Brighton Council

Financial Management Strategy & Long-Term Financial Management Plan 2022 - 2032

July 2021

Brighton going places

We acknowledge the traditional owners who once walked this country: the Mumirimina people.

The Mumirimina belonged to the Oyster Bay tribe. This was the largest tribe in Tasmania and covered 8000 square kilometres. kutalayna levee in Brighton was a significant meeting place where hundreds of generations of Aboriginal families hunted, gathered, corroboreed, camped and traded.

In the course of colonisation, dispossession of the Mumirimina was early, rapid and extensive.

We acknowledge the Tasmanian Aboriginal Community today as the continuing custodians of this land, and pay our respects to Elders past and present. Through our words and actions we strive to build a community that reflects and respects the history and hopes for all the people of Brighton.

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1.0 Executive Summary

1.1 Introduction

A key component of sound financial management is the preparation of longer-term financial strategies, plans and budgets. The development and adherence to longer term plans is critical to ensure the Council remains financially sustainable.

The key reasons for the development of a long-term financial framework are:

- To establish a financial framework over the next ten years to ensure the Council's strategic objectives are achieved.
- To provide an assessment of the financial resources required to accomplish the objectives and strategies included in the Council's Strategic Plan
- To establish a basis to measure the Council's adherence to its policies and strategies; and
- To assist Council to comply with sound financial management principles, in accordance with the *Local Government Act 1993* and to plan for the long-term financial sustainability of the municipal area.

The Financial Management Strategy and Long-Term Financial Plan are not intended to be static but will be reviewed annually as part of the annual planning process so as to incorporate any future changes in council policy, priorities, new initiatives or strategic direction.

1.2 Financial Management Strategy

The Financial Management Strategy is an important part of the overall financial management activities of Council. The table following demonstrates the context within how this document fits into the overall financial management framework of Council.

Impacts

Internal

Strategic Planning
Communication Strategies
Other Policy Decisions

External

Local Government Act
Regulations
Accounting Standards
Community
Government Grants
Other External Factors

Financial Management Activities

Long-term Financial Planning
Budgeting
Management Reporting
Financial Reporting
Revenue Collection
Maintenance of Accounting Records
Internal Control Framework
Asset Management Plan
Cash Management

- Investment
- Manage Debt Portfolio
- Cash Flow Budgeting

Roles

Elected Body
Set Policy
Set & Adopt Annual Budget
Corporate Performance Management
Delegate Authority
Community Consultation
Receive/Review Information

Management
Implement Council Decisions
Advise/Inform Elected Body
Set Administrative Policy
Prepare Annual Budget
Set Standards & Measure

The strategy has been prepared to guide Council in its financial decision-making ensuring that the following principles are followed:

- The community's finances will be managed to provide sustainable and responsible financial management of the community's resources.
- Council will endeavour to maintain community wealth to ensure that the wealth enjoyed by today's generation may also be enjoyed by tomorrow's generation.
- Council's financial position will have a margin of comfort aimed to absorb the impact of unexpected developments, without the necessity for substantial increases in rates.
- Resources will be allocated to those activities that generate community benefit.
- Managing the legacy impact of water reform to ensure the organisation is not financially burdened.
- Applying user pays principles where it is appropriate to do so and there is a clearly identifiable cohort benefit from using those facilities and services.

The Strategy assists in the development and revision of long-term financial planning and determines financial boundaries for delivery of operational and capital plans. The key focus of the Financial Management Strategy is to demonstrate and maintain financial sustainability in the medium and long term whilst achieving the strategic objectives of council.

1.3 Long Term Financial Plan

The Long-Term Financial Plan has been developed to assist council in adopting a budget within a longer term prudent financial framework. The key objective of council's financial plan is financial sustainability in the medium to long term, while linking to council's objectives as specified in its Strategic Management Plan. The Plan is a guideline for future action and encourages council to take into consideration the future impact that decisions made today may have on council's long-term sustainability.

One of the program objectives of The Strategic Plan is to *'provide sustainable and responsible financial management of the community's resources*. The Financial Plan forms part of the strategy to achieve these outcomes, with the Strategic Plan providing for the development of a rolling financial plan.

The Long-Term Financial Plan establishes the strategic financial direction for the Council to meet the funding and investment challenges that lie ahead in the next ten years. It is an essential tool in delivery of the Strategic Plan and demonstrates council's commitment to undertake sound financial planning to ensure the future prosperity of its community. The following table demonstrates the context of how the Long-Term Financial Plan fits into Council's overall financial management framework.

Strategic Plan

↓

Long Term Financial Plan

↓

Annual Plan and Estimates

↓

Financial Statements

The Long-Term Financial Plan is intended to achieve the following objectives in the ten year time frame:

- Maintain the existing range and level of service provision and develop the capacity to grow and add new services where appropriate;
- Maintain a strong cash position, ensuring the Council remains financially sustainable in the long term;
- Achieve underlying operating statement surpluses (excludes non-operational items such as granted assets and capital income);
- Maintain a low debt profile below prudential guidelines; and
- Continue to pursue recurrent grant funding for strategic capital funds from the state and federal government.

2.0 Snapshot of Brighton Council

The following table provides a snapshot of Brighton Council.

Area (sq km)	173
Population (est.)	18,123
Number of Rateable Valuations	8,300
Total Rates Levied	$10.15
Total Operating Income (2020/21)	$15.64m
Number of FTEs	69
Total Assets	$200m
Roads Maintained	181km

The Brighton Council held its first meeting on 19th November 1863.

The larger residential areas within the municipal boundaries are Brighton, Old Beach, Bridgewater, Gagebrook and the historic precinct of Pontville. Tea Tree remains the only predominantly rural area.

The Brighton municipality is recognised as one of the fastest growth areas in Tasmania.

3.0 Financial Management Strategy

3.1 Introduction

In preparing the Financial Management Strategy, the following principles of sound financial management have been complied with:

- Prudent management of financial risks relevant to debt, assets and liabilities.
- Provision of reasonable stability in the level of rate burden.
- Consideration of the financial effects of Council decision on future generations.
- Full, accurate and timely disclosure of financial information.

It is important to note that the Financial Management Strategy is not about deciding on what Council will spend on individual projects. The Financial Management Strategy is about the various strategies that will effectively determine the amounts of funds that Council will have at its discretion in future years.

The Financial Management Strategy and Long-Term Financial Plan is a guiding document to consider when developing budget estimates, rather than a document that is dictating future decision of Council. The long-term financial estimates will be revisited and updated regularly to reflect any strategies that arise from the Council planning process.

The Strategy establishes the financial framework under which sound and sustainable financial decisions can be made.

3.2 Financial Principles

The following principles serve to guide Council in setting its financial management strategies. They are given practical effect through strategies.

- **The Community's finances will be managed to provide sustainable and responsible financial management of the community's resources.**
  Council will ensure it only raises the revenue it needs, and does so in an efficient, sustainable, and equitable manner. Council will manage community funds effectively and ensure information regarding its financial management decisions is accessible to the community.

- **Council will maintain community wealth to ensure that the wealth enjoyed by today's generation may also be enjoyed by tomorrow's generation.**
  Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to recurrent expenses being met from recurrent revenue (the full cost of the service it consumes). Council will invest sustainably in community assets to maintain (and potentially enhance) service levels.

- **Council will manage the legacy impact of water reform to ensure the organisation is not financially burdened.**
  Council will aim through the owner's representatives that forecast profits of the Water Corporation are maintained.

- **Council will apply user pays principles where it is appropriate to do so and there is a clearly identifiable cohort benefit from using those facilities and services.**
  Council will ensure that the user pays approach continue as council's preferred revenue collection method.

- **Council's financial position will have a margin of comfort aimed to absorb the impact of unexpected developments, without the necessity for substantial increases in rates.**
  Council will ensure it accumulates and maintains sufficient financial resource and has the borrowing capacity to deal with volatility and unexpected events. Council's operational budget will be flexible enough to ensure that volatility in revenue and expenses as a result of any changing economic environment can be absorbed.

- **Resources will be allocated to those activities that generate community benefit.**
  Council will ensure that robust and transparent processes are in place for the allocation and prioritisation of resources through budgetary decision-making, as well as for choosing the efficient methods for delivering specific services and projects.
  Council will recognise its service obligations to the Brighton community in its decision-making.

3.3 Cash Reserves

Cash reserves require careful management to both achieve optimum investment incomes and to ensure that cash is available when needed for the planned expenditures. Funds will be invested in a manner that allows them to earn interest for as long as possible while retaining flexibility in accessing those funds for Council purposes.

Council will ensure that enough funds are on hand at 30 June each year to ensure that all current liabilities can be met. Future works are anticipated to be funded from a mixture of cash, rates, and debt where applicable. Council will ensure that its investment portfolio maximises its return on investments while maintaining an acceptable level of risk.

Outcome

- Council has enough cash to fund daily cash requirements and to enable flexibility to respond to opportunities as they arise.

Strategy

- Council targets to achieve a consistent underlying surplus result in the income statement in order to ensure the ongoing delivery of services and capital works programs.
- The budgeted cash position is sufficient to fund daily cash requirements as well as provide opportunities for funding of new acquisitions and short-term contingencies.
- Council invests in high security, low risk financial products (mainly term deposits and bank bills) in accordance with Council's investment policy to safeguard the Council's financial position.

Key Principles

- Council applies the outcomes of the adopted Long Term Financial Plan to the 2021/22 Budget and future budgets.
- Council monitors compliance with its Investment Policies.

