



# **Draft Long Term Financial Plan 2020-30**

November 2019

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This is a DRAFT document which has been prepared for public discussion purposes and does not necessarily indicate the position of Council. Council will adopt this plan after consideration of all public submissions received and amendments have been made to address concerns where appropriate.

**NOTE:** There may be further amendments required to the figures provided in this document upon receipt of the 2018/19 Audited Financial Statements.

# Introduction

## Background

Council's Long-Term Financial Plan (LTFP) provides long-term financial projections, highlights issues which may impact on our future financial sustainability and help assess the long-term financial sustainability of present and future service levels.

Council have resolved that they wish to pursue the goals of the Asset Management Plan to look after and preserve our existing asset infrastructure. Therefore, the Asset Management Plan expenditure requirements have been incorporated into the models used.

The LTFP presented to Council in 2017 allowed various scenarios to be tested with regard to different levels of service delivery and included models with future special variation (SRV) to rates income following the priority review of all assets. The initial proposition included three potential areas for SRVs.

The 2017 draft LTFP included an assessment of the three models which Council considered in developing its Long Term Financial Plan. These were:

- "As Is" – continuing with current framework of allocations of funding by service
- "Asset Management" – refocus current expenditure by service to move funding towards the achievement of the Asset Management Plans particularly in transport assets
- "Balanced" – add to the Asset Management model a series of special rate variations for community priority new projects.

Councillors determined the approach to be taken would be to move to the Asset Management model in year one (2017/18) by making reallocations of funding to the priority areas identified by the community through the Community Survey. Council has been reviewing in detail the Council's Asset Registers and data in each Asset Management Plan looking to consider new models for service provision. This has included decisions on divestment and funding models for community assets.

Councillors indicated in 2017 that they will engage with the community in relation to potential consideration of special rate variations in subsequent years only when this review has been undertaken. Councillors also noted a number of asset reviews such as the Aquatic Facilities Review and the Public Amenities Reviews will inform this process. Councillors considered options for how such increase could be applied.

Potential areas for consideration relating to the introduction of special rate variations were determined in 2017 to include:

- Critical transport and community asset improvements including those aimed to build resilience against storm event damage;
- Provision of new or upgraded recreation and sporting assets such as swimming pools;
- The proposal presented through the tourism review to investigate a new funding model for tourism promotions and marketing which may have resulted in a review of the currently approved SRV for this purpose.

This updated LTFP includes Council's final resolved position in relation to SRV's which has determined only to consider the six pool strategy. If the SRV application is not successful, then the LTFP will be reviewed and updated accordingly in May 2020. The funding scenario applied in this LTFP is that the SRV is approved.

Council will continue to review the rationalisation of its assets and complete the condition assessments of all assets identified in the Assessment Management Plans.

The LTFP incorporates a number of assumptions with regard to projected rate income, fees and charges and grants. It also includes assumptions with regard to future operational and capital expenditure.

The LTFP is an evolving document that will be reviewed each year as a result of changes to the community's goals and expectations, changes to income and expenditure projections and is directly linked to Council's Asset Management Plans.

Initiatives will be reviewed annually to ensure they remain applicable and appropriate, and to reflect the feedback we receive from the community.

The LTFP provides a decision-making tool that allows various assumptions and sensitivity analysis to be carried out to indicate the ability of Council to deliver cost-effective services to our community into the future, and within a framework of financial sustainability.

The purpose of this plan is not to provide specific detail about various individual works or services. The LTFP provides a decision-making tool that allows various assumptions and sensitivity analysis to be carried out, which will indicate the ability of Council to deliver cost-effective services to our community and ensuring appropriate maintenance and replacement of our ageing infrastructure.

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*"The Bega Valley Shire Council faces many challenges that require strong financial leadership and political conviction if we are to continue to remain financially sustainable, while meeting the needs and wants of our community, and ensuring the appropriate management and replacement of our ageing infrastructure."*

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**Key challenges we face include:**

- Implementation and funding of appropriate asset management principles to ensure cost effective and efficient management of all Council's assets
- Meeting the ongoing expectations of our community with regard to the services we deliver
- Assessing the impact of accepting funds from other levels of government for funding new or upgrading existing assets and the associated increased recurrent maintenance and replacement costs
- Meeting the demands associated with the appropriate management of climate change
- Exposure to other environmental effects, storms, other natural disasters etc.
- Population growth and demographic changes
- Expansion of Industries such as Tourism
- Greater Government control and reporting requirements
- Managing the impact of cost shifting from other levels of government
- Low investment returns in the current financial climate
- Rapidly rising construction
- Ensuring financial sustainability of the organisation as measured against the Office of Local Government 'Fit for the Future' Ratios
- Keeping the community informed on budget constraints and cost shifting.

The LTFP provides the blueprint for the future delivery of works and services within a background of affordability and long-term financial sustainability particularly focusing in its first stages on addressing our current asset management responsibility.

## Legislation

*Section 403 of the NSW Local Government Act 1993 prescribes that;*

- (1) *A Council must have a long-term strategy (called its 'resourcing strategy') for the provision of the resources required to implement the strategies established by the community strategic plan that the council is responsible for.*
- (2) *The resourcing strategy is to include long-term financial planning, workforce management planning and asset management planning.*

## Objectives

The LTFP is an important part of Council's strategic planning process. This is the point where long-term community aspirations and goals are tested against financial realities. It is also where Council and the community consider what resources Council needs to influence and work with other parties so that they can deliver on the needs of the community.

### **What does Financial Sustainability mean?**

The Australian Local Government Association has adopted the following definition:

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*"A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services."*

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The LTFP is developed in accordance with the adopted Financial Strategy and to ensure Council remains financially sustainable while allowing the Council to provide the services and infrastructure its community has asked for.

The LTFP is a decision-making and problem-solving tool. It is not a 'set and forget' document, it is a guide for future action, and must be reviewed annually. The modelling that occurs as part of the plan can assist Council to weather unexpected events if, and when, they occur. It also provides an opportunity for Council to identify financial opportunities and risks at an early stage and gauge the effect of these into the longer term.

The LTFP aims to demonstrate to the public that with sound financial management and comprehensive planning Council will continue to be financially sustainable well into the future. It shows the community that Council has the financial capacity to deliver a range of services to the community while at the same time deliver on capital projects as the community needs them. Should the Council or the community choose to change the current level of services or projects delivered by Council then the financial impacts of those decisions and cost to the community must be taken into consideration.

