LONG TERM FINANCIAL PLAN 2020-2029

BROKEN HILL
CITY COUNCIL

AUSTRALIA'S FIRST HERITAGE LISTED CITY

QUALITY CONTROL

TRIM REFERENCES	D19/21201	
KEY DIRECTION	4 Our Leadership	
OBJECTIVE	4.2 Our Leaders make Smart Decisions	
FUNCTION	Financial Management	
STRATEGY	4.2.1 Support leaders through the process of making difficult decisions	
PHONE NUMBER	08 8080 3300	
EMAIL ADDRESS FOR ENQUIRIES ONLY	council@brokenhill.nsw.gov.au	
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ASSOCIATED DOCUMENTS	Broken Hill 2033 Community Strategic Plan Delivery Program 2019-2021 incorporating Operational Plan 2019/2020 Schedule Fees and Charges 2019/2020	

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INTRODUCTION

MESSAGE FROM YOUR MAYOR

The 2019-20 financial year will see Council make some adjustments to its Long Term Financial Plan to ensure we remain financially viable well into the future.

Council remains committed to returning to surplus in 2023 and continuing to find internal efficiencies by reviewing our whole operation via the ongoing Service Review process.

While Service Reviews have uncovered numerous avenues through which Council can operate more efficiently, it has also uncovered areas that require urgent attention to ensure Council's finances are not adversely affected.

As has been mentioned by Council previously, there has been an underspend of approximately $43 million on asset and infrastructure renewal across the past 15 years.

The impact of this underspend is now being fully realised as Council undertakes the first significant review of assets in many years and begins to fully understand the cost required to bring them up to standard and maintain them into the future.

Put simply, the initial asset review has revealed that Council cannot afford to maintain the vast assets it currently holds, and must look to rationalise assets if we wish to avoid significant financial hardship.

Council initially endorsed the rationalisation of assets in the 2016-17 Long Term Financial Plan and has now reached a point where those measures should be enacted.

I understand that this will not be an easy process as our many buildings, parks, ovals and other facilities are used by numerous groups within the community.

It is however, a necessary and financially responsible step to ensure Council's assets are commensurate with the city's population and needs.

Any rationalisation of assets would of course include consultation with the community, and we look forward to receiving input from the public when the process begins.

I commend this plan to you and trust that residents will understand that any asset rationalisation will not be undertaken lightly and our decision to take this course of action represents our commitment to providing a financially viable Council for our city.

Mayor Darriea Turley AM

OVERVIEW

A Long Term Financial Plan (LTFP) is one of the three key Resourcing Strategies required by the NSW Integrated Planning and Reporting legislation. Local Government operations are vital to its community and it is important stakeholders can understand the financial implications arising from its Community Strategic Plan, Delivery Program and Annual Operational Plan.

The Integrated Planning and Reporting Guidelines support preparation of the LTFP for Local Government in NSW issued by the Division of Local Government.

The LTFP includes:

- projected income and expenditure
- balance sheet
- cash flow statement
- planning assumptions used to develop the plan
- sensitivity analysis used to highlight factors most likely to affect the plan
- financial modelling for different scenarios
- methods of monitoring financial performance

The LTFP contains a core set of assumptions. These assumptions are based on Consumer Price Index (CPI) forecasts, interest rate expectations, employee award increases, loan repayment schedules and other special income and costs.

Broken Hill City Council's revised LTFP covers the period 2019/20 to 2028/29. It recognises Council's current and future financial capacity, to continue delivering high quality services, facilities and infrastructure to the community, while commencing new initiatives and projects to achieve the goals set down in the Broken Hill 2033 Community Strategic Plan.

The LTFP was first adopted 25 June 2014.

Financial planning over a 10-year time horizon is difficult and relies on a variety of assumptions that will undoubtedly change during the period. The LTFP is therefore closely monitored and regularly revised, to reflect these changing circumstances.

This revision takes into consideration a number of significant decisions which have been implemented to improve Council's financial sustainability over the past year.

A number of scenarios and sensitivities were considered during the development of the LTFP to demonstrate Council's sensitivity to internal and external drivers.

"The Long Term Financial Plan is the point where long-term community aspirations and goals are tested against financial realities."

DLG Manual, 2013

The aims of Council's LTFP are to:

- Set out the assumptions upon which Council's Financial Plans and budgets have been structured.
- Identify the Key Performance Indicators upon which Council can benchmark its financial performance.
- Set the framework so that the impact of future policy decisions can be identified.
- Evaluate the impact of future scenarios upon Council's financial position.
- Provide a basis for future informed decision making.
- Identify issues which impact upon the financial sustainability of Council including known opportunities and threats.
- Achieve a balanced budget on a funding basis over time, acknowledging that efficient service delivery and urgent asset renewal are current priorities where working fund deficits are forecast.
- Seek to reduce the current working fund deficits by reducing operating costs in real terms or expanding the revenue base of Council.

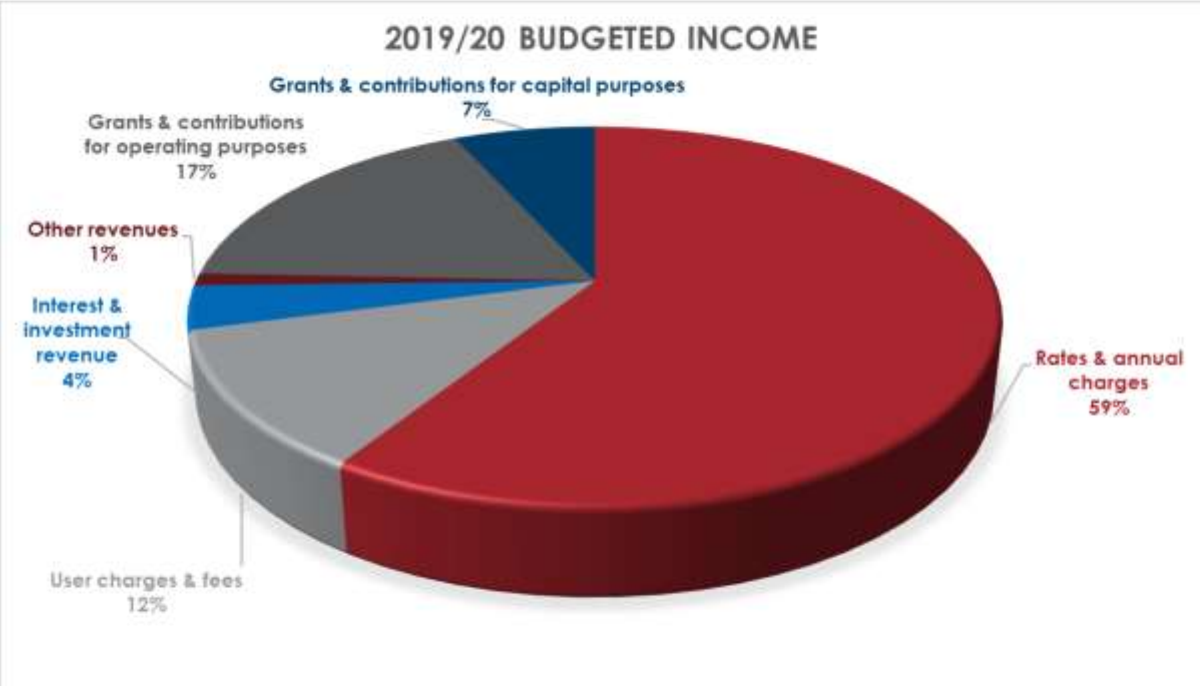
FINANCIAL POSITION

Council faces a number of challenges in terms of financial sustainability. Our Council administers the largest regional centre in the western half of New South Wales.

As per the 2016 NSW Population Projection, the population of the Far West Region is projected to decrease by 10% between 2016 and 2036.

As a result, the Broken Hill Local Government Area's population is forecast to decrease from 18,700 in 2016 to 16,150 in 2036. This population decline puts pressure on the affordability of services by the ratepayers.