3.4 Rating

Rates are an important source of revenue, accounting for 63% (2019/20) of the total operating income received by council annually. Planning for future rate increases has therefore been an important component of the financial planning process.

Council's principal objective with rating levels is to keep future rate increases to no more than CPI on a trend basis yet continue to adequately fund council's operations in conjunction with other funding sources to ensure ratepayers are paying for those services and infrastructure maintenance obligations they are consuming.

Rating Strategy

Council's rating strategy establishes a framework by which rates and charges will be shared by the community. Higher percentages of rates and charges as a proportion of total revenue represent greater financial independence and financial sustainability.

Council ensures it only raises the revenue it needs and does so in the most efficient and equitable manner possible. Council must balance its service levels with the needs and expectations of the community and set appropriate levels of rates to adequately fulfil its roles and responsibilities.

The following factors influence the level of rates and charges:

- Distribution and level of Commonwealth and state funding
- Socio-economic profile of our community
- User-pays policies
- Level and range of services including the level of regional responsibility.
- Current economic environment

In determining its rates each year Council gives consideration to its principle of keeping rates at or below CPI with respect for the current economic climate and the capacity of the community to pay for services.

Council has a principle to apply a flat rate across all residential properties, but currently with a reduced rate across Bridgewater, Herdsman Cove and Gagebrook. Council varies its rate across Non-residential properties to spread the rate burden fairly across the community with businesses rates based on a percentage of the "Assessed Annual Value" (AAV). The AAV is the higher of the rental value or 4% of the property value.

Rating Structure

The rating structure determines how the Council will raise money from properties within the municipal area. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property.

Council has established a rating structure comprising of two key elements – general and service rates. The general rates are levied based on an Average Area Rate (AAR) by suburb for all residential properties and the Annual Assessed Value (AAV) for all non-residential properties as determined by the Valuer General. Council considers property values are a poor method to reflect the capacity of a homeowner to pay but are generally a good method to reflect the non-residential sector's capacity to pay.

The service rates currently cover waste management services. This user pays component is designed to reflect payment based on usage of services provided by Council.

Outcome

- To provide Council with a reasonable degree of consistency and stability in the level of the rates burden.
- To shield ratepayers from rate volatility following revaluations.
- To maintain rating levels that will build community wealth through the achievement of underlying surpluses.

Strategy

- Council considers the most appropriate rating strategy to provide adequate funds to:
  - a) Achieve underlying surpluses in the income statement;
  - b) Achieve a sustainable cash flow; and
  - c) Fund capital projects.

Key Principles

- Council retains its valuation base.
- A consistent rate increase reflecting growth and CPI is applied to the Long-Term Financial Plan.
- Council monitors compliance with its rates and charges policy.

3.5 Fees & Charges

Council has for many years recognised the principles of user pays. From a merit viewpoint this approach is correct in that it recognises the situation where certain services are consumed by a discrete part of the community, who may or may not be ratepayers or residents.

The approach of user pay does not necessarily mean that every service or function are subject to this principle, nor does it constrain council from exempting some sectors of the community from paying for the service under a social justice policy or from recognising some general public service function.

Outcome

- To continue the user pays approach as council’s preferred revenue collection method where a direct recognisable service is provided.
- To increase the overall level of fees and charges by CPI.

Strategy

- Review all fees and charges on an annual basis as part of the budgetary process.

Key Principles

- A consistent fees & charges increase is applied to the Long-Term Financial Plan.

3.6 Other Revenue Sources

The major source of funds outside of rates and user charges is grants, Commercial Activities and investment returns from the Water and Sewerage Corporation.

The main grant received by Council is typically the Federal Assistance Grant provided to all Local Government by the Commonwealth. Council actively seeks additional grant funding for capital or recurrent projects within our municipality.

Council as part owner of TasWater receives an important dividend which is reflective of its percentage ownership of the business.

Council undertakes commercial activities including the provision of professional services to other councils which provides a significant and continuously growing source of revenue.

Outcome

- To continue to seek an equitable share of funding for Local Government from the Commonwealth and State Governments.
- Continue to explore possible funding opportunities.
- Secure the long-term revenue opportunities associated with Shared Professional Services to other councils.
- Receive an equitable share of returns from TasWater in recognition of council's investment.

Strategy

- Apply for grants as they become available.
- Research and identify revenue streams that could complement/substitute for existing sources.
- Expand the opportunities available through the shared Professional Services.
- Support the expansion of Microwise Australia.
- Investigate the rationalisation of council assets to allow for some funding from the sale of assets surplus to council's core needs.
- Through the owners' representatives, ensure forecast profits of the TasWater are maintained.

Key Principles

- Council actively pursues funding aligned with the Council's Strategic Plan objectives,
- Supports the revenue opportunities of Microwise Australia and the shared Professional Services.
- Manage the legacy impact of water reform to ensure the organisation is not financially burdened.

3.7 Debt Levels

Brighton has for many years maintained a zero-debt profile. Debt will be regarded primarily as a tool to be used in a strategic perspective to provide community assets.

Debt will be considered:

- In the context of the strategic objectives of council

- In the context of long-term financial forecasts and objectives
- As funding for long term infrastructure asset creation
- As a means of spreading the cost of infrastructure over the ratepayers who use it

The Long-Term Financial Plan for the period 2022 to 2032 does not contain any new borrowings. However, if future reviews of the plan include borrowings, then the strategies following will apply.

Outcome

- To continue to maintain a low or zero debt profile.

Strategy

- Council considers borrowing for new capital projects only when surplus operating results are being achieved in the operating statement.
- Balance of any surplus funds will be used to retire debt or minimise the use of new debt.
- Any new loan borrowings are to be used to fund intergenerational capital investments where the community benefits are long term and other sources of funding are not available.
- Council will remain a low or zero debt user by maintaining a debt service ratio (principal and interest repayments as a ratio of operational revenue) between 0 and 4%.

Key Principles

- Council borrows funds for capital projects that provide intergenerational equity.
- Council retains its debt servicing ratio between 0 and 4% over the life of this Long-Term Financial Plan.
- Council will only use debt to fund capital expenditure.
- The term of any debt shall not exceed the life of the asset it is used to fund.

3.8 Funding of Infrastructure

Council supports the principle to fully fund the renewal of assets. This principle applies alongside the principle of keeping future rates at or below CPI.
Council has a limited number of options to fund the renewal and maintenance of its major infrastructure.

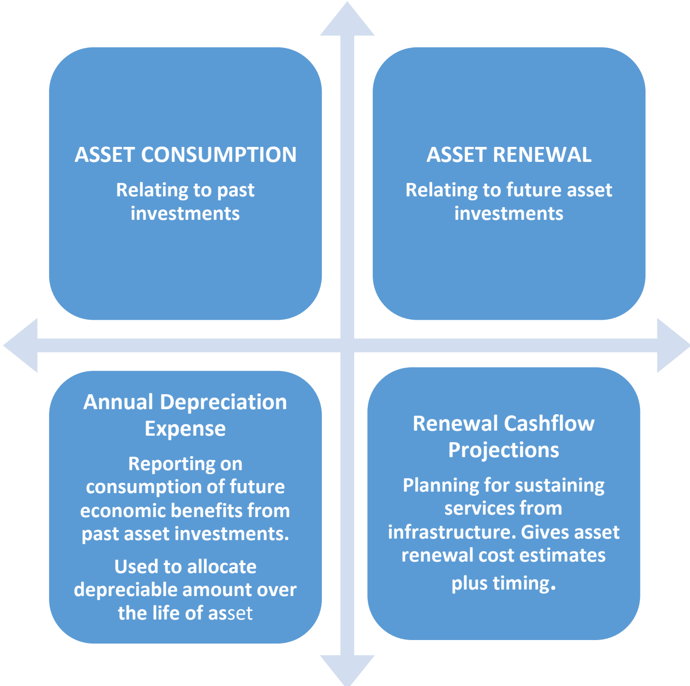
Options which could be applied individually or in combination are:

- Raise additional revenue.
- Changing the composition of capital spending to ensure adequate renewals.
- Re-evaluation of service levels and standards.
- Choosing low-cost strategies over high-cost asset strategies.
- More efficient use and operation of assets.
- Making forward provision for renewal by limiting debt to create future borrowing capacity.
- Carrying out cost/benefit analyses on the services being provided.
- Asset rationalisation and review of asset growth strategies.

Emphasis is placed on understanding and planning for long-term infrastructure funding needs to effectively allow for the ongoing funding of:

- Existing services-operations, maintenance, asset renewal, asset upgrade and proposed variations.
- New services and assets required.

The key objective of Council's Asset Management is to maintain Councils existing assets at desired condition levels. If funding is not sufficiently allocated to asset renewal, then Council's investment in those assets will reduce along with the capacity to deliver services to the community.



The Council has developed an Asset Management Policy. The policy is supported by an Asset Management Strategy, which details specific actions to be undertaken by Council to improve asset management capability and achieve specific strategic objectives. Asset Management Plans are subsequent components where long term plans (ten years and beyond) outline service and funding levels for each asset category.

Outcome

- To have a long-term equitable funding plan for adequate renewal of council assets as well as capacity for new infrastructure to cater for council's desired levels of service to the community.
- Council's assets will be fit for purpose to provide the desired level of service to the community.
- To increase funds available for the development and maintenance of facilities and infrastructure consistent with responsible asset management.
- To accommodate the organisations cash flow needs to enable it to carry out asset maintenance activities and renewal and replacement of assets, as set out in the asset management plans – providing the asset management plans are based on financially sustainable service levels.

