# **Preparing a Long Term Financial** Plan in a time of uncertainty **Mark Davies** Change Adapt Thrive







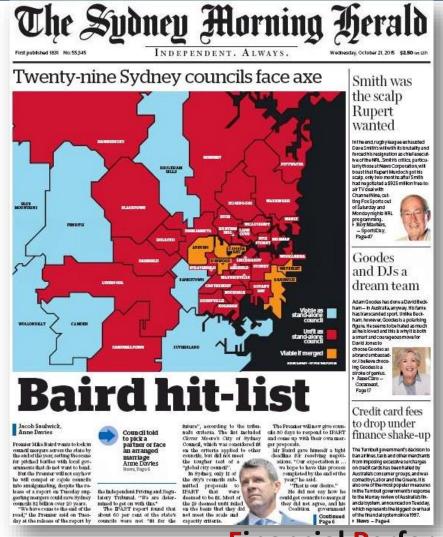
- Uncertainty...what uncertainty?
- Quantifying the impacts
- Getting back to basics
- Making permanent change
- Preparing a new plan
- Questions



# **Uncertainty...what uncertainty?**

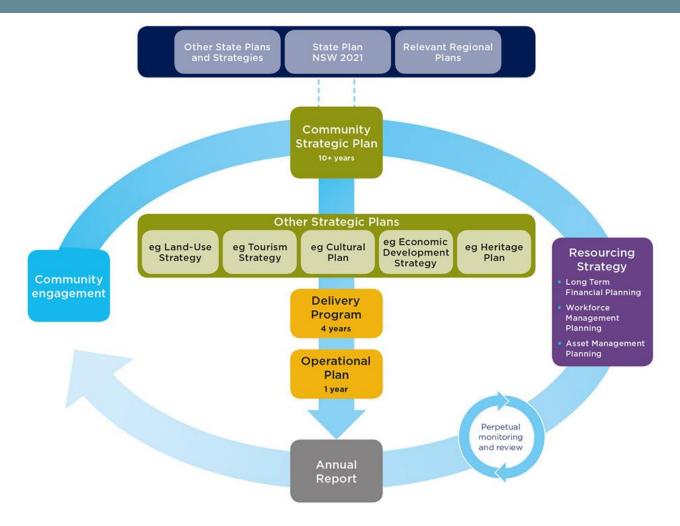


### **New South Wales**





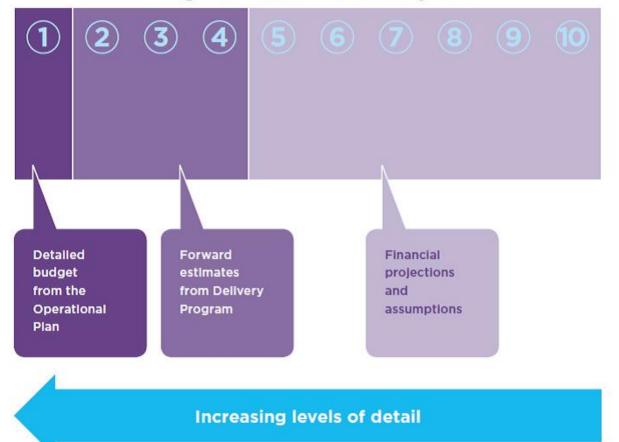
# Integrated planning framework





# Long term financial planning

#### Long Term Financial Plan - 10 years





# Fit For the Future (FFTF)

 Council is financially sound, operating efficiently and in a strong position to guide community growth and deliver quality services



# Fit For the Future criteria

- Sustainability
- Effective infrastructure and service management
- Efficiency
- Scale and capacity



### Victoria

28 Herald Sun, Monday, November 19, 2012

EDITORIAL

#### Herald Sun Raking in the yearly rates

FOR BREAKING NEWS heraldsun.com.au

ouseholders already struggling to meet high electricity and water charges, will be alarmed at property valuations that have seen their rates bills double. As reported in today's Herald Sun, the rates of some homeowners have jumped by more than \$2000 over the past year. This has led to accusations that councils are beefing up property prices in order to extract higher rates from householders. The evidence is difficult to refute. A Herald Sun investigation has found that real estate valuations and admittedly conservative bank valuations on mortgage properties are consistently half of council valuations. This puts a price on house and land packages that has no bearing on market values Market value is obviously the best valuation that can be put on a property. It is ridiculous to put a price on a house and land that no one will pay.