If Council resolves in the future to amend its service profile, or if Council's charter is amended by a higher level of Government, the LTFP will need to be recalculated, which may result in changes.

## Improvements to Performance

Council continually strives to improve its financial position and constantly focusses on making improvements and achieving efficiencies. The role of the IPR Coordinator has been extended to cover improvement and a Business Improvement Officer role has been established internally through the direction of vacant position. Finance staffing has been seen as a priority area for resourcing and the introduction of a financial improvement program focussing on strategic and business as usual finance activities.

Key areas that Council continues to work on include:

- Procurement
- Works efficiencies particularly in the transport area
- Containment of staffing levels and a focus on continually addressing leave balances (annual and long service leave)
- Service reviews and restructures with two recent restructures aimed at achieving strategic directions and maintaining service levels within the rate peg amount
- Capitalisation remains a focus particularly due to the receipt of external capital grants
- Asset rationalisation and disposal – over the past three years Council has commenced a full review of land and building assets and resolved to divest of land and buildings; public amenities are also currently under consideration
- Productivity improvements including the establishment of a DA Hub, planning to move to online payments
- Asset management improvements to ensure appropriate maintenance budgets are in place for key infrastructure; investigating whole of life costs before any new asset purchase/construction is undertaken; aiming to move to Council capital spending focussing on renewal with external funding allocated to new infrastructure.

## Timeframe

A LTFP may be prepared for any length of time. The Office of Local Government (OLG) has set the minimum timeframe at 10 years. However, for Local Government Authorities that also manage Water and Sewer Utilities a minimum period of 20 years is prescribed.

Council's LTFP covers the financial year period from 2020-2029.

Over this period, Council intends to be responsible with its decisions to spend funds, and raise revenues, so that its activities are financially sustainable. This approach includes a proposed SRV to fund Council's six pool strategy which has been under consideration since 2017 and raising debt to recognise that the cost and benefit of new or renewed assets should be borne by current and future ratepayers and accord with intergenerational equity.

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# Our Current Position



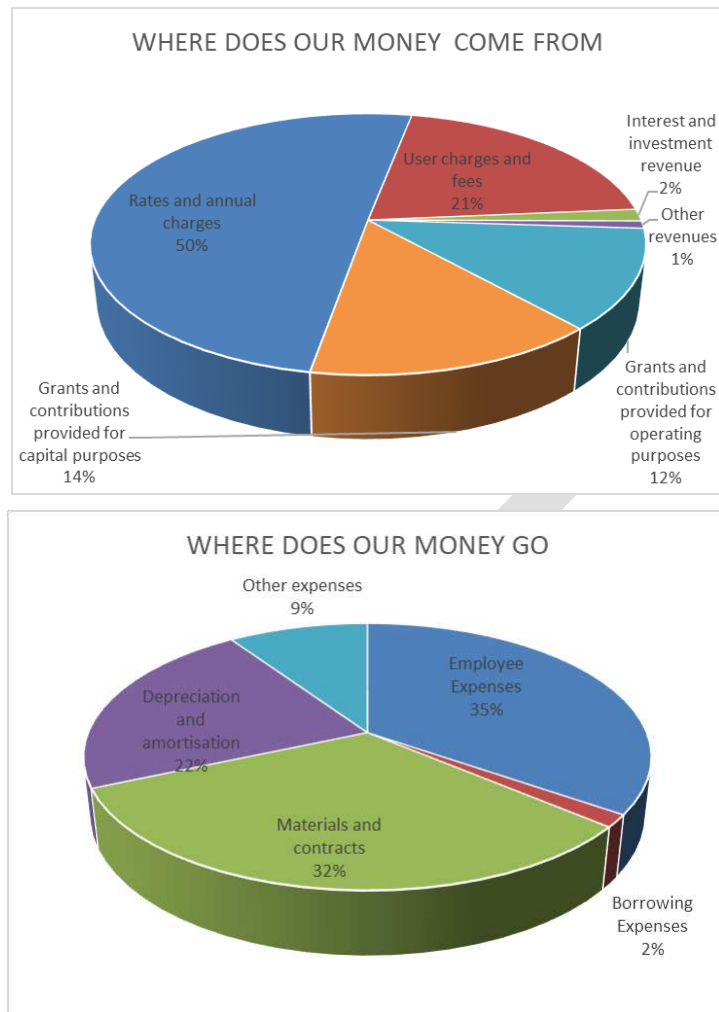
## Financial Estimates

### Consolidated

### Income & Expenses Budget Review

	FY20 Projected	FY21	FY22	FY23	FY24
<b>Income from continuing operations</b>					
Rates and annual charges	51,186,344	54,102,654	56,908,016	59,820,682	62,138,475
User charges and fees	21,185,174	22,150,150	23,038,560	23,964,942	25,025,049
Interest and investment revenue	1,545,100	1,615,945	1,635,285	1,707,825	1,779,205
Other revenues	905,125	994,057	986,012	1,035,316	1,087,083
Grants and contributions provided for operating purposes	13,574,093	13,252,314	13,323,412	13,657,859	14,036,759
Grants and contributions provided for capital purposes	44,946,706	15,538,276	29,053,275	8,505,973	9,777,783
Net gain from the disposal of assets	0	0	0	0	0
<b>Total Income</b>	<b>133,342,542</b>	<b>107,653,396</b>	<b>124,944,560</b>	<b>108,692,597</b>	<b>113,844,354</b>
<b>Expenses from continuing operations</b>					
Employee benefits and on-costs	34,859,879	35,768,577	36,549,947	37,459,705	38,389,651
Borrowing costs	1,731,090	1,554,031	1,381,007	1,210,316	1,147,289
Materials and contracts	27,583,300	33,265,503	33,413,607	34,406,454	35,105,182
Depreciation and amortisation	21,500,000	22,802,000	22,802,000	22,802,000	23,063,250
Other expenses	9,239,037	9,764,948	9,188,358	9,394,340	9,581,758
Net loss from the disposal of assets	0	0	0	0	0
<b>Total Expenses</b>	<b>94,913,306</b>	<b>103,155,059</b>	<b>103,334,919</b>	<b>105,272,815</b>	<b>107,287,130</b>
<b>Net Operating Result</b>	<b>38,429,236</b>	<b>4,498,337</b>	<b>21,609,641</b>	<b>3,419,782</b>	<b>6,557,224</b>
<b>Net operating result before grants and contributions provided for capital</b>	<b>-6,517,470</b>	<b>-11,039,939</b>	<b>-7,443,634</b>	<b>-5,086,191</b>	<b>-3,220,559</b>