Strategy

- Continue to improve the asset base and review the need to renew assets.
- Continue to improve asset management practices with a high priority to have adequate asset assessments (condition and fit for purpose assessments) to enable reasonable long term capital renewal forecasts which can be directly linked to long term financial planning and annual budgets.
- Implement funding plans that meet the renewal and new funding requirements over the life of asset management plans.
- Council updates asset management plans for all classes of the Council's assets with a focus on ensuring the assets are fit for purpose and provide the desired level of service to the community.

Key Principles

- Council, having established its critical renewal investment levels, continues to regularly update Asset Management Plans for all classes of Council assets incorporating service level assessments.
- Council, as part of the review of its Asset Management Plans, determines how service levels will be reached including a combination of improved revenue raising, review of existing service levels, asset disposal and composition of the asset portfolio.
- Council allocates sufficient funds to the renewal of existing assets and plans the funds required for constructing new assets.
- Council regularly updates the 10 Year Asset Renewal Program to ensure that Council adequately maintains its existing asset base.

3.9 Operational Budget (Recurrent Funding)

The Council provides a diverse range of services as detailed in the Annual Plan. All such services are funded through the operational budget derived from rates, charges, and other income each year. Ultimately, the Council determines the range and level of services it is able to offer the community via its strategic planning process. This is finalised through the annual budget process with the Long-Term Financial Plan providing preliminary guidance based on the service delivery model from the previous year. One of the key objectives of the Council's Long Term Financial Plan is to maintain existing service levels and maintain a satisfactory operating position over the life of the Long-Term Financial Plan. Managing growth and the range and level of services provided will remain an ongoing challenge.

Outcome

- Council generates sufficient funds from operations to continue to provide the expected level of services to our community.

Strategy

- Council determine how desired service levels will be reached including a combination of improved revenue raising, rationalisation and review of existing service levels.
- Allow for increases in operating costs for current services at the rate of CPI.

Key Principles

- Council utilises its Strategic Plan to determine the range of service to be provided to the community through the annual budget process based on an analysis of organisational and financial capability.

4.0 Financial Targets

It is important to note that ratios are only indicators of financial performance and should not be considered in isolation when determining sustainability. It is important to consider the ratios over time to consider trends. The results taken over time indicate good or poor performance.

4.1 Asset Sustainability Ratio: Statutory Ratio

This ratio helps to show whether your council is replacing assets as their service potential is used up.

FORMULA

$$\frac{\text{Capital expenditure on replacement of assets}}{\text{Depreciation expense}}$$

EXAMPLE

$$\frac{\text{Only replacing \$50 worth of assets}}{\text{Using up \$100 worth of assets}} = 50\%$$

IN OTHER WORDS

$$\frac{\text{Money spent on renewing assets}}{\text{The decline in value of using the assets}}$$

TARGET

A percentage greater than 90%

Some assets are absolutely essential — think roads, bridges, water treatment facilities. Your community needs to continue to have access to these assets— the asset sustainability ratio helps to identify whether your council will be able to continue to provide these services to your community.

Caution: If your ratio averages less than 90% over time, your council is at risk of not being able to continue to provide services.
Drivers: To maintain service quality for your community, key assets need to be replaced.

Sensible actions	Questionable actions
Maintain a good asset maintenance plan	Delay replacing deteriorating assets
Stick to your plan	Increase the asset life by artificial means
Analyse variances by comparing actuals to budget	Acquire low-cost or poor-quality replacements
Be smart in the acquisition of assets	Don't have a quality asset management plan
Be prudent and recognise business needs	Major delays in maintenance OR not replacing deteriorating assets
Adhere to the agreed asset management plan	Disregard whole-of-life costs in the business case or no business case produced

4.2 Operating Surplus Ratio: Statutory Ratio

This ratio shows whether your council has the ability to cover its operating costs from operating revenues. Like all businesses, it costs money to run a council, and you need to be sure that you have sufficient revenue to meet your operating costs.

FORMULA	EXAMPLE
$\frac{\text{(Operating result excluding capital items)}}{\text{Operating revenue}}$	$\frac{\text{Loss of \$10}}{\text{Revenue of \$100}} = 10\%$

IN OTHER WORDS	TARGET
$\frac{\text{Surplus/(Deficit) from council operations}}{\text{Revenue generated from council operations}}$	Between 0 & 10%

Caution: If your ratio is negative, your council is not covering its costs, whereas a ratio greater than 10% means that your community members may be paying too much.

Drivers: To fund services and replace assets you should aim to, at least, break-even.

Sensible actions	Questionable actions
Aim for more than break-even to allow for a buffer	Have break-even targets that allow little flexibility
Stick to your budget	Ignore your budget
Analyse variances by comparing actuals to budget	Cut discretionary costs, such as training, maintenance etc
Investigate the reasons for differences in your budget	Cut costs with no justification
Correctly price services so the right quantity of services goes to the right places	Cut costs to break-even and looking for short-term solutions
Incur an efficient level and type of costs	Increase rates and charges to cover inefficient costs

4.3 Net Financial Liabilities Ratio: Statutory Ratio

This ratio explains the level of debt your council has compared to its operating revenues. Borrowing money to fund the construction of assets may be appropriate and ensures that the cost of those assets is shared equally by community members that will benefit from the asset over the long term. Your community expects that if council does borrow money, it does so within its means and does not over-extend itself.

FORMULA

$$\frac{\text{(Total liabilities less current assets)}}{\text{Operating revenue}}$$

EXAMPLE

$$\frac{\text{Council owes \$110 less cash of \$10}}{\text{Revenue of \$100}} = 100\%$$

IN OTHER WORDS

$$\frac{\text{What the council owes in net terms}}{\text{Revenue generated by council}}$$

TARGET

Less than 60%

Caution: Higher than 60% and your council may have borrowed too much.

Drivers: Community benefits resulting from the investment need to be greater than the costs.

Sensible actions	Questionable actions
Use moderate levels of debt for productive purposes	Maintain high levels of debt or have a policy of no debt
Recognise the benefits of debt to the community can be greater than the cost of debt	Use debt where the cost of the debt is higher than the community benefits gained through its use
Aim for beneficial debt and be able to service it	Amass debt you are not able to service
Recognise revenue increases required if the community wants added services	Increase revenues unreasonably to repay debt
Maintain some financial flexibility	Consume all financial flexibility
Stick to the plan/budget	Ignore the plan/budget

4.4 Cash Expense Ratio: Recommended Ratio

This ratio provides a guide as to the ability for your council to pay its costs within the short term. Like all businesses, your council needs to have access to money to meet its obligations. Your community expects that your council has properly planned for when payments associated with council activities are due.

FORMULA

$$\frac{\text{Current cash balance}}{\text{(Operating expenses less depreciation less finance costs)} \div 12}$$

EXAMPLE

$$\frac{\text{Cash at bank \$100}}{\text{(Expenses of \$220 less depreciation \$20)} \div 12} = 6 \text{ months}$$

IN OTHER WORDS

$$\frac{\text{Cash at bank}}{\text{Expected cash operating costs for one month}}$$

TARGET

3 months

Caution: Less than 3 months and council may experience a liquidity problem. You may not have the cash available to meet costs.

Too large a number may mean lost opportunities to earn a greater community benefit by using the cash to provide services or infrastructure the community values.

Drivers: For simple transactional purposes you need to maintain a certain level of cash.

Sensible actions	Questionable actions
Maintain moderate levels of cash for shocks	Maintain insufficient cash for shocks
Recognise smaller councils need to hold higher levels of cash	Maintain too much cash and become lazy and inefficient
Take budgeting seriously with robust cash flow forecasting	Budget poorly
Be prudent and efficient to reduce expenses and improve ratio	Cut discretionary expenses to improve ratio
Stick to the plan/budget	Ignore the plan/budget
Be aware of interrelationships with other ratios	Ignore interrelationships with other ratios

4.5 Council-Controlled Operating Revenue Ratio: Recommended Ratio

This ratio provides an assessment of your council's financial flexibility. Not all revenues are in council's direct control but, as a rule of thumb, the more you control, the more flexibility you have and the lower the potential risks in terms of external shocks.

FORMULA

$$\frac{\text{Net rates, levies and charges and fees and charges}}{\text{Operating revenue}}$$

EXAMPLE

$$\frac{\text{Rates, utilities and charges etc of \$80}}{\text{Operating revenue of \$100}} = 80\%$$

IN OTHER WORDS

$$\frac{\text{Revenue where council sets the price and controls}}{\text{Total operating revenue received by council}}$$

TARGET

Higher the percentage = greater independance and flexibility to influence future results

Caution: Less than the suggested targets means a lower level of financial flexibility and implies that a more conservative management style is necessary.

Drivers: Need to consider, in the funding mix, how much revenue council can control.