Victorian Government figures value the state's property market this year at nearly \$1.4 trillion. One leading property market analyst said the valuations had a direct impact on land

taxes. "It's cleverly done. They have assessed that the market value has gone up. I think that would surprise people who would consider their property values have slipped backwards." The Ratepavers' Association of Victoria is similarly concerned and says the problem is widespread. Councils are said to be valuing land on the number of units that could be built on it. The state is in negative growth, yet these valuations reflect a non-existent positive growth. This and other government fees and charges that have increased add to the charge that authorities are clawing back money to prop up the state's bottom line. Property valuations have long been a subject of concern to householders who have to hope an appeal will reverse what they see as a money-grabbing exercise. But this becomes almost impossible to achieve when there are questionable valuations that then become the benchmark. Valuations deserve to be closely examined by an independent body of sworn valuers to stop what

appears to be a rates rip-off

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Council services and jobs will be cut by rates cap: Australian Services Union



Andrews government and a key union that supported it in its state election fight last year. The Australian Services Union is warning thousands of its local government members

thousands of its local government members that the plan to cap council rates at the level of inflation will result in job cuts and reduced services for residents.

Under the rates plan launched by Labor while in opposition – but already put on hold for a year by Local Government Minister Natalie Hutchins – council rate increases will be pegged to the level of inflation.

Councils that want to put their rates up by more will need to submit proposals for increases above the cap to the Essential Services Commission.



#### LOCAL GOVERNMENT AMENDMENT (FAIR GO RATES) BILL 2015

Minister Hutchins (Minister for Local Government) introduced a bill for an act to amend the Local Government Act 1989 and the Essential Services Commission Act 2001 to provide for a mechanism to set a cap on the increases in rate revenue that can be levied by a council in a financial year, to make consequential amendments and for other purposes.



# Quantifying the impacts



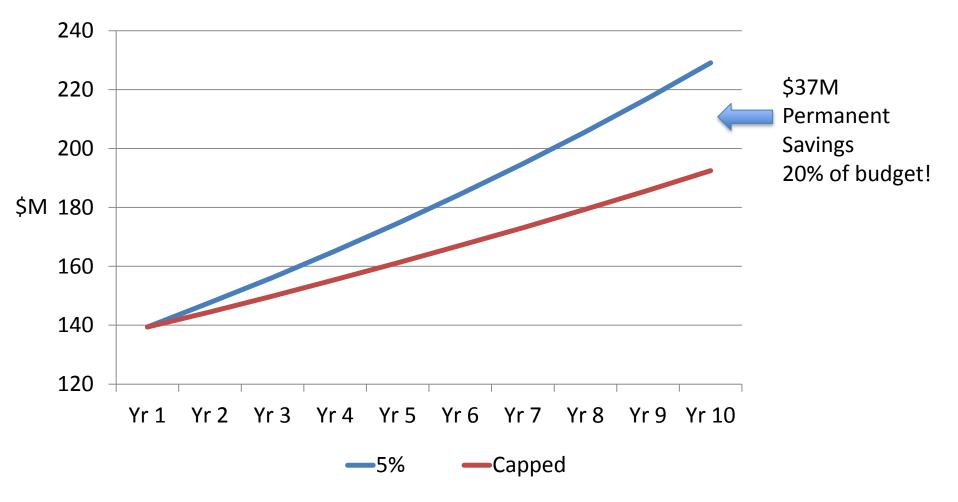
# How much is the cap?

| ANNUAL RATE CAP            |          |         |          |  |  |  |  |
|----------------------------|----------|---------|----------|--|--|--|--|
| AS AT JULY 2015   Per cent |          |         |          |  |  |  |  |
|                            | 2016 -17 | 2017-18 | 2018 -19 |  |  |  |  |
| CPI forecast               | 2.75     | 2.5     | 2.5      |  |  |  |  |
| Plus WPI Forecast          | 3.5      | 3.5     | 3.5      |  |  |  |  |
| Less Efficiency factor     | 0        | 0.05    | 0.10     |  |  |  |  |
| FORECAST ANNUAL RATE CAP   | 3.05     | 2.85    | 2.80     |  |  |  |  |