### Summary of Council's Financial Position

**\*Note this table will be updated upon receipt of Councils 2018/19 Audited Financial Statements**

Financial Highlights	\$ million
Operating Revenues	108,687
Operating Expenditures	100,883
Operating Expenditures less Depreciation	78,033
Total Cash increase or Decrease	10,623
New Borrowings	0
Assets Held Under Management	987,476
Cash Held in Investments	82,887

## Key Assumptions Sensitivity Analysis and Risk Assessment



### General Assumptions

There are four assumptions underlying this LTFP:

1. Council's Asset Management Plans (AMP's) reflect an accurate maintenance profile for all of Council's \$1billion of assets.
2. Council's current service standards are at the required levels i.e. there are no expected increases to level of services in any of Council's operational areas unless otherwise provided for in the LTFP or supported by full external funding.
3. Council's charter will remain unchanged over the period covered by this LTFP. If there is a change to Council's charter, whether by another level of Government or by Council, then it is likely that Council will incur an increase in operating expenditure which will require a re-working of this LTFP.

### Indexation Assumptions

The LTFP excludes general indexation, which in the case of NSW Councils is called the Local Government Cost Index (LGCI) and is calculated and prescribed by the Independent Pricing and Regulatory Tribunal (IPART) each year. The model excludes general indexation as a means to being able to compare year on year forecasts. In reality each year the LTFP rate revenue income will be inflated by the prescribed Rate Peg prior to adoption. Indexation outlined below is in addition to any general Rate Peg inflation and therefore is included in the models tabled in this document.

A major consideration for this LTFP is that the financial models used as the basis are only as good as the information at hand at the time of publishing.

The LTFP should be updated each year as 'better' quality information is calculated. The table below outlines the indexation estimates used in the LTFP.

Assumption	CalculationBasis	Applies To	Amount %
<b>Property Growth</b>	HistoricalTrend	Rates	0.50%
<b>PopulationGrowth</b>	Forecast (Provided by Population ID)	Operational Grants, Other Income, and Contributions	0.65%
<b>Investment Interest Rate</b>	Forecast Reserve Bank of Australia (RBA) - very slowreturn to normal benchmarks	Interest Income	Base on prior years experiences and expected future movements, which are fairly flat or continued decrease.
<b>Borrowings Interest Rate</b>	Forecast (RBA)	Borrowing Costs	Fixed rate
<b>Cost Recovery Target</b>	Report 2011	Fees and Charges	Rate peg

## Assumptions

**New Works Projects Operational Consequence** : Recognises that all capital projects create an additional burden to operate and maintain the new assets.

**Negative Inflation on Fixed Investments**: When Council acquires new debt, the interest rate is fixed until the loan has expired or rolled over inclusive of inflation. The estimated actual cost of loans has been calculated through the life of the plan with no new loans anticipated other than in 2020/21.

**Capital Funding Targets**: As government grants shift from program to project based it is becoming harder to budget for capital grants. Recent experience is that significant funding is being provided for capital projects to local government and this is expected to continue although not at the rate of 2018/19 where an additional \$77m of funding was successfully applied for and which will be spent over the coming number of years.

The modelling of the impact of the recently funded capital projects and their impact on Council operating and maintenance expenditure is still being finalised. This will have a continued impact and a clear direction is that Council apply for projects that upgrade or renew assets or items that are clearly outlined in the Council's forward plans.

Assumption	CalculationBasis	Applies To	Amount %
<b>Award Agreement</b>	Forecast	Operating Employment Costs	2.5%
<b>Funded Capital Projects Operational Consequence Index</b>	Forecast	All Operating Expenditure	Estimated replacement costs and ongoing maintenance
<b>Negative Inflation On Fixed Investments</b>	Forecast RBA	Interest Paid	Fixed Rate
<b>Capital Funding Targets</b>	Forecast	Any Capital Project	As per Asset Management Plan and Council's adopted Infrastructure Prospectus

## Revenue Forecasts

### Definitions

Council's revenue forecasts are broken into the following categories:

OPERATING REVENUE	
<b>Rates and Annual Charges</b>	Revenue derived by levying property owners based on the land value of the property as well as annual charge made against each parcel of rateable land where the applicable service is available
<b>User Charges and Fees</b>	Revenue from a charge made in exchange for the provision of a specific good or service (e.g. user charge for water consumed)
<b>Interest and Investment Income</b>	Interest revenue from investment of available funds
<b>Other Revenue</b>	Other revenue includes operating contributions that are non-reciprocal transfers to Council
<b>Operating Grants</b>	Grants from government agencies that can be either tied to a specific function such as running of a childcare centre or untied such as financial assistance for running of Local Government
CAPITAL REVENUE	
<b>Capital Grants</b>	Capital grants are funds provided by third parties (generally other levels of government) towards the cost of major asset renewal or upgrades
<b>Developer Contributions (\$94/\$64)</b>	Developer contributions are payments (in kind or cash) provided by developers to help meet the additional infrastructure costs being incurred by council as the result of land development
<b>Other Contributions</b>	Capital contributions are funds provided by third parties (not levels of Government) towards the cost of major asset renewal or upgrades.
<b>Asset Sales</b>	The sale of Council assets no longer required for the operations of Council
<b>Land Sales</b>	The sale of land owned by Council but surplus to its needs
<b>Reserve Transfers</b>	A transfer from reserves is utilising funds previously quarantined
<b>From</b>	Prior periods to be used in the current budget period
<b>Loan Proceeds</b>	Loan proceeds are the initial borrowings from a financial institution to assist in funding particular planned projects within the current budget period
<b>Cashflow Generated from Depreciation</b>	Depreciation is listed as an operating expense as a measure of asset consumption. Actual cash is spent in the capital budget on those assets, by showing depreciation as an operating expense and offset by a capital income, Council can reflect the true expenditure on assets