Sensible actions	Questionable actions
Consider additional profitable commercial operations that may increase council-controlled revenues at acceptable risk levels	Unreasonably increase charges to increase level of council-controlled revenue
Recognise the differences in operations between smaller and larger councils	Operate the same as a large council even if you are a small council
Recognise small councils should have less debt, and greater cash holdings than benchmark and should aim for operating surpluses	Believe all councils should have the same debt, cash and surplus
Seek available grant income if it fits your future planning	Forego grant income to artificially increase the proportion of council-controlled revenues.
Be aware of interrelationships with other ratios	Ignore interrelationships with other ratios
Be aware of interrelationships with other ratios	Ignore interrelationships with other ratios

5.0 Long Term Financial Plan 2022 / 2032

5.1 Introduction

There are a number of dynamic variables that may influence the outcomes expressed in this Long Term Financial Plan. They include:

- Rating levels and supplementary rate income;
- Government grant revenue (both recurrent and capital);
- Asset revaluations (major impact on fixed asset value and depreciation);
- Asset sales;
- Mix of funding between capital works/special projects (new initiatives); and
- Level of growth factor applied to expenditure items/rate of expenditure/activity level.

The Long-Term Financial Plan provides a financial framework for the Council, enabling an assessment of the Council resources and assisting the Council to plan and fund operational expenditure while maintaining its asset base and new asset investments.

The Plan allows for new initiatives although new assets are generally tied to growth, expanded revenue sources or efficiency gains for projects or expansion of services. As these matters arise and are considered by council, the Plan will be updated to incorporate any future council decisions on policy, priorities, new initiatives, or strategic direction.

5.2 Assumptions

The following key assumptions have been applied in developing the Plan:

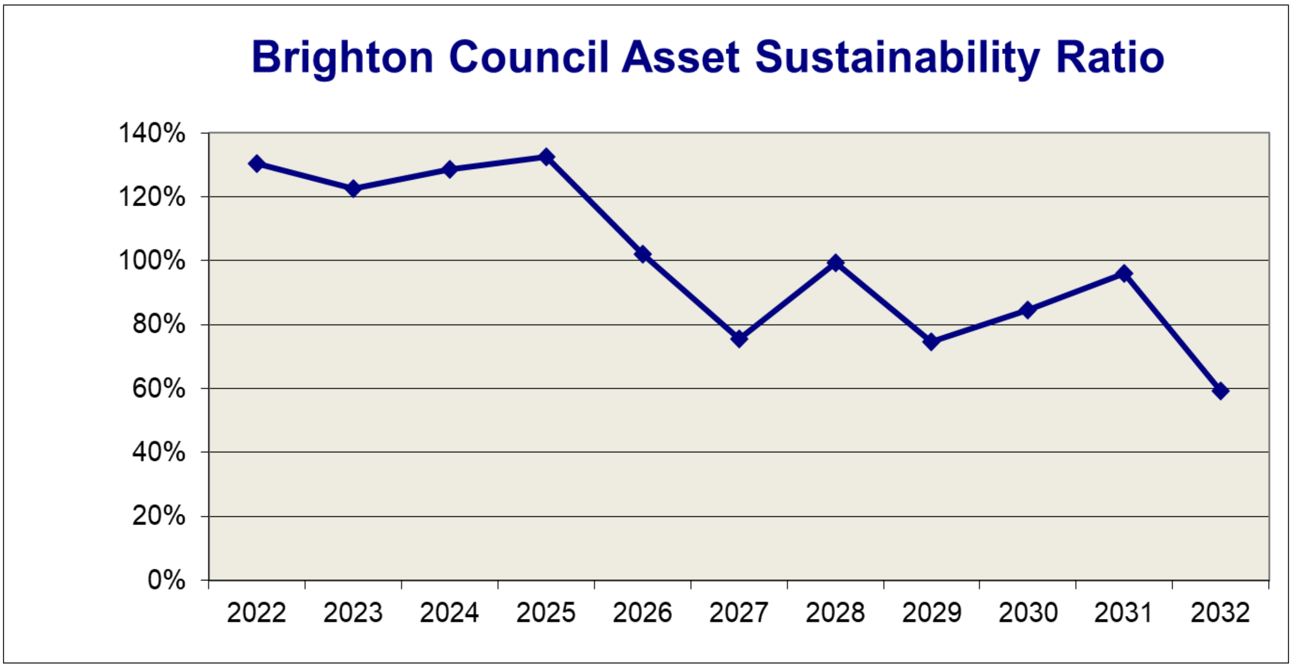
- Inflation rate of 2.5%
- Growth Rate of 2.0%
- Average depreciation 2.3% of infrastructure assets based on 2019/20 end of year financial results.
- A service expectation increase of .10%
- Keep rates at CPI.
- Future expansion of new assets is reliant on growth, additional sources of revenue or efficiency gains.
- Land sales have not been defined in the Long-Term Financial Plan as they are typically tied to offset strategic land purchases.
- TasWater return estimates are from publicly released estimates.
- Federal Assistance Grants are not always received in full each year, no payment timing affects have been identified.
- Sale of fixed assets is averaged based on previous history.
- Roads to Recovery capital grant receipts are spread evenly and increased by CPI.
- Cash includes cash equivalents and interest returns based on historical rates.
- Employee costs increase by CPI in accordance with expected Enterprise Agreements. Council growth forecasts are also factored into employee costs.
- External grant percentage of new capital of 40%.

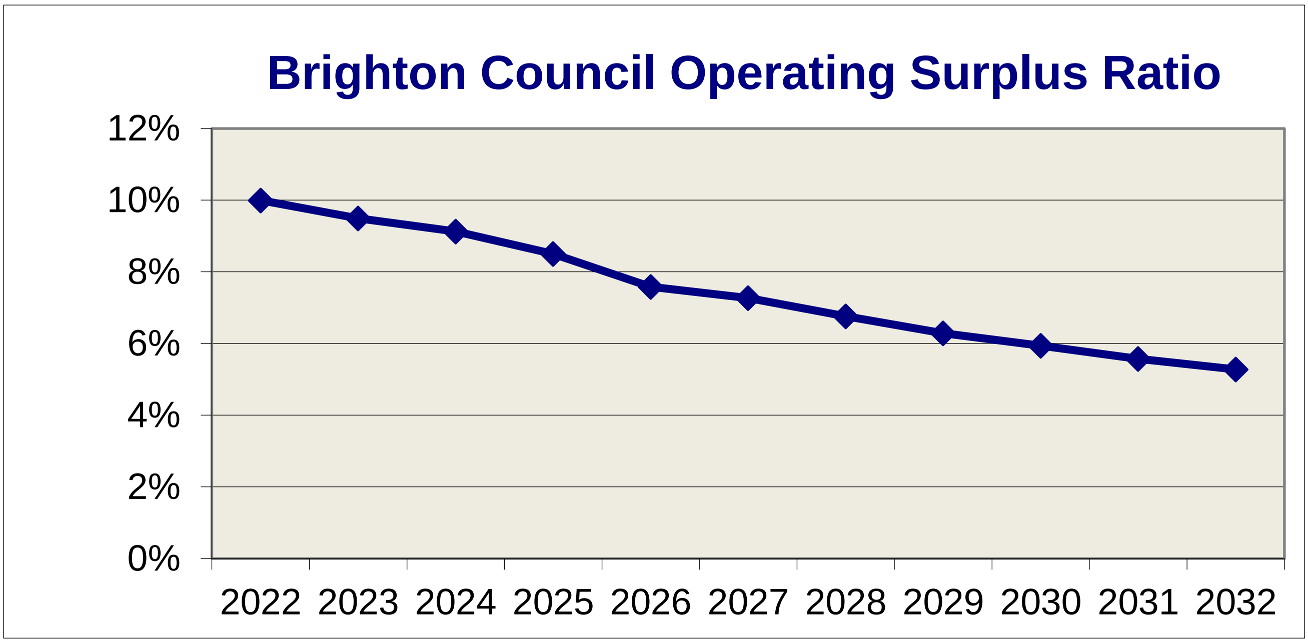
The model as indicated treats everything in future dollars, that is CPI rises are included for revenue and expenditure areas.