- ESC says 3.05%, 2.85% and 2.8%
- Minister says CPI 2.75%, 2.5% and 2.5%

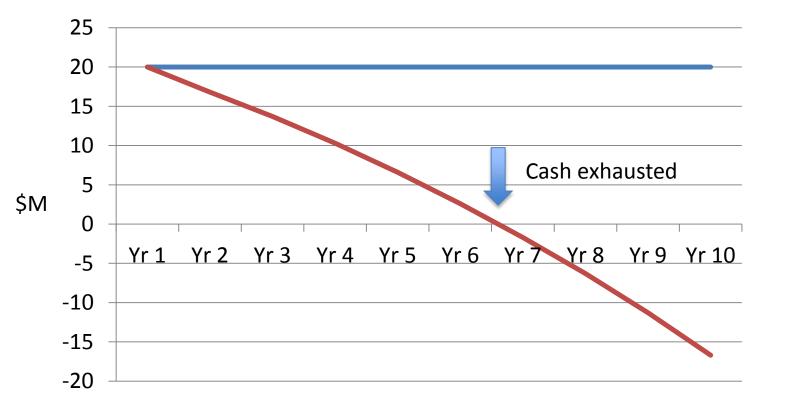


### Large council rate impact





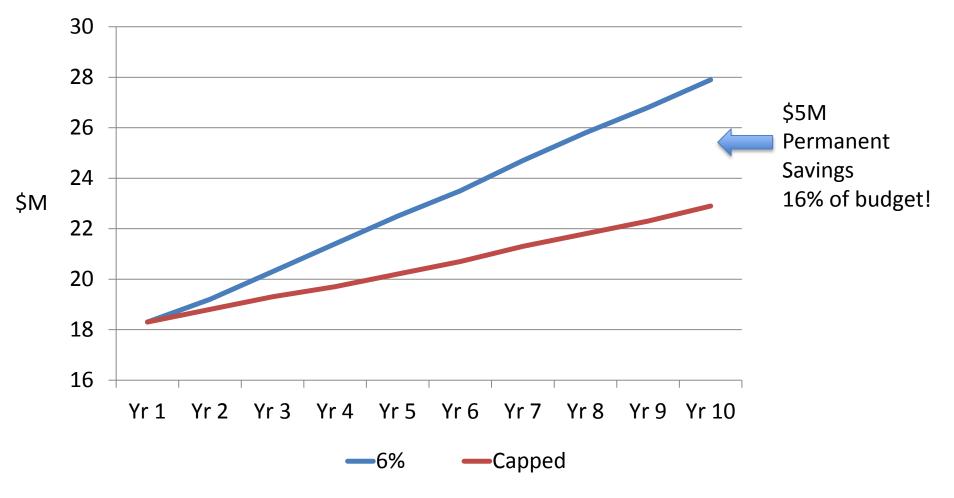
### Large council rate impact



-Working Capital -Cap Impact

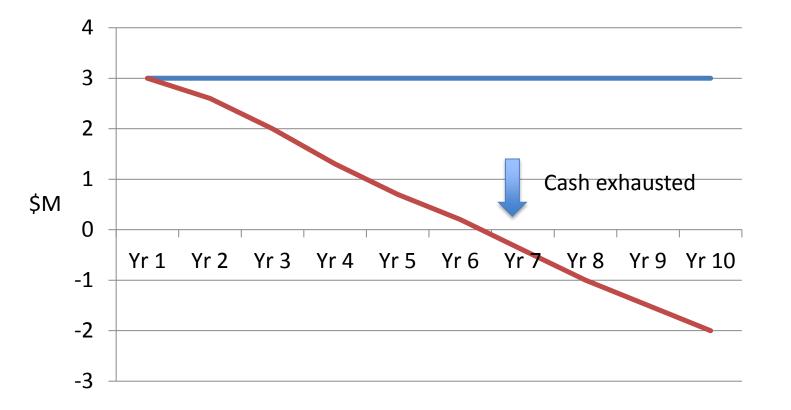


# Small council rate impact





# Small council rate impact



-Working Capital -Cap Impact



# Quantifying the impacts

- Model pre and post cap impact
- Determine the savings target
- <u>Create a sense of urgency</u>!





# **Getting back to basics**



# Business as usual

- The way that councils do business will need to change
- 'Business as usual' will need to fit into the cap (services and asset renewal)
- 'Special circumstances' will be the case for exemption (growth, disadvantage, major initiatives)





### Core and non-core services

- Core services things we must do
  - Legislated
  - Funded
  - High community expectation
  - Support services
- Non-core services everything else!