OPERATING REVENUE		
RATES AND ANNUAL CHARGES		
<p>The draft plan models a Special Rate Variation for above the rate peg income for the General Fund implemented over three years. Following this period the only planned increase to rates included in the model will be the annual Rate Peg inflation measure issued by the Independent Pricing and Regulatory Tribunal IPART each year.</p> <p>Council's current rates yield for the 2020 financial year is \$24.34 million per annum before pensioner concessional rebates. Annual charges levied equate to another \$26.76 million giving total revenues for rates and annual charges of \$50.10 million.</p> <p>Council has resolved to apply for a special rate variation (SRV) in 2020 to be introduced over three years and to then remain as a permanent increase in the general rate income.</p>		
Sensitivity Analysis		
<p>Rating revenue is a very consistent revenue source. As a form of taxation, the law is such that it is very difficult for a ratepayer to not pay their rating liability. The likelihood of a ratepayer avoiding their liability is very low. The consequence of an individual ratepayer avoiding their liability is also very low. Council has debt recovery procedures to ensure the majority (96 per cent or more) is paid each quarter. The LTFP has included the staged introduction of an SRV from the 2020-2021 year. If this application is not successful then the LTFP will be appropriately amended.</p>		
USER CHARGES AND FEES		
<p>The model continues the policy of the rate peg per cent increase each year to apply to fees and charges except where determined otherwise by Council resolution. These targets can be achieved by either increasing the value of each fee or the volume sold of each service of which the fee is levied.</p> <p>Council's financial strategy categorises user fees and charges as fully recoverable, partially recoverable, or legislative fees that Council does not have the authority to amend. Detailed analysis has been undertaken to attempt to identify the true cost of service delivery accompanied by fee analysis to try and achieve the targets set forth in the LTFP.</p> <p>Furthermore, greater focus needs to be applied by Council in levying of user fees. Each function of Council is partially funded by the sale of user services and the associated fees. Failure to levy the correct fee could result in an inability to fund particular services.</p>		
Sensitivity Analysis		
<p>User fees and charges are largely controlled by Council. It is therefore largely Council's decision to implement its strategy or not. It is for that reason that the risk of this forecast not being accurate is low. If Council chooses to not implement its own strategy, then the Finance Strategy and LTFP needs to be adjusted accordingly.</p>		
Sensitivity Measure	Risk Rating	Details
Sensitivity Value (+/-5%)	+/- \$1m-\$2m	While it is somewhat likely that a small number of charges may not be achieved, it is not likely that several charges would fail to be collected. Hence a low risk factor.
Sensitivity Likelihood	Medium	
Sensitivity Consequence	Low	
Overall Risk Rating	Low	

**OPERATING REVENUE****INTEREST AND INVESTMENT INCOME**

The Australian cash market has been depressed for some time now. The cash rate since the year 2000 has averaged approximately five per cent. Currently, yields are approximately two per cent. The amount currently received in General Fund is of only a minor nature and will not have a material change with big variations in interest rate movements.

Year	Yield %
2020 - 2030	2%

**Sensitivity Analysis**

While the overall philosophy of returning to the norm over time is sound, the length of time and the increments that will achieve that result cannot be accurately forecast. There is a high degree of risk around this particular forecast, which translates to a high degree of probability that it is incorrect. As time progresses, the investment return forecast will need to be monitored and adjusted as per the market movements.

A corresponding movement can be expected in the borrowing costs line as well, although borrowings already drawn down will be fixed and therefore not as susceptible to rate movements as interest revenue.

Sensitivity Measure	Risk Rating	Details
Sensitivity Value (+/-5%)	+/- \$100k-\$200k	The unpredictability of the investment market makes this forecast a highrisk. However, the overall consequence is not all that significant. The rating remains high simply because of the nature of the forecast
Sensitivity Likelihood	High	
Sensitivity Consequence	Low	
Overall Risk Rating	High	

**OTHER REVENUES**

Other revenues include items such as fines, recovery fees, fundraising, and insurance claims.

**Sensitivity Analysis**

Other revenues have been forecast at 2% levels using the population growth indexation factor.

**OPERATING GRANTS**

Operating grants are contributions made by other government agencies to provide operational services to the community. Grants can be provided either for specific purposes or projects, or can be unspecified so that Councils can use them for what they deem the most appropriate need.

There has been much political debate around the provision of operating grants over the past decade, which makes long-term planning for them extremely difficult.

**Sensitivity Analysis**

Operating grants include the Financial Assistance Grant and other operational grants for service delivery which are expended in line with the grant funding conditions. These grants must align with the services provided and should be conservatively applied not be relied upon to fund core services.

<b>CAPITAL REVENUE</b>
<b>CAPITAL GRANTS</b>
The current State and Federal Governments have continued on a path of allocating significant funds to local government through capital grant programs. It is expected that this approach will continue into the foreseeable future.
<b>Sensitivity Analysis</b>
Capital grants should only be applied for in line with Council's adopted direction and take into account all ongoing operations, maintenance and renewal linked to the capital project being delivered. Capital grants income should be directly linked to the expenditure and a conservative approach to predicting grant success should be applied.
<b>DEVELOPER CONTRIBUTIONS</b>
The majority of revenue from contributions and donations are \$7.11 and \$64 developer contributions. These contributions must be expended on the works for which the contributions were raised.
<b>Sensitivity Analysis</b>
Revenue from these contributions is lined to growth with revenues reducing in times of low growth. Income projections are conservative due to variations in the property market.
<b>ASSET AND LAND SALES</b>
Council has adopted an asset management approach that includes review of land and building assets. A number of items have been progressed to sale and resolutions
<b>Sensitivity Analysis</b>
Income from this area is only included when the sale proceeds are received and the income is deposited in the appropriate reserve.
<b>RESERVE TRANSFERS</b>
Council uses reserves (cash set aside) as a means of building up required funds, rather than relying on borrowing. Council has a number of reserves that are set aside for specific purposes. A significant number of reserves are restricted due to regulations and cannot be allocated to general use.
<b>Sensitivity Analysis</b>
Reserve balances are reported quarterly and movements are reported to Council via the budget process and the quarterly budget reviews.
<b>LOAN PROCEEDS</b>
Council finances some of its major infrastructure expenditure through borrowings. This allows the cost of these long-lived assets projects to be spread over a number of years. Borrowings are approximately 35M as at the end of June 2019.
<b>Sensitivity Analysis</b>
Council monitors borrowings to ensure the debt service ratios are reasonable. Council is currently well below the ratio and has capacity to borrow if funding can be identified for the re payment of the capital and principal.