Council currently operates on an annual income of around $30 million, with a substantial percentage being derived from government grants which cannot be guaranteed into the future. The graph below shows sources of income:



In 2013, the Division of Local Government appointed New South Wales Treasury Corporation (TCorp) to undertake an assessment of the financial sustainability of all New South Wales councils.

The report by TCorp, which considered both historic financial information and a 10-year financial forecast, determined Council to be in a very unstable financial position and unsustainable.

Overall, the financial sustainability of Council was assessed as 'Very Weak'. A rating of 'Very Weak' was given to only five New South Wales councils and can be described as follows:

- A Local Government with limited capacity to meet its financial commitments in the short to medium term and a very limited capacity long term.
- It has a record of reporting significant operating deficits. It is highly unlikely to be able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business without the need for structural reform and major revenue and/or expense adjustments.

- The expense adjustments are likely to result in significant changes to the range of and/or quality of services offered and it may need the assistance from higher levels of government.
- It has difficulty in managing its core business risks.

For the period 1999 to 2016, Council accumulated annual operating losses in excess of $65 million which resulted in an underspend on infrastructure renewals of about $54 million. This is evident by the deteriorating nature of Broken Hill City Council's infrastructure and the urgent need for renewal across the City.

Council has since achieved significant improvement and taken steps in the right direction towards becoming financially sustainable. Since Council received the report it has undertaken the following key actions:

Council undertook a major review of its 10-year LTFP in FY2015 with the aim to guide Council towards achieving a balanced budget through cost reduction strategies, whilst prioritising service delivery and asset renewals.

In December 2014 Council resolved to cease operations of a financially unsustainable aged care facility – the Shorty O'Neil Village. In October 2016, Council successfully transitioned out of community services avoiding the loss of block funding by the introduction of the National Disability Insurance Scheme (NDIS).

Council has adopted a rating strategy that progressively redistributes some mining rates to the residential and business rating categories. This ensures that if there is a reduction in mining operations and/or the land valuation of mining properties, the impact will be less significant on Council's revenue stream and on its ratepayers. Prior to commencement of this initiative mining income was 27.3% of total rates revenue in FY2013. At the time of writing this plan, mining income is 14% of total rates revenue which has reduced the financial risk on Council considerably.

Given the positive outlook of both mining companies in Broken Hill, the current mining income and Council's current financial position, it is recommended that this progressive transfer is frozen for the next two financial year and revisited in the 2021/2022 financial year.

In November 2016, the Office of Local Government initiated a review of all western councils with the view to reassess their ongoing financial sustainability.

Due to the actions taken after the last review and the significant improvements made, TCorp have made the assessment that Council now has a Financial Sustainability Ratio of 'Weak' with an outlook of positive, with further improvements likely based on key planning assumptions.

Council must now review its service levels with the community and understand the priority areas and not only the capacity but the desire of paying for these services.

The strength of Local Government is important when considering the quality of life for residents within a community and our community cannot afford major revenue adjustments in the form of high rating increases for the purpose of balancing the bottom line. It is therefore important that we only spend what we can afford, what our community can afford.

Local Government decisions impact not only the current generation but the next. In order to ensure services and infrastructure adapt to the changing needs of our generations, we must ensure our financial position and our asset management practices are strong.

It is clear that in order to continue to meet the needs of current and future residents of Broken Hill; that Council must address financial sustainability.

OUR PROGRESS TOWARDS FINANCIAL SUSTAINABILITY

Since the adoption of the Balanced Scenario LTFP in 2014, Council has made a number of decisions that have improved our financial outlook. This section outlines some of those improvements.

IMPROVING EFFICIENCY OF COUNCIL OPERATIONS

Although operational efficiencies alone are unlikely to provide the level of additional funding required to achieve financial sustainability, there is scope to improve Council's financial position by undertaking a full review of operations. This includes reviewing the organisational structure and business systems, exploring opportunities for out-sourcing activities and improving project management capabilities.

At the March 2017 Ordinary Council Meeting Council adopted a Service Review Framework and methodology. During the next term of Council, management will oversee more than 65 internal and external service reviews to generate efficiencies and savings throughout the organisation. This review is not all about financial savings, it is about ensuring Council is delivering the services that the Community requires at the level the Community expects. In some instances this may mean further resources are dedicated to some areas where other areas may have resources reduced. Most importantly it will ensure that all services are delivered in the most effective and efficient way possible.

In October 2017 Council adopted a Smart Community Framework to improves quality of life, prosperity and sustainability for its people, by using technology in optimising processes, solving challenges proactively, building intelligence and productivity, and facilitating proactive and meaningfully engagement between all stakeholders.

Council has successfully implemented a number of technologies to increase efficiency and sustainability throughout the city. Examples of this include, smart bins which reduce the number of bin collections, smart solar and wind lighting, which has enabled Council to remove the lighting for Sturt Park, Patton Park and the Administrative Centre Grounds from the electrical grid. This has not only enabled a financial savings but is a sustainable option for the community. Further implementation of similar technologies is planned through the reporting period.

IMPROVING ASSET MANAGEMENT

Council is in the process of undertaking a review of all infrastructure assets to ensure that it is providing services and infrastructure that meets the community needs and is within the community's ability to pay. As a result of this process, it is anticipated that Council will generate significant replacement savings and associated running costs.

During this year's review of the LTFP, Council is continuing to budget for a greater than or equal to 110% asset renewal. This is a direct impact of the prior year's decisions in improving Council's financial position. This enables Council to continually renew and maintain assets as they are required, as well as ensuring quality infrastructure is in place for future generations.

REVIEW OF COMMUNITY EXPECTATIONS AND SERVICE LEVELS

It is imperative that service level reviews occur throughout the 2019/2020 financial year with consultation with the community.

It is expected that a detailed plan of community expectations and priorities will be achieved and factored into service levels and capital expenditure throughout further reviews of the LTFP. This is a significant piece of work that will be required to ensure the future financial sustainability of Council and balancing the budget within the reporting period.

IMPROVING FINANCIAL CONTROL

Improving staffing understanding and capacity, systems controls, procedures and reporting for Council's finance function has been imperative to achieve improvements in Council's financial position.

Savings have been generated throughout the year as a result of a concerted effort by staff to reduce expenditure.

A review of procurement practices has facilitated improved governance resulting in greater value for money.

An internal audit function was implemented in the 2018/19 financial year to ensure greater governance and transparency and has already achieved a number of process imporvements and identified lost revenue oppurtunitie.

INCREASING INCOME

Throughout the past year, Council has proactively sought private works including Roads and Maritime Services (RMS) contracts. Increasing our income in this area allows more effective use of Council resources, contributing to an improved financial position.

Improved capacity to bid for State and Federal funding has resulted in competitive grants being awarded to Council.

Council is also currently reviewing all fees and charges to ensure appropirate costs recovery and additional areas of revenue generation.

CASHFLOW MANAGEMENT

Close monitoring in relation to the timing of expenditure and level of cash reserves throughout the year has resulted in efficiencies, generating savings.

RECRUITMENT SUCCESS

Leadership, experience and technical skills are of shortage across Local Government in general. Throughout the year, Council has been succsessful in attracting a number of professional staff that have commenced playing a key position in creating efficiencies and continuing to move Council towards financial sustainability.

The importance of key positions within the organisational structure on the financial fortunes of a Council cannot be underestimated.

