

Alice Springs Town Council



# Long Term Financial Plan

2022/2023 – 2032/2033

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# 1. Executive Summary

## Background

Alice Springs Town Council (ASTC) is a local government area in the Northern Territory, servicing the municipality of Alice Springs as well as operating as a service hub for 260 remote communities. It is located in the southern section of the Northern Territory, about 1,500 kilometres south of the Darwin CBD. The Alice Springs Town Council area is surrounded entirely by the MacDonnell Regional Council area.



Population for the region sits **below 40,000**.

Less than **1% growth** expected over the next 10 years limiting **organic revenue growth from rates**.

## Introduction

ASTC has historically completed a four-year *Long Term Financial Plan (LTFP)* in line with Government legislation. Current leadership of ASTC recognise the importance of the *LTFP* as an important strategic document which forecasts and aligns long term financial viability against the targets and objectives set by ASTC. As such, the *LTFP* has been extended to **cover a 10-year period**.

## Revenue



Rates revenue make up **over 75% of ASTC's income**.

Rates are projected to be **\$27.3 million** for the **2021-22** financial year.

Increases to Council rates for ratepayers have historically been inconsistent and an outcome of short-term budgeting. The updated *LTFP* seeks to address this by applying a constant rate increase over the period. The rate increases reflect ASTC's role in continuing to meet the needs and services of its community as well as to maintain, upgrade and invest in assets for the community whilst maintaining an adequate level of cash flow reserves.

## Expenditure

ASTC has three significant classes of expenses; **employment costs, asset maintenance and renewal costs**, and costs to operate the **Regional Waste Management Facility (RWMF)**.



**Labour is a critical component** in meeting the **service needs** of its **community**; ASTC are a major employer in Alice Springs.

Employment costs are projected to be **\$20.4 million** for the **2021-22** financial year, taking a **7.5% vacancy** into account, **increasing at 3%** each year thereafter.

Projections of costs in relation to **asset maintenance and renewals and the RWMF** have been completed by consultant, Aurecon, through an *Asset Management Plan (AMP)*. The plan identifies the spending requirements of the Council to both maintain and replace assets and infrastructure where required. Information provided has been incorporated into the *LTFP*. An impetus to undertake the *AMP* and extend the *LTFP* to 10 years was to gain an understanding of how future expected spend would impact the reserves over time.

### Cash-Flow Reserves



ASTC currently have over **\$30 million** in cash-flow reserves, some of which are committed funds.

Based on the *AMP*, spend on renewals is expected to be **\$65.9 million** over the **next 10 years** from 2021-22 to 2030-31, leaving a **deficit of \$35.9 million** in the cash-flow reserves balance.

The *LTFP* addresses the rate increases required to recoup this spend over time.

### Rates Increase and Cash Reserves

Strategically, rates were frozen for the 2020-21 year with a 2% increase in the 2021-22 year to support the city through the pandemic recovery; this has had an impact on the cash-flow reserves of ASTC. The *LTFP* illustrates that to allow ASTC to maintain at least a positive cash-flow reserve balance, following the committed 2.0% rates increase in the 2021-22 financial year:



**Rates increase of 5% plus CPI of 1.4% with 0% dwellings growth will be required until 2027-28.** After this time, cashflow reserves accumulate at a faster rate.

However, cash-flow reserves will need to be maintained in order to meet large projected renewals spend in the longer term per the *AMP*, including:

\$48.9 million from 2031-32 to 2040-41; and

\$85.4 million from 2041-42 to 2046-47.

The rates increase assumption driving ASTC's four-year financial plan, per the *Municipal Plan*, is 4.7% in 2022-23 and then 5% per annum thereafter. When comparing the effect this assumption has on the *LTFP* with an additional CPI (1.4%) increase built in from 2022-23 onwards, it became evident that the latter assumption was necessary to adopt in the *LTFP*.

In view of ASTC's almost \$300 million of infrastructure, property, plant and equipment, a prudent long term cash reserve is considered reasonable to ensure that ASTC is able to activate strategic projects or address unforeseen challenges. The *LTFP* allows for a \$200,000 annual spend on strategic projects; these are uncommitted projects that allow ASTC to be agile on minor projects that benefit the community.