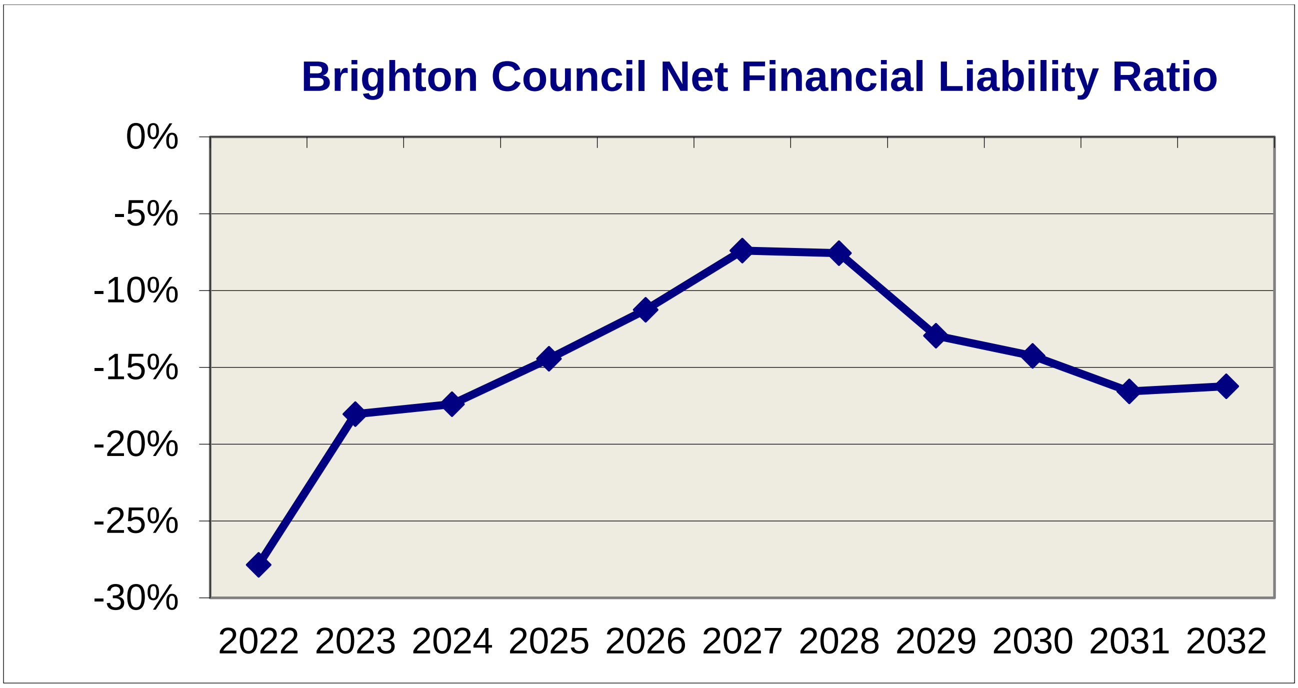
5.3 The Financial Model

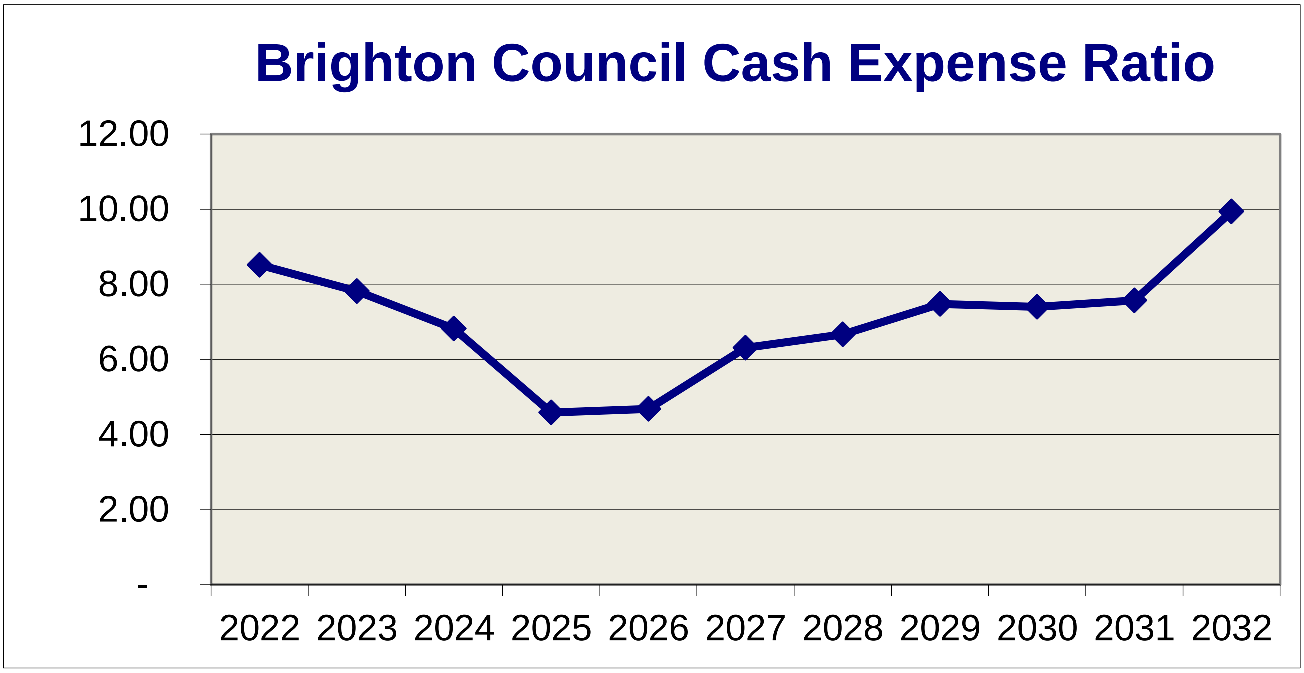
Attached to this report are the worksheets for the financial model.

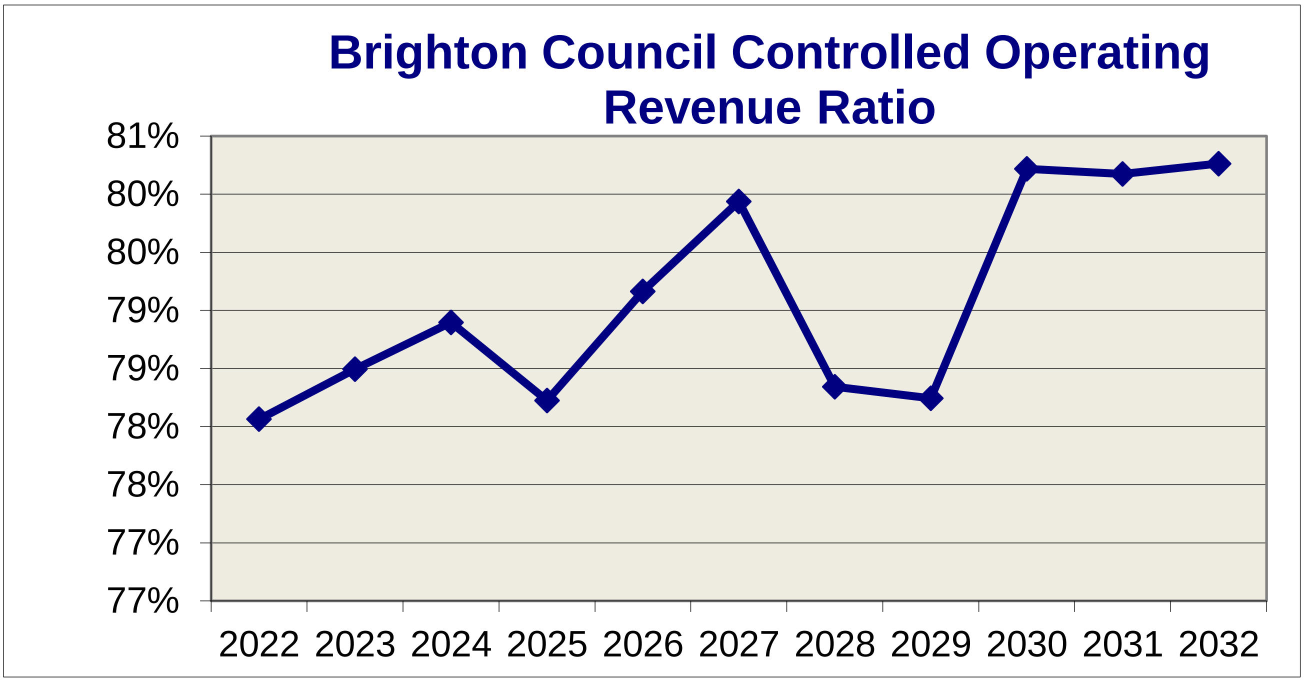
Trend indicators produced from the Long-Term Financial Plan:

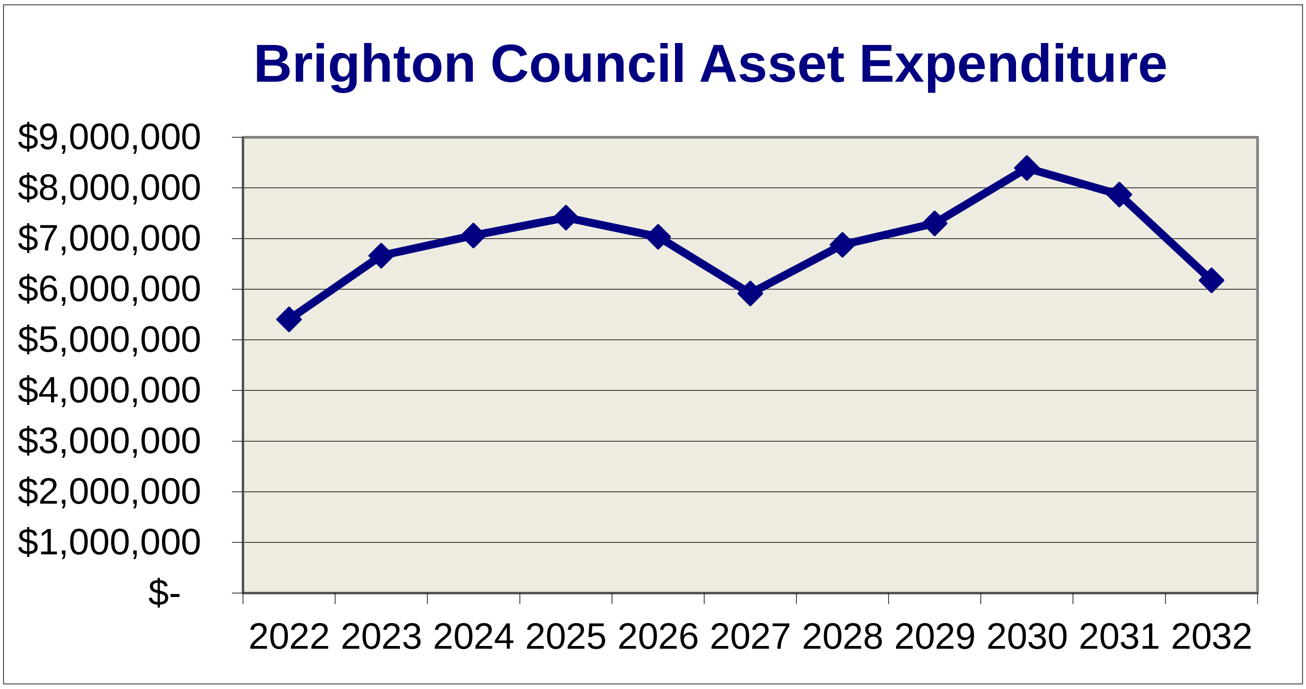


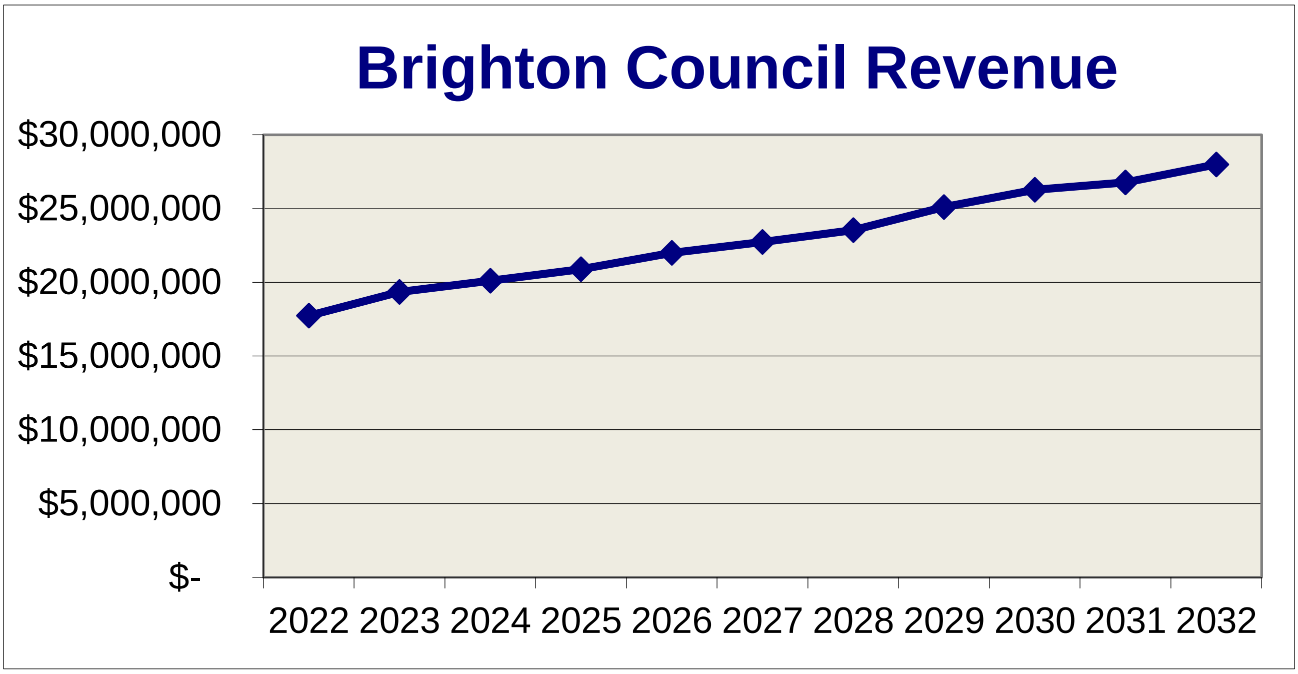


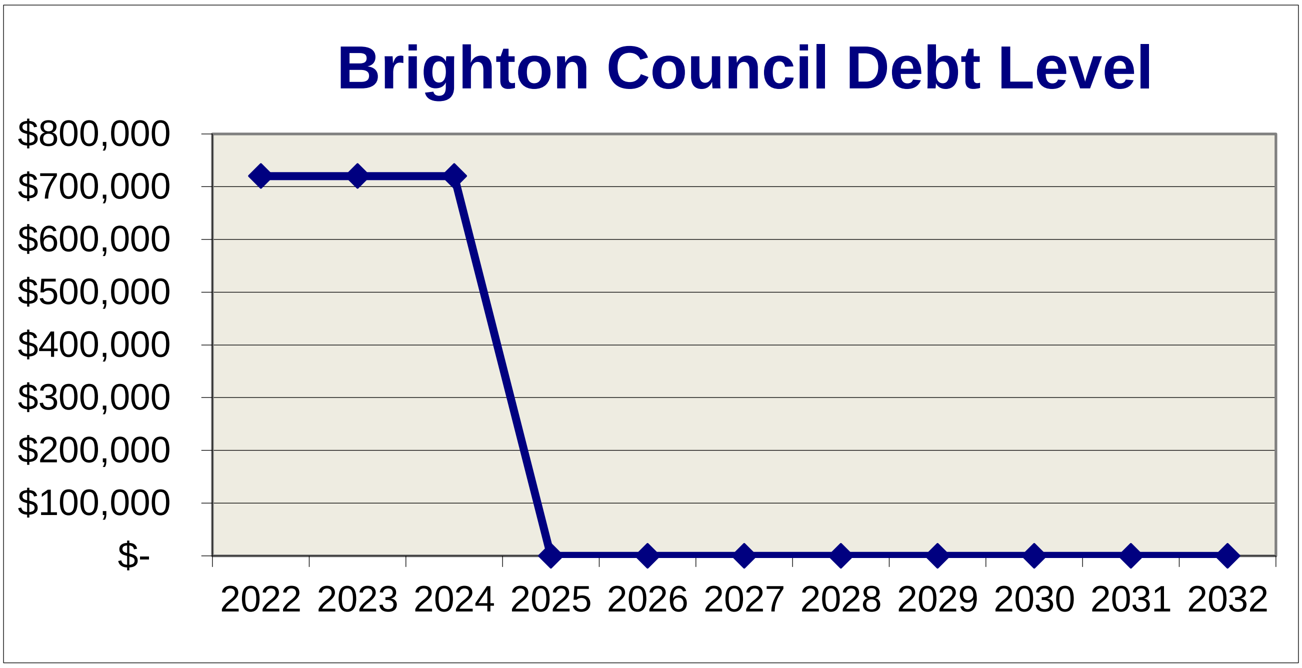

Brighton Council Net Financial Liability Ratio
0%
-5%
-10%
-15%
-20%
-25%
-30%
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032

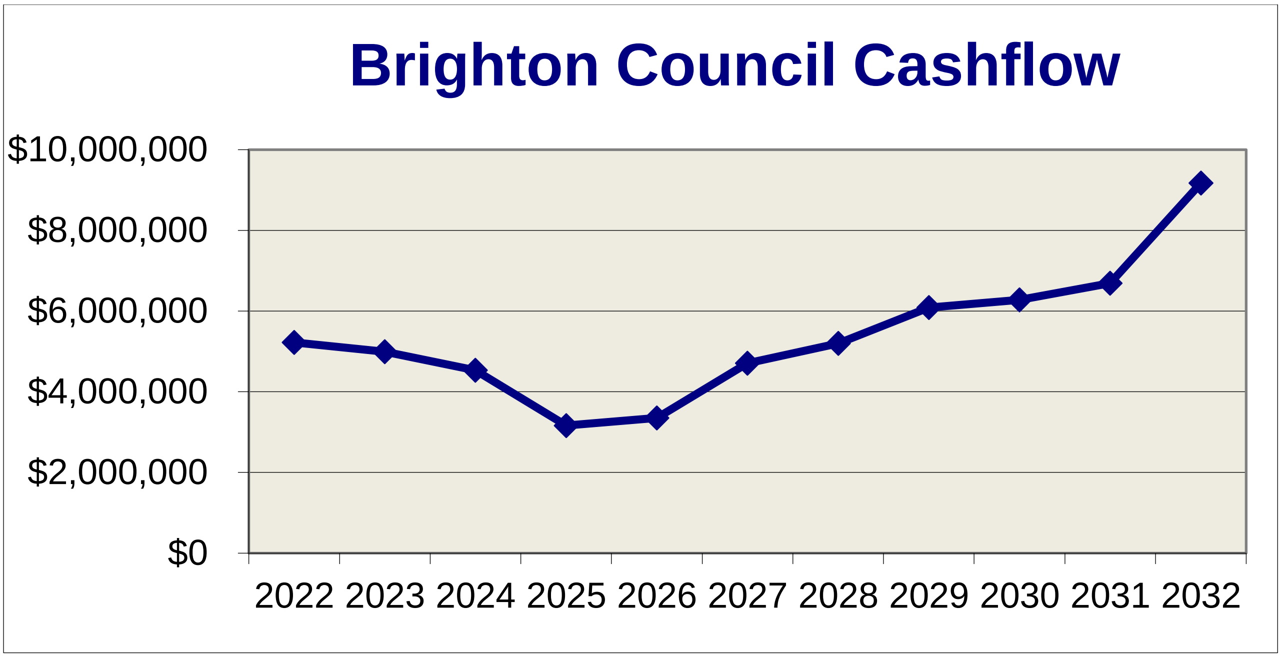

Brighton Council Cash Expense Ratio
12.00
10.00
8.00
6.00
4.00
2.00
-
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032