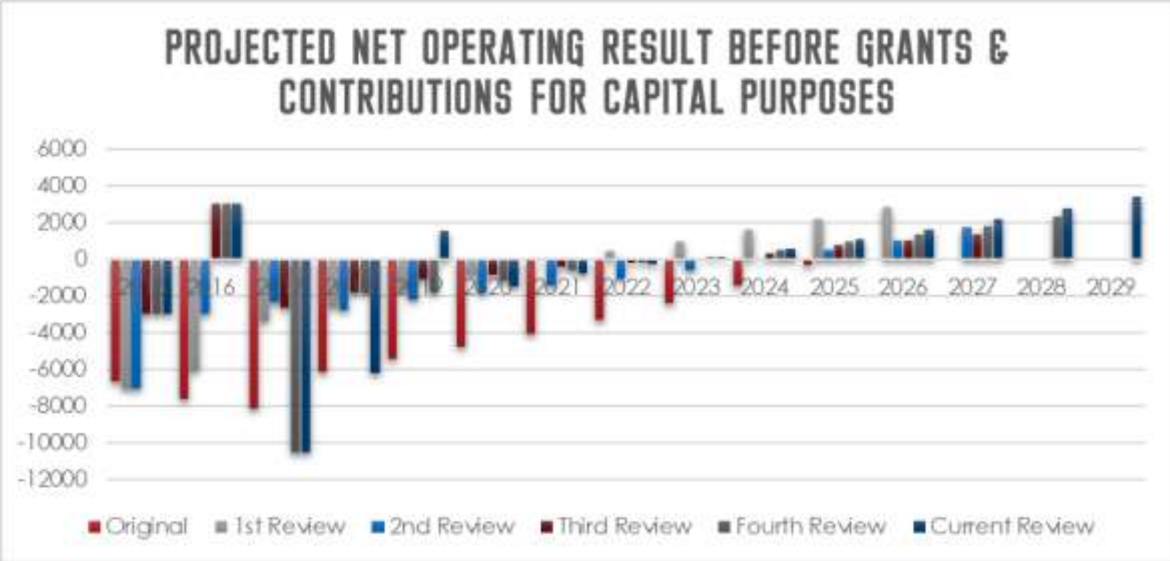
THE BALANCED SCENARIO REVIEWED

On 25 June 2014, Council endorsed a Balanced Scenario to ensure financial sustainability and to strengthen Council to serve the community of Broken Hill into the future.

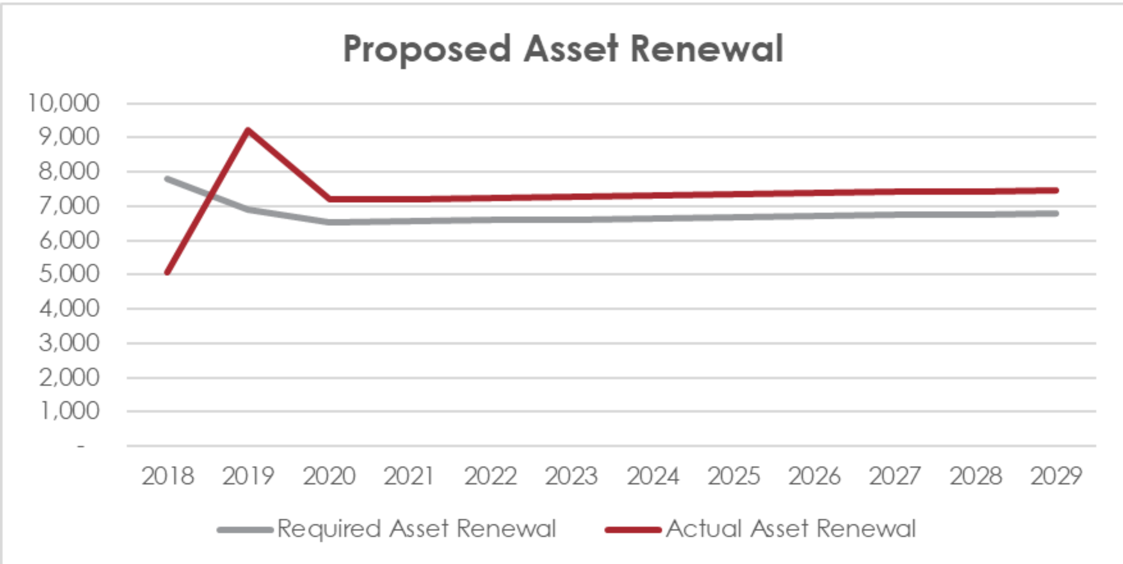
The Balanced Scenario incorporated organisational efficiencies, decreasing expenditure and increasing revenue to achieve a surplus operating position by the end of the plan.

As outlined in this review, significant progress has been made in relation to Council's financial position throughout 2018/2019. This has strengthened Council's financial position, however further improvements can only be made by adjusting service levels to the community to a more realistic and feasible level.

The following chart demonstrates the improvement in Council's financial position, over the previous four reviews. Council is still anticipating to breakeven in 2023. Whilst returning to surplus is achievable earlier than 2023, a slower transition to surplus has been recommended so that service levels to the community are not drastically reduced and there is no additional rate increase above the statutory peg.



Over the 10 year period, Council will spend in excess of $75m on infrastructure renewals and upgrades. This will cover the required amount to meet Infrastructure renewal from ongoing consumption of assets as well as investing in reducing the Infrastructure backlog due to Infrastructure replacement neglect due to insufficient cash reserves and operating practices during the past decade. This is a significant step forward for Council in achieving sustainable assets, reducing ongoing operational maintenance costs and ensuring quality Infrastructure for future generations. The previous plan had Council achieving Infrastructure renewal at a rate equal to or greater than the benchmark in 2025, this is now being achieved from 2017/2018 onwards.



The Balanced Scenario adopted 25 June 2014 decreases operating expenditure and increases revenue to achieve a surplus operating position by the end of the planning period.

This scenario has now been reviewed considering strategies implemented over the past five years and Council is now expected to achieve a surplus operating position in 2022/2023. This is two years ahead of the original plan. This positive result also means the number of years projected to require above rate peg increases of 2% has been reduced to zero years (originally 10 years, revised down to four years in the first review). In addition, during the entirety of the planning period, Council's capacity to renew assets is strong.

To achieve these results, the Balanced Scenario assumes that Council:

1. undertakes additional operating changes to generate productivity improvements and efficiency gains thus reducing employment costs and materials and contracts;
2. undertakes service level reviews to determine the communities service needs and what they are willing to pay; and
3. undertakes a review of assets held and where appropriate adopts a rationalisation strategy to reduce overall operating costs.

It is assumed that a 2.0% annual efficiency gain is made for materials, contracts and other expenditure for the planning period. The scenario assumes an underlying CPI index of 2.5% therefore the annual efficiency gain does not completely absorb the indexation.

This is an ambitious plan, requiring savings in operational expenditure and increases in revenue to contribute $720K in financial improvement in 2020/2021 alone.

If successful, all financial indicators (other than the operating indicator) will be maintained within the benchmarks throughout the planning period.

A review of asset management plans to align with updated financial projections are currently being undertaken along with revised asset valuations to better analyse Council's asset ratios. Based upon planned asset expenditure and cash and investments, Council's available funds for asset renewals over the planning period under the balanced scenario is equal to over 100% of the rate of asset consumption via depreciation.




