

# NORFOLK ISLAND REGIONAL COUNCIL

## LONG TERM FINANCIAL PLAN 2018-2027



# CONTENTS

Overview .....	3.
Current financial position .....	5.
Improving our financial Position .....	7.
Measuring performance .....	8.
Scenario modelling.....	10.
Fully Costed Scenario Revisited .....	11.
Factors Outside NIRCs Control Scenario .....	17.
Increased Asset Renewal Scenario .....	23.
Conclusion.....	29.

## OVERVIEW

A Long Term Financial Plan (LTFP) is one of the three key Resourcing Strategies required by the NSW Integrated Planning & Reporting legislation. Local Government operations are vital to its community, and it is important so stakeholders can understand the financial implications arising from its Community Strategic Plan, Delivery Program and Annual Operational Plan.

The financial modelling supporting the Long Term Financial Plan is used to forecast the Councils financial future over 10 years. The Strategy is a tool which provides for decision making and problem solving, enabling decisions to be made on how to best achieve the Council's corporate objectives while addressing its long term financial challenges. The Long Term Financial Plan is not intended as a document to indicate what services or proposals should be allocated funds, but rather it addresses areas that impact on Council's ability to fund its services and capital works whilst maintaining financial sustainability.

The Integrated Planning and Reporting Guidelines support preparation of the LTFP for Local Government in NSW issued by the Office of Local Government.

The LTFP includes:

- Projected income and expenditure
- Balance sheet
- Cash flow statement
- Planning assumptions used to develop the plan
- Sensitivity analysis – highlight factors most likely to affect the plan
- Financial modelling for different scenarios
- Methods of monitoring financial performance

The LTFP contains a core set of assumptions. These assumptions are based on CPI forecasts, interest rate expectations, employee award increases, loan repayment schedules, and other special income and costs.

Norfolk Island Regional Council's Long Term Financial Plan (LTFP) covers the period 2017/18 to 2026/27. It recognises its current and future financial capacity, to continue delivering quality services, facilities and infrastructure to the community while commencing new initiatives and projects to achieve the goals set down in the Norfolk Island Community Strategic Plan.

Financial planning over a 10-year time horizon is difficult and relies on a variety of assumptions that will undoubtedly change during the period. The LTFP is therefore closely monitored, and regularly revised, to reflect these changing circumstances.

A number of scenarios were considered during the development of the LTFP. In particular, three scenarios have been outlined in more detail for consideration.

The aims of Norfolk Island Regional Council's Long Term Financial Plan are to:

- Set out the assumptions upon which Council's financial plans and budgets have been structured.
- Identify some Key Performance Indicators upon which Council can benchmark its financial performance.
- Set the framework so that the impact of future policy decisions can be identified.
- Evaluate the impact of future scenarios upon Council's financial position.
- Provide a basis for future informed decision making.
- Identify issues which impact upon the financial sustainability of Council including known opportunities and threats.
- Achieve a balanced budget on a funding basis, acknowledging that continued service delivery and urgent asset renewals are current priorities.
- Seek to eliminate the current working fund deficit by reducing operating costs in real terms and expanding the revenue base of Council.