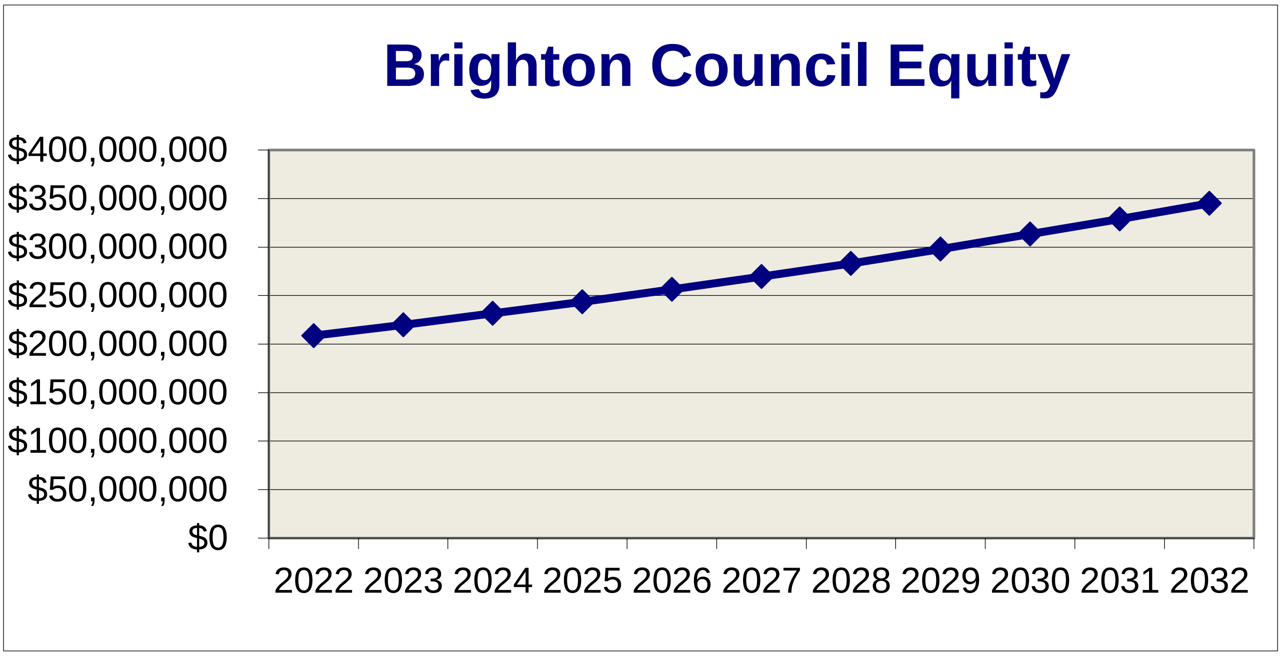

Brighton Council Controlled Operating Revenue Ratio
81%
80%
80%
79%
79%
78%
78%
77%
77%
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032


Brighton Council Asset Expenditure
$9,000,000
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032


Brighton Council Revenue
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$-
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032


Brighton Council Debt Level
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$-
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032


Brighton Council Cashflow
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032


Brighton Council Equity
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032

5.4 Risk

The Plan primarily forecasts results based on existing activities. There is an inherent risk that circumstances may change in the future which may materially affect the projected financial estimates. TasWater dividend adjustments and State Government intent on Local Government reforms demonstrate how quickly projected estimates can change.

Typically for council, changes in community expectations, economic conditions and legislative changes can affect costs associated with services, service levels and governance activities. If there is legislative change e.g., mergers or rate capping, this could significantly impact on the Plan.

There is a risk that capital expenditure forecasts do not estimate the appropriate level of capital renewals. Asset management plans being rolled out are based on existing asset attributes such as condition rating and construction date data held by council. There is a risk that the data may contain some deficiencies or infrastructure may deteriorate at a faster rate than anticipated due to such factors as changes in traffic patterns, new development, etc. Future data improvement will minimise this type of risk.

A considerable risk is that the future returns from TasWater do not meet current estimates which would cause upward rating pressure.

Council has a sensitivity risk with its exposure to possible changes in interest rates although this is lessened considering interest rates are currently at record lows.

5.5 Conclusion

The preparation of the Plan must be seen in the context of factors affecting council's financial position. The projected forward budget provides a framework against which council can make decisions for the future. A regular review of the underlying assumptions and resultant budget implications will be undertaken on an ongoing basis. Council's long term financial sustainability is dependent upon ensuring that on average, over time, its expenses are less than associated revenues.

The key directions arising from within this financial plan estimates are:

- A strong alignment with council's strategic directions
- An ongoing commitment to asset rehabilitation and replacement, i.e. the proper management of the community's infrastructure assets, requires ongoing increases in revenue over the forward estimate period.
- A commitment to ensure long term sustainability.

A number of strategic challenges remain ahead including renewing existing assets, continuing to provide an appropriate range and level of services to a growing and changing community, maintaining a sound financial position and addressing the need for capital expansion.

Outcome

- Council ensures financial sustainability in the medium to longer term whilst meeting the strategic objectives of council.

Strategy

- Council ensures compliance with the Long-Term Financial Plan when developing future budgets.

Key Principles

- Council reviews and updates the Long-Term Financial Plan on an annual (ongoing) basis.

6.0 Appendix

6.1 Term Definitions

Asset Management: the term used to describe the process by which council manages physical assets in the most cost-effective manner to meet current and future levels of service.

Capital Expenditure New: Creation of a new asset to meet service level requirements e.g. new building (i.e. Brighton Regional Sports Pavilion).

Capital Expenditure Upgrade: Enhances existing asset to provide higher level of service (i.e. pavement widening, bridge upgrade).

Capital Expenditure: relatively large (material) expenditure, which has benefits, expected to last for more than 12 months.

Depreciation: is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the acquisition, or other amount substituted for cost, less residual value.

Financial Sustainability: is where planned long-term service and infrastructure levels and standards are met without unplanned and disruptive increases in rates or cuts to services.

Maintenance: regular ongoing day to day work necessary to keep asset operating (i.e. road patching, parks maintenance, building maintenance, bridge repairs).

Net Operating Result: the difference between day-to-day income and expenses for the period. An operating surplus indicates the extent to which operating revenues are sufficient to meet all operating expense. An operating deficit occurs when total operating expenses exceed total operating revenues, a potential burden for future ratepayers.

Operating Expenses: this is what it costs to operate the council services including financing costs and depreciation. 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.

Renewal: Restores, rehabilitates, replaces existing asset to its original capacity (i.e. road seal replacement, roof replacement, bridge deck refurbishment).

6.2 Long Term Financial Statements

BRIGHTON COUNCIL

Long Term Financial plan

	Estimate 2023	Estimate 2024	Estimate 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031	Estimate 2032
OPERATING STATEMENT										
REVENUES										
Revenues form ordinary activities										
Rate Revenues	11,812,463	12,344,023	12,899,505	13,479,982	14,086,581	14,720,478	15,382,899	16,075,130	16,798,510	17,554,443
Water dividends	739,200	739,200	739,200	739,200	616,000	616,000	616,000	616,000	616,000	616,000
Fees and Charges	2,609,741	2,727,180	2,849,903	2,978,148	3,112,165	3,252,212	3,398,562	3,551,497	3,711,315	3,878,324
Interest	52,225	49,951	45,326	31,647	33,554	47,083	52,001	60,868	62,809	66,922
Contributions	78,375	81,902	85,587	89,439	93,464	97,670	102,065	106,658	111,457	116,473
Contributions non cash	104,500	109,203	114,117	119,252	124,618	130,226	136,086	142,210	148,610	155,297
Grants Capital	885,000	845,604	808,215	1,060,929	992,924	838,329	1,405,101	1,530,701	951,344	1,038,338
Other	0	0	0	0	0	0	0	0	0	0
Net Loss gain on sale	0	0	0	0	0	0	0	0	0	0
Grants operational	2,438,449	2,548,179	2,662,847	2,782,675	2,907,896	3,038,751	3,175,495	3,318,392	3,467,720	3,623,767
Commercial Activities	633,576	662,087	691,881	723,016	755,551	789,551	825,081	862,210	901,009	941,554
Total Income	**$19,353,529**	**$20,107,328**	**$20,896,580**	**$22,004,288**	**$22,722,753**	**$23,530,300**	**$25,093,290**	**$26,263,666**	**$26,768,774**	**$27,991,119**
EXPENSES										
Employee Costs	4,587,265	4,798,280	5,019,000	5,249,875	5,491,369	5,743,972	6,008,194	6,284,571	6,573,662	6,876,050
Depreciation	3,632,259	3,846,598	4,068,317	4,297,864	4,552,271	4,814,216	5,079,060	5,388,411	5,718,905	6,030,958
Borrowing cost expense	0	0	0	0	0	0	0	0	0	0
Financial Costs	0	0	0	0	0	0	0	0	0	0
Contributions	1,244,473	1,300,474	1,358,995	1,420,150	1,484,057	1,550,839	1,620,627	1,693,555	1,769,765	1,849,405
Materials & Services	6,273,347	6,561,921	6,863,769	7,179,503	7,509,760	7,855,209	8,216,548	8,594,509	8,989,857	9,403,390
Purchase of Water	0	0	0	0	0	0	0	0	0	0
Aldermanic Allowances & Expenses	294,213	307,453	321,288	335,746	350,855	366,644	383,142	400,384	418,401	437,229
Other	383,330	400,580	418,606	437,443	457,128	477,699	499,196	521,659	545,134	569,665
Donations	0	0	0	0	0	0	0	0	0	0
Commercial Activities	30,305	31,669	33,094	34,583	36,139	37,766	39,465	41,241	43,097	45,036
Remissions Granted	0	0	0	0	0	0	0	0	0	0
Revaluations/Other	-5,140,107	-5,427,247	-5,731,126	-6,051,112	-6,369,245	-6,666,892	-6,995,561	-7,342,679	-7,725,214	-8,103,762
Total expenses	**$11,305,085**	**$11,819,727**	**$12,351,945**	**$12,904,051**	**$13,512,334**	**$14,179,452**	**$14,850,672**	**$15,581,653**	**$16,333,606**	**$17,107,971**
Total Comprehensive Result	**$8,048,444**	**$8,287,601**	**$8,544,636**	**$9,100,237**	**$9,210,419**	**$9,350,848**	**$10,242,618**	**$10,682,013**	**$10,435,167**	**$10,883,148**
Tas Audit Net comprehensive Result	**$1,918,836**	**$1,905,548**	**$1,891,178**	**$1,868,944**	**$1,723,632**	**$1,715,400**	**$1,705,870**	**$1,666,423**	**$1,609,999**	**$1,585,750**