## 2. *LTFP* Approach and Specific Assumptions

### *LTFP Background*

Section 200 of the Northern Territory Australia *Local Government Act 2019* requires Councils to prepare and keep up-to-date a long term financial plan relating to a period of at least 4 financial years. ASTC recognises the importance of the *LTFP* and, for the reasons outlined below, the *LTFP* has been developed to cover an extended period of 10 years.

A long term financial plan is a financial model and a key planning document for understanding financial sustainability. It is beneficial for internal budgeting and project planning as the model combines financial forecasting with strategising, and considers financial strategies and performance indicators. It expresses in financial terms the activities the Council proposes to understand and informs significant decisions about resource allocation.

Key benefits arising from having a long term financial plan in place include:

- Improves understanding of financial sustainability;
- Aids financial management and decision making;
- Increases commitment to maintain asset base and plan for major projects;
- Manages expectations of what can be achieved, within context and financial limits; and
- Improves commitment in aligning resources to achieve strategic plans.

The Council's financial objectives for the *LTFP* are summarised as follows:

1. To have a financial model that is both forward looking, in order to provide an indication of financial sustainability for the Council based on their proposed changes, and adaptable, in order to address the dynamic needs of the community;
2. To guide strategic decisions and ensure they align within the Council's contextual and financial limitations, and benchmarks, targets and objectives set by ASTC;
3. Enhance the Council's duty to remain transparent and accountable towards the community;
4. Enhance ability to align resources to strategic plans efficiently, encourage cost control and support financial improvement aspirations; and
5. Aid early identification of financial challenges to enable the Council to engage in necessary decision making and consideration of alternative funding or cost saving options.

## *LTFP Model Approach*

In development of the long term financial plan model, the following information was utilised as the basis for the *LTFP* model development:

1. 2022-23 budget developed by ASTC, noting:

The budget reflects the projections and assumptions outlaid in ASTC's Municipal Plan, and is the result of a detailed historical review across the Council's three key directorates:

- Community Development
- Corporate Services
- Technical Services

2. The four-year financial plan developed by ASTC for the financial years 2022-23 to 2025-26. The four-year financial plan was driven by basic assumptions as outlined below:

- The Council's employee Enterprise Agreement (EA) is due for renewal in February 2022 and to avoid pre-empting negotiations the same rate increase that exists currently has been applied in the 2022/23 budget.
- A 4.7% increase for rates and waste management charges have been incorporated in the 2022/23 budget.
- A 4.7% increase on user fees & charges have been incorporated in the 2022/23 budget.

Outer financial years

- 5% increase across rates and charges
- 5% increase across user fees and charges
- 1% increase in grants and contributions received
- 1% increase in investment interest received
- 2% average increase in other operating income
- 3% increase across employee costs
- 2% average increase in other costs and expenses across the organisation
- No changes to the yearly Elected Member or Council Committee Allowances

## *Key Growth Rate Assumptions & Sensitivities*

The growth assumptions applied in the model generally remain fixed for the duration of the 10-year period of the model, unless otherwise stated. The key growth assumptions that drive the model are as follows.

### **Residential Growth and Economy:**

Has been set at a conservative 0% growth per annum based on statistics provided by the Regional Development Australian Northern Territory's (RDANT) and the Department of Treasury and Finance.

### **Consumer Price Index (CPI):**

Has been set at a 1.4% growth per annum based on an average of the expected CPI rates for the three years from 2021-22 to 2023-24 as released by the Northern Territory Government (NTG).

### **Rates Revenue:**

Has been set at a 4.7% growth in 2022-23 as incorporated in ASTC's 2022-23 budget and a 6.4% growth per annum for the following years. The 6.4% growth rate (including CPI), made evident through the development of the LTFP model, is required for the Council to remain financially responsible, meet operational needs, achieve strategic objectives and adequately maintain the assets under management.

### **User Fees and Charges Revenue:**

Has been set at a 3% growth per annum with consideration to the RWMF, as a significant component of user fees & charges relate to this facility.