## Operational Expenditure Forecasts

### Definitions

Unlike revenues, the same category of expenditure exists in both operating and capital areas of the LTFP. The definitions remain the same, the difference being whether the expenditure was applied against a capital project or an operating activity.

In previous versions of the LTFP, Council has consolidated operating expenditure under three main categories: Service Delivery, Asset Maintenance, and Interest Repayments. To provide better clarity and consistent reporting in line with Financial Statements and to foster links through to the Asset Management Plan and Workforce Plan this LTFP categorises operating expenditure into employment costs, materials, contracts, other, and borrowing costs. Due to the difficulties in forecasting some of these categories, the LTFP uses a historical trend formula to assign expenditure as a guide to future decision-making.

Council's expenditure forecasts are broken into the following categories:

Definition – Expenditure	
<b>Employment Costs</b>	Consideration given by Council in exchange for service rendered by employees or for the termination of employment. These costs include not only salary but other related costs such as superannuation, Workers Compensation leave entitlements, costs of training etc.
<b>Materials &amp; Contracts</b>	Raw materials and consumables purchased in the provision of performing operating activities. Generally, this is materials purchased and used by employees in the provision of their duties.  Contract and consultancy expenditure whereby the outcome is passed to a third party. The contractor becomes liable for all expenditure and an agreed outcome and is considered as a significant amount through a tender process.
<b>Internal Costs</b>	All indirect costs associated with services provided internally through a centralised process. Most of these costs relate to specific costs but are reallocated to each service to ensure that all costs related to providing these services or constructed are incorporated.
<b>Other Expenses</b>	Effectively all other expenditure that does not meet the criteria for the other categories. For Council, this category includes advertising, bank fees, software licencing, emergency services contributions, councillor expenses, donations, utilities, insurances, postage, street lighting, telephone, and valuation fees.
<b>Depreciation</b>	Depreciation is a charge made against each of Council's assets in an attempt to measure its degradation over the financial year less any residual value at point of sale.

The cost breakdown is as follows:

Category	% Allocation
Employment Costs	35%
Materials & Contracts	32%
Other Expenses	9%
Borrowing Costs	2%
Depreciation	22%



## Sensitivity Analysis

Due to the formulaic nature of the operating costs allocation matrix, the sensitivity of each category is somewhat redundant. It is expected that as greater detail is learnt on specific projects that the formula split amongst categories will change and be reallocated. Overall, however, there is a low probability of the forecast total being incorrect as the annual budgets will be allocated based on this model. If any functions should require more than has been allocated the budget process will identify a corresponding decrease in some other function of Council. As such, it is deemed that the risk of the operating costs forecast being inaccurate is low.

Sensitivity Measure	Risk Rating	Details
Sensitivity Value (+/-5%)	+/- \$4m-\$5m	It is Council's decision to allocate funds. There are numerous mechanisms to highlight if the budget is not being adhered to. It is foreseeable that Council can interject and ensure allocations are returned to a balanced position. It is this fact that brings an overall low rating to Operational Expenditure Forecasts.
Sensitivity Likelihood	Low	
Sensitivity Consequence	High	
Overall Risk Rating	Low	

### OPERATIONAL EXPENDITURE FORECASTS

#### EMPLOYMENT COSTS

Outside of the allocation of employment costs associated with asset management, Council has a substantial workforce allocated to the delivery of services in the community and to the administration of the organisation. Council employees are employed under the relevant State Award. This Award is currently being renegotiated however the current Award increase of 2.5% years has been applied. Council also has a salary system which allows for employees to progress in value based on their ability to deliver the duties and responsibilities of their position. Employee costs make up approximately 37% of projected operating expenditure. This reflects the service based nature of a significant proportion of Council activities and the work associated in maintaining the considerable infrastructure owned by Council. Employment costs are impacted by a number of issues including skills shortages across the local government sector, staff turnover due to an ageing workforce; defined benefit superannuation increases; award salary increases being above CPI and the rate peg; changes in service levels and maternity provisions.

#### MATERIALS AND CONTRACTS

Materials and contracts item is one of the largest items on Council's income statement. It covers all materials used in operational activities and major ongoing operational contracts such as the domestic waste contract. Budgets in the operational plan reflect all known information in relation to contracts.

#### OTHER EXPENSES

The category includes a number of expense items including electricity costs, telephone charges, council expenses, valuation fees, payments to other levels of government, insurances, bank charges and street lighting. No extraordinary indexation or forecasting has been applied however the volatility and changes in the electricity markets are reflected in the recent contract entered into commencing in January 2020. A 3% yearly increase has been assumed after this initial increase. Valuation fees, election costs, insurances, audit costs and payment to other levels of government all include significant levels of increase above rate peg and are also assumed to increase by 3% in the model.

## Capital Expenditure Forecasts

### Definitions

Similar to Operating Expenditure, to provide better clarity, and to foster links through to the Asset Management Plan and Workforce Plan, the LTFP categorises Capital Expenditure into Employment Costs, Materials, Contracts, Other, and Borrowing Costs. Due to the difficulties in forecasting expenditure to each of these categories, the LTFP uses a historical trend formula to assign expenditure as a guide to future decision-making. As time progresses and more detailed planning can occur on capital projects the trend formula can be overwritten to provide a more accurate reflection of the cost breakdown.

The cost breakdown is as follows:

Category	% Allocation
Employment Costs	35%
Materials	10%
Contracts	20%
Other Expenses	5%

Please refer to the *Operating Expenditure* section of this document for a detailed explanation as to why the classification of expenditure is important. The actual classification of expenditure will alter from the forecasts as more detailed information is collated on particular projects. Decisions based on expertise, and workloads will impact on whether projects are delivered internally or externally.

The Capital Expenditure forecasts are taken directly from the Asset Management Plans. These values represent the funding required by the asset owners to deliver on the adopted level of service. It is important to understand that a change in level of service whether to increase or decrease must result in a change to the funding of that service as well as its resourcing profile. For example, if the community wants to grade more roads, that will mean an increase in Council plant, as well as operators, supervisors, administrators, or external contract expenses.