BRIGHTON COUNCIL

Long Term Financial plan

	Estimate 2023	Estimate 2024	Estimate 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031	Estimate 2032
CASH POSITION										
Add										
Accrual Non Cash Adjustments	$0	$0	$0	$0	$0	$1	$2	$3	$4	$5
New Loans	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Depreciation	$3,632,259	$3,846,598	$4,068,317	$4,297,864	$4,552,271	$4,814,216	$5,079,060	$5,388,411	$5,718,905	$6,030,958
Asset Sales non infrastructure	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Less										
Loan repayments	$0	$0	($720,000)	$0	$0	$0	$0	$0	$0	$0
Subdivision Donations	($104,500)	($109,203)	($114,117)	($119,252)	($124,618)	($130,226)	($136,086)	($142,210)	($148,610)	($155,297)
Revaluation Decrement/(Increment)	($5,140,107)	($5,427,247)	($5,731,126)	($6,051,112)	($6,369,245)	($6,666,892)	($6,995,561)	($7,342,679)	($7,725,214)	($8,103,762)
Asset Renewal	($4,450,975)	($4,946,221)	($5,395,067)	($4,384,766)	($3,433,583)	($4,780,306)	($3,790,535)	($4,564,758)	($5,490,585)	($3,582,049)
New Assets	($2,212,500)	($2,114,010)	($2,020,537)	($2,652,322)	($2,482,310)	($2,095,823)	($3,512,753)	($3,826,753)	($2,378,361)	($2,595,846)
Cash Surplus/(Defecit)	($227,380)	($462,481)	($1,367,894)	$190,649	$1,352,933	$491,818	$886,745	$194,027	$411,306	$2,477,156
Opening Cash Balance	$5,222,458	$4,995,077	$4,532,596	$3,164,703	$3,355,351	$4,708,285	$5,200,103	$6,086,848	$6,280,875	$6,692,181
Closing Cash Balance	$4,995,077	$4,532,596	$3,164,703	$3,355,351	$4,708,285	$5,200,103	$6,086,848	$6,280,875	$6,692,181	$9,169,337

BRIGHTON COUNCIL

Long Term Financial plan

	Estimate 2023	Estimate 2024	Estimate 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031	Estimate 2032
ASSET DETAIL										
Asset Sales										
- Buildings										
- Land										
- Plant and Vehicles & Machinery										
- Water Reticulation										
- Roads, Bridges & Drainage										
- Sewerage										
- Furniture & Equipment										
- Other										
Total Asset Sales	422,508	441,520	461,389	482,151	503,848	526,521	550,215	574,975	600,848	627,887
Asset Renewal										
- Buildings	$ 174,000	$ 1,209,220	$ 1,404,632	$ 397,753	$ 364,665	$ 375,605	$ 446,576	$ 213,998	$ 220,418	$ 227,031
- Land										
- Plant and Vehicles & Machinery	$ 250,000	261,250	273,006	285,292	298,130	311,545	325,565	340,215	355,525	371,524
- Water Reticulation										
- Roads, Bridges & Drainage	$ 4,026,975	$ 3,475,751	$ 3,717,429	$ 3,701,722	$ 2,770,789	$ 4,093,156	$ 3,018,395	$ 4,010,545	$ 4,914,642	$ 2,983,494
- Sewerage										
- Furniture & Equipment	0	0	0	0	0	0	0	0	0	0
- Other										
Total Asset Renewal	4,450,975	4,946,221	5,395,067	4,384,766	3,433,583	4,780,306	3,790,535	4,564,758	5,490,585	3,582,049
New Assets										
- Buildings	$ 1,030,000	$ 1,056,200	$ 1,209,426	$ 1,081,800	$ 1,035,468	$ 324,597	$ 1,420,922	$ 3,099,282	$ 684,056	$ 1,878,873
- Land	0	0	0	0	0	0	0	0	0	0
- Plant and Vehicles & Machinery	0	0	0	0	0	0	0	0	0	0
- Water Reticulation	0	0	0	0	0	0	0	0	0	0
- Roads, Bridges & Drainage	$ 1,182,500	$ 1,057,810	$ 811,111	$ 1,570,522	$ 1,446,842	$ 1,771,226	$ 2,091,830	$ 727,470	$ 1,694,305	$ 716,973
- Sewerage	0	0	0	0	0	0	0	0	0	0
- Furniture & Equipment	0	0	0	0	0	0	0	0	0	0
- Other	0	0	0	0	0	0	0	0	0	0
Total New Assets	2,212,500	2,114,010	2,020,537	2,652,322	2,482,310	2,095,823	3,512,753	3,826,753	2,378,361	2,595,846

BRIGHTON COUNCIL										
Long Term Financial plan										
	Estimate 2023	Estimate 2024	Estimate 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031	Estimate 2032
BALANCE SHEET										
CURRENT ASSETS										
Cash assets	4,995,077	4,532,596	3,164,703	3,355,351	4,708,285	5,200,103	6,086,848	6,280,875	6,692,181	9,169,337
Receivables - Rates	236,249	246,880	257,990	269,600	281,732	294,410	307,658	321,503	335,970	351,089
Receivables - Other	594,720	621,482	649,449	678,674	709,215	741,129	774,480	809,332	845,751	883,810
Inventories										
Other	1,223,359	1,278,410	1,335,938	1,396,055	1,458,878	1,524,527	1,593,131	1,664,822	1,739,739	1,818,027
	$7,049,405	**$6,679,369**	**$5,408,080**	**$5,699,681**	**$7,158,109**	**$7,760,169**	**$8,762,117**	**$9,076,531**	**$9,613,641**	**$12,222,263**
NON CURRENT ASSETS										
Land										
Plant and Vehicles										
Small Machinery										
Furniture and Equipment										
Buildings										
Bridges										
Sewerage										
Drainage										
Water										
Roads										
Other										
	$217,089,873	**$229,245,033**	**$242,044,490**	**$254,769,790**	**$266,675,698**	**$279,822,423**	**$293,707,143**	**$309,008,568**	**$324,150,490**	**$337,959,558**
	$224,139,278	**$235,924,401**	**$247,452,570**	**$260,469,471**	**$273,833,807**	**$287,582,592**	**$302,469,260**	**$318,085,099**	**$333,764,131**	**$350,181,821**
CURRENT LIABILITIES										
Payables	888,235	928,205	969,974	1,013,623	1,059,236	1,106,902	1,156,713	1,208,765	1,263,159	1,320,001
Borrowing	0	0	0	0	0	0	0	0	0	0
Provisions	1,591,712	1,663,339	1,738,190	1,816,408	1,898,146	1,983,563	2,072,823	2,166,100	2,263,575	2,365,436
Other	910,987	951,982	994,821	1,039,588	1,086,369	1,135,256	1,186,342	1,239,728	1,295,515	1,353,814
	$3,390,934	**$3,543,526**	**$3,702,985**	**$3,869,619**	**$4,043,752**	**$4,225,721**	**$4,415,878**	**$4,614,593**	**$4,822,249**	**$5,039,251**
NON CURRENT LIABILITIES										
Borrowings	$720,000	$720,000	$0	$0	$0	$0	$0	$0	$0	$1
Employee Entitlements	144,897	151,418	158,231	165,352	172,793	180,568	188,694	197,185	206,059	215,331
	$864,897	**$871,418**	**$158,231**	**$165,352**	**$172,793**	**$180,568**	**$188,694**	**$197,185**	**$206,059**	**$215,332**
	$4,255,831	**$4,414,944**	**$3,861,216**	**$4,034,971**	**$4,216,545**	**$4,406,289**	**$4,604,572**	**$4,811,778**	**$5,028,308**	**$5,254,583**
NET ASSETS	**$219,883,447**	**$231,509,458**	**$243,591,354**	**$256,434,500**	**$269,617,262**	**$283,176,303**	**$297,864,688**	**$313,273,321**	**$328,735,823**	**$344,927,238**
EQUITY										
Ratepayers Equity	**$219,883,447**	**$231,509,458**	**$243,591,354**	**$256,434,500**	**$269,617,262**	**$283,176,303**	**$297,864,688**	**$313,273,321**	**$328,735,823**	**$344,927,238**