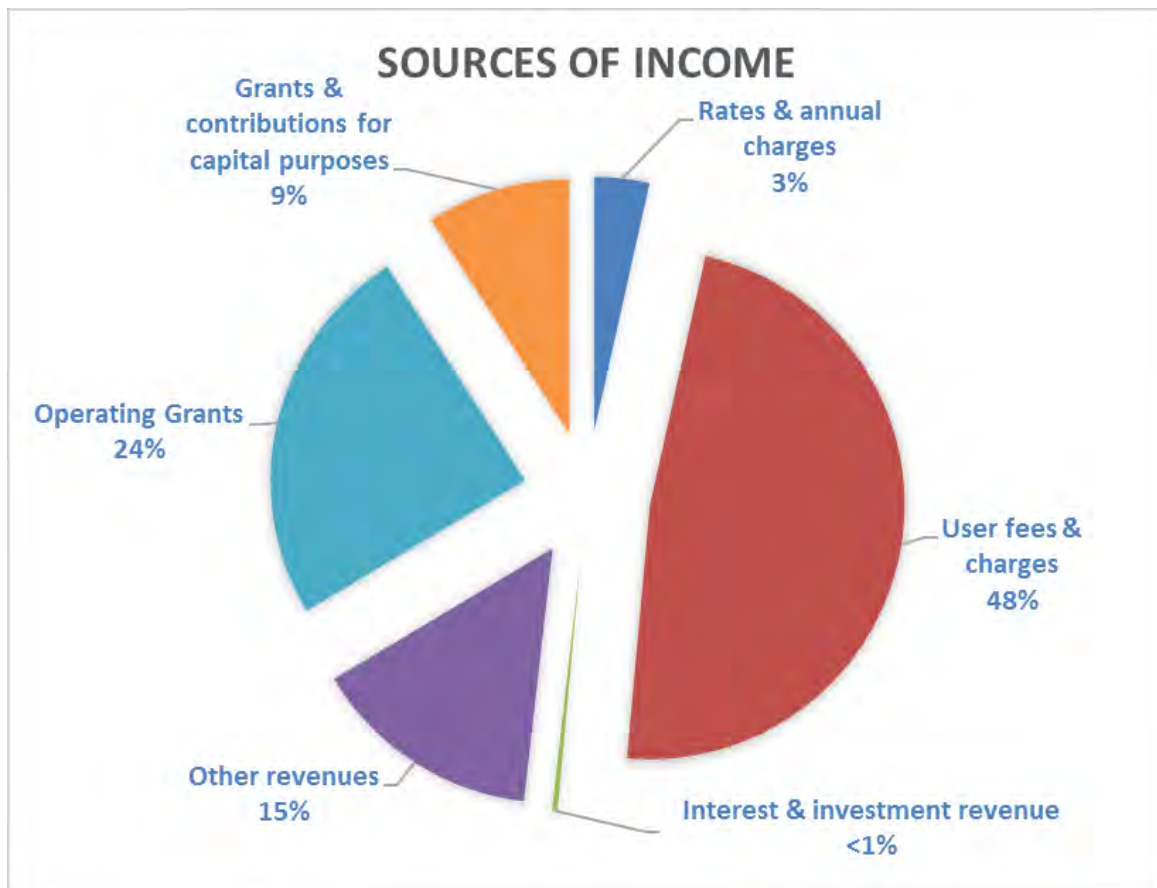
"The Long Term Financial Plan is the point where long-term community aspirations and goals are tested against financial realities."

DLG Manual, 2013

## CURRENT FINANCIAL POSITION

Norfolk Island faces a number of challenges in terms of financial sustainability. Our Council administers an extremely broad asset portfolio unlike any other regional Council and does so in the most isolated of environments creating a number of unique challenges for the Council.

On December 21<sup>st</sup> 2016, Council adopted the “Fully Costed Scenario.” This scenario revolved around each of the five main services paying for themselves in their own right, inclusive of overheads and depreciation which will be used to fund future asset renewals. The five services referred to are; Telecom, Electricity, Waste, Sewerage and the Airport. As a consequence, the proposed 2017-18 budget was prepared on these principles. The graph below shows expected sources of income for the 2017-18 financial year:



The proposed budget for 2017-18 has been compiled based on assumptions that Council believes are reflective of the current needs of both Council and the community however remain outside the sphere of direct control by the Council. One such example is the amount that Council is expecting to receive in Financial Assistance Grant. Council has budgeted for a substantial but reasonable increase in this grant funding to take into account the disability factors that were previously not accounted for in the calculation, such as isolation for example. However, the increase of this grant although deserved is not necessarily guaranteed. Council is still unclear what funding will be provided and as a consequence budgeting and future planning has been made extremely difficult with a high degree of risk due to uncertain funding.

Another challenge for Council is that several of the fees relating to services that Council provides are currently legislated. As a consequence of this, Council does not have the ability to set its own fees and charges for the services it provides. Rather, it must lobby the Commonwealth of Australia to pass an ordinance to make changes. This process is cumbersome and untimely; however, Council currently has no alternative to this action.

As a consequence of the uncertainty surrounding the financial assistance grant and the changes of fees in particular landing fees, Council has developed a scenario highlighting the impacts to both Council and the community in scenario two.

