Lockyer Valley Regional Council

Long Term Financial Plan

2019/2020 – 2028/2029

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Introduction

With a renewed focus on financial sustainability, in 2017 Council recognised the importance of good financial planning and the first version of this plan was developed in response to the Queensland Audit Office (QAO) performance audit “Forecasting long-term sustainability of local government (Report 2: 2016–17)” and specifically recommendation 4:

> ‘We recommend councils improve the quality of their long-term forecasts and financial planning by developing financial plans to explain their financial forecasts and how they intend to financially manage the council and its long-life assets.’

In this updated long term financial plan Council seeks to provide detailed information on the parameters that have been used in developing the 2019/2020 Budget and Long Term Financial Forecast. The content of this plan is in line with the items identified by QAO as forming part of a ‘better practice” long term financial plan.

The plan will be updated at least annually as part of the budget development process or in response to major changes in Council’s financial situation as they occur.

Summary of Key Items

Financial Sustainability

- Key ratios within target ranges
- Flexibility to react to changing circumstances

Capital Focus

- Renewal of assets
- Reduction in debt

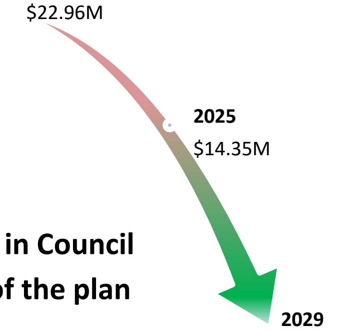
Operational Focus

- Core services
- Improved transparency & consultation
- Aviodance of "rate shock"

Sustainability Ratios

	2020	2025	2029	10yr Av.
Operating Surplus	4.6%	4.5%	7.1%	5.1%
Financial Liabilities	60.6%	42.6%	8.0%	39.9%
Asset Sustainability	105.0%	97.5%	92.5%	98.3%

Debt Balances



$17.18M reduction in Council Debt over the life of the plan

2020 Budget Forecast

Operating Revenue $60.11M − **Operating Expenses** $57.36M = **Operating Surplus** $2.75M

2020 Operating Revenue

- Rates $40.94M
- Grants $6.94M
- Fees & Charges $4.10M
- Other Revenue $6.62M
- Interest $1.51M

2020 Operating Expenses

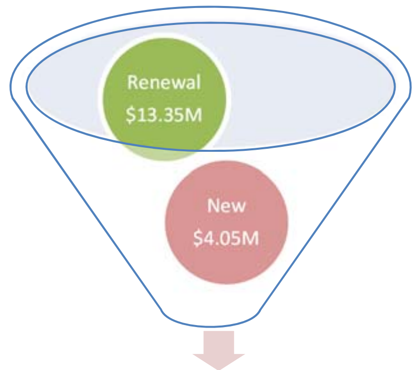
- Employee Costs $25.40M
- Materials & Services $18.04M
- Depreciation $12.64M
- Finance Costs $1.29M

10yr Average CAPEX $16.87M

10yr Average Cash Balance $21.33M

Cash Flows 2020

$20.84M	Cash at Start of Year
$12.80M	Net Cash Inflow from Operations
($13.53M)	Net Cash Outflow for Capital
($1.48M)	Net Cash Outflow for Debt payments
$18.64M	Cash at end of Year



Total 2020 CAPEX

$17.40M

Background

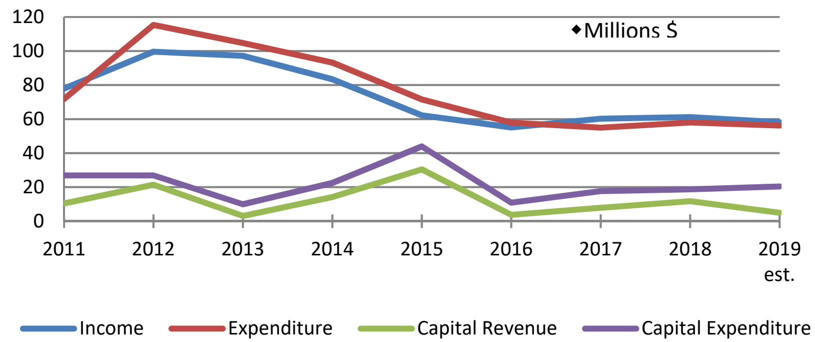
Council's Financial History

Operational & Capital Income and Expenditure

In 2008 the Lockyer Valley Regional Council was created through the amalgamation of the Laidley Shire Council and the Gatton Shire Council. For its first full financial year of operations in 2010 the total revenue was $45.44M and total expenditure was $43.27M; while capital revenues were $23.32M and capital expenditures were $27.60M. In 2011, Council's water and waste water services were incorporated into Queensland Urban Utilities with a consequent reduction in revenues and expenditures.

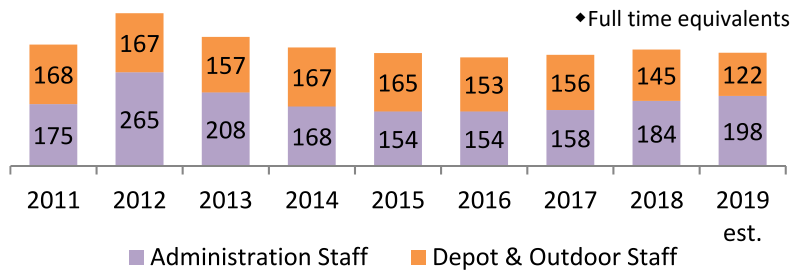
In January 2011 the region was subjected to serious flooding which stretched Council's resources beyond capacity. In terms of Council's physical assets, damage was sustained to 77% of our road infrastructure, 83% of our bridges, 58% of our floodways and 20% of our culverts. The cost of the damage was in the order of $200M. While the recovery from this disaster was still underway, a further flood event occurred in January 2013 which was on the same magnitude as the previous event but affecting different locations within the region.

In order to recover from these disaster events, Council employed a significant level of additional resources across multiple areas of Council. Funding was provided under the National Disaster Relief and Recovery Arrangements to provide immediate disaster relief and also for the longer-term restoration of public assets. The income and expenditure related to the disaster events spanned the years 2011 to 2015, when the recovery programme came to a close. The following graphs show a snapshot of the income, expenditure and full time equivalent employee numbers for those years.



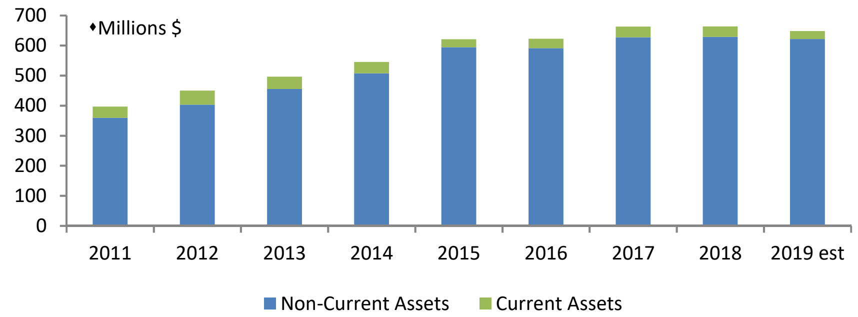
As can be seen from the graphs Council income and expenditures have reduced since its peak in 2012 when the flood recovery effort was in full swing. The second disaster event in 2013 did not have as large an impact on Council's finances as they were already at a heightened level. In the 2014 financial year, the flood recovery effort moved from operational type works to capital works with the restoration of damaged assets. This work was completed prior to June 2015.

The 2015 and 2016 years saw a reduction in the recovery related revenues and expenditures and associated staff levels, with Council looking to make the reductions over a period of two years. The reductions were necessary as additional costs could not be funded through rates or any other own source revenues. These reductions have set the base for the operating surpluses that have been experienced since that time.



Assets

Infrastructure, property, plant and equipment make up the majority of Council's assets. Other assets include cash, trade receivables, the investment in Queensland Urban Utilities (QUU) and the loan to QUU.



Council invests its surplus cash in either a QTC 'at call' account or in term deposits. The amount of cash depends on the completion of the capital works programme, and the timing of income and expenditure. During the year the cash balance will peak in August/September and January/February as this is when the majority of the rates will be paid. The average end of year balance over the past nine years has been $27.23M.

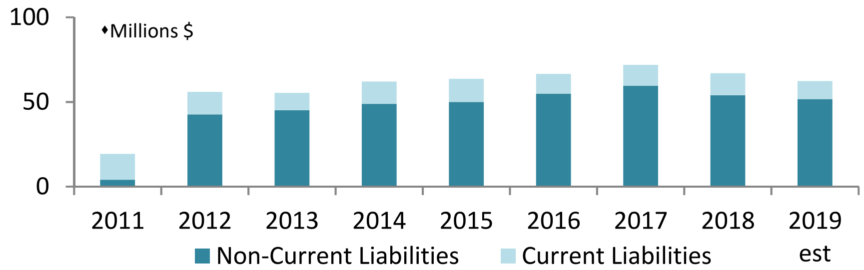
Council's trade receivable debtor balances have reduced from $9.60M in 2011 to an estimated $3.09M in 2019. This has been the result of an improved debt collection process which has been consistently applied. This debt collection process remains in place and collections continue to improve on previous years.

As compensation for the transfer of Council's water and waste water business to QUU Council received a 0.906% stake in the new business. In 2019 this was worth an estimated $31.84M which has generated an average return of $2.30M per year. Council also has a $14.75M interest only shareholder loan arrangement with QUU which contributes around $0.71M to Council's annual interest earnings.

Infrastructure, property plant and equipment have increased by $255.32M since 2011 both as a result of additions to the asset base through the upgrade of existing assets, construction of new assets, developer contributions and the revaluation process. In order to comply with accounting standards, Council engages the services of an external professional valuer to provide regular updates on the value of its assets. Over the years 2011 to 2019, the value of the assets has increased an estimated $153.01M through this process.

Liabilities

Council's liabilities are comprised of trade payables, balances owing to employees for accumulated leave, loan borrowings and provisions. While current liabilities have remained relatively stable over the past seven years, non-current liabilities have grown significantly in that time.



Like most other Local Government Authorities throughout Australia, Lockyer Valley Regional Council utilises loan borrowing to fund the construction of new infrastructure to service the needs of our growing community.

During the financial years 2011/12 to 2014/15, Council borrowed a total of $38.15M, with the majority of borrowings occurring in the 2011/12 year. These loans were used to fund the construction of the Lockyer Valley Aquatic Centre ($10.25M), Laidley MultiSports Centre ($2.20M), information technology systems ($4.03M), upgrades to waste facilities ($3.06M) and the Grantham Land Swap ($7.50M). The loans have been consolidated and the repayments are funded through general revenues.

Included in the borrowing total was $11.00M to fund some of the disaster recovery costs that were not eligible under grant arrangements. The repayments on this loan are funded through a levy on all rateable properties in the region.