### CAPITAL EXPENDITURE FORECASTS

#### CAPITAL GRANTS

Due to the volatile nature of Capital Grants, Council cannot reliably forecast the value of Capital Grants. Should the identified capital grant funding source not be achieved then the projects must be re-evaluated. The past two years and current capital grant environment has seen an unprecedented level of external funding in this area across all Council areas.

#### CAPITAL WORKS PROGRAM

The capital works program reflected in the LTFP is particularly sensitive to changes in the construction index. The Construction Index measures changes over time in the price of new construction, other than houses. As this index has reached 20% in the past, rising construction costs remain a threat to Council achieving budgeted outcomes. Council aims to have a clear list of prioritised capital projects which are planned, designed, costed, and have approvals in place in order to ensure clear quantity surveyed costings can be included in both grant applications and Council budgets to minimise this threat.

#### DEVELOPER CONTRIBUTIONS

Due to the volatile nature of development contributions all three models forecast a consistent value with no above LGCI indexation. The chart below illustrates the difficulty in forecasting 'Developer Contributions', hence a very conservative view is taken.

The estimate income received is based on current year receipts and is of a low nature therefore there is only upside in material variations, which could be then used for upgraded or new assets.

**ASSET SALES**

Asset Sales largely relate to the sale of plant once it has reached the end of its useful life with Council. The plant fund has a detailed change-over plan which estimates the trade value of all items of plant and the year of optimum trade. The overall impact of asset sales does not impact the LTFP as the balancing entry will be Asset Purchase (replacement of the fleet). The net impact is always zero.

**CAPITAL PROJECT FUNDING SOURCES****LAND SALES**

Council holds many parcels of land, some of which have high values. In the confines of this model Council may plan to sell land to provide a funding source for community projects.

**RESERVE TRANSFERS FROM**

Council can also use funds held in reserve to fund activities and projects. In all instances where reserve funds are used in the LTFP, calculations have been run to ensure adequate funding will exist to meet the LTFP forecasts.

**LOAN PROCEEDS**

Council should only use loan proceeds to fund capital projects. The LTFP forecasts both the quantum of any borrowings required to fund the planned capital project list as well as the cost to repay that debt. All three models include a debt allocation and subsequent repayment profiles.

# Performance Monitoring

## Fit for the Future Ratios

A key part of the LTFP is the measurement of performance against the plan. IPART and NSW Treasury Corporation (TCORP) have provided ratios which serve as benchmarks to assess in the measurement of performance and to assess the long term financial sustainability of local government bodies.

Council is required to publish the ratios in the Annual Financial Statements under Note 13 and Special Schedule 7.

There are seven Fit for the Future Ratios that were initially used to assess Councils in the improvement program in 2015/16.



### OPERATING PERFORMANCE RATIO

This ratio measures Council's achievement of containing operating expenditure within operating revenue. Council has forecasted to achieve benchmarks above 0.0. The benchmark for this ratio is 0.0 or better, meaning the operating result excluding capital grants and contributions is required to be in surplus.

### OWN SOURCE REVENUE RATIO

This Ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. The benchmark for this ratio is 60% of total revenue sources. Council continues to meet this measurement.

### DEBT SERVICE COVER RATIO

This Ratio measures the availability of operating cash to service debt including interest, principal and lease payments. The use of borrowings to fund infrastructure renewal is considered the best means of enabling intergenerational equity of Council's infrastructure assets, distributing costs between current and future users of that infrastructure. The benchmark for this ratio >2.00X average over three years. Council exceeds this ratio, currently 2.75 reducing, there is a capacity for Council to consider borrowings and still exceed this ratio

### BUILDING AND INFRASTRUCTURE ASSET RENEWAL RATIO

This Ratio assesses the rate at which these assets are being renewed relative to the rate at which they are depreciating. The community has made it clear that they did not wish to see a decline in the levels of service or a deterioration of Council's assets. The benchmark is greater than 100% over three years. Council's ratio ranges from 80% to 95% during the life of this plan. To achieve 100% should be unrealistic as a number of assets have significant lives, Council has determined to meet its Asset Management Plan requirements, consider a reduction in the number of assets maintained and owned by Council and apply for funding for existing asset renewals where available.

### REAL OPERATING EXPENDITURE PER CAPITA OVER TIME RATIO

This indicator measures productivity changes over time based on the movement in real per capita expenditure. Based on the assumption that service level remains constant, a decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

The basis for this indicator is that Council can realise natural efficiencies as population increases (through lower average cost of service delivery and representation). It also assesses how well a Council can make the necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

### INFRASTRUCTURE BACKLOG RATIO

This ratio shows the asset renewal backlog as a proportion of the total value of Council's infrastructure.

**ASSET MAINTENANCE RATIO**

This Ratio compares required asset maintenance. As ratio above 100% indicates Council is investing enough funds to prevent the infrastructure backlog increasing due to not maintaining the assets to a satisfactory level.

## Improvement Program

Strategic Priority	Action	Year
<b>Continue the review of Council's strategic financial direction</b>	Update Council's Financial policy; financial strategy and LTFP as part of the new Council term	2020/21
<b>Improve financial maturity across Council</b>	<p>Provide financial induction to Councillors following the 2020 election</p> <p>Continue to refine and produce the annual budget development handbooks for Councillors</p> <p>Continue to improve internal staff understanding of the financial aspects of their role and develop Bega Valley specific training to cover: EOFY preparation and review of audit improvement findings; Fraud and Corruption Controls; Purchase cards; reserve management including current balances, movements and rationalisation; Capitalisation; depreciation.</p>	2020/21
<b>Improve financial systems across Council</b>	<p>Financial reporting – QBRs to Council; monthly to the Leadership Executive Group &amp; to budget owners</p> <p>Complete process reviews and finalise improvement plans for all finance "business as usual" activities –payroll; salary sacrifice provider; senior staff contract balancing; FBT; debt collection contract review; purchase cards; banking; cash handling</p>	2020-23
<b>Improve financial and asset integration across Council</b>	SS7, Reserves compliance	2020-24

# Long Term Financial Plan

Including projected financial statements – 2 scenarios

1. With SRV
2. Without SRV

Income statement

Balance Sheet

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## Consolidated Funds Including Special Rate Variation