An asset valuation and condition check was carried out in late December 2016 by an independent qualified valuer. Although some assets were considered to be in a reasonable condition, for example the electrical reticulation network, other critical assets were labelled as poor and near end of life. Both Council and the community are at risk if one of these critical assets were to fail, the provision of an essential service to the island may potentially cease. It is imperative that Council rectifies this situation through heavy investment in infrastructure replacement and renewal, with the assistance of Commonwealth capital grants.

The strength of Local Government in a community is important when considering the quality of life for residents in a community. Local Government decisions impact not only this generation but the next. In order to ensure services and infrastructure adapt to the changing needs of our generations, we must ensure our financial position and our asset management practices are strong into the future.

## **IMPROVING OUR FINANCIAL POSITION**

Council is committed to achieving the objectives outlined in Norfolk Island's Community Strategic Plan. This includes addressing current goals while planning to meet the requirements for the future.

### **Improving efficiency of Council operations**

Although operational efficiencies alone are unlikely to provide the level of additional funding required to achieve financial sustainability, there is scope to improve Council's financial position by undertaking a full review of operations. This includes further reviewing the organisational structure, business systems, exploring opportunities for out-sourcing activities and improving project management capabilities.

### **Improving asset management**

Council currently manages a large number of assets. Undertaking a review and possible rationalisation of assets will assist in reducing operational costs. The new Civica information system, recently implemented will assist in this regard but will come at a cost from additional resourcing in the short term.

### **Review of community expectations & service levels**

Council needs to ensure that it is providing services and infrastructure that meets community needs and is within the community's ability to pay. Community liaison on acceptable levels of asset quality will assist in Council's future strategic planning.

### **Increasing federal funding**

Council needs to continue to proactively pursue all avenues for federal grants which may improve its position. This includes lobbying Local Members and Government Ministers for additional funding. Access to a number of funding opportunities are not available to this Council as it is not part of a State Local Government body. Council will need to negotiate with The Federal Government to ensure equity in accessibility to funds.

### **Fully funding core services**

Council is currently responsible for a range of services that are critical to the functioning of the Norfolk Island community. Review of these services has shown that nearly all of them run at a deficit and cannot fund themselves in their own right. Council has reviewed and will continue to monitor user fees and charges for these services so that those that derive benefits from these services pay for the full cost of the services in a fair and equitable manner.

## MEASURING PERFORMANCE

Council will continue to report on and monitor its financial performance based on standard financial indicators.

These indicators include:

- Operating Ratio – This measures the capacity of Council to contain its operating expenditure within its operating revenue allowing for asset renewals funded through depreciation. The minimum benchmark for this ratio as advised by Treasury Corp and the Local Government Accounting Code for NSW is greater than 0%. The current operating ratio based on the proposed 2017-18 budget is 6.23%
- Cash Expense Ratio – This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash-flow. The minimum benchmark for this ratio as advised by Treasury Corp and the Local Government Accounting Code for NSW is greater than 3 months. The current cash expense ratio based on the proposed 2017-18 budget is 4.19 months.
- Current Ratio – This ratio represents Council's ability to meet debt repayments as they fall due. It should be noted that Council's externally restricted assets will not be available as operating funds and as such can significantly impact Council's ability to meet its liabilities. The minimum benchmark for this ratio as advised by Treasury Corp and the Local Government Accounting Code for NSW is greater than 1.5. The current ratio based on the proposed 2017-18 budget is 4.25.
- Own Source Operating Revenue Ratio – This ratio measures fiscal flexibility. It is the degree of reliance that Council places on external funding sources such as operating grants and contributions to fund its day to day operations. The minimum benchmark for this ratio as advised by Treasury Corp and the Local Government Accounting Code for NSW is greater than 60%. The own source operating revenue ratio based on the proposed 2017-18 budget is 51.45%. It must be noted however, that this ratio is significantly lower than the benchmark due to the inclusion of the State Delivery Agreement (SDA) with the Commonwealth of Australia, whereby Council performs state based services on behalf of the Commonwealth and is reimbursed for the full cost of the service including overheads. Removing the effect of the SDA provides a ratio of 58.02%
- Debt Service Cover Ratio – This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. The minimum benchmark for this ratio as advised by Treasury Corp and the Local Government Accounting Code for NSW is greater than 2. The debt service cover ratio based on the proposed 2017-18 budget is 49.11.