In 2019, Council's total debt represents just 3.77% of its total assets. The other signifcant change in Council's liabilities over this period was the recognition of a provision for the estimated future costs of monitoring and rehabilitating Council's landfill and quarry sites. The provision is reviewed annualy and is subject to change through the discount rate used to calculate the net present value and the unit rates of costs incurred. The provision may also change due to legislative requirements or technology innovations. In 2019 the provision represents 54.55% of Council's total liabilities.

Relevant Measures of Sustainability

The *Local Government Act 2009* defines financial sustainability as being able to maintain financial capital and infrastructure capital over the long-term. Councils need to generate sufficient finances to continue to operate without eroding their physical asset base.

Due to the fluctuations in operational and capital expenditures caused by the disasters and the uncertain timing of grant funding, Council's sustainability results have been difficult to forecast. Despite forecasting a return to an operating surplus, each year since 2011 has resulted in an operational deficit which has placed Council outside of the recommended parameters for the sustainability measures used in the *Local Government Regulation 2012*. The forecast operating surplus in 2017 and 2018 was delivered and although still subject to finalisation and audit confirmation, it is expected that there will be an operating surplus in 2019.

The increase in the Net Financial Asset/Liability ratio is as a result of reduced cash assets and increased total liabilities. While this is not of concern while it remains just outside of the recommended parameters in the short term, it will need to be addressed over the medium to long term.

The Asset Sustainability ratio will fluctuate each year depending on the level and type of capital works completed. These annual fluctuations are not of a concern as long as the long-term average is within the parameter or Council's service management plans can demonstrate that a lower level of expenditure is appropriate. It is also highly dependent on the accuracy of the depreciation estimates and as the asset base is revalued upwards, the amount of depreciation increases. The results for 2011 and 2012 are unable to be calculated as the data was not required to be kept at that time.

	Target	2011	2012	2013	2014	2015	2016	2017	2018	2019 est		Average
Operating Surplus Ratio	Between 0% and 10%	7.87%	(15.76)%	(7.77)%	(11.69)%	(14.98)%	(4.97)%	8.79%	5.20%	3.40%		(3.3)%
(Net Operating Surplus / Total Operating Revenue) (%)												
Net Financial Asset / Liability Ratio	<= 60%	(23.38)%	9.47%	15.23%	29.00%	60.15%	64.07%	60.15%	52.90%	61.70%		36.6%
((Total Liabilities - Current Assets) / Total Operating Revenue)												
Asset Sustainability Ratio	>90%	N/A	N/A	76.2%	89.5%	255.2%	47.6%	89.5%	97.5%	103.8%		108.5%
(Capital Expenditure on the Replacement of Assets (renewals) / Depreciation Expense)												

Queensland Treasury Corporation Reviews

The Queensland Treasury Corporation (QTC) undertakes a financial review as part of the Local Government Borrowings Program or as requested by the Department of Local Government, Racing and Multicultural Affairs (the Department) or Council. These reviews are predominately aimed at whether or not Council can repay existing debt and any additional borrowings that have been applied for. The review looks at data drawn from Council's financial forecast model, prior year audited financial results and information gained by interviewing key staff.

While the review is predominately credit related, it provides a rating which assesses Council's financial sustainability in accordance with a scale developed by QTC. The assessed outlook focusses on foreseeable future events which could cause the potential movement in the rating over the short term. Ratings range over seven levels from "Very Strong" to "Distressed" while the outlook can be "Positive", "Negative", "Neutral" or "Developing".

The QTC Review is a useful tool in reviewing Council's financial sustainability as it provides an independent assessment of Council's position at the time of the review.

The following table shows the outcomes of Council's QTC reviews since 2012:

Review Date	Rating	Outlook
2012	Moderate	Neutral
2013	Moderate	Negative
2014 (March)	Moderate	Negative
2014 (December)	Weak	Neutral
2016	Weak	Neutral

The most recent review rated Council as "Weak with a Neutral outlook" which was unchanged from the December 2014 review. As per QTC's definitions, a rating of weak means:

> "A local government with an acceptable capacity to meet its financial commitments in the short to medium-term and a limited capacity in the long-term. It has a record of reporting moderate to significant operating deficits with a recent operating deficit being significant. It is unlikely to be able to address its operating deficits, manage unforeseen financial shocks, and any adverse changes in its business, without the need for significant revenue and/or expense adjustments. The expense adjustments would result in significant changes to the range of and/or quality of services offered. It may experience difficulty in managing core business risks."

A neutral outlook means:

> "There are no known foreseeable events that would have a direct impact on the local government's capacity to meet its financial commitments. It may be possible for a rating upgrade or downgrade to occur from a neutral outlook, if such an event or circumstance warranted as such."

QTC identified the following factors which influenced the rating:

- Large operating deficit in 2015 which was larger than originally budgeted,
- Operating deficits continuing over the forecast period, and
- Asset management plans not being sufficiently developed.

According to the report, "the key financial challenge will be to achieve the forecast rate revenue increases while restricting materials and services expenses and reducing employee expenses so that Council's annual operating deficit is reduced to an acceptable level."

Council would like to see its QTC rating return to "Moderate" over the short-term with a longer-term goal of "Sound". The key differences between the ratings are around the level of operating deficits and surpluses and the Council's ability to handle potential financial shocks without significant changes in service levels, revenues or expenditures. Discussions with QTC have indicated that there is no intention to conduct a further review at this time, however Council's adopted 2019/2020 budget, and this long term financial plan are supporting Council's rating goals by continuing to address the challenges identified by QTC and deliver a financially sustainable future.

Current Financial Situation

The 2019/2020 budget continues to consolidate the savings measures adopted in the previous years. It is the third budget without any significant disaster grant funding and it is once again targeting an operating surplus. With surpluses delivered for the previous three financial years, this plan sees the fourth successive surplus and there can be no doubt that Council's financial situation has turned around.

As with the 2018/2019 budget, Council wanted to provide a framework for securing its financial sustainability over the life of the forecast period. To achieve this, they aim for:

- Operating surpluses for the forecast period.
- Smoother increases in rates from year to year to avoid any "rate shock".
- Reductions in debt balances on top of the scheduled repayments.
- Review of operations and service levels to focus on core services.
- Improved transparency and consultation in developing future budgets.

The current forecast has the levels of income and expenditure at what should be considered as 'normal' operations. It also sees operating surpluses for the life of the long-term plan and a more sustainable level of capital works which is focussed on renewals.

Improved asset data and a planned inspection regime will ensure that Council's understanding of the condition of its assets is better than it has ever been. This will in turn improve the outputs from the service management plans for each class of assets and ensure a more realistic forecast of the required levels of expenditure.

Strategic Alignment

Legislative Requirements

The following table outlines the sections of the legislation relating to financial sustainability:

Section	Description
LGA s104(2)	Definition of sustainable local government.
LGA s104(5)	Components of a financial management system.
LGR s167	Requirement for a long-term asset management plan.
LGR s168	Contents of a long-term asset management plan.
LGR s169(2)(a)	Long-term financial forecast must be included in budget process.
LGR s169(5)	Measures of financial sustainability.
LGR s171(1)	Definition of a long-term financial forecast.
LGR s171(2)	Annual review of long-term financial forecast.
LGR s176	Current year financial sustainability statement and Long-term financial sustainability statement must be prepared.
LGR s178(1)	Current year financial sustainability statement requirements.
LGR s178(2)	Long-term financial sustainability statement requirements.
LGR 179(2)(c)	Measures of financial sustainability to be included in community financial report.
LGR s183(b) & (c)	Must include current year and long-term financial sustainability statements in the annual report.
LGR s212(1)	Current year financial sustainability statement to be audited.
LGR s212(2)	Long-term financial sustainability to be provided to Auditor General for information.

LGA = *Local Government Act 2009*, LGR = *Local Government Regulation 2012*

Council is fully compliant with the requirements of the legislation and the adoption of this Long Term Financial Plan is in addition to these requirements. A Long Term Financial Plan is considered to be an example of a better practice approach to financial sustainability.

Policy Linkages

The long term financial plan is influenced by the following policy documents. The policies are reviewed on an annual basis and adopted as part of the budget process.

Sustainability Policy

For the 2019/2020 and subsequent financial years Council is adopting a policy outlining its objectives to achieve financial sustainability. The policy covers the key principles as they relate to operating surpluses, expenditure management, asset management, debt, commercial opportunities and the ratios Council will use to measure financial sustainability.

Asset Management Policy

At its Ordinary Meeting on 22 March 2019, Council adopted an Asset Management Policy to demonstrate Council's commitment to the effective stewardship of its community assets and infrastructure. The Policy sets out Council's position on the management and acquisition of assets to achieve its service objectives and the methods it will use to efficiently manage them.

Revenue Policy

Section 169 (2) (c) of the *Local Government Regulation 2012* requires Council to include a Revenue Policy in its annual budget.

The purpose of the Revenue Policy is to set out the principles used by Lockyer Valley Regional Council for the making and levying rates and charges, determining the purpose of and the granting of concessions for rates and charges, recovering overdue rates and charges, methods for setting cost recovery fees, and the extent to which physical and social infrastructure costs for a new developments are to be funded by charges for the development.

Revenue Statement

Section 169(2)(b) of the *Local Government Regulation 2012* requires Council to include a Revenue Statement in its annual budget. The Revenue Statement is an explanatory statement, detailing the revenue measures adopted in the current budget. The Statement is reviewed annually, and adjustments are made in line with Council's requirements for revenue generation and changes in the types of rateable properties within the region.

Debt Policy

Under Section 192 of the *Local Government Regulation 2012*, Council must prepare and adopt a debt policy each financial year. The debt policy must state new borrowings for the current financial year and the next nine years and the time over which Council plans to repay existing and new borrowings. The current Debt Policy forecasts no borrowings for the life of the long term financial plan.

Under Council's debt policy, Council will not utilise loan funds to finance operating activities and where capital assets are funded through borrowings, Council will repay the loans within the shortest term possible with the maximum term not exceeding the life of the asset. Current loans are planned to be repaid within their existing loan terms. Additional repayments will be made where sufficient funds are available, and it is advantageous to do so.

Investment Policy

Under Section 191 of the *Local Government Regulation 2012*, Council must prepare and adopt an investment policy that outlines Council's investment objectives and overall risk philosophy together with the procedures for achieving the goals outlined in the policy.

The Policy provides Council's finance officers with an investment framework within which to place Council investments to achieve competitive returns whilst adequately managing risk exposure and ensuring cash funds are available to meet Council's short-term cash requirements. In order of priority, the order of investment activities is preservation of capital, liquidity and return.

Strategic Planning Linkages

Council's Corporate Plan 2017-2022 contains five themes that support the stated vision of "*We will deliver sustainable services to enhance the liveability of our community while embracing our economic, cultural and natural diversity*". The theme that most directly influences this long term financial plan is "Lockyer Leadership and Council". The relevant strategic commitments under that theme are as follows:

- Undertake robust and accountable financial, resource and infrastructure planning and management to ensure affordable and sustainable outcomes for our community.
- Actively engage with the community to inform council decision making processes.
- Commit to open and accountable governance to ensure community confidence and trust in council and our democratic values.
- Compliant with relevant legislation.