## Budget Income Statement

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Income from continuing operations</b>										
Rates and annual charges	54,102,654	56,908,016	59,820,682	62,138,475	65,735,992	68,263,874	70,137,556	72,063,962	74,075,464	76,144,296
User charges and fees	22,150,150	23,038,560	23,964,942	25,025,049	26,655,933	27,835,345	28,767,494	29,731,642	30,728,920	31,760,489
Interest and investment revenue	1,615,945	1,635,285	1,707,825	1,779,205	1,858,475	1,941,419	2,001,176	2,062,790	2,126,338	2,191,856
Other revenues	994,057	986,012	1,035,316	1,087,083	1,141,438	1,198,507	1,234,355	1,271,275	1,309,300	1,348,466
Grants and contributions provided for operating purposes	13,252,314	13,323,412	13,657,859	14,036,759	14,454,034	14,884,176	15,255,270	15,636,174	16,027,314	16,428,822
Grants and contributions provided for capital purposes	22,580,616	29,053,275	8,505,973	9,777,783	6,909,903	2,978,950	5,124,786	3,150,071	3,278,375	3,370,273
Net gain from the disposal of assets	-	-	-	-	-	-	-	-	-	-
<b>Total Income</b>	114,695,736	124,944,560	108,692,597	113,844,354	116,755,775	117,102,271	122,520,637	123,915,914	127,545,711	131,244,202
<b>Expenses from continuing operations</b>										
Employee benefits and on-costs	35,768,577	36,549,947	37,459,705	38,389,651	39,356,072	40,346,851	41,558,602	42,806,748	44,092,396	45,416,651
Borrowing costs	1,554,031	1,381,007	1,210,316	1,147,289	1,000,386	866,828	734,880	621,997	540,571	540,571
Materials and contracts	27,363,503	27,334,547	28,145,022	28,718,522	29,593,900	30,480,695	31,540,583	32,637,397	33,772,414	34,946,986
Depreciation and amortisation	22,802,000	22,802,000	22,802,000	23,063,250	23,063,250	24,293,640	24,293,640	24,293,640	25,171,440	25,171,440
Impairment	-	-	-	-	-	-	-	-	-	-
Other expenses	9,764,948	9,188,358	9,394,340	9,581,758	9,867,955	10,490,619	10,847,266	11,216,576	11,599,040	11,995,142
Net loss from the disposal of assets	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	97,253,059	97,255,859	99,011,383	100,900,470	102,881,563	106,478,633	108,974,971	111,576,358	115,175,861	118,070,790
<b>Net Operating Result</b>	17,442,678	27,688,701	9,681,214	12,943,884	13,874,212	10,623,638	13,545,666	12,339,556	12,369,850	13,173,412
<b>Net operating result before grants and contributions provided for capital purposes</b>	(5,137,938)	(1,364,574)	1,175,241	3,166,101	6,964,309	7,644,688	8,420,880	9,189,485	9,091,475	9,803,139

## Consolidated Funds Incorporating the Special Rates Variation

## Budget Balance Sheet

## Assets

## Current Assets

Cash and cash equivalents

Receivables

Inventories

Other

Total Current Assets

Non-Current Assets

Receivables

Infrastructure, property, plant and equipment

Total Non-Current Assets

Total Assets

## Liabilities

## Current Liabilities

Payables

Borrowings

Provisions

Total Current Liabilities

Non-Current Liabilities

Borrowings

Provisions

Total Non-Current Liabilities

Total Liabilities

Net Assets

## Equity

Retained Earnings

Revaluation Reserves

Total Equity

	Delivery Program 2021	Delivery Program 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028	Budget 2029	Budget 2030
Cash and cash equivalents	3,381,431	71,701,284	38,097,694	34,969,780	29,703,812	3,519,164	18,676,453	40,634,471	65,121,668	89,366,649
Receivables	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078
Inventories	462,000	462,000	462,000	462,000	462,000	462,000	462,000	462,000	462,000	462,000
Other	-	-	-	-	-	-	-	-	-	-
Total Current Assets	11,296,509	79,616,362	46,012,772	42,884,858	37,618,890	11,434,242	26,591,531	48,549,549	73,036,746	97,281,727
Receivables	-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant and equipment	1,141,920,640	1,176,421,214	1,194,990,620	1,237,684,072	1,249,315,844	1,240,643,815	1,232,413,511	1,221,953,414	1,213,920,559	1,206,014,478
Total Non-Current Assets	1,141,920,640	1,176,421,214	1,194,990,620	1,237,684,072	1,249,315,844	1,240,643,815	1,232,413,511	1,221,953,414	1,213,920,559	1,206,014,478
Total Assets	1,153,217,149	1,256,037,576	1,241,003,392	1,280,568,930	1,286,934,734	1,252,078,057	1,259,005,042	1,270,502,963	1,286,957,305	1,303,296,205
Payables	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000
Borrowings	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000
Provisions	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000
Total Current Liabilities	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000
Borrowings	39,209,399	42,831,623	46,396,543	59,311,391	61,973,742	64,684,968	66,130,296	67,592,228	71,754,904	75,917,580
Provisions	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000
Total Non-Current Liabilities	44,151,399	47,773,623	51,338,543	64,253,391	66,915,742	69,626,968	71,072,296	72,534,228	76,696,904	80,859,580
Total Liabilities	62,530,399	66,152,623	69,717,543	82,632,391	85,294,742	88,005,968	89,451,296	90,913,228	95,075,904	99,238,580
Net Assets	1,090,686,750	1,189,884,953	1,171,285,849	1,197,936,539	1,201,639,992	1,164,072,089	1,169,553,746	1,179,589,735	1,191,881,401	1,204,057,625
Retained Earnings	663,442,750	762,640,953	744,041,849	770,692,539	774,395,992	736,828,089	742,309,746	752,345,735	764,637,401	776,813,625
Revaluation Reserves	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000
Total Equity	1,090,686,750	1,189,884,953	1,171,285,849	1,197,936,539	1,201,639,992	1,164,072,089	1,169,553,746	1,179,589,735	1,191,881,401	1,204,057,625