- Interest Cover Ratio – This ratio indicates the extent to which Council can service its interest bearing debt and take on additional borrowing. It measures the burden of the current interest expense upon Council’s operating cash. The minimum benchmark for this ratio as advised by Treasury Corp and the Local Government Accounting Code for NSW is greater than 4. As Council’s loans are interest free, this ratio is currently not applicable.
- Capital Expenditure Ratio – This ratio indicates the extent to which Council is forecasting to renew, upgrade, replace or expand the asset base of the Council. The minimum benchmark for this ratio as advised by Treasury Corp and the Local Government Accounting Code for NSW is greater than 1.1. The capital expenditure ratio based on the proposed 2017-18 budget is 1.86. It must be noted that a significant portion of this is associated two capital grant applications that are currently being assessed. If Council is unsuccessful in either of the grant applications this ratio would decrease significantly.

We will also ensure compliance with the accounting and reporting requirements of the Local Government Code of Accounting Practice and the Australian Accounting Standards including annual auditing of accounts and provision of information to the community.

#### Quarterly reporting

Performance in regard to Operational Plan budgets will be monitored and reported to Council each quarter. Reports will include budget variations and reviews.

#### Annual Reporting

Council will prepare annual reports to the community, in accordance with the requirements of the *Local Government Act 1993* and the Integrated Planning and Reporting Guidelines. The report will include a summary of financial performance and achievements against delivering the outcomes of the Operational Plan and Delivery Program.

#### Review of LTFP

The Long Term Financial Plan will be reviewed annually, in conjunction with the review of the Operational Plan and Delivery Program and financial projections will be revised and updated.

## **FULLY COSTED SCENARIO REVISITED**

The Long Term Financial Plan (LTFP) is structured around three financial models or ‘scenarios’.

In December 2016, Council adopted the “Fully Costed” scenario, where each service was to pay for the entirety of their costs including overheads and provisions for asset renewal, which had not occurred in the past. As such, the three scenarios are based upon the principle of full cost allocation to each service with a strong focus on asset renewal.

All scenarios incorporate the Asset Management Plans for all asset classes.

The first, known as the ‘Base Scenario,’ is based on the proposed 2017/18 budget. It takes into account critical asset renewals to key assets as identified, such as the airport apron and runway.

The second scenario, known as the ‘Factors Outside NIRC’s Control Scenario,’ models the financial sustainability and asset renewal capacity of the regional Council if it is unsuccessful in having both the financial assistant grant and the legislated user fees increased.

The third scenario, known as the ‘Increased Asset Renewal Scenario,’ looks at the financial capacity that Council has, and its ability to renew assets at an increased rate.

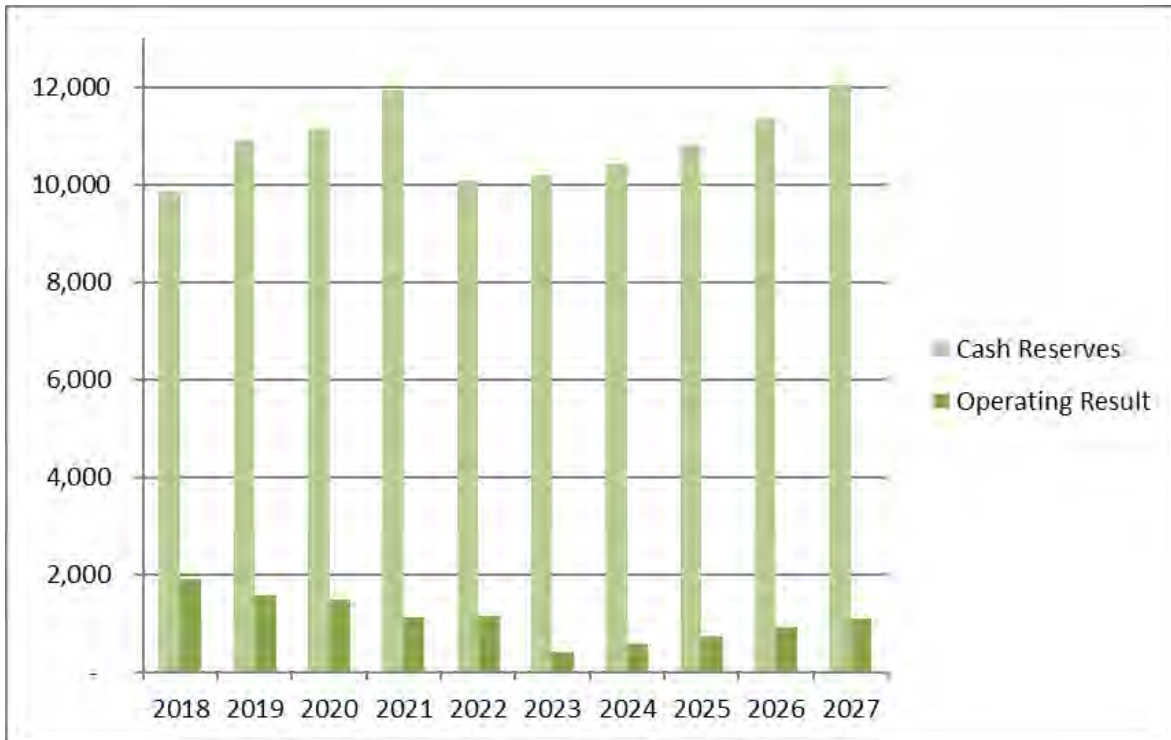
The LTFP details the assumptions used when compiling each scenario as well as the financial outcomes over a 10-year period. It also identifies the major opportunities and risks associated with each scenario to provide an analysis of the sensitivity of the modelling to a variety of changes.