The status of these commitments is reported on each year in the Annual Report.

Service Management Planning

As part of its asset management planning process, Council has developed Service Management Plans (SMP) for each of its key asset groups as well as an overarching Service Management Strategy. The service management strategy is to enable Council to show:

- How its asset portfolio will meet the service delivery needs of its community into the future
- Enable Council's asset management policies to be achieved, and
- Ensure the integration of Council's asset management with its long term strategic plan.

Infrastructure assets such as public buildings, roads, drains, and bridges present particular asset management challenges because their condition and longevity can be difficult to accurately determine. Financing needs for these assets can be large, requiring planning for large peaks and troughs in expenditure for asset renewal and replacement. The demand for new and improved services adds to the planning and financing complexity of asset management.

Throughout the plans the following descriptions of expenditure are used:

- Operations and maintenance - day to day costs to keep the assets in a serviceable condition and to slow the rate of deterioration.
- Renewals - replacing assets with like for like to deliver the same level of service, at or near the end of the assets economic life.
- New/upgrade works - replacing assets with a new or improved asset to provide a higher level of service than was previously provided or a new service, i.e. safer road, reduced travel times, improved drainage, providing a service that did not previously exist in that location etc.

A summary of each plan's key points and focus is shown below. The capital expenditure projections from these plans have been included in the financial forecast for the next ten years. Plans are under development for Stormwater assets.

Transport

This SMP describes the road related assets provided to the community and the considerations that need to be made to ensure that the provision of these assets is done in a sustainable and equitable manner, now and into the future. The transport related assets were valued at $511.30M (replacement cost) as at 30 June 2018.

Expenditure is incurred on transport related assets in three main areas, these being:

- Operations and maintenance - Estimated at an annual average of $6.93M per year over the life of the plan.
- Renewals - Estimated at an annual average of $6.76M per year over the life of the plan.
- New/upgrade works - Estimated at an annual average of $1.18M per year over the life of the plan.

Buildings & Facilities

This SMP describes the building related assets provided to the community and the considerations that need to be made to ensure that provision of these assets is carried out in a sustainable and equitable manner, now and in the future. The building and facility related assets were valued at $91.20M (fair value) as at 30 June 2016.

The majority of Buildings and Facilities have been inherited from two previous Shires in the amalgamation process. This has created some duplication of facilities and a surplus asset inventory. Lockyer Valley Regional Council is in the process of consolidating the Buildings and Facilities asset inventory. The project growth in population is not expected to create a demand for new facilities in the near future due to the current excess capacity. Demand is anticipated to upgrade existing facilities before major new facilities are provided.

- Operations and maintenance - Estimated at an annual average of $3.85M per year over the life of the plan.
- Renewals - Estimated at an annual average of $2.40M per year over the life of the plan.
- New/upgrade works - Estimated at an annual average of $0.22M per year over the life of the plan.

A major review of the SMP is ongoing and will be finalised during the 2019/2020 financial year.

Information Services

Lockyer Valley Regional Council exists to provide services to its community. Many of these services are underpinned by ICT assets, which include ICT applications/software, endpoints and the underpinning ICT network and infrastructure. Our goal in managing ICT assets is to meet the defined level of service in the most cost-effective manner for consumers, both present and future. The key elements of ICT asset management are:

- Providing a defined level of service and monitoring performance.
- Managing the impact of growth through demand management and ICT investment.
- Taking a life cycle approach to developing cost-effective management strategies for the long term that meet the defined level of service.
- Identifying, assessing and appropriately controlling risks.
- Having a long term financial plan which identifies required, affordable expenditure and how it will be financed.

In previous years the majority of ICT equipment was purchased outright. However, from the 2013-2014 financial year, this approach moved to the lease of ICT equipment where appropriate e.g. where the value is over $1,000 with a lifetime of 5 years or less that is used in a controlled environment.

For the purposes of this SMP it is assumed that the current approach will continue; however, there is potential for our use of cloud computing to increase in the coming years. This may result in a reduction of some equipment.

- Operations and maintenance - Estimated at an annual average of $2.52M per year over the life of the plan.
- Renewals & New/upgrade works - Estimated at an annual average of $1.10M per year over the life of the plan.

Fleet & Plant

This SMP describes the fleet assets provided to the organisation as a means to deliver services to the community and the considerations that need to be made to ensure that the provision of these assets is done in a sustainable and equitable manner, now and into the future. The fleet assets were valued at $9.24M (WDV) as at 3 January 2019.

Due to the limited replacement activities that have been undertaken in the preceding years there is a significant funding requirement to bring the fleet replacement back into line with acceptable industry standards.

Failure to address this issue will lead to increasing maintenance expenditure and less reliability of the fleet items in service.

In order to maintain the required Fleet service levels over the next 10 years, Council will need to allow, on average $1.59M (nett) per year to replace existing assets as they come to the end of their life. A significant portion of this expenditure is required in the first few years of the plan in order to address the backlog issue and obtain the right plant and fleet items to support current operations.

Disaster Management

Council maintains a network of flood warning infrastructure within the LVRC Local Government Area (LGA). This infrastructure includes a range of CCTV cameras and river height and rainfall gauges and is integral to the LVRC Disaster Management intelligence gathering process and forms part of the larger regional oversight of emerging flood situations and catchment conditions. In addition to the CCTV cameras and gauges is a flood warning siren located in Grantham.

Disaster Management also manages the maintenance of fire trails throughout the Lockyer Valley. The fire trails within the maintenance plan are restricted to land parcels owned by Council and do not include private or State controlled land.

Disaster Management also manages certain assets allocated to the Lockyer Valley State Emergency Service. SES Fleet and plant assets are not included in the Disaster Management Service Plan.

Operational costs for these assets are approximately $0.10M per year and approximately $0.50M has been identified to expand and upgrade the infrastructure in key areas.

Parks, Gardens

This SMP describes the parks and open space assets provided to the community and the considerations that need to be made to ensure that the provision of these assets is done in a sustainable and equitable manner, now and into the future. The value of the parks and open space services and assets were estimated at $10.00M (replacement cost) as at 1 January 2019.

- Operations and maintenance -. Estimated at an annual average of $2.03M per year over the life of the plan.
- Renewals - Estimated at an annual average of $0.10M per year over the life of the plan.
- New/upgrade works - Estimated at an annual average of $0.17M per year over the life of the plan.

It is worth noting that park assets, more so than other asset types, are not only renewed on the basis of poor condition but also due to service obsolescence. Park assets may be renewed with modern day equivalents purely on the basis of aesthetics or utilisation and this needs to be factored into the assets remaining useful life.

A major regional park is being planned for the Hatton Vale area and the costs to maintain and operate this new facility are yet to be determined.

Cemeteries

This SMP describes the cemetery assets provided to the community and the considerations that need to be made to ensure that the provision of these assets is done in a sustainable and equitable manner, now and into the future. The value of the cemeteries assets was estimated at $0.40M as at 1 January 2019.

- Operations and maintenance -. Estimated at an annual average of $0.27M per year over the life of the plan.
- Renewals - Estimated at an annual average of $0.01M per year over the life of the plan.
- New/upgrade works - Estimated at an annual average of $0.10M per year over the life of the plan.

Waste

This SMP describes the waste assets provided to the community and the considerations that need to be made to ensure that the provision of these assets is done in a sustainable and equitable manner, now and into the future. The waste services assets were valued at $14.18M as at 30 June 2018.

- Operations and maintenance - Estimated at an annual average of $4.28M per year over the life of the plan.
- Renewals - Estimated at an annual average of $0.05M per year over the life of the plan.
- New/upgrade works - Estimated at an annual average of $0.43M per year over the life of the plan.

The current SMP does not take into account the future decision by Council on its position of long term waste management (20+ years). The existing facility has approximately 10 to 13 years of remaining life and Council must decide whether to obtain a new site or transport the waste to another approved facility outside of the Region. The plan will be updated to reflect Council’s decision when it is made.

Assumptions & Risks

The key assumptions used in developing this plan include:

- Council will continue to provide the current range and scope of services.
- No change in council structure or boundaries.
- No significant change in legislative requirements.
- No natural disasters impacting the region.
- The completion of the service management plans will not result in a significant increase in capital expenditure.

Sources of Information

Information from external parties used within this plan has been sourced as follows:

Data Used	Source	Impact
LGAQ CCI (CCI)	LGAQ Circular	Cost driver for goods and services. The forecast future rate is 0.15% above CPI.
CPI	Australian Bureau of Statistics (actual) Reserve Bank of Australia (RBA) (forecast) 2020 Federal Budget Papers	Reference for future CCI. Cost driver for Bank fees. The forecast future rate is set between the desired RBA inflation target of 2.00% to 3.00%.

Identified Risks

The following risks have been identified as having a potential impact on the results outlined in this plan:

Item	Potential Impact	Likelihood	Comment
Rates Growth not achieved	Loss of revenue of up to $0.40M.	Possible	Without reducing services, offset savings would need to be identified or the surplus decreased. The achievement of the growth target is not known until late in each financial year.
Interest revenues less than expected	Increased reliance on other revenue sources.	Possible	A more conservative interest rate has been used for investment interest and indications are that rates are likely to remain steady in the short to medium term. QUU interest is as advised by QUU and as such Council has no control over the amount.

Item	Potential Impact	Likelihood	Comment
Reduced government grants	Additional revenue from rates would be required to make up the shortfall.	Low	Projects with the reduced grant funding could be cancelled or scaled back. A conservative increase of 1.0% has been estimated.
Uncontrollable materials and services increases	Increased deficit.	Low	Close monitoring of the monthly results will be used to identify any cost increase issues early. Known cost increases for contracted services will be factored into the budget.
Capital works projects not utilising day labour	Excess capacity in the day labour workforce (inc. plant). Increased operational costs.	Possible	The selection of capital works projects needs to consider the use of Council's day labour workforce.
Changes in provisions due to bond rate variations	Increased "finance costs" and reduced operating surplus	Low	Long term bond rates remain fairly stable although a better understanding of the sensitivity to change is required.

Key Plan Outcomes

Rating Revenues

Council's main source of revenue is from rates and they are levied to fund the provision of valuable services to the community. When adopting its annual budget Council will set rates and charges at a level that will provide for both current and future community requirements.

Council also provides concessions to pensioners to assist property owners to remain in their own homes, and concessions to non-profit community, sporting and cultural groups as they contribute to the health and well-being of the community and to the social cohesion of the region. This discount is budgeted at around $0.18M.

A 5% on time payment discount is offered on the general rate and waste collection rates to encourage property owners to pay by the due date and is currently around $1.55M. There are no plans at present to remove or further reduce the discount.

