workforce and reducing grant funds identified in the Workforce Strategy.

Service Priorities

It is assumed that the community will continue to endorse and demand the current services that Council provides to the community. The Business Activity Strategic Plan objectives and principle activities are expected to be funded from recurrent and existing funds where service levels are not affected, otherwise new external funding is to be sourced.

Asset Ownership

There are no major assets sales or changes in management identified in the new Asset Management Plan that will affect the outcome of the financial reports beyond 2031/32. Council's current Asset Register is expected to remain stable from year to year. Technology and innovation may change future outcomes however significant changes to Council's policies are not anticipated over the life of the Delivery Programme.

Interest Rates

Council has not allowed for any borrowings over the life of the Plan and will therefore not be subject to new borrowings. Interest on money invested has been estimated at 2% per annum.

Funding sources

It has been assumed that the level of external funds through the current grant allocations and contributions from constituent Councils will remain consistent over the 10 years and that there is no significant change to government policy to either decrease or increase. Council will continue to actively pursue other grant opportunities but due to their high level of uncertainty these cannot be included in the financial projections.

Internal funding sources from annual charges and user charges are expected to increase as a minimum in line with CPI, assumed at 3% per annum.

Grant funding provided to Council through the NSW Weeds Action Programme by the NSW DPI are only applicable for a five year period, finishing in 2026. It is assumed that a further five year funding period will be approved and this is reflected in the ten year financial forecasts of the Plan.

Depreciation and useful lives

All Council's recognised assets are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets. The following timeframes are applied throughout the Plan.

-Office Equipment	5 to 10 years
-Office Furniture	10 to 20 years
- Computer Equipment	3 to 5 years
-Vehicles and equipment	5 to 8 years
-Other Plant and Equipment	5 to 15 years

Outsourcing and service delivery

Where Council outsources physical works and professional services, it is assumed this practice will continue. Council's Resources Strategy has identified that over the next ten years a skills shortage may have an effect on service delivery. In this Plan, it has identified Council may need to use outsourcing options if there are critical skill gaps that cannot be resolved. The financial forecast has assumed that current recruitment patterns will continue and that Council will be able to fill positions.

Asset renewal

The forecast expenditure for asset renewal is sufficient to maintain the current level of services.

Changes to service levels

Throughout the course of the Delivery Program 22/23 to 24/25 it is proposed to continue with a higher than normal expenditure on roadside program targeting noxious weed problems evident in those constituent areas to the east of the county area.

Ten year Long Term Financial Plan – 2022/23 – 2031/32

The planned financial forecast is aimed at delivering the strategic objectives and principle activities set out in Council's Business Activity Strategic Plan over the next ten years with a focus on the next three (3) years Delivery Program.

The ten year LTFP will be updated annually as part of adopting the annual Operational Plan at which point assumptions and forward estimates will be reviewed and updated as required.

4. Planned Operating Income

User fees and charges	User fees and charges are detailed in Council's 2022/23 Fees and Charges Schedule included as part of the annual Operational Plan. Future year's user fees and charges have been increased by an estimated CPI increase of 3% per annum.
Interest on Investments	An interest rate of 2% per annum is assumed for interest earned on investments. Interest rates can fluctuate quickly, however, a target of 2% per annum as an average rate of return on investment over the life of the plan is considered to be reasonable.
Other Revenues	Are expected to increase between 2.5% and 3.5% per annum over the period of the plan.
Operating Grants and Contributions	Operational grants are expected to increase at an average of 2% per annum. Contributions from constituent Councils have been assumed to increase by rate pegging amounts over the period of the plan.

5. Planned Operating Expenditure

Employee Costs	Employee costs are expected to grow at a net rate of 2.0% per annum in accordance with State Award provisions
Borrowing Costs	Council does not envisage requiring any external borrowings over the life of the Plan.
Materials and Contracts	This has been broadly budgeted at an annual increase of 2.5 % to 3.00% per annum as it is anticipated that there will be increases in fuel and chemical costs.
Other Operating Expenses	Other operating expenses have been increased in line with the estimated CPI of 3% per annum

6. Financial Forecast

1. Income and Expenditure Statements

The following schedules provide the forward financial projections for Operating Income and Expenditure.

Scenario 1 - “conservative” provides for increases at the 2012/13 rate pegging limitations of 0.7%.

2. Balance Sheet

The Balance Sheet reflects the estimated results for the next ten years.

3. Cash Flow Statements

The Cash Flow Statement reflects the estimated results for the next ten years.

4. Changes in Equity

The Changes in Equity Statement reflects the estimated results for the next ten years.