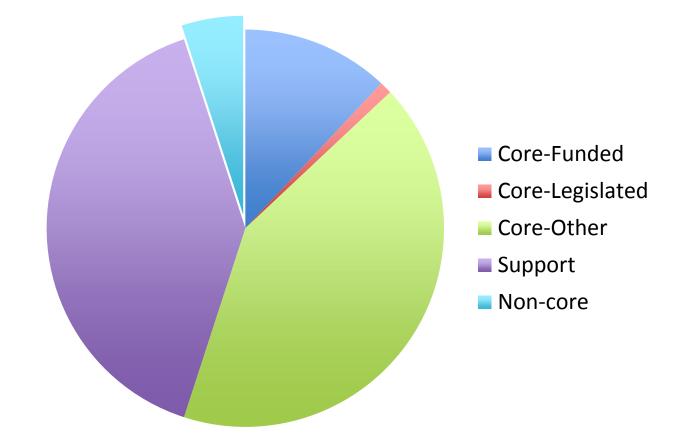


# Core and non-core services

|                                     | Budget     |                 |             |            |         |          |
|-------------------------------------|------------|-----------------|-------------|------------|---------|----------|
|                                     | 2016       | Core-Legislated | Core-Funded | Core-Other | Support | Non-Core |
|                                     | \$         |                 |             |            |         |          |
| Footpath Maintenance                | 3,575,349  |                 |             | 3,575,349  |         |          |
| Street Lighting                     | 210,000    |                 |             | 210,000    |         |          |
| Fencing                             | 150,000    |                 |             | 150,000    |         |          |
| Major Drainage rehabilitation       | 227,275    |                 |             | 227,275    |         |          |
| Road Safety Program-Minor Works     | 150,000    |                 |             | 150,000    |         |          |
| City Development Management         | 377,174    |                 |             |            | 377,174 |          |
| City Compliance Management          | 525,600    |                 |             |            | 525,600 |          |
| Local Law Enforcement               | 213,850    | 213,850         |             |            |         |          |
| Parking Control                     | -1,333,211 | -1,333,211      |             |            |         |          |
| School Crossing Supervision         | 1,174,616  |                 | 1,174,616   |            |         |          |
| Animal Control                      | 296,752    | 296,752         |             |            |         |          |
| Planning Compliance                 | 465,591    | 465,591         |             |            |         |          |
| Statutory Services                  | 183,363    | 183,363         |             |            |         |          |
| Commercial Services                 | 153,225    |                 |             | 153,225    |         |          |
| Strategic Land Use Planning & Projs | 801,838    | 801,838         |             |            |         |          |
| Revitalising Sunshine (NI)          | 191,369    |                 |             | 191,369    |         |          |
| Strategic Sites                     | 181,369    |                 |             | 181,369    |         |          |
| Heritage Assistant Fund             | 25,000     |                 |             | 25,000     |         |          |
| Env Health / Immunisations Contract | 766,955    |                 | 766,955     |            |         |          |
| Economic Development Administration | 412,116    |                 |             | 412,116    |         |          |
| Business Facilitation               | 84,802     |                 |             | 84,802     |         |          |
| Statutory Planning                  | 341,120    | 341,120         |             |            |         |          |
| Library Administration              | 737,205    |                 | 737,205     |            |         |          |
| Local Priorities Funding            | 16,329     |                 | 16,329      |            |         |          |



# Core and non-core services





# Getting back to basics

- Define core and non-core services
- Calculate net operating cost of services
- Perform service analysis
- Identify non-core services for exit
- Council will need to make tough decisions!





# Making permanent change



# Structural change

- Living within the cap will require councils to make a 'structural' change – similar to the 1994 amalgamations
- The changes will need to be <u>permanent</u>







# Service review program

- Develop a Service Review program for core services to determine if their delivery is efficient and effective
- Consider engaging specialist support to ensure the reviews are rigorous and independent
- Target areas with the greatest returns first



# Areas for focus

- Reducing service levels and service scope
- Moving to more efficient service delivery models
- Rationalising infrastructure used to deliver services
- Maximising non-rate revenue



# Service review model

- <u>Description</u>: objective, services provided, transaction volumes
- <u>Customers</u>: service users, service levels, service user needs
- <u>Delivery Model</u>: processes, systems, method of delivery (in-house/outsourced)
- <u>Resources</u>: cost of the service, staff requirements, assets used