The different types of rates levied by Council are:

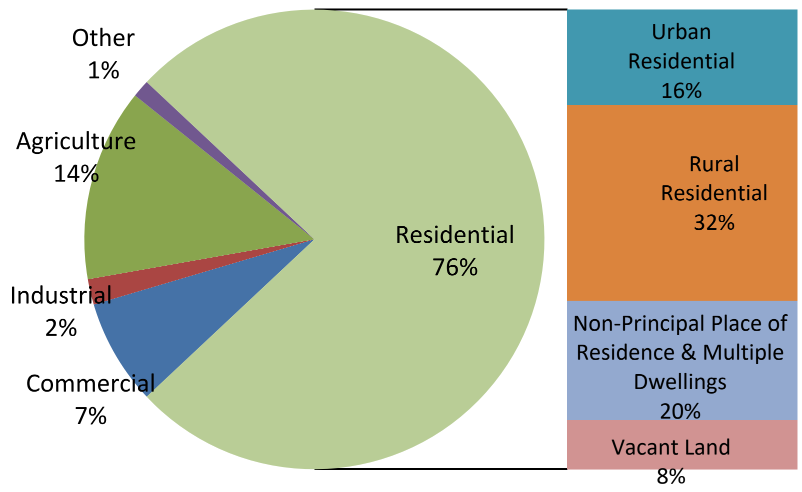
- General rates – calculated based on property values.
- Waste collection charges – charged per service.
- Separate charges – charged per rateable assessment to fund a particular service, facility or activity.
- Special charges – charged on particular assessments which benefit from, contribute to a need for, a particular service, facility, or activity.

Each year the rating categories are reviewed to ensure that the level and type of rates are in line with Council's revenue requirements. Council undertakes detailed rates modelling to determine the impact of proposed increases on the various rating categories. Future rating reviews will look at options to improve the relativity between residential, commercial, agricultural and industrial rates. Any significant changes will be brought in following an appropriate period of community engagement.

The equitable distribution of the rating charges is challenging as there are two main population centres with several dispersed smaller centres connected by large lengths of rural roads. Between these centres there is a mixture of agricultural land and rural lifestyle properties. The dispersed nature of the region results in a higher cost base for the provision of services.

At present there are 48 separate rating categories although the majority of Council's rates revenue comes from the residential categories.

The breakdown by major category shown in the following chart:



General Rates

General rates are forecast to increase from $33.10M in 2020 to $44.23M in 2029 with the average rates per property moving from $1,905 to $2,277 over that time. The key drivers for general rates are increases in yield (as decided by Council from time to time) coupled with the growth in rateable properties (as driven by development activity within the region). The growth factor is conservative as the actual growth is subject to fluctuations due to market forces and the timing of the completion of developments. Historically, growth has been between 0.9% and 1.8% over the past four years.

The parameters used in developing this plan are:

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Yield	2.30	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Growth	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total	**3.80**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**

Waste Charges

Council provides a dual bin service to the majority of residential properties in the region. This service is contracted out until 2021 (plus a two-year option) with the contract rate subject to an industry standard rise and fall clause. The waste collection charge is only levied on those properties with a collection service and is set to cover the cost of the collection contract with a small margin for administration. The amount of revenue generated is forecast to move from $4.69M to $6.41M over the life of the plan.

A waste management charge is levied on all rateable assessments in the region to cover the costs of the operation of Council's landfill and transfer stations. The waste management charge generates $2.53M in revenue (forecast 2029 $3.46M).

At present, the percentage increase in yield is based on historical increases in the contract and future years are amended as required. The natural growth increase is in line with the general rates increase.

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Yield	2.30	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Growth	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total	**3.80**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**

Council is looking at moving towards a full cost pricing model to fund its waste operations and provide adequately for future capital and rehabilitation expenditures. It is expected that this model will be finalised in 2019/2020 and implemented over a number of years.

Separate & Special Charges

Council currently levies the following separate and special charges:

- Special Charge – Rural Fire Levy: charged on properties within the rural fire area to assist with funding the Queensland Rural Fire Service Brigades operating in the region with a small amount set aside for maintaining Council's fire trails.
- Separate Charge – Environmental Levy: charged on all properties within the region to partially fund the operations of the environmental and pest management sections.
- Separate Charge – Resilient Rivers Initiative: charged on all properties to fund Council's contribution to the SEQ Mayor's Healthy Waterways project.
- Separate Charge – Emergency Preparedness Levy: charged on all properties within the region to fund Council's disaster management section and the repayments on the loan associated with the flood recovery works. Part of the levy also funds the State Emergency Services Groups operating in the region.

Increases in these charges are modelled in line with the general rates parameters.

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Yield	2.30	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Growth	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total	**3.80**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**

Special and separate rates are reviewed on annual basis to determine if the charge is still required and is an appropriate method of generating revenue to support Council services.

Other Revenues

Fees & Charges

Revenue generated from fees and charges increases from $4.10M in 2020 to $5.10M in 2029. Council's two types of fees and charges are defined as:

- Cost Recovery – fees are set to recover no more than the essential costs incurred by providing the service. Examples of these are: Animal Management, Health and Regulatory, and Planning and Development Fees. Council intends to review these fees to ensure that costs are being recovered, or if a subsidy is required, then that amount is acknowledged and understood.
- Commercial – fees are set to generate a return to Council over and above the cost of providing the service. Examples of these are: Saleyards, Waste Disposal, Hall and Facility Hire, and Library Services. Council intends to progressively review these fees to ensure that an appropriate margin is being made and that the fees are appropriate for the service provided.

The majority of fees and charges come from planning and development fees including building and plumbing permits. While some of the fees and charges can be estimated with some certainty, fee revenue generated within the Planning and Building areas will fluctuate wildly depending on the economic conditions and level of development within the region. The 2019 financial year saw a downturn in revenues of over $0.60M and the amounts for these fee types are conservatively estimated in the forecast and reviewed on a regular basis during the budget year.

The base increase in fees and charges are modelled around a combination of CCI and changes in Council's employee costs.

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Increase	3.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50

Sales Revenue

Total sales revenue is estimated to average $2.26M per year over the life of the plan and is derived from its Private works operations and the Staging Post Café.

- Private works relate to infrastructure works undertaken on behalf of private individuals and business, as well as works under the Road Maintenance Performance Contract (RMPC) with the Department of Transport and Main Roads (TMR). Revenue generated in this way will fluctuate depending on demand and the availability of Council resources to complete the works. At the moment Council does not outwardly seek private works but will provide quotations if requested. Council seeks a margin of 20% on the cost of the work completed.
- The Staging Post Café operates out of the Lockyer Valley Cultural Centre and provides a café style lunch menu seven days a week with a buffet breakfast on Sunday and dinner on Friday. There is also function management for events, meetings and weddings

held at the Cultural Centre. Operations of the Café are being reviewed as it is currently making a loss.

The parameters applied to Sales Revenue in developing this plan are:

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Increase	3.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50

Interest & Investment Income

Council receives interest income from three main sources: interest on short to medium term cash investments, interest from QUU on our shareholder loan, and interest from overdue rates. Of these three sources, the interest from the QUU loan is the most stable and can be predicted with accuracy.

Interest from cash investments is dependent on a number of factors including the interest rates on offer, the amount of cash available to invest, and the term of investment. Currently the returns from Council's investments are very low due to the continuing period of low interest rates. In successive years, the forecast interest revenue has been reduced to maintain a conservative position. The future forecast continues this trend with minimal increases in interest rates over the next few years.

Interest on overdue rates has also been reducing as property owners take advantage of the prompt payment discount as well as the ability to make regular payments in advance. It is expected that this will remain steady and with minor increases solely due to the increased quantum of rates being levied each year. The interest rate charged from 1 July 2019 will be 9.83% which is the maximum allowed under legislation.

The shareholding in QUU provides a return that averages $2.30M per year. Some of this is in cash and the balance is an increase in the value of the shareholding. QUU's current forecast is that these returns will remain steady for the foreseeable future.

Grants & Subsidies

Council receives grants and subsidies from both the State and Federal Governments. As a guideline, grant funding should not exceed 40% of operating revenue as the more funding that is not controlled by Council, the greater the risk to sustaining operations should the funding amounts change. Over the period of this plan, Council's reliance on grant funding remains relatively steady from 11.5% in 2020 to 10.5% in 2029.

Apart from the Federal Assistance Grant, the funding is provided for specific projects such as libraries, Queensland Government Agency Program (QGAP), multi-cultural services, childcare, and without the grant funding it is unlikely that Council would provide the service to its current standard.

Federal Assistance Grants make up the largest component of grant funding and are distributed based on formulas developed by the Queensland Grants Commission with the funding pool determined by the Federal Government. The formula used is complex and the amount may change from year to year, however significant reductions are minimised through capping arrangements. Annual indexation of the grant was reinstated from 1 July 2017 and is linked to CPI.

It is assumed that funding for the Roads to Recovery Program is as per Council's approved schedule and that the grant program will be ongoing.

The parameters used in developing this plan are:

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Increase	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20

Other Revenue

Council also derives revenues from the rental of Council properties as well as other miscellaneous items such as commissions on Queensland Government Agency (QGAP) transactions, sponsorships and insurance recoveries. The main component of Other Revenue is the Income Tax Equivalent (ITE) received from QUU. The ITE is paid to shareholder Councils as part of the requirements for QUU to operate on a commercial basis and the amount paid is dependent on the profit results over the year. The amounts included in the financial plan are based on the forecasted profit figures provided by QUU.

Apart from the QUU ITE, the parameters used in developing this plan are:

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Increase	3.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50

Employee Costs

Employee costs are the largest component of Council's costs and include:

- Wages and salaries,
- Leave entitlements,
- Councillor remuneration,
- Superannuation,
- Workers compensation insurance,
- Training and development costs such as travel, accommodation, course or conference fees, and
- Recruitment costs.

Council intends to keep employee costs down by using technology to drive efficiency and to carefully review all vacancies before they are filled. While this has been effective in recent years, as the population of the region increases, there will come a time when additional staff will be needed. Understanding the level of resources required to maintain service standards is key and this will be determined through a workforce planning review and organisational efficiency review which is currently underway. Council is budgeting for around 333 Full Time Equivalent employees (FTE), increasing to 376 FTE over the life of the plan.

Employee costs are split between operating and capital depending on the type of work being undertaken in the capital program. Reductions in the capital program, or an increase in work outside of the expertise of the current workforce will impact on this split and pose challenges to maintain the operating surplus position without reductions in the workforce.

The main driver in employee costs is the enterprise bargaining (EB) process. This process provides for an increase to wages generally on an annual basis. The present agreement for an annual 2.50% increase expires in 2021 and the forecast rate will be updated once negotiations are completed.

Within the model, operational employee costs are forecast to increase from $25.40M to $35.48M over the ten years.

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EB inc.	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Growth	0.91	1.20	-	1.48	2.01	2.52	0.50	2.47	1.41	0.45
Total	**3.41**	**3.70**	**2.50**	**3.98**	**4.51**	**5.02**	**3.00**	**4.97**	**3.91**	**2.95**

Materials and Services

Council's second largest cost is materials and services. Costs included in this section are:

- Materials,
- Contractor and consultants,
- Insurance,

- Electricity and water,
- Communications,
- Legal costs, and
- Fleet costs.