LONG TERM FINANCIAL PLAN - BALANCED SCENARIO

INCOME STATEMENT

$ '000	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual	Actual	Adopted Budget	Proposed Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Income from Continuing Operations													
Revenue:													
Rates & annual charges	17,498	17,068	17,781	18,480	18,979	19,492	20,018	20,558	21,114	21,684	22,269	22,870	23,488
User charges & fees	3,985	3,840	10,685	3,707	3,799	3,894	3,992	4,091	4,194	4,298	4,406	4,516	4,629
Interest & investment revenue	831	924	600	1,167	1,346	1,346	1,374	1,423	1,499	1,597	1,721	1,874	2,058
Other revenues	829	518	550	327	335	344	352	361	370	380	389	399	409
Grants & contributions for operating purposes	9,403	6,283	5,804	5,510	5,620	5,733	5,600	5,712	5,826	5,942	6,061	6,182	6,306
Grants & contributions for capital purposes	4,287	97	1,826	2,110	2,152	2,195	2,239	2,284	2,330	2,376	2,424	2,472	2,522
Other Income:													
Net gains from disposal of assets	-	29	220	-	-	-	-	-	-	-	-	-	-
Net share of interests in joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL INCOME FROM CONTINUING OPERATIONS	***36,833***	***28,759***	***37,466***	***31,301***	***32,233***	***33,003***	***33,575***	***34,430***	***35,332***	***36,277***	***37,270***	***38,313***	***39,411***
Expenses from Continuing Operations													
Employee benefits & costs	14,384	13,748	14,793	14,311	14,442	14,637	14,697	15,005	15,320	15,642	15,971	16,306	16,649
Borrowing costs	493	629	605	582	549	523	501	478	454	428	402	374	374
Materials & contracts	6,138	8,550	7,848	5,111	5,134	5,157	5,180	5,203	5,227	5,250	5,274	5,298	5,322
Depreciation & amortisation	6,623	7,799	6,902	6,532	6,561	6,590	6,619	6,648	6,677	6,706	6,736	6,765	6,795
Impairment	887	-	-	-	-	-	-	-	-	-	-	-	-
Other expenses	4,116	4,117	3,937	4,135	4,154	4,172	4,191	4,210	4,229	4,248	4,267	4,286	4,305
Net losses from disposal of assets	10,430	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES FROM CONTINUING OPERATIONS	***43,071***	***34,843***	***34,085***	***30,671***	***30,839***	***31,079***	***31,187***	***31,544***	***31,907***	***32,275***	***32,649***	***33,029***	***33,445***
OPERATING RESULT FOR THE YEAR	***(6,238)***	***(6,084)***	***3,382***	***631***	***1,394***	***1,925***	***2,387***	***2,886***	***3,425***	***4,002***	***4,620***	***5,284***	***5,966***
NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS & CONTRIBUTIONS FOR CAPITAL PURPOSES	***(10,525)***	***(6,181)***	***1,556***	***(1,479)***	***(759)***	***(271)***	***148***	***602***	***1,095***	***1,626***	***2,197***	***2,812***	***3,445***
Assumptions													
Rate Peg	1.80%	1.50%	2.30%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
General Index	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Employee Cost Index	3.00%	2.50%	2.50%	2.50%	2.70%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%
Grant Index	0.00%	0.00%	1.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Investment Interest rate	2.50%	2.70%	3.00%	3.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Overdue rates interest rate	8.00%	7.50%	7.50%	8.00%	8.00%	8.00%	8.00%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%
Efficiency gain on Materials & Contracts			-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%

LONG TERM FINANCIAL PLAN - BALANCED SCENARIO

STATEMENT OF FINANCIAL POSITION

$ '000	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual	Adopted Budget	Proposed Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Assets												
Current Assets:												
Cash & cash equivalents	27,509	12,001	11,009	10,976	11,516	14,481	10,905	10,825	10,280	10,307	10,954	10,234
Investments	1,000	15,000	15,000	15,000	15,000	13,000	18,000	20,000	23,000	26,000	29,000	34,000
Receivables	4,766	5,254	5,318	5,812	6,597	7,314	7,906	8,370	9,112	9,760	10,343	10,946
Inventories	115	83	85	87	89	92	94	96	99	101	104	106
Other	155	355	364	373	382	392	402	412	422	433	443	454
Non-current assets classified as 'held for sale'	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CURRENT ASSETS	***33,545***	***32,693***	***31,776***	***32,248***	***33,585***	***35,278***	***37,306***	***39,704***	***42,913***	***46,600***	***50,844***	***55,741***
Non-Current Assets:												
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	75	93	68	43	18	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment	213,974	219,181	219,834	220,490	221,149	221,811	222,476	223,144	223,815	224,488	225,165	225,844
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL NON-CURRENT ASSETS	***214,049***	***219,274***	***219,902***	***220,533***	***221,167***	***221,811***	***222,476***	***223,144***	***223,815***	***224,488***	***225,165***	***225,844***
TOTAL ASSETS	***247,594***	***251,967***	***251,679***	***252,781***	***254,753***	***257,090***	***259,783***	***262,848***	***266,727***	***271,089***	***276,009***	***281,585***
Liabilities												
Current Liabilities:												
Payables	5,897	2,915	2,988	3,063	3,139	3,218	3,298	3,381	3,465	3,552	3,640	3,731
Borrowings	628	591	552	492	514	537	562	587	614	641	670	671
Provisions	4,269	4,069	4,171	4,283	4,373	4,465	4,559	4,655	4,752	4,852	4,954	5,058
TOTAL CURRENT LIABILITIES	***10,794***	***7,575***	***7,711***	***7,838***	***8,026***	***8,220***	***8,419***	***8,622***	***8,831***	***9,045***	***9,265***	***9,461***
Non-Current Liabilities:												
Payables	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	13,064	12,492	11,940	11,448	10,934	10,397	9,835	9,248	8,634	7,993	7,323	6,652
Provisions	6,141	10,701	12,870	14,942	17,078	19,171	21,293	23,396	25,512	27,619	29,732	31,841
TOTAL NON-CURRENT LIABILITIES	***19,205***	***23,193***	***24,810***	***26,390***	***28,012***	***29,568***	***31,128***	***32,644***	***34,146***	***35,612***	***37,055***	***38,493***
TOTAL LIABILITIES	***30,000***	***30,768***	***32,520***	***34,227***	***36,038***	***37,788***	***39,547***	***41,266***	***42,977***	***44,657***	***46,320***	***47,954***
NET ASSETS	**217,594**	**221,199**	**219,158**	**218,554**	**218,714**	**219,302**	**220,235**	**221,581**	**223,750**	**226,432**	**229,689**	**233,631**
Equity												
Retained earnings	108,767	110,070	107,376	106,116	105,617	105,542	105,811	106,489	107,987	109,995	112,577	115,839
Revaluation reserves	108,817	111,129	111,782	112,438	113,097	113,759	114,424	115,092	115,763	116,436	117,113	117,792
Council equity interest	***217,584***	***221,199***	***219,158***	***218,554***	***218,714***	***219,302***	***220,235***	***221,581***	***223,750***	***226,432***	***229,689***	***233,631***
Non-controlling interest		-	-	-	-	-	-	-	-	-	-	-
TOTAL EQUITY	***217,584***	***221,199***	***219,158***	***218,554***	***218,714***	***219,302***	***220,235***	***221,581***	***223,750***	***226,432***	***229,689***	***233,631***