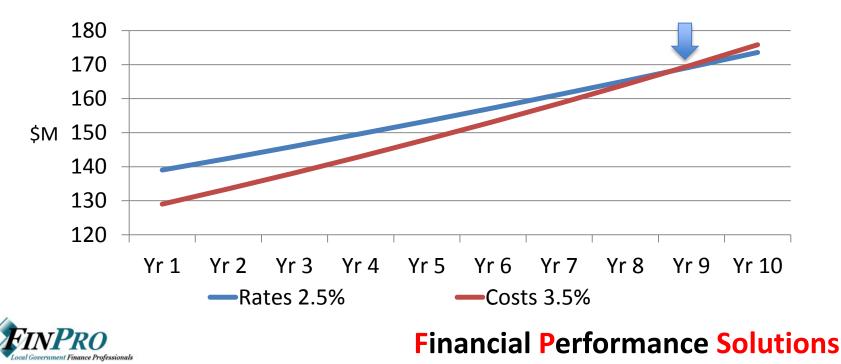
# Service review model

- <u>Risks</u>: risk assessment, SWOT analysis
- <u>Performance</u>: KPIs and results, compliance with standards, service user feedback
- <u>Benchmarking</u>: survey against like councils
- <u>Opportunities for Improvement</u>: efficiency and effectiveness



# Erosion of savings

- Costs that exceed the cap will eventually erode savings over time
  - Employee costs
  - Infrastructure costs



# Making permanent change

- Develop a Service Review program for core services
- Critically review the service scope, level and delivery model – this includes the assets used
- Identify permanent changes
- Beware of savings erosion!





# Preparing a new plan



### Future resource decisions

- The Long Term Financial Plan will drive all internal resource decisions
- The Strategic Resource Plan will be the key community engagement and negotiation tool



# Long term planning process

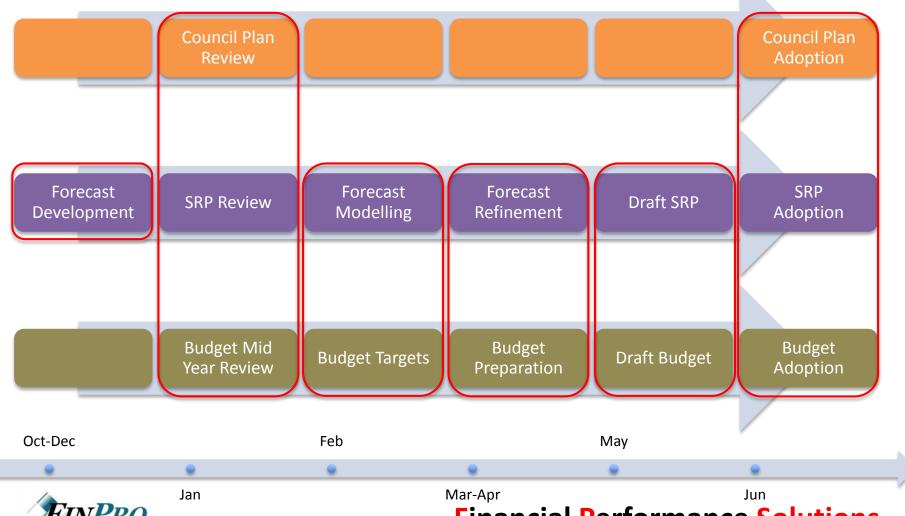
- Occurs from the 'bottom up'
- Evidence based and updated annually
- Has at least a 10 year horizon
- Drives the preparation of the budget







# Long term planning process



Local Government Finance Professionals

# Long term planning decisions

- Officer reports identify the long term financial implications of resource commitments
- Council considers the long term implications before making decisions
- Short term gain is replaced by long term service and infrastructure outcomes for the community



# Strategic resource plan

- Background and objectives
- Development of the plan
- Assessment of current financial position
- Key assumptions
- Option analysis
- Financial outcomes
- Appendix Statements Legislation

Better practice



### Preparing a new plan

- Developed from the bottom up
- Drives budget preparation
- Key resource allocation decision tool
- Council uses it to make <u>long term</u> <u>decisions</u> in the best interest of the community
- The SRP is comprehensive, is subject to public scrutiny and is the key negotiation tool



# 6 steps to living within the cap



# 6 steps

- 1) Quantify the impact and savings target
- 2) Identify services that are core and non-core
- 3) Quantify the net cost for each service
- 4) Identify non-core services to be exited
- 5) Undertake efficiency and effectiveness reviews for all core services
- 6) Update the long term financial plan

**Bring Council on the journey!** 





Mark Davies 0419 750 354 <u>mark.fpsolutions@gmail.com</u>