The materials and services budget is carefully reviewed each year with the responsible officers being required to justify any increases in the budget bids from the previous year. Operational projects are individually approved to ensure that they align with Council's objectives and consultants, advertising, promotions, legal costs, and contractors are all subject to detailed scrutiny by the Executive Leadership Team and the Council.

Improved financial reporting has meant that a better understanding of Council's expenditure is now possible. This has led to more of a risk management approach to funding certain areas where the actual costs are uncertain.

The driver for materials and services is the Council Cost Index (CCI). This index is developed by the Local Government Association of Queensland (LGAQ) as a better estimate than the Consumer Price Index (CPI) as it reflects the difference between the types of goods and services that households typically procure and those that Council procures.

The future CCI estimates are set 0.15% higher than estimated CPI to account for the fact that Council's costs historically increase at a higher rate than households.

The forecasted costs are derived by indexing the base year's budgeted amounts by the CCI. Specific adjustments may be made to future years where they can be identified as having an impact (for example a contract is being discontinued or short-term projects being completed). Materials and services are forecast to increase from $18.04M to $22.30M over the ten years.

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
CCI	2.00	2.25	2.35	2.45	2.55	2.65	2.75	2.85	2.95	3.05

Finance Costs

Council's finance costs are predominantly the interest charged on its loans. Other items are bank fees and the adjustments in the quarry and landfill rehabilitation due to the change in the present value calculations.

The interest costs are calculated by the QTC Long Term Financial Forecasting model based on the debt balances and the rate applicable to each loan. As the loans are fixed rate loans they are not subject to any market volatility. Over the life of the plan interest expense reduces from 2.30% of operating costs to 0.70% of operating costs. This does not assume any additional repayments are made.

Due to the complexity of the calculations, no allowance is made for the changes in the discount rate for the provisions. The value of the provisions is calculated with reference to long term bond rates and there is an inverse relationship between the bond rates and the calculated value.

Bank fees are indexed by CPI from the base year budget.

%	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
CPI	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.80	2.90

Depreciation

While depreciation is an estimate of the cost of an asset being used, it is treated as an expense in financial reports. Council is continually reviewing its asset data to ensure that the depreciation figure reflects the consumption of its assets based on their value, condition, and remaining life. Work is needed to identify the appropriate useful lives for local conditions which may assist in reducing the depreciation costs. Over the life of the plan depreciation is estimated to increase from $12.64M to $15.76M. It should be noted that with Council holding its fleet assets for longer, there is a large reduction in depreciation between 2026 and 2027 due to the majority of Council's current plant and equipment being fully depreciated at that time. With the implementation of the Plant and Fleet Service Management Plan, this may change if the backlog of renewals is eliminated.

To comply with the accounting standards, Council conducts regular independent valuations of its assets. Where the value increases, there will be an increase in depreciation costs which has an immediate impact on two of the three sustainability ratios, even though it may not have any operational impact on Council's management of the assets.

Due to the nature of the valuation process, the changes cannot be predicted with any accuracy. In the financial model, the valuation increases for the non-current assets have been based on the average increases in past years and total $108.40M over the ten years. The increases have been applied every three years as this was the cycle that the assets were generally revalued under, although Council is now implementing an annual revaluation process. Additions to the asset base will also increase the amount of depreciation, although as Council's focus is moving towards the renewal of existing assets the effect will be minimal.

Capital Revenues

The main source of capital revenues are grants from the State or Federal Government. Council seeks grant funding to assist with the delivery of its planned capital works program and the majority of funding is accessed through a competitive application process. Where a funding application is unsuccessful, Council will decide whether to proceed with the project using other funds or not.

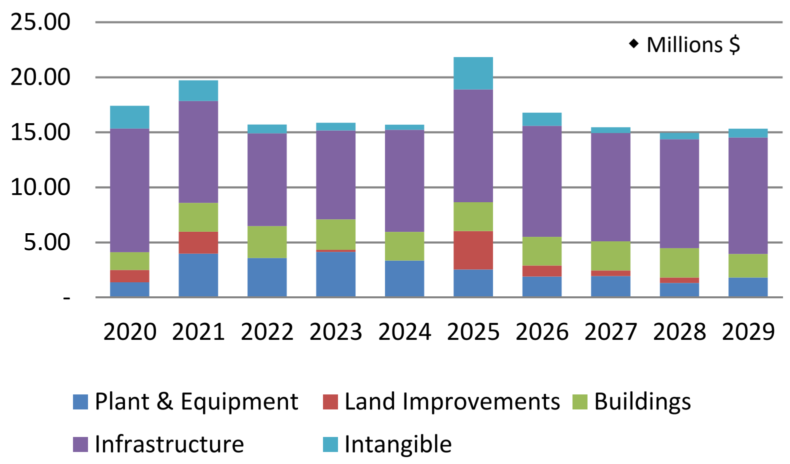
Grant funding for capital works is often tied to a particular funding program objective of the government. Once approved, the grant will be for a specific project and therefore changes to the scope or type of the project is not permitted. There is a risk that where a project exceeds the funded component, Council will be required to pick up the shortfall.

The capital grant funding in the forecast model is based on historical amounts for those funding programs which it is expected will continue in the future. These programs are the Roads Blackspot funding, TIDS and Local Government Grants and Subsidy Program (LGGSP), and other specific grant programs as offered by the State and Federal Governments from time to time. Additional grants will be applied for in future years as the details of the funding programs become known.

Capital Expenditure

The amount of capital expenditure is based on the amounts identified in the Service Management Plans for each asset class and includes a proportion for renewal, upgrade and new expenditure. As can be seen from the following graph, the majority of capital spending is on infrastructure assets. Over the ten years the average spending across all asset classes is $16.87M.

As the Service Management Plans are reviewed and refined, the forecast will change. The expenditure in each year is reviewed as part of the budget adoption process for that year and therefore some identified projects may be brought forward, delayed or removed as priorities and resources dictate. Additional projects may be added where required.



Cash and Investments

QTC recommends a minimum coverage for cash expenses of three months. This means that Council should retain enough cash on hand at any one time to pay its expenses for three months. The long-term forecasting model indicates that a balance of $10.89M in year one, rising to $14.49M in year ten is required with the average over the life of the plan being $12.55M.

Council maintains this coverage in each of the years of the plan with the ten-year average balance being $21.33M. The years 2021 to 2022 have the lowest cash balances although the ratio remains above three months which is within the recommended parameters. The ten-year average coverage is five months.

The biggest impact to Council's cash balances is the timing of the capital works program and particularly the number of projects funded solely by Council. As the capital works program is fairly flexible, the works schedule can be varied to maintain appropriate cash levels.

In accordance with the Investment Policy, the cash is invested in term deposits of less than twelve months or at call with QTC. The maturity of the term deposits is spread across the year so as to maintain regular access to funds should they be needed.

Other Assets

The major component of Council's other assets is the equity share in QUU (2020 est. $33.35M), and the shareholder loan to QUU (2020 $14.74M). As the loan is an interest only loan, the balance will not change over the life of the plan, with the interest payments being taken up in the interest revenue component of the Income Statement. There is a process for Council to follow if it wishes to call in the loan; however, there is no financial benefit to doing this at this time. The value of the equity investment changes depending on the dividends and operating result of QUU. QUU estimates show an anticipated increase in shareholder returns of over 2.0%, not including any additional returns due to increased profits.

Debtors and receivables are forecast to remain in proportion to the revenue. The main debtor balance is rates arrears and as these are secured on the land they relate to, they are not considered bad or doubtful. Council has a statutory right to recover the arrears through the sale of land and it conducts a sale for this reason at least annually.

The final component to other assets is the land held for sale, which comprises of parcels of land that have been identified as surplus to Council's needs and are being marketed for sale. As the sale timeframes are uncertain, and some of the land has been available for sale for some time, the value remains unchanged over the life of the plan.

Liabilities

The main liabilities that Council has are the loans from QTC. At present there are three loans, most of which were taken up during the 2011 and 2012 financial years. The loans are paid on an interest and principal basis and the balances in the plan are forecast on the current loan schedules.

The details of the loans are:

Loan	Interest Rate	Nominal Maturity Date	Balance 30 June 2019	Qtrly Payment P&I
Other Council Capital Works	4.71%	15/06/2032	$16.15M	$0.43M
General	4.96%	15/03/2031	$7.50M	$0.21M
Gatton Landfill 2016	3.11%	15/03/2036	$0.78M	$0.01M

There are no further borrowings forecast for the life of this plan, however Council may change this in future budgets. The current annual total debt redemption payment (principle and interest) is $2.64M.

Council has also expressed a desire to use surplus cash to make additional repayments and therefore reduce the loan costs with additional payments being made in 2016/2017, 2017/2018, and 2018/2019. A review will be conducted annually to determine if sufficient surplus cash exists and there is a net benefit to making an additional loan repayment.

The other liabilities of Council are employee provisions, rehabilitation provisions and trade creditors. Due to the complexity of the calculations, the provisions have not been changed in the model and remain at historical values. The trade creditor balances are generated through the model based on historical relationships between expenditures, payment terms and the proportion of creditors at the end of each financial year.

Ratio Analysis

Key Sustainability Ratios

The results for Council's measures of financial sustainability are shown below. The future ratios are based on the 2019/2020 budget and long term financial forecast with the parameters as outlined above:

Lockyer Valley Regional Council
2019/2020 Budget and Long Term Financial Forecast 2020 to 2029
Relevant Measures of Financial Sustainability

	Target	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Average
Operating Surplus Ratio	Between 0% and 10%	4.6%	4.8%	4.3%	4.4%	4.1%	4.5%	5.2%	6.4%	5.7%	7.1%	5.1%
(Net Operating Surplus / Total Operating Revenue) (%)												
Net Financial Asset / Liability Ratio	<= 60%	60.6%	62.2%	55.4%	48.1%	41.2%	42.6%	35.7%	26.9%	18.0%	8.0%	39.9%
((Total Liabilities - Current Assets) / Total Operating Revenue)												
Asset Sustainability Ratio	>90%	105.0%	101.2%	102.1%	105.3%	95.1%	97.5%	96.3%	97.0%	90.6%	92.5%	98.3%
(Capital Expenditure on the Replacement of Assets (renewals) / Depreciation Expense)												

Operating Surplus Ratio

Measures the extent to which revenues raised cover operational expenses only or are available for capital funding purposes or other purposes. The operating surplus ratio is calculated as: Operating Surplus (Net result excluding all capital items) divided by total operating revenue (excluding capital items).

This ratio remains relatively steady over the ten years as the cumulative effects of the rate increases and expenditure controls of the years prior to 2019 are realised. The surpluses for the first three years are healthy although the actual results will need to be carefully monitored in order to maintain the planned result. In the second half of the plan the surplus increases slightly as depreciation on plant and equipment reduces due to many items reaching the end of their useful life. With planned service reviews to be undertaken, the level of expenditure may need to increase in some areas to meet the needs and expectations of the community.