LONG TERM FINANCIAL PLAN - BALANCED SCENARIO

STATEMENT OF CASH FLOWS

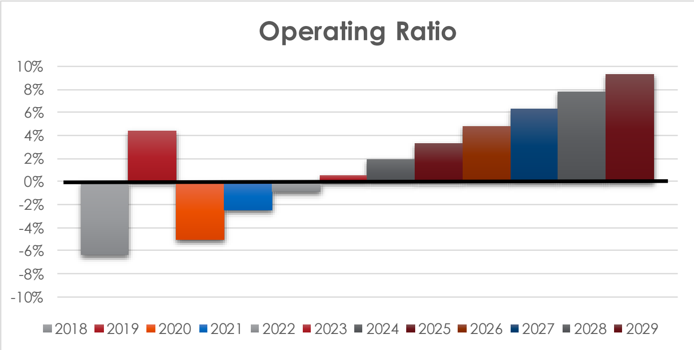
$ '000	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual	Adopted Budget	Proposed Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Cash Flows from Operating Activities												
Receipts:												
Rates & annual charges	17,060	17,248	17,926	18,410	18,907	19,417	19,942	20,480	21,033	21,601	22,184	22,783
User charges & fees	2,097	10,364	3,595	3,685	3,777	3,872	3,969	4,068	4,169	4,274	4,381	4,490
Investment & interest revenue received	888	693	986	1,343	1,343	1,371	1,421	1,496	1,593	1,718	1,870	2,054
Grants & contributions	6,380	7,401	7,392	7,539	7,690	7,604	7,756	7,911	8,069	8,230	8,395	8,563
Bonds, deposits & retention amounts received	2	-	-	-	-	-	-	-	-	-	-	-
Other	3,652	534	317	325	334	342	350	359	368	377	387	396
Payments:												
Employee benefits & costs	(13,568)	(14,349)	(13,882)	(14,009)	(14,198)	(14,256)	(14,555)	(14,861)	(15,173)	(15,492)	(15,817)	(16,149)
Materials & contracts	(10,689)	(7,613)	(4,957)	(4,980)	(5,002)	(5,025)	(5,047)	(5,070)	(5,093)	(5,116)	(5,139)	(5,162)
Borrowing costs	(530)	(605)	(582)	(549)	(523)	(501)	(478)	(454)	(428)	(402)	(374)	(374)
Bonds, deposits & retention amounts refunded	-	-	-	-	-	-	-	-	-	-	-	-
Other	(3,152)	(3,818)	(4,011)	(4,029)	(4,047)	(4,065)	(4,084)	(4,102)	(4,120)	(4,139)	(4,158)	(4,176)
NET CASH PROVIDED (OR USED IN) OPERATING ACTIVITIES	***2,140***	***9,855***	***6,784***	***7,735***	***8,281***	***8,759***	***9,274***	***9,827***	***10,418***	***11,051***	***11,729***	***12,425***
Cash Flows from Investing Activities												
Receipts:												
Sale of investment securities	1,004	-	-	-	-	2,000	-	-	-	-	-	-
Sale of infrastructure, property, plant & equipment	196	220		-	-	-	-	-	-	-	-	-
Deferred debtors receipts	47	-	-	-	-	-	-	-	-	-	-	-
Other investing activity receipts	-	-	-	-	-	-	-	-	-	-	-	-
Payments:												
Purchase of investment securities	-	-	-	-	-	-	(5,000)	(2,000)	(3,000)	(3,000)	(3,000)	(5,000)
Purchase of infrastructure, property, plant & equipment	(5,071)	(9,214)	(7,185)	(7,217)	(7,249)	(7,280)	(7,312)	(7,345)	(7,377)	(7,409)	(7,442)	(7,475)
Deferred debtors & advances made	-	-	-	-	-	-	-	-	-	-	-	-
NET CASH PROVIDED (OR USED IN) INVESTING ACTIVITIES	***(3,824)***	***(8,994)***	***(7,185)***	***(7,217)***	***(7,249)***	***(5,280)***	***(12,312)***	***(9,345)***	***(10,377)***	***(10,409)***	***(10,442)***	***(12,475)***
Cash Flows from Financing Activities												
Receipts:												
Proceeds from borrowings & advances	13,400	-	-	-	-	-	-	-	-	-	-	-
Payments:												
Repayment of borrowings & advances	(4,007)	(628)	(591)	(552)	(492)	(514)	(537)	(562)	(587)	(614)	(641)	(670)
NET CASH PROVIDED (OR USED IN) FINANCING ACTIVITIES	***9,393***	***(628)***	***(591)***	***(552)***	***(492)***	***(514)***	***(537)***	***(562)***	***(587)***	***(614)***	***(641)***	***(670)***
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	***7,709***	***233***	***(992)***	***(33)***	***540***	***2,965***	***(3,576)***	***(80)***	***(545)***	***27***	***646***	***(720)***
plus: CASH & CASH EQUIVALENTS - beginning of year	***19,800***	***11,768***	***12,001***	***11,009***	***10,976***	***11,516***	***14,481***	***10,905***	***10,825***	***10,280***	***10,307***	***10,954***
CASH & CASH EQUIVALENTS - end of year	**27,509**	**12,001**	**11,009**	**10,976**	**11,516**	**14,481**	**10,905**	**10,825**	**10,280**	**10,307**	**10,954**	**10,234**
Assumptions												
Rates & charges recov ery rate	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%
Debtor recov ery rate	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%
General Index	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Inv estment Interest rate	2.70%	3.00%	3.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Ov erdue rates interest rate	7.50%	7.50%	8.00%	8.00%	8.00%	8.00%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%

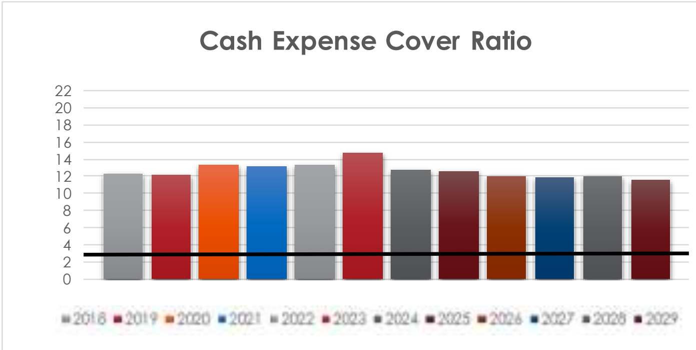
LONG TERM FINANCIAL PLAN - BALANCED SCENARIO

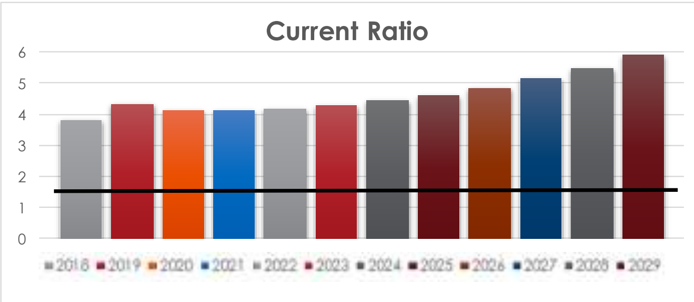
FINANCIAL RATIOS

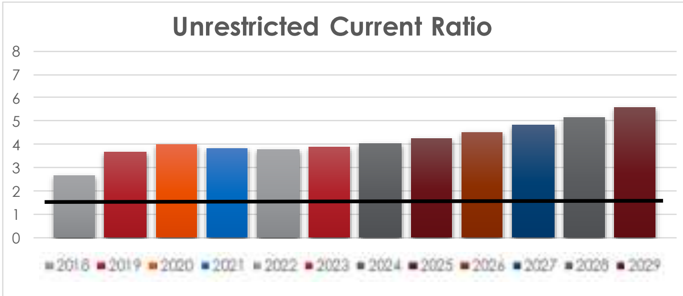
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Operating Ratio												
This ratio measures Council's ability to contain operating expenditure within operating revenue	-6.32%	4.36%	-5.07%	-2.52%	-0.88%	0.47%	1.87%	3.32%	4.80%	6.30%	7.85%	9.34%
Benchmark - Greater than 0%												
(operating revenue excl. capital grants and contributions - operating expenses) / operating revenue excluding capital grants and contributions												
Cash Expense Cover Ratio												
This ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow	12.26	12.19	13.25	13.14	13.28	14.70	12.73	12.51	12.07	11.90	12.03	11.52
Benchmark - Greater than 3.0 months												
*(current year's cash and cash equivalents / (total expenses - depreciation - interest costs) * 12*												
Current Ratio												
This ratio represents Council's ability to meet debt payments as they fall due. It should be noted that Council's externally restricted assets will not be available as operating funds and as such can significantly impact Council's ability to meet its liabilities.	3.79	4.32	4.12	4.11	4.18	4.29	4.43	4.60	4.86	5.15	5.49	5.89
Benchmark - Greater than 1.5												
current assets / current liabilities												
Unrestricted Current Ratio												
To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.	2.64	3.66	4.00	3.80	3.76	3.89	4.04	4.23	4.50	4.81	5.17	5.59
Benchmark - Greater than 1.5												
current assets less all external activities/ current liabilities, less specific purpose liabilities												
Own Source Operating Revenue												
This ratio measures the level of Council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. Council's financial flexibility improves the higher the level of its own source revenue	69.19%	79.63%	75.66%	75.89%	75.98%	76.65%	76.78%	76.92%	77.07%	77.23%	77.41%	77.60%
Benchmark - Greater than 60%												
rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)												
Debt Service Cover Ratio												
This ratio measures the availability of cash to service debt including interest, principal, and lease payments	0.17	7.85	5.11	6.00	7.06	7.52	7.99	8.47	8.98	9.48	10.03	10.25
Benchmark - Greater than 2.0												
operating result before interest and depreciation (EBITDA) / principal repayments +borrowing interest costs												
Interest Cover Ratio												
This ratio indicates the extent to which Council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon Council's operating cash	1.26	16.01	10.30	12.04	13.71	15.23	16.97	18.95	21.29	23.97	27.21	28.62
Benchmark - Greater than 4.0												
operating result before interest and depreciation (EBITDA) / interest expense												
Capital Expenditure Ratio												
This ratio indicates the extent to which Council is forecasting to expand its asset base with capital expenditure spent on both new assets and replacement and renewal of existing assets	0.65	1.33	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10