### **Operating Grants:**

Has been set at a 0.4% growth per annum, based on CPI of 1.4% less the efficiency dividend of 1% from NTG's budget repair measures.

### **Employee Costs:**

Has been set at a 3% growth per annum in line with the Council's enterprise agreement, with a further increase of \$1 million in 2022-23 and a vacancy rate of 7.5% across the 10 years based on the revised employee costs included in the 2021-22 budget. Current service levels are expected to be maintained, and therefore, the number of employees is assumed to remain the same across the 10 years.

### **Materials, Contracts and Other Expenses:**

Has been set at 1.4% in line with the CPI growth. Materials and contracts costs have been informed by Aurecon's Operating and Maintenances (O&M) budget. Consultancy costs are set at a further 20% decrease in 2022-23 and 30% in 2023-24 as a result of ASTC undergoing a transformative consultation in the earlier years.

## Long Term Financial Plan

INCOME AND EXPENDITURE STATEMENT	Annual Budget 2022/23 (\$)	Forecast 2023/24 (\$)	Forecast 2024/25 (\$)	Forecast 2025/26 (\$)	Forecast 2026/27 (\$)	Forecast 2027/28 (\$)	Forecast 2028/29 (\$)	Forecast 2029/30 (\$)	Forecast 2030/31 (\$)	Forecast 2031/32 (\$)	Forecast 2032/33 (\$)
<b>OPERATING INCOME</b>											
Rates	25,290,001	26,478,632	27,723,128	29,026,115	30,390,342	31,818,688	33,314,167	34,879,932	36,519,289	38,235,696	40,032,774
Charges	4,217,429	4,415,830	4,623,374	4,840,673	5,068,185	5,306,389	5,555,790	5,816,912	6,090,307	6,376,551	6,676,249
Fees & Charges	4,969,941	5,111,487	5,264,832	5,422,777	5,585,460	5,753,024	5,925,615	6,103,383	6,286,485	6,475,079	6,669,332
Operating Grants and Subsidies	2,435,847	2,445,590	2,455,373	2,465,194	2,475,055	2,484,955	2,494,895	2,504,875	2,514,894	2,524,954	2,535,054
Interest/Investment Income	296,525	402,274	398,114	400,189	386,282	383,501	389,379	395,148	404,130	404,314	421,752
Other Income	599,273	614,255	629,611	645,351	661,485	678,022	694,973	712,347	730,156	748,410	767,120
<b>TOTAL INCOME</b>	<b>37,809,016</b>	<b>39,468,068</b>	<b>41,094,432</b>	<b>42,800,299</b>	<b>44,566,809</b>	<b>46,424,579</b>	<b>48,374,819</b>	<b>50,412,597</b>	<b>52,545,261</b>	<b>54,765,004</b>	<b>57,102,281</b>
<b>OPERATING EXPENSES</b>											
Employee Expenses	20,988,624	21,618,283	22,266,831	22,934,836	23,622,881	24,331,568	25,061,515	25,813,360	26,587,761	27,385,394	28,206,955
Material and Contracts	12,223,362	12,526,848	12,685,779	12,812,543	13,130,732	13,456,866	13,791,145	14,133,773	14,484,958	14,844,914	15,213,860
Elected Member Allowances	406,915	415,054	423,355	431,822	440,458	449,267	458,253	467,418	476,766	486,301	496,027
Elected Member Expenses	28,509	29,079	29,661	30,254	30,859	31,476	32,106	32,748	33,403	34,071	34,752
Council Committee Allowances	5,655	5,768	5,883	6,001	6,121	6,244	6,368	6,496	6,626	6,758	6,893
Council Committee Expenses	4,110	4,192	4,276	4,362	4,449	4,538	4,629	4,721	4,816	4,912	5,010
Depreciation, Amortisation & Impairment	9,600,000	9,384,564	9,145,457	9,081,616	8,944,095	8,758,947	8,606,781	8,459,131	8,423,389	8,268,706	8,233,646
Interest Expenses	0	0	0	0	0	0	0	0	0	0	0
Other Expenses	4,098,065	4,663,993	4,782,863	4,904,751	5,029,732	5,157,884	5,289,289	5,424,028	5,562,186	5,703,849	5,849,105
<b>TOTAL EXPENSES</b>	<b>47,355,240</b>	<b>48,647,781</b>	<b>49,344,105</b>	<b>50,206,185</b>	<b>51,209,327</b>	<b>52,196,790</b>	<b>53,250,085</b>	<b>54,341,675</b>	<b>55,579,904</b>	<b>56,734,905</b>	<b>58,046,249</b>
<b>BUDGETED OPERATING SURPLUS/DEFICIT</b>	<b>(9,546,224)</b>	<b>(9,179,713)</b>	<b>(8,249,673)</b>	<b>(7,405,886)</b>	<b>(6,642,518)</b>	<b>(5,772,211)</b>	<b>(4,875,266)</b>	<b>(3,929,078)</b>	<b>(3,034,643)</b>	<b>(1,969,901)</b>	<b>(943,968)</b>