Net Financial Asset/Liability Ratio

Measures the extent to which net financial liabilities of Council can be repaid from operating revenue. The ratio is calculated as: Total liabilities less current assets divided by total operating revenue.

Although this ratio starts off just outside of the 60% target threshold it averages 39.9% over the ten years. This ratio has been at the higher level due to a reduction in the cash balances following the completion of the flood works, and the significant increase in rehabilitation provisions. The improvement in the ratio in the second half of the plan is linked to the build-up of cash balances which is offsetting the liabilities, as well as the annual debt repayments reducing the loan balances.

Asset Sustainability Ratio

This ratio reflects the extent to which infrastructure assets managed by Council are being replaced as they reach the end of their useful lives. The ratio is calculated as: Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.

Over the life of the plan, the ratio is above the 90% target threshold. The level of forecast spending has been based on the current Service Management Plans and as such there will be changes in the outer years as the plans are further refined. If the assets are in good condition, it is possible that Council does not need to spend at the recommended level and therefore the ratio may be below the target of 90%. The healthy operating surpluses being generated will provide sufficient funding should a higher level of renewal spending be required.

Other Sustainability Ratios

There are a number of other sustainability ratios that QTC use when conducting a credit review assessment however Council only uses one of these other ratios when setting its long term financial plan.

Cash Coverage Ratio

	Target	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029		Average
Cash Expense Cover Ratio	>3	5.1	4.1	4.4	4.8	5.2	4.2	4.6	5.2	5.9	6.9		5.0
Number of months of operations supported by cash balance													

This ratio shows the number of months of operations supported by the cash balance. The recommended threshold is at least three months.
Over the life of the plan, the number of months of operations supported by the cash balance averages 5.0 months. The higher balances in 2028 and 2029 may be moderated by additional capital works in the prior years or further reductions in debt. Council has not made any decisions at this stage on how to use the surplus cash and therefore the higher balances remain reflected in this plan.

Sensitivity Analysis

In order to understand the potential impacts of changes to key drivers over the life of the plan, the following sensitivities have been performed:

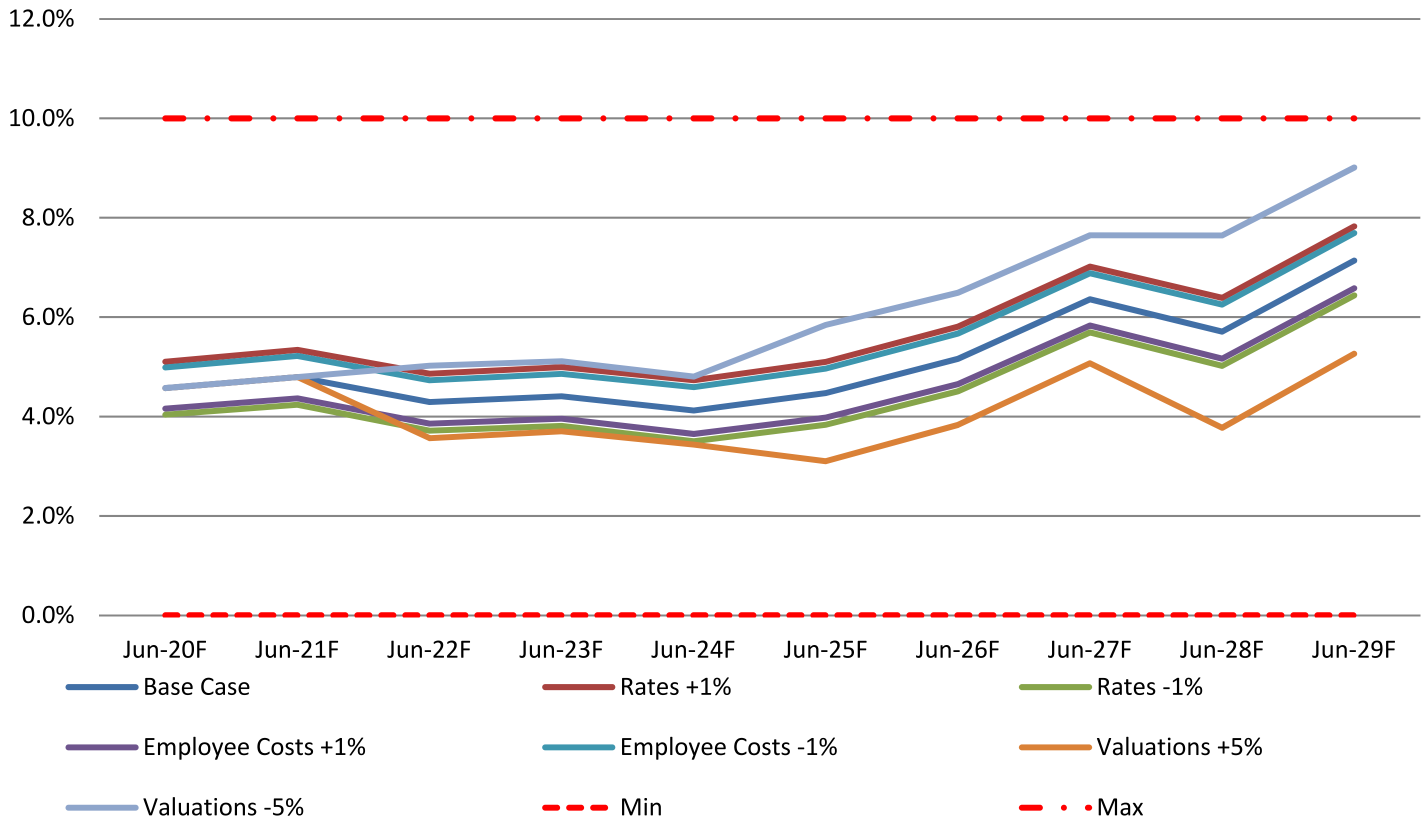
1. General Rates Revenues +/- 1%.
2. Employee costs +/- 1% on EB increase.
3. Depreciation – tri annual valuation +/- 5% of estimated asset base 2019.
4. CAPEX – renewals -$1.00M.

For simplicity, the above changes have been modelled separate to the others. The change has also been applied to each year of the forecast which apart from the reduction in the CAPEX renewals, will result in a cumulative effect. The difference in the 10-year average by applying each sensitivity can be seen in the following table; information on each of the ratios can be found below:

		Rates		Employee Costs		Valuations		Renewals
	Base Case	+1.00%	-1.00%	+1.00%	-1.00%	+ 5.00% of Base	- 5.00% of Base	- $1.00M
Operating Surplus	5.1%	5.7%	4.5%	4.6%	5.6%	4.1%	6.1%	N/A
Net Financial Asset/Liability	39.9%	36.5%	43.3%	42.2%	37.5%	N/A	N/A	N/A
Asset Sustainability	98.3%	N/A	N/A	N/A	N/A	93.7%	103.5%	90.9%
Cash Coverage	5.04	5.56	4.53	4.64	5.46	N/A	N/A	6.45

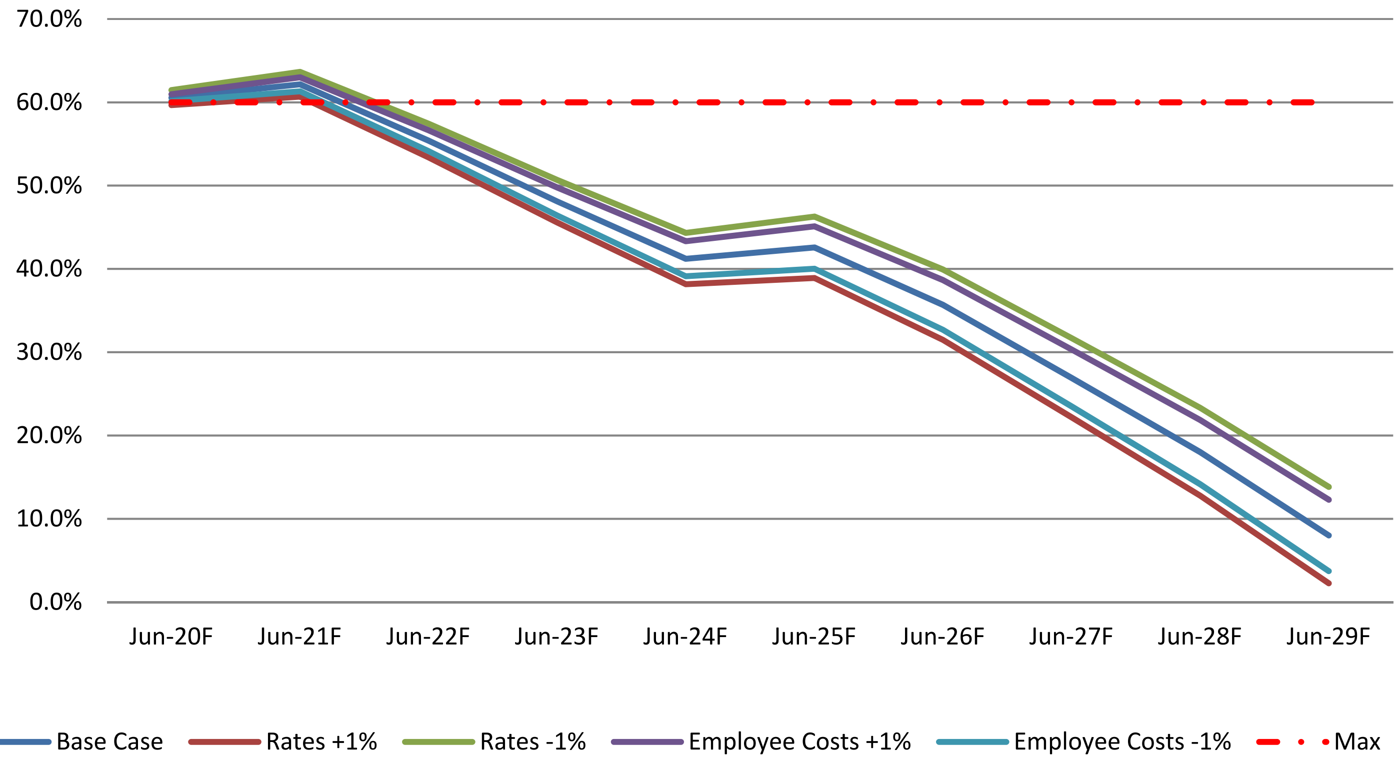
Over the ten years it is apparent that all of the ratios are within the recommended targets however on a year by year basis the Cash Coverage Ratio does come close to the minimum threshold and the Asset Sustainability Ratio is below the target.