## **BASE SCENARIO**

The Base Scenario uses the proposed budget for 2017-18 to forecast a result over the 10-year planning period. It is assumed that Council continues to operate all of its five main services being; sewer, waste, airport, telecom and electricity as fully funded including overheads and depreciation for asset renewal. The following assumptions are also included in the model:

- The school ceases to be part of the SDA from 2018-19 onwards.
- Council is successful in obtaining capital grants to the value of \$3mil per year. These grants are funded 75:25, so a total of \$4mil capital works takes place, in addition to planned asset renewals.
- Asset renewal amounts are based on matching depreciation, plus the value of any capital grants less any loan repayments.
- Council obtains an additional capital grant in 2018-19 for \$2mil towards an asphalt machine.
- In 2020-21 Council undertakes the first stage of the airport apron/runway reseal to the value of \$8.3mil. This is funded by an interest free loan from the Commonwealth for \$7.5mil over 20 years. Council will contribute \$800k from reserves.
- In 2022-23 Council undertakes the final stage of the airport apron/runway reseal to the value of \$24.7mil. This is funded by an interest free loan from the Commonwealth for \$22mil over 20 years. Council will contribute \$2.7mil from reserves.
- Operating efficiencies are identified and implemented by 2021-22 and onwards.





The adoption of the fully costed scenario in December has directed Council to adequately and responsibly adjust user fees and charges for the five services. As a consequence, Council will generate small surpluses over the 10-year planning period.

This model also highlights that asset renewal is occurring at a slightly greater rate than what the assets are being consumed. This is a key focus for Council as the majority of Council assets are in a reasonable to poor condition with many critical assets at or beyond the end of their useful lives. Council is focused on the renewal of critical assets as a priority such as the airport apron and runway. A total of \$126m will be invested in infrastructure over the planning period and will help reduce the infrastructure backlog that has built up over the past several decades.

Council's cash on hand remains relatively strong over the planning period, with a slight decrease when the second stage of the airport apron/runway reseal occurs. The levels of cash on hand while not significant will provide adequate trading capital for the Council, and allow Council to respond to any opportunity or unforeseen circumstance that may present itself over the course of the planning period.