### Alice Springs Town Council Long Term Financial Plan

INCOME AND EXPENDITURE STATEMENT	Annual Budget 2022/23 (\$)	Forecast 2023/24 (\$)	Forecast 2024/25 (\$)	Forecast 2025/26 (\$)	Forecast 2026/27 (\$)	Forecast 2027/28 (\$)	Forecast 2028/29 (\$)	Forecast 2029/30 (\$)	Forecast 2030/31 (\$)	Forecast 2031/32 (\$)	Forecast 2032/33 (\$)
Capital Grants Income	150,000	0	0	0	0	0	0	0	0	0	0
<b>BUDGETED SURPLUS/DEFICIT</b>	<b>(9,396,224)</b>	<b>(9,179,713)</b>	<b>(8,249,673)</b>	<b>(7,405,886)</b>	<b>(6,642,518)</b>	<b>(5,772,211)</b>	<b>(4,875,266)</b>	<b>(3,929,078)</b>	<b>(3,034,643)</b>	<b>(1,969,901)</b>	<b>(943,968)</b>
Capital Expenses	4,096,250	3,027,301	2,089,668	5,597,751	4,886,003	3,295,442	4,116,551	4,102,124	4,368,686	3,704,191	7,199,075
Borrowing	0	0	0	0	0	0	0	0	0	0	0
Repayments (Principal Only)											
Transfer to Reserves	773,000	204,852	895,784	1,600,000	2,301,578	2,986,737	3,731,513	4,530,053	8,388,745	6,298,806	7,289,676
Less Non-Cash Income	0	0	0	0	0	0	0	0	0	0	0
Add Back Non-Cash Expenses	(9,600,000)	(9,384,564)	(9,145,457)	(9,081,616)	(8,944,095)	(8,758,947)	(8,606,781)	(8,459,131)	(8,423,389)	(8,268,706)	(8,233,646)
<b>NET BUDGETED SURPLUS/DEFICIT</b>	<b>(4,665,474)</b>	<b>(3,027,302)</b>	<b>(2,089,668)</b>	<b>(5,522,021)</b>	<b>(4,886,004)</b>	<b>(3,295,443)</b>	<b>(4,116,549)</b>	<b>(4,102,124)</b>	<b>(7,368,685)</b>	<b>(3,704,192)</b>	<b>(7,199,073)</b>
Prior Year Carry Forward Tied Funding	0	0	0	0	0	0	0	0	0	0	0
Other Inflow of Funds	0	0	0	0	0	0	0	0	0	0	0
Transfers from Reserves	4,665,474	3,027,302	2,089,668	5,522,021	4,886,004	3,295,443	4,116,549	4,102,124	7,368,685	3,704,192	7,199,073
<b>TOTAL ADDITIONAL INFLOWS</b>	<b>4,665,474</b>	<b>3,027,302</b>	<b>2,089,668</b>	<b>5,522,021</b>	<b>4,886,004</b>	<b>3,295,443</b>	<b>4,116,549</b>	<b>4,102,124</b>	<b>7,368,685</b>	<b>3,704,192</b>	<b>7,199,073</b>
<b>NET BUDGETED OPERATING POSITION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>