Sensitivity Analysis - Operating Surplus Ratio



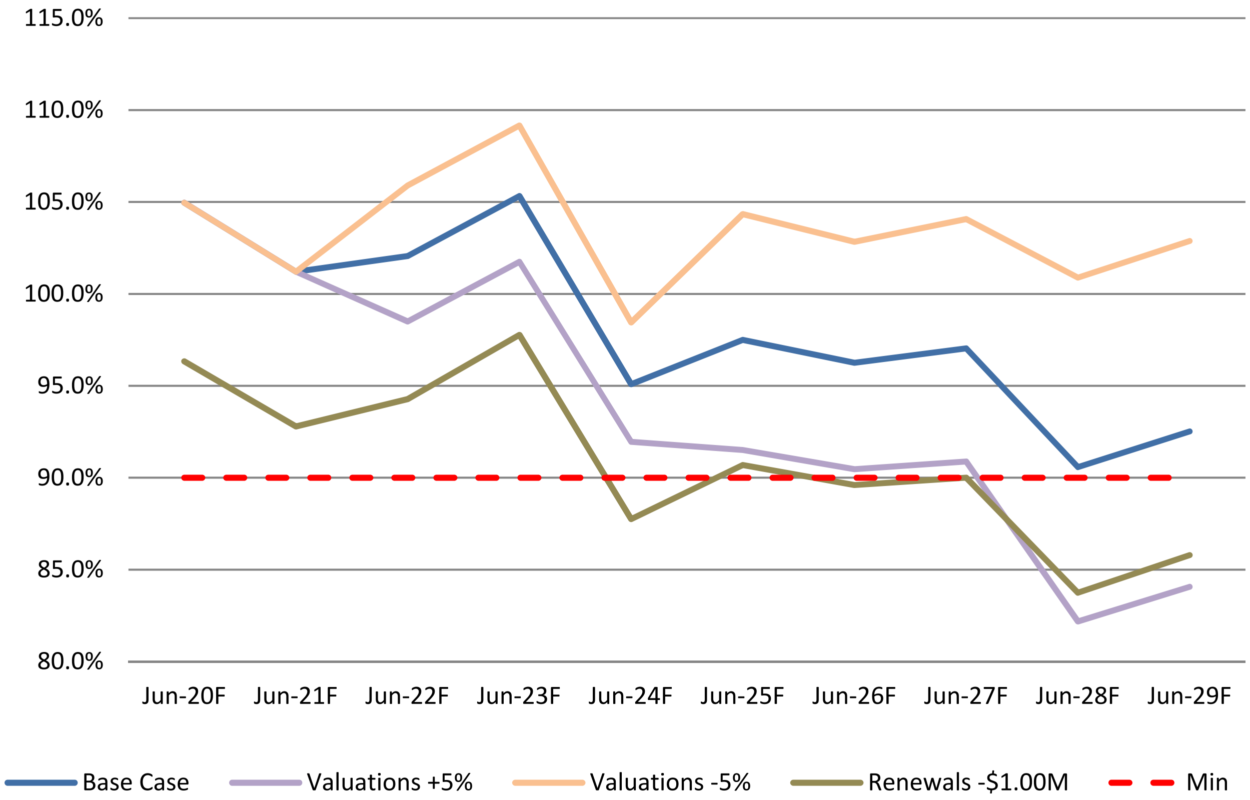
- Of the sensitivities modelled, valuation changes have the biggest impact on the operating surplus ratio through the impact on the amount of depreciation being calculated.
- All of the sensitivities modelled keep the ratio within the upper and lower thresholds although a 5.00% reduction in valuations puts the surplus at 9.00% in 2029.

Sensitivity Analysis – Net Financial Liabilities Ratio



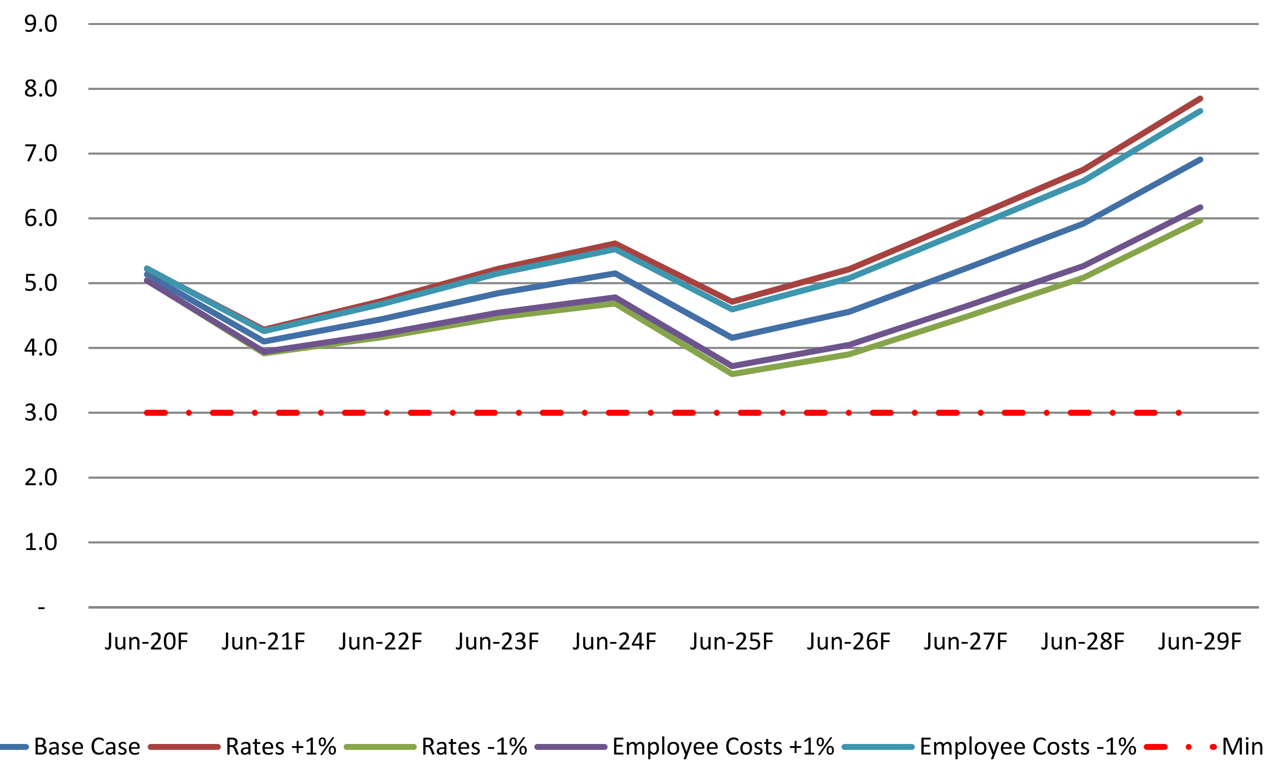
- Although the changes are relatively minor, the sensitivity which has the most impact is the change in rates revenue.
- All of the sensitivities modelled shows that the ratio is below the threshold from 2021.

Sensitivity Analysis – Asset Sustainability Ratio



- The biggest change to the ratio is to reduce expenditure on renewals by $1.00M per year which brings the ratio below the threshold of 90.00% in 2024 and 2026 to 2029.
- As has been noted previously, the actual spend will be determined through the finalisation of the Service Management Plans and amounts below the threshold may be appropriate.

Sensitivity Analysis – Cash Coverage Ratio



- The biggest impact on the Cash Coverage Ratio is a reduction in rates revenue, which brings the level of cash close to the minimum in 2025, although sufficient cash is available for all years of the forecast.
- A 1.00% increase in employee costs causes the ratio to come close to the minimum threshold in 2025, however it is maintained just above that level.

Financial Statements 2020 - 2029

The **Statement of Comprehensive Income** measures how Council performed in relation to income and expenses during the financial year. This statement illustrates how money received from Council operations is spent.

The **Statement of Financial Position** measures what we own (our assets) and what we owe (our liabilities) and our net worth (equity) at the end of the Financial Year.

The **Statement of Changes in Equity** measures the changes in our net wealth and shows the movements in our retained earnings, reserves and asset revaluation surplus.

The **Statement of Cash Flows** outlines how much cash was received and spent throughout the year and whether or not Council is spending more than it is receiving. The closing balance reflects how much cash Council had at year end.

Statement of Comprehensive Income

Lockyer Valley Regional Council
2019/2020 Budget and Long Term Financial Forecast 2020 to 2029
Statement of Income and Expenditure

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	$	$	$	$	$	$	$	$	$	$
Revenue	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Recurrent revenue:										
Rates & Utility Charges	42.66M	44.17M	45.73M	47.34M	49.01M	50.75M	52.54M	54.39M	56.31M	58.30M
Less Discounts	(1.73M)	(1.79M)	(1.85M)	(1.92M)	(1.98M)	(2.05M)	(2.13M)	(2.20M)	(2.28M)	(2.36M)
Net rates and utility charges	**40.94M**	**42.38M**	**43.88M**	**45.43M**	**47.03M**	**48.69M**	**50.41M**	**52.19M**	**54.03M**	**55.94M**
Fees and charges	4.10M	4.19M	4.29M	4.40M	4.51M	4.62M	4.74M	4.85M	4.97M	5.10M
Sales, contract and recoverable works	2.03M	2.08M	2.13M	2.18M	2.23M	2.28M	2.33M	2.39M	2.44M	2.50M
Operational Grants & subsidies	6.94M	7.02M	7.17M	7.33M	7.49M	7.66M	7.83M	8.00M	8.17M	8.35M
Interest received	1.51M	1.46M	1.47M	1.56M	1.66M	1.66M	1.69M	1.80M	1.95M	2.13M
Other recurrent income	4.59M	4.70M	4.82M	4.94M	5.06M	5.19M	5.32M	5.45M	5.59M	5.73M
Total recurrent revenue	**60.11M**	**61.83M**	**63.76M**	**65.84M**	**67.98M**	**70.10M**	**72.31M**	**74.68M**	**77.16M**	**79.75M**
Capital revenue:										
Capital Grants	2.11M	2.08M	2.12M	2.16M	2.20M	2.25M	2.29M	2.34M	2.38M	2.43M
Developer Contributions	-	0.50M	0.50M	0.50M	0.50M	0.50M	0.50M	0.50M	0.50M	0.50M
Gain/(loss) on sale of property, plant & equipment	(0.08M)	0.14M	0.19M	0.47M	0.24M	0.22M	0.20M	0.22M	0.09M	0.20M
Total capital revenue	**2.03M**	**2.71M**	**2.81M**	**3.13M**	**2.94M**	**2.96M**	**3.00M**	**3.05M**	**2.97M**	**3.13M**
Total income	**62.14M**	**64.54M**	**66.57M**	**68.97M**	**70.93M**	**73.07M**	**75.30M**	**77.74M**	**80.14M**	**82.87M**
Expenses										
Recurrent expenses:										
Employee costs	25.40M	26.26M	26.92M	27.98M	29.23M	30.69M	31.61M	33.17M	34.46M	35.48M
Materials and services	18.04M	18.04M	18.46M	18.91M	19.84M	19.90M	20.45M	21.03M	22.20M	22.30M
Depreciation and amortisation	12.64M	13.35M	14.50M	14.97M	15.12M	15.48M	15.71M	15.01M	15.48M	15.76M
Finance costs	1.29M	1.22M	1.15M	1.07M	0.99M	0.90M	0.81M	0.72M	0.62M	0.51M
Total expenses	**57.36M**	**58.87M**	**61.03M**	**62.93M**	**65.18M**	**66.97M**	**68.58M**	**69.93M**	**72.76M**	**74.06M**
Result from ordinary activities	**4.78M**	**5.67M**	**5.55M**	**6.03M**	**5.74M**	**6.10M**	**6.73M**	**7.80M**	**7.38M**	**8.82M**
Operating Result Adj for Capital Income	**2.75M**	**2.96M**	**2.74M**	**2.90M**	**2.80M**	**3.14M**	**3.73M**	**4.75M**	**4.41M**	**5.69M**