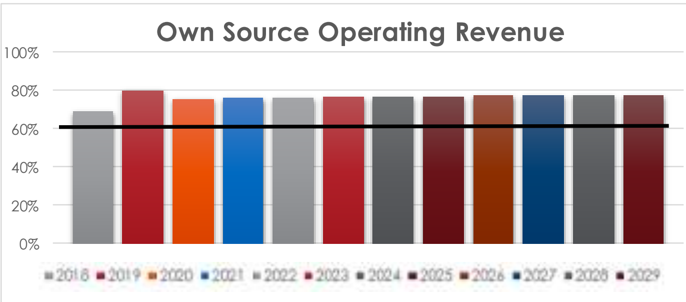
KEY FINANCIAL RATIOS CONTINUED

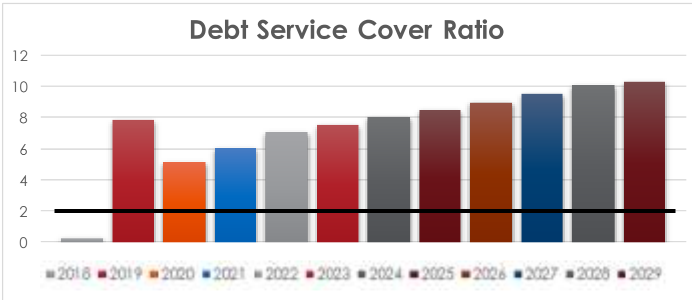


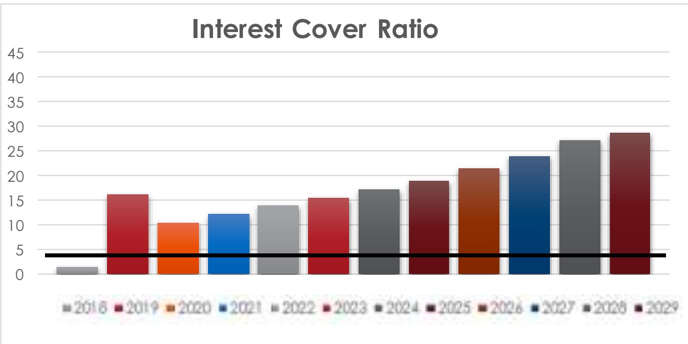


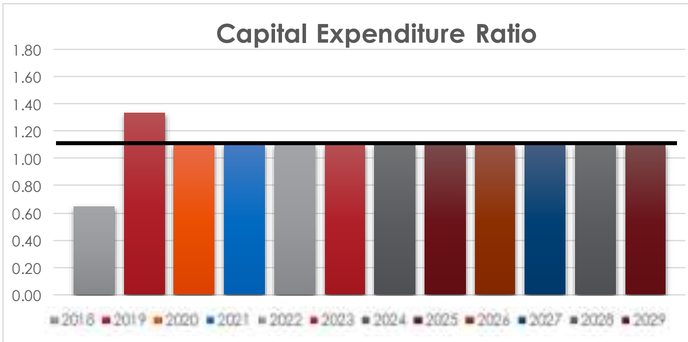












IMPROVING OUR FINANCIAL POSITION FURTHER

Whilst significant improvements have been made over the past number of years, Council still has a long way to go in ensuring a strong financial position.

Council is committed to assisting the community achieve the objectives outlined in the community's Broken Hill 2033 Community Strategic Plan. This includes addressing current goals while planning to meet the requirements for the future. To do this, Council must be strong.

A strong Council is one that has the financial capacity to meet its short and long term needs. A Council that can withstand financial shocks without burdening the community with increased rates or reduced services. Council is carrying out and will continue to review the following initiatives to maximise the ability to meet the community's needs in service provision.

IMPROVING EFFICIENCY OF COUNCIL OPERATIONS

Council will adopt a continuous improvement approach to achieving greater efficiency in service delivery. This will include monitoring of performance, targeted reviews of current processes and procedures, the introduction of new technology and an emphasis on staffing capacity development.

IMPROVING ASSET MANAGEMENT

Council currently manages a large number of assets, some of which may be surplus to community needs. Undertaking a review and possible rationalisation of assets will assist in reducing operational costs.

REVIEW OF COMMUNITY EXPECTATIONS AND SERVICE LEVELS

Council needs to ensure that it is providing services and infrastructure that meets community needs and is within the community's ability to pay.

To ascertain community expectations, service levels reviews are being undertaken.

INCREASING STATE AND FEDERAL FUNDING

Council needs to continue to aggressively pursue all avenues for State and Federal grants which may improve its position. This includes lobbying Local Members and Government Ministers for additional funding.

INCREASING RATE REVENUE

To maintain services at their expected level, the community may consider an increase in rates is appropriate. This option will not be imposed without significant community consultation and consideration of affordability.

SCENARIOS AND SENSITIVITY

Long term planning is critical for effective delivery of Local Government services, perhaps more critical than many other organisations due to Council's role in infrastructure provision. At Broken Hill, Council manages over $400m in infrastructure assets with varying lifecycles, all requiring investment to ensure continued service to our community.

When planning for the long term, we rely on assumptions and we rely on strategies being successful. For example, Council is reliant on grants and contributions for 20% of its overall income and our plan assumes that these grants will continue into the future. We assume that we will be successful in our strategies to reduce costs. We assume our rate base will remain the same and we assume that we will not be faced with any financial shocks.

Long term planning provides decision makers and stakeholders in our community with a view how our goals can be achieved, but what if things don't go as planned?

Our plan is sensitive to a number of internal and external drivers including: Council decisions, operational performance, the external economic environment, State and Federal Government decisions including changes to legislation. The following examples demonstrate some of Councils main sensitivities and outline the impact of various scenarios on Council's long term financial position.

SCENARIO 1 – 'Business as Usual'

Let's assume that Council stopped the hard work and strategies in place to increase revenue and reduce expenditure by way of service reviews and Council continues the way the business currently operates and continued to provide services without creating efficiencies, reducing expenditure or increasing income.

The chart below shows Council's operating losses continuing to increase. Council would be unsustainable and unable to renew assets, resulting in reduced service levels through significant deterioration which may render some assets unusable or unsafe. If capital expenditure is maintained at an acceptable rate, Council under this scenario would have a cash reduction of more than $16m as opposed to the balanced scenario, would not be able to renew assets at an appropriate rate and would not return to surplus within the planning period.