# Long Term Financial Plan - Full Costs Recovered

## INCOME STATEMENT

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Income from Continuing Operations											
<i>Revenue:</i>											
Rates & annual charges		1,180	1,198	1,219	1,244	1,269	1,294	1,320	1,346	1,373	1,401
User charges & fees		16,161	16,484	16,814	17,167	17,528	17,913	18,307	18,710	19,122	19,542
Interest & investment revenue		120	210	276	309	332	306	309	316	355	373
Other revenues		4,930	5,029	5,129	5,237	5,347	5,464	5,585	5,708	5,833	5,961
Grants & contributions for operating purposes		8,241	7,096	7,238	7,382	7,538	7,703	7,873	8,046	8,223	8,404
Grants & contributions for capital purposes		3,075	5,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
<i>Other Income:</i>											
Net gains from disposal of assets		-	-	-	-	-	-	-	-	-	-
Net share of interests in joint ventures		-	-	-	-	-	-	-	-	-	-
<b>TOTAL INCOME FROM CONTINUING OPERATIONS</b>		<b>33,707</b>	<b>35,016</b>	<b>33,676</b>	<b>34,339</b>	<b>35,012</b>	<b>35,681</b>	<b>36,394</b>	<b>37,126</b>	<b>37,906</b>	<b>38,681</b>
Expenses from Continuing Operations											
Employee benefits & costs		10,322	9,952	10,096	10,295	10,498	10,601	10,705	10,810	10,916	11,023
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Materials & contracts		10,323	10,029	10,230	10,445	10,558	10,682	10,808	10,935	11,064	11,194
Depreciation & amortisation		4,958	5,265	5,609	6,172	6,458	7,578	7,875	8,181	8,498	8,826
Impairment		-	-	-	-	-	-	-	-	-	-
Other expenses		3,121	3,183	3,247	3,315	3,351	3,391	3,430	3,471	3,512	3,553
Net losses from disposal of assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES FROM CONTINUING OPERATIONS</b>		<b>28,724</b>	<b>28,430</b>	<b>29,182</b>	<b>30,227</b>	<b>30,865</b>	<b>32,252</b>	<b>32,818</b>	<b>33,397</b>	<b>33,990</b>	<b>34,596</b>
<b>OPERATING RESULT FOR THE YEAR</b>		<b>4,983</b>	<b>6,587</b>	<b>4,494</b>	<b>4,112</b>	<b>4,147</b>	<b>3,429</b>	<b>3,576</b>	<b>3,729</b>	<b>3,916</b>	<b>4,085</b>
<b>NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS &amp; CONTRIBUTIONS FOR CAPITAL PURPOSES</b>		<b>1,908</b>	<b>1,587</b>	<b>1,494</b>	<b>1,112</b>	<b>1,147</b>	<b>429</b>	<b>576</b>	<b>729</b>	<b>916</b>	<b>1,085</b>
<i>Assumptions</i>											
Rate Peg		1.80%	1.50%	1.80%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
General Index		1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Employee Cost Index - including superannuation		0.00%	3.00%	3.00%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Grant Index		0.00%	2.00%	2.00%	2.00%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Investment Interest rate		2.50%	2.50%	2.50%	2.75%	2.75%	3.00%	3.00%	3.00%	3.25%	3.25%
Overdue rates interest rate		8.00%	7.50%	7.50%	8.00%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%
Efficiency gain on Materials & Contracts			0.00%	0.00%	0.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%

# Long Term Financial Plan - Full Costs Recovered

## STATEMENT OF FINANCIAL POSITION

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Assets</b>											
<i>Current Assets:</i>											
Cash & cash equivalents		8,292	10,930	11,142	11,956	10,090	10,197	10,433	10,807	11,352	12,047
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		3,002	3,532	4,073	4,626	5,190	5,766	6,355	6,956	7,570	8,198
Inventories		1,689	1,723	1,757	1,794	1,832	1,872	1,913	1,955	1,998	2,042
Other		-	-	-	-	-	-	-	-	-	-
Non-current assets classified as 'held for sale'		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>12,983</b>	<b>16,185</b>	<b>16,972</b>	<b>18,375</b>	<b>17,112</b>	<b>17,834</b>	<b>18,701</b>	<b>19,719</b>	<b>20,921</b>	<b>22,288</b>
<i>Non-Current Assets:</i>											
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment		113,048	118,084	129,375	131,801	158,930	160,250	161,574	162,903	164,237	165,577
Investments accounted for using the equity method		-	-	-	-	-	-	-	-	-	-
Investment property		-	-	-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>113,048</b>	<b>118,084</b>	<b>129,375</b>	<b>131,801</b>	<b>158,930</b>	<b>160,250</b>	<b>161,574</b>	<b>162,903</b>	<b>164,237</b>	<b>165,577</b>
<b>TOTAL ASSETS</b>		<b>126,031</b>	<b>134,269</b>	<b>146,347</b>	<b>150,176</b>	<b>176,041</b>	<b>178,085</b>	<b>180,275</b>	<b>182,621</b>	<b>185,158</b>	<b>187,865</b>
<b>Liabilities</b>											
<i>Current Liabilities:</i>											
Payables		2,856	2,913	2,971	3,034	3,097	3,166	3,235	3,306	3,379	3,454
Borrowings		200	200	200	575	575	1,685	1,685	1,685	1,685	1,685
Provisions		-	50	52	53	55	56	57	58	59	60
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,056</b>	<b>3,163</b>	<b>3,223</b>	<b>3,662</b>	<b>3,727</b>	<b>4,906</b>	<b>4,977</b>	<b>5,049</b>	<b>5,123</b>	<b>5,199</b>
<i>Non-Current Liabilities:</i>											
Payables		-	-	-	-	-	-	-	-	-	-
Borrowings		11,000	10,800	18,100	17,525	38,950	37,265	35,580	33,895	32,210	30,525
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,000</b>	<b>10,800</b>	<b>18,100</b>	<b>17,525</b>	<b>38,950</b>	<b>37,265</b>	<b>35,580</b>	<b>33,895</b>	<b>32,210</b>	<b>30,525</b>
<b>TOTAL LIABILITIES</b>		<b>14,056</b>	<b>13,963</b>	<b>21,323</b>	<b>21,187</b>	<b>42,677</b>	<b>42,171</b>	<b>40,557</b>	<b>38,944</b>	<b>37,333</b>	<b>35,724</b>
<b>NET ASSETS</b>		<b>111,975</b>	<b>120,306</b>	<b>125,024</b>	<b>128,989</b>	<b>133,364</b>	<b>135,913</b>	<b>139,718</b>	<b>143,677</b>	<b>147,824</b>	<b>152,141</b>
<b>Equity</b>											
Retained earnings/(accumulated deficit)		2,311	10,642	15,360	19,325	23,700	26,249	30,054	34,013	38,160	42,477
Revaluation reserves		109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664
Council equity interest		111,975	120,306	125,024	128,989	133,364	135,913	139,718	143,677	147,824	152,141
Non-controlling interest		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EQUITY</b>		<b>111,975</b>	<b>120,306</b>	<b>125,024</b>	<b>128,989</b>	<b>133,364</b>	<b>135,913</b>	<b>139,718</b>	<b>143,677</b>	<b>147,824</b>	<b>152,141</b>

# Long Term Financial Plan - Full Costs Recovered

## STATEMENT OF CASH FLOWS

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Cash Flows from Operating Activities</b>											
<i>Receipts:</i>											
Rates & annual charges		1,145	1,162	1,183	1,206	1,230	1,255	1,280	1,306	1,332	1,359
User charges & fees		15,676	15,990	16,309	16,652	17,002	17,376	17,758	18,149	18,548	18,956
Investment & interest revenue received		203	210	276	309	332	306	309	316	355	372
Grants & contributions		11,316	12,096	10,238	10,382	10,538	10,703	10,873	11,046	11,223	11,404
Bonds, deposits & retention amounts received		-	-	-	-	-	-	-	-	-	-
Other		4,782	4,878	4,975	5,080	5,186	5,301	5,417	5,536	5,658	5,783
<i>Payments:</i>											
Employee benefits & costs		(10,322)	(9,952)	(10,096)	(10,295)	(10,498)	(10,601)	(10,705)	(10,810)	(10,916)	(11,023)
Materials & contracts		(10,013)	(9,729)	(9,923)	(10,132)	(10,241)	(10,361)	(10,484)	(10,607)	(10,732)	(10,858)
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Bonds, deposits & retention amounts refunded		-	-	-	-	-	-	-	-	-	-
Other		(3,028)	(3,088)	(3,150)	(3,216)	(3,251)	(3,289)	(3,328)	(3,367)	(3,406)	(3,447)
<b>NET CASH PROVIDED (OR USED IN) OPERATING ACTIVITIES</b>		<b>9,759</b>	<b>11,567</b>	<b>9,811</b>	<b>9,986</b>	<b>10,297</b>	<b>10,690</b>	<b>11,120</b>	<b>11,569</b>	<b>12,062</b>	<b>12,547</b>
<b>Cash Flows from Investing Activities</b>											
<i>Receipts:</i>											
Sale of investment securities		-	-	-	-	-	-	-	-	-	-
Sale of infrastructure, property, plant & equipment		-	-	-	-	-	-	-	-	-	-
Deferred debtors receipts		-	-	-	-	-	-	-	-	-	-
Other investing activity receipts		-	-	-	-	-	-	-	-	-	-
<i>Payments:</i>											
Purchase of investment securities		-	-	-	-	-	-	-	-	-	-
Purchase of infrastructure, property, plant & equipment		(9,215)	(10,301)	(16,899)	(8,598)	(33,587)	(8,899)	(9,199)	(9,510)	(9,832)	(10,166)
Deferred debtors & advances made		-	-	-	-	-	-	-	-	-	-
<b>NET CASH PROVIDED (OR USED IN) INVESTING ACTIVITIES</b>		<b>(9,215)</b>	<b>(10,301)</b>	<b>(16,899)</b>	<b>(8,598)</b>	<b>(33,587)</b>	<b>(8,899)</b>	<b>(9,199)</b>	<b>(9,510)</b>	<b>(9,832)</b>	<b>(10,166)</b>
<b>Cash Flows from Financing Activities</b>											
<i>Receipts:</i>											
Proceeds from borrowings & advances		-	-	7,500	-	22,000	-	-	-	-	-
<i>Payments:</i>											
Repayment of borrowings & advances		(200)	(200)	(200)	(575)	(575)	(1,685)	(1,685)	(1,685)	(1,685)	(1,685)
<b>NET CASH PROVIDED (OR USED IN) FINANCING ACTIVITIES</b>		<b>(200)</b>	<b>(200)</b>	<b>7,300</b>	<b>(575)</b>	<b>21,425</b>	<b>(1,685)</b>	<b>(1,685)</b>	<b>(1,685)</b>	<b>(1,685)</b>	<b>(1,685)</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>344</b>	<b>1,066</b>	<b>212</b>	<b>814</b>	<b>(1,865)</b>	<b>107</b>	<b>236</b>	<b>375</b>	<b>545</b>	<b>695</b>
<i>plus: CASH &amp; CASH EQUIVALENTS - beginning of year</i>		<i>9,520</i>	<i>9,864</i>	<i>10,930</i>	<i>11,142</i>	<i>11,956</i>	<i>10,090</i>	<i>10,197</i>	<i>10,433</i>	<i>10,807</i>	<i>11,352</i>
<b>CASH &amp; CASH EQUIVALENTS - end of year</b>		<b>9,864</b>	<b>10,930</b>	<b>11,142</b>	<b>11,956</b>	<b>10,090</b>	<b>10,197</b>	<b>10,433</b>	<b>10,807</b>	<b>11,352</b>	<b>12,047</b>
<b>Assumptions</b>											
Rates & charges recovery rate		97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%
Debtor recovery rate		97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%
General Index		1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Investment Interest rate		2.50%	2.50%	2.50%	2.75%	2.75%	3.00%	3.00%	3.00%	3.25%	3.25%
Overdue rates interest rate		8.00%	7.50%	7.50%	8.00%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%
No restricted cash											

# Long Term Financial Plan - Full Costs Recovered

## FINANCIAL RATIOS

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Operating Ratio</b>										
<i>This ratio measures Council's ability to contain operating expenditure within operating revenue</i>	6.23%	5.29%	4.87%	3.55%	3.58%	<b>1.31%</b>	1.72%	2.14%	2.62%	3.04%
Benchmark - Greater than 0%										
<i>(operating revenue excl. capital grants and contributions - operating expenses) / operating revenue excluding capital grants and contributions</i>										
<b>Cash Expense Cover Ratio</b>										
<i>This ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow</i>	4.19	5.66	5.67	5.96	4.96	4.96	5.02	5.14	5.34	5.61
Benchmark - Greater than 3.0 months										
<i>(current year's cash and cash equivalents / (total expenses - depreciation - interest costs) * 12</i>										
<b>Current Ratio</b>										
<i>This ratio represents Council's ability to meet debt payments as they fall due. It should be noted that Council's externally restricted assets will not be available as operating funds and as such can significantly impact Council's ability to meet its liabilities.</i>	4.25	5.12	5.27	5.02	4.59	3.63	3.76	3.91	4.08	4.29
Benchmark - Greater than