Statement of Financial Position

Lockyer Valley Regional Council
2019/2020 Budget and Long Term Financial Forecast 2020 to 2029
Statement of Financial Position

	2020 $ Budget	2021 $ Forecast	2022 $ Forecast	2023 $ Forecast	2024 $ Forecast	2025 $ Forecast	2026 $ Forecast	2027 $ Forecast	2028 $ Forecast	2029 $ Forecast
Current assets										
Cash assets and cash equivalents	18.64M	15.18M	16.85M	19.00M	21.13M	17.57M	19.84M	23.69M	28.03M	33.37M
Other inventory	2.47M	2.47M	2.47M	2.47M	2.47M	2.47M	2.47M	2.47M	2.47M	2.47M
Receivables	3.07M	3.18M	3.28M	3.38M	3.48M	3.60M	3.72M	3.84M	3.95M	4.09M
Prepayments	0.51M	0.51M	0.51M	0.51M	0.51M	0.51M	0.51M	0.51M	0.51M	0.51M
Total current assets	**24.69M**	**21.34M**	**23.11M**	**25.36M**	**27.59M**	**24.15M**	**26.54M**	**30.51M**	**34.96M**	**40.44M**
Non-current assets										
Land held for development or sale	1.85M	1.85M	1.85M	1.85M	1.85M	1.85M	1.85M	1.85M	1.85M	1.85M
Joint Ventures & Associates	33.35M	34.90M	36.49M	38.12M	39.78M	41.49M	43.25M	45.04M	46.88M	48.77M
Property, plant and equipment	564.82M	607.48M	609.19M	610.98M	651.25M	655.31M	655.72M	697.29M	696.88M	702.37M
Intangible assets	5.96M	6.37M	5.51M	4.47M	3.45M	5.60M	6.12M	5.84M	5.59M	5.48M
Capital works in progress	5.96M	5.96M	5.96M	5.96M	5.96M	5.96M	5.96M	5.96M	5.96M	-
Other non-current assets	14.74M	14.74M	14.74M	14.74M	14.74M	14.74M	14.74M	14.74M	14.74M	14.74M
Total non-current assets	**626.67M**	**671.29M**	**673.73M**	**676.11M**	**717.03M**	**724.95M**	**727.63M**	**770.71M**	**771.89M**	**773.20M**
Total assets	**651.36M**	**692.63M**	**696.84M**	**701.46M**	**744.62M**	**749.10M**	**754.17M**	**801.23M**	**806.85M**	**813.64M**
Current liabilities										
Trade and other payables	3.94M	3.99M	4.08M	4.20M	4.39M	4.47M	4.59M	4.75M	4.98M	5.05M
Borrowings	1.56M	1.64M	1.72M	1.80M	1.89M	1.99M	2.09M	2.19M	2.30M	2.41M
Employee payables/provisions	5.36M	5.56M	5.75M	5.95M	6.14M	6.34M	6.53M	6.73M	6.92M	7.12M
Other provisions	0.11M	0.11M	0.11M	0.11M	0.11M	0.11M	0.11M	0.11M	0.11M	0.11M
Total current liabilities	**10.98M**	**11.29M**	**11.66M**	**12.06M**	**12.53M**	**12.90M**	**13.32M**	**13.77M**	**14.31M**	**14.69M**
Non-current liabilities										
Borrowings	21.40M	19.76M	18.04M	16.24M	14.34M	12.36M	10.27M	8.08M	5.78M	3.37M
Employee payables/provisions	0.14M	0.14M	0.15M	0.15M	0.16M	0.16M	0.17M	0.17M	0.18M	0.18M
Other provisions	28.58M	28.58M	28.58M	28.58M	28.58M	28.58M	28.58M	28.58M	28.58M	28.58M
Total non-current liabilities	**50.11M**	**48.48M**	**46.77M**	**44.97M**	**43.08M**	**41.10M**	**39.02M**	**36.83M**	**34.54M**	**32.14M**
Total liabilities	**61.09M**	**59.77M**	**58.43M**	**57.03M**	**55.61M**	**54.00M**	**52.34M**	**50.61M**	**48.85M**	**46.82M**
Net community assets	**590.27M**	**632.86M**	**638.41M**	**644.44M**	**689.00M**	**695.10M**	**701.83M**	**750.62M**	**758.00M**	**766.82M**
Community equity										
Asset revaluation reserve	199.57M	236.48M	236.48M	236.48M	275.30M	275.30M	275.30M	316.29M	316.29M	316.29M
Retained surplus (deficiency)	390.71M	396.38M	401.93M	407.96M	413.70M	419.80M	426.53M	434.33M	441.71M	450.53M
Total community equity	**590.27M**	**632.86M**	**638.41M**	**644.44M**	**689.00M**	**695.10M**	**701.83M**	**750.62M**	**758.00M**	**766.82M**

Statement of Changes in Equity

Lockyer Valley Regional Council
2019/2020 Budget and Long Term Financial Forecast 2020 to 2029
Statement of Changes in Equity

	2020 $ Budget	2021 $ Forecast	2022 $ Forecast	2023 $ Forecast	2024 $ Forecast	2025 $ Forecast	2026 $ Forecast	2027 $ Forecast	2028 $ Forecast	2029 $ Forecast
Asset revaluation surplus										
Opening balance	199.57M	199.57M	236.48M	236.48M	236.48M	275.30M	275.30M	275.30M	316.29M	316.29M
Increase in asset revaluation surplus	-	36.91M	-	-	38.82M	-	-	40.99M	-	-
Closing balance	**199.57M**	**236.48M**	**236.48M**	**236.48M**	**275.30M**	**275.30M**	**275.30M**	**316.29M**	**316.29M**	**316.29M**
Retained surplus										
Opening balance	385.93M	390.71M	396.38M	401.93M	407.96M	413.70M	419.80M	426.53M	434.33M	441.71M
Net result	4.78M	5.67M	5.55M	6.03M	5.74M	6.10M	6.73M	7.80M	7.38M	8.82M
Closing balance	**390.71M**	**396.38M**	**401.93M**	**407.96M**	**413.70M**	**419.80M**	**426.53M**	**434.33M**	**441.71M**	**450.53M**
Total										
Opening balance	585.49M	590.27M	632.86M	638.41M	644.44M	689.00M	695.10M	701.83M	750.62M	758.00M
Net result	4.78M	5.67M	5.55M	6.03M	5.74M	6.10M	6.73M	7.80M	7.38M	8.82M
Increase in asset revaluation surplus	-	36.91M	-	-	38.82M	-	-	40.99M	-	-
Closing balance	**590.27M**	**632.86M**	**638.41M**	**644.44M**	**689.00M**	**695.10M**	**701.83M**	**750.62M**	**758.00M**	**766.82M**

Statement of Cash Flows

Lockyer Valley Regional Council
2019/2020 Budget and Long Term Financial Forecast 2020 to 2029
Statement of Cash Flows

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	$	$	$	$	$	$	$	$	$	$
	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Cash flows from operating activities:										
Receipts from customers	55.76M	57.86M	59.72M	61.64M	63.63M	65.66M	67.78M	69.97M	72.24M	74.55M
Payment to suppliers and employees	(43.31M)	(44.20M)	(45.23M)	(46.72M)	(48.84M)	(50.47M)	(51.89M)	(54.01M)	(56.40M)	(57.69M)
Interest received	1.51M	1.46M	1.47M	1.56M	1.66M	1.66M	1.69M	1.80M	1.95M	2.13M
Finance costs	(1.16M)	(1.08M)	(1.00M)	(0.92M)	(0.84M)	(0.75M)	(0.65M)	(0.55M)	(0.45M)	(0.34M)
Net cash inflow (outflow) from operating activities	**12.80M**	**14.04M**	**14.96M**	**15.56M**	**15.62M**	**16.11M**	**16.93M**	**17.21M**	**17.34M**	**18.65M**
Cash flows from investing activities:										
Payments for property, plant and equipment	(17.40M)	(19.22M)	(15.20M)	(15.37M)	(15.19M)	(21.33M)	(16.28M)	(14.96M)	(14.45M)	(14.82M)
Subsidies, donations and contributions for new capital expenditure	2.11M	2.08M	2.12M	2.16M	2.20M	2.25M	2.29M	2.34M	2.38M	2.43M
Proceeds from sale of property, plant and equipment	0.93M	0.34M	0.54M	0.61M	0.38M	0.36M	0.34M	0.36M	0.23M	0.34M
Net transfer (to) from cash investments	0.84M	0.86M	0.88M	0.90M	0.93M	0.95M	0.97M	1.00M	1.02M	1.05M
Net cash inflow (outflow) from investing activities	**(13.53M)**	**(15.94M)**	**(11.66M)**	**(11.69M)**	**(11.68M)**	**(17.77M)**	**(12.67M)**	**(11.27M)**	**(10.81M)**	**(11.01M)**
Cash flows from financing activities										
Proceeds from borrowings	-	-	-	-	-	-	-	-	-	-
Repayment of borrowings	(1.48M)	(1.56M)	(1.64M)	(1.72M)	(1.80M)	(1.89M)	(1.99M)	(2.09M)	(2.19M)	(2.30M)
Net cash inflow (outflow) from financing activities	**(1.48M)**	**(1.56M)**	**(1.64M)**	**(1.72M)**	**(1.80M)**	**(1.89M)**	**(1.99M)**	**(2.09M)**	**(2.19M)**	**(2.30M)**
Net increase (decrease) in cash held	**(2.21M)**	**(3.45M)**	**1.67M**	**2.14M**	**2.13M**	**(3.56M)**	**2.27M**	**3.85M**	**4.33M**	**5.34M**
Cash at beginning of reporting period	20.84M	18.64M	15.18M	16.85M	19.00M	21.13M	17.57M	19.84M	23.69M	28.03M
Cash Balance	**18.64M**	**15.18M**	**16.85M**	**19.00M**	**21.13M**	**17.57M**	**19.84M**	**23.69M**	**28.03M**	**33.37M**

Lockyer Valley

REGIONAL COUNCIL