SCENARIO 2 – Special Rate Variation

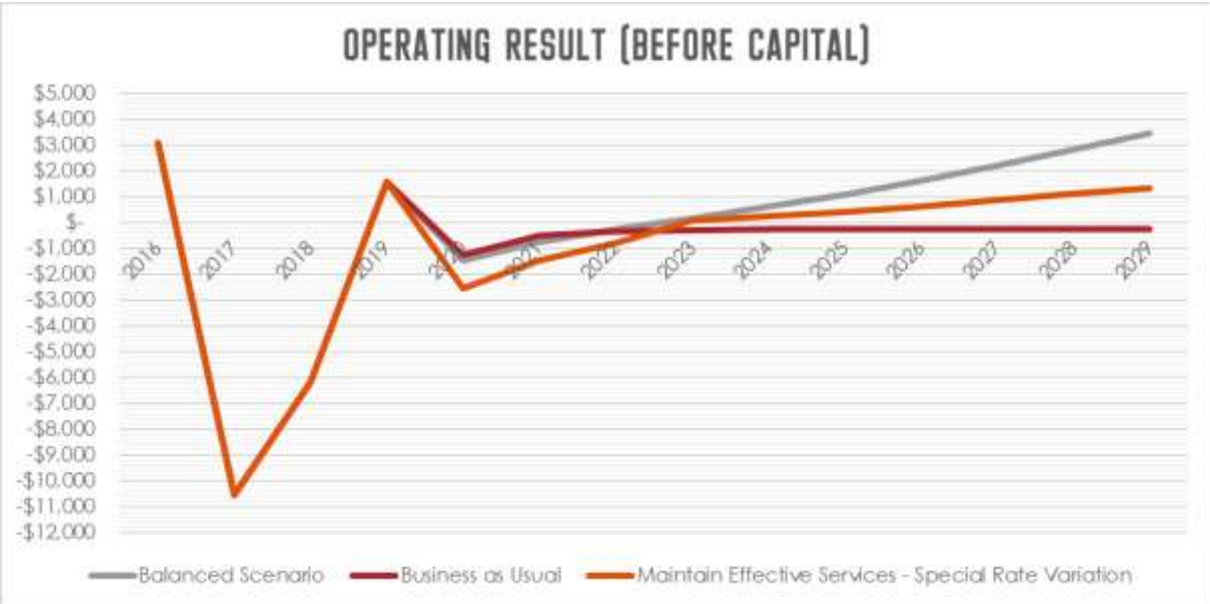
This scenario assumes that current service levels across the city are maintained adequately and effectively throughout the city for the planning period and that service levels are not reviewed.

Council currently does not maintain all services and assets across the city to the standard that is necessary for ongoing asset and financial sustainability. Council does what it can do with the resources available, however is fast learning (through data collection and the development of asset management plans) that this is not even close to what is required for adequate maintenance of upkeep of Council assets.

To achieve adequate maintenance and upkeep of Council's assets, Council would be required to initiate a 'special rate variation' (SRV) for three consecutive years.

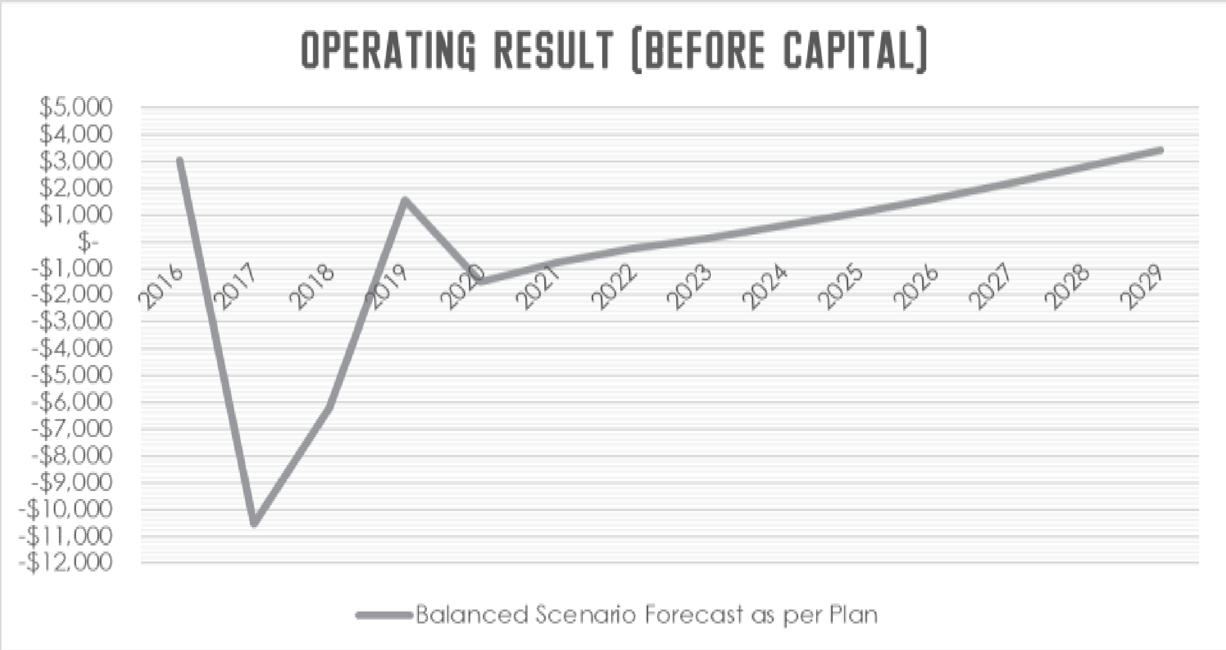
The SRV required is based upon the assumption that to maintain current service levels effectively that there will be no ongoing savings in employee costs, materials or contracts.

A SRV for three consecutive years will be required to ensue appropriate cash reserves are held and sustainable asset renewals are maintained throughout the planning period.



SENSITIVITY ANALYSIS

The LTFP Balanced Scenario (proposed) is demonstrated below.

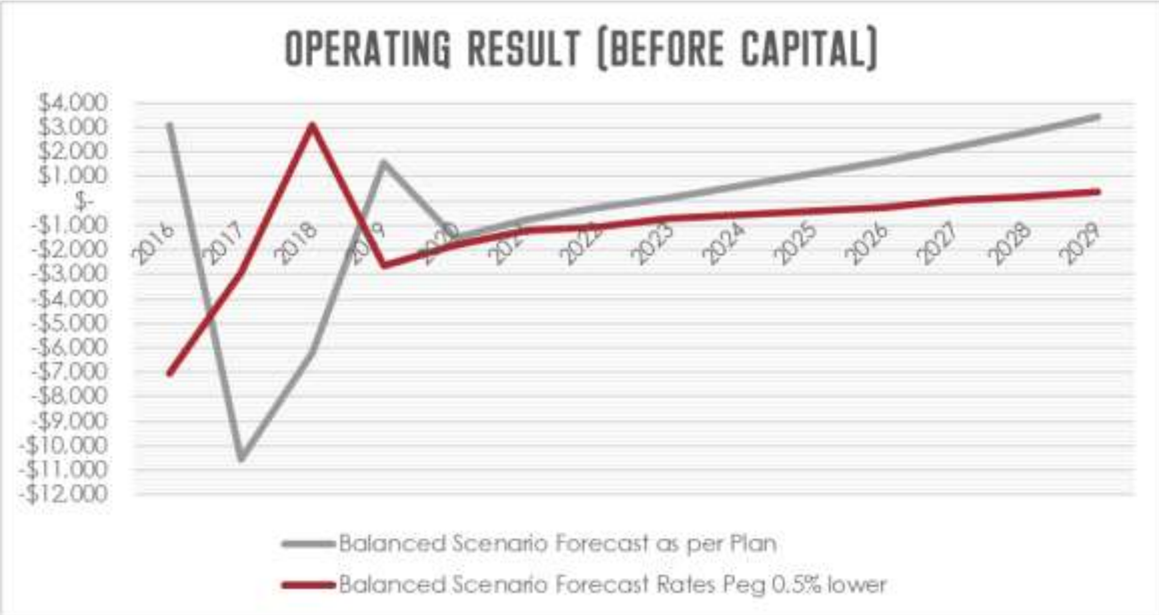


The below section illustrates the financial effect on Council's result if certain assumptions were to change.

Rates

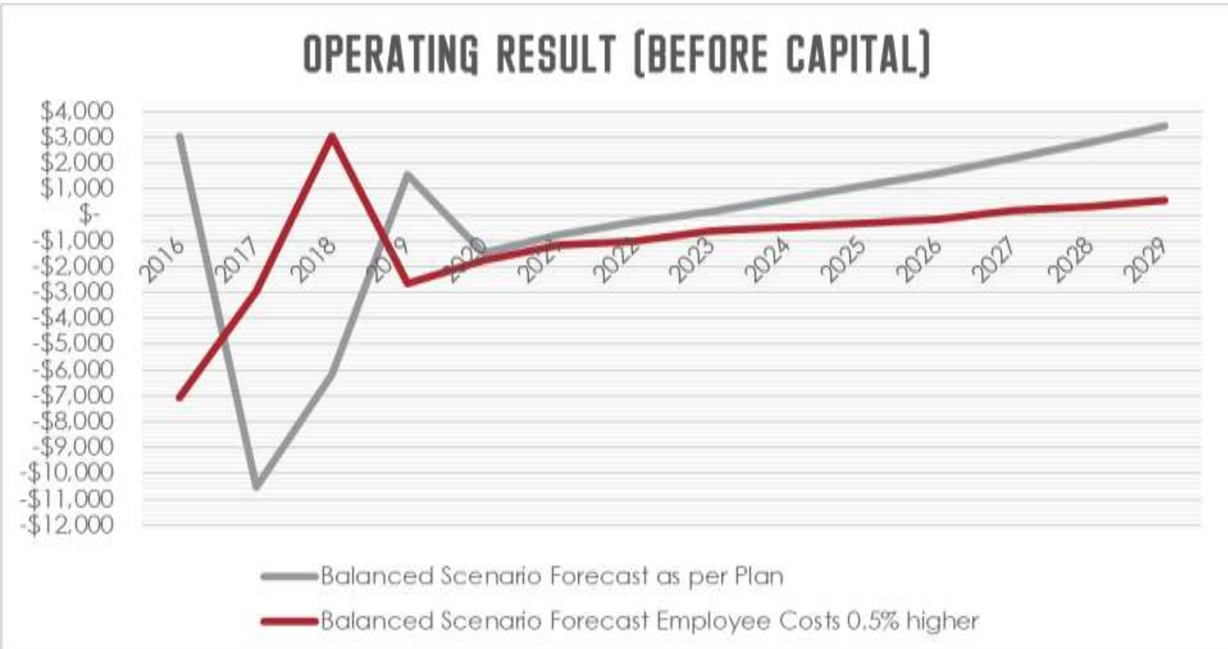
Rate income comprises of 51% of Council's total operating income. Rates are capped by the State Government and Council can only increase rates above the rate pegging percentage if a special rate variation is submitted and approved.

If rates are held 0.5% pa below the predicted rate pegging percentage, the effect on the LTFP Balanced Scenario operating result before capital grants and contributions is shown below.



Employee Costs

Employee costs comprise of 46% of Council's operating expenditure. Salary growth is largely subject to the Broken Hill City Council Consent Award. Council has factored in the current award increase annually for employee expenses in the Balanced Scenario. If the award increases by a further 0.5% in future years, the effect on the LTFP Balanced Scenario operating result before capital grants and contributions is shown below.



Combined Impact

The chart below shows the combined impact of a 1% unfavourable variance in our assumptions for both Rates and Employee Costs.

MEASURING PERFORMANCE

Council will continue to report on and monitor its financial performance based on standard financial indicators.

These indicators include:

- **Operating Ratio**

This measures the capacity of Council to contain its operating expenditure within its operating revenue allowing for asset renewals funded through depreciation. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than 0%. The current operating ratio based on the proposed 2019/2020 budget is -5.07. It is forecast that this ratio will be above the benchmark in 2023, when an operating surplus is achieved.

- **Cash Expense Ratio**

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash-flow. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than 3 months. The current cash expense ratio based on the proposed 2019/2020 budget is 13.25 months.

- **Current Ratio**

This ratio represents Council's ability to meet debt repayments as they fall due. It should be noted that Council's externally restricted assets will not be available as operating funds and as such can significantly impact Council's ability to meet its liabilities. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than 1.5. The current ratio based on the proposed 2019/2020 budget is 4.12.

- **Unrestricted Current Ratio**

This ratio measures the adequacy of working capital and its ability to satisfy the obligations in the short term for the unrestricted activities of Council. The minimum benchmark for this ratio as advised TCorp and the Local Government Accounting Code for NSW is greater than 1.5. The unrestricted current ratio based on the proposed 2019/2020 budget is 4.0.

- **Own Source Operating Revenue Ratio**

This ratio measures fiscal flexibility. It is the degree of reliance that Council places on external funding sources such as operating grants and contributions to fund its day to day operations. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than 60%. The own source operating revenue ratio based on the proposed 2019/2020 budget is 75.66%.

- **Debt Service Cover Ratio**

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than 2. The debt service cover ratio based on the proposed 2019/2020 budget is 5.11.

- **Interest Cover Ratio**

This ratio indicates the extent to which Council can service its interest bearing debt and take on additional borrowing. It measures the burden of the current interest expense upon Council's operating cash. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than 4. The interest cover ratio based on the proposed 2019/2020 budget is 10.30.

- **Building and Infrastructure Backlog Ratio**

This ratio shows what proportion the backlog is against the total value of Council's infrastructure. Council is in the process of revaluations for all building and infrastructure assets as well as an in-depth review of all assets to calculate the current backlog.

- **Asset Maintenance Ratio**

This ratio compares actual vs required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing. Council's ratio based on the proposed 2019/2020 budget is 1.0.

- **Building and Infrastructure Asset Renewal Ratio**

This ratio is used to assess the rate at which these assets are being renewed relative to the rate at which they are depreciating. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than or equal to 100%. Council's ratio based on the proposed 2019/2020 budget is 110%.

- **Capital Expenditure Ratio**

This ratio assess the extent to which a Council is expanding its asset base through capital expenditure on both new assets and the replacement and renewal of existing assets. The minimum benchmark for this ratio as advised by TCorp and the Local Government Accounting Code for NSW is greater than 1.10. The capital expenditure ratio based on the proposed budget for 2019/2020 is 1.10.

We will also ensure compliance with the accounting and reporting requirements of the Local Government Code of Accounting Practice, including annual auditing of accounts and provision of information to the community and the Division of Local Government.

QUARTERLY REPORTING

Performance in regard to Operational Plan budgets will be monitored and reported to Council each quarter. Reports will include budget variations and reviews.

ANNUAL REPORTING

Council will prepare annual reports to the community, in accordance with the requirements of the *Local Government Act 1993* and the *Integrated Planning and*

Reporting Guidelines. The report will include a summary of financial performance and achievements against delivering the outcomes of the Operational Plan and Delivery Program.

REVIEW OF THE LONG TERM FINANCIAL PLAN

The LTFP will be reviewed annually, in conjunction with the review of the Operational Plan 2019/2020 and Delivery Program 2019 - 2021 and financial projections will be revised and updated.

CONCLUSION

The Balanced Scenario is ambitious but achievable, affordable and significantly improves the financial position of Council allowing Council to continue to meet the expectations of the community and maintain service levels.

It is proposed that further community engagement be carried out to discuss service level expectations and affordability to maintain or provide additional services. These reviews began in 2016/2017 and will continue through the current term of Council. It is expected significant efficiencies will be found through this process as well as ensuring service delivery meets community expectations within the financial constraints in which Council operates.

There is currently a heavy reliance on the rates revenue generated from the mining sector. To minimise the risk of Council's exposure to a downturn in the local mining industry, a shift of the percentage allocation from the mining sector to the residential sector has been factored into the rating structure. As TCorp and the Office of Local Government have highlighted in previous reports, this is an important factor in ensuring the financial future for Council as it mitigates the impact of any sudden mining downturns/cessations as well as preparing Council and the community for the end of mine life.

Council must develop strategies during 2019/2020 to ensure the forecast efficiency gains and productivity improvements are realised and this will be monitored annually.

Council remains committed to ensuring internal efficiencies are realised before considering increasing the financial burden on the community.

BROKEN HILL
CITY COUNCIL

www.brokenhill.nsw.gov.au