**Consolidated Funds No Special Rates Variation****Budget Income Statement**

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Income from continuing operations</b>										
Rates and annual charges	53,392,654	55,470,266	57,636,988	59,900,189	63,441,749	65,912,275	67,729,519	69,598,132	71,547,988	73,553,633
User charges and fees	22,150,150	23,038,560	23,964,942	25,025,049	26,655,933	27,835,345	28,767,494	29,731,642	30,728,920	31,760,489
Interest and investment revenue	1,615,945	1,635,285	1,707,825	1,779,205	1,858,475	1,941,419	2,001,176	2,062,790	2,126,338	2,191,856
Other revenues	994,057	986,012	1,035,316	1,087,083	1,141,438	1,198,507	1,234,355	1,271,275	1,309,300	1,348,466
Grants and contributions provided for operating purposes	13,252,314	13,323,412	13,657,859	14,036,759	14,454,034	14,884,176	15,255,270	15,636,174	16,027,314	16,428,822
Grants and contributions provided for capital purposes	22,580,616	29,053,275	8,505,973	9,777,783	6,909,903	2,978,950	5,124,786	3,150,071	3,278,375	3,370,273
Net gain from the disposal of assets	-	-	-	-	-	-	-	-	-	-
<b>Total Income</b>	113,985,736	123,506,810	106,508,903	111,606,068	114,461,532	114,750,672	120,112,600	121,450,084	125,018,235	128,653,539
<b>Expenses from continuing operations</b>										
Employee benefits and on-costs	35,768,577	36,549,947	37,459,705	38,389,651	39,356,072	40,346,851	41,558,602	42,806,748	44,092,396	45,416,651
Borrowing costs	1,554,031	1,381,007	1,210,316	1,147,289	1,000,386	866,828	734,880	621,997	540,571	540,571
Materials and contracts	27,363,503	27,334,547	28,145,022	28,718,522	29,593,900	30,480,695	31,540,583	32,637,397	33,772,414	34,946,986
Depreciation and amortisation	22,802,000	22,802,000	22,802,000	23,063,250	23,063,250	24,293,640	24,293,640	24,293,640	25,171,440	25,171,440
Impairment	-	-	-	-	-	-	-	-	-	-
Other expenses	9,764,948	9,188,358	9,394,340	9,581,758	9,867,955	10,490,619	10,847,266	11,216,576	11,599,040	11,995,142
Net loss from the disposal of assets	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	97,253,059	97,255,859	99,011,383	100,900,470	102,881,563	106,478,633	108,974,971	111,576,358	115,175,861	118,070,790
<b>Net Operating Result</b>	16,732,678	26,250,951	7,497,520	10,705,598	11,579,969	8,272,039	11,137,629	9,873,726	9,842,374	10,582,749
<b>Net operating result before grants and contributions provided for capital purposes</b>	(5,847,938)	(2,802,324)	(1,008,453)	927,815	4,670,066	5,293,089	6,012,843	6,723,655	6,563,999	7,212,476

## Consolidated Funds Incorporating the Special Rates Variation

## Budget Balance Sheet

## Assets

## Current Assets

Cash and cash equivalents

Receivables

Inventories

Other

## Total Current Assets

## Non-Current Assets

Receivables

Infrastructure, property, plant and equipment

Total Non-Current Assets

## Total Assets

## Liabilities

## Current Liabilities

Payables

Borrowings

Provisions

## Total Current Liabilities

## Non-Current Liabilities

Borrowings

Provisions

Total Non-Current Liabilities

## Total Liabilities

## Net Assets

## Equity

Retained Earnings

Revaluation Reserves

## Total Equity

	Delivery Program 2021	Delivery Program 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028	Budget 2029	Budget 2030
<b>Assets</b>										
<b>Current Assets</b>										
Cash and cash equivalents	3,381,431	64,200,402	26,202,854	14,331,008	(305,798)	(35,408,500)	(28,322,653)	(14,089,811)	3,832,795	22,704,686
Receivables	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078	7,453,078
Inventories	462,000	462,000	462,000	462,000	462,000	462,000	462,000	462,000	462,000	462,000
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	11,296,509	72,115,480	34,117,932	22,246,086	7,609,280	(27,493,422)	(20,407,575)	(6,174,733)	11,747,873	30,619,764
<b>Non-Current Assets</b>										
Receivables	-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant and equipment	1,141,920,640	1,176,421,214	1,194,990,620	1,237,684,072	1,249,315,844	1,240,643,815	1,232,413,511	1,221,953,414	1,213,920,559	1,206,014,478
<b>Total Non-Current Assets</b>	1,141,920,640	1,176,421,214	1,194,990,620	1,237,684,072	1,249,315,844	1,240,643,815	1,232,413,511	1,221,953,414	1,213,920,559	1,206,014,478
<b>Total Assets</b>	1,153,217,149	1,248,536,694	1,229,108,552	1,259,930,158	1,256,925,124	1,213,150,393	1,212,005,936	1,215,778,681	1,225,668,432	1,236,634,242
<b>Liabilities</b>										
<b>Current Liabilities</b>										
Payables	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000	6,841,000
Borrowings	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000	3,496,000
Provisions	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000	8,042,000
<b>Total Current Liabilities</b>	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000	18,379,000
<b>Non-Current Liabilities</b>										
Borrowings	24,340,601	20,718,377	17,153,457	23,838,609	21,176,258	18,465,032	17,019,704	15,557,772	17,833,946	20,110,120
Provisions	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000	4,942,000
<b>Total Non-Current Liabilities</b>	29,282,601	25,660,377	22,095,457	28,780,609	26,118,258	23,407,032	21,961,704	20,499,772	22,775,946	25,052,120
<b>Total Liabilities</b>	47,661,601	44,039,377	40,474,457	47,159,609	44,497,258	41,786,032	40,340,704	38,878,772	41,154,946	43,431,120
<b>Net Assets</b>	1,105,555,548	1,204,497,317	1,188,634,095	1,212,770,549	1,212,427,866	1,171,364,361	1,171,665,232	1,176,899,909	1,184,513,486	1,193,203,122
<b>Equity</b>										
Retained Earnings	678,311,548	777,253,317	761,390,095	785,526,549	785,183,866	744,120,361	744,421,232	749,655,909	757,269,486	765,959,122
Revaluation Reserves	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000	427,244,000
<b>Total Equity</b>	1,105,555,548	1,204,497,317	1,188,634,095	1,212,770,549	1,212,427,866	1,171,364,361	1,171,665,232	1,176,899,909	1,184,513,486	1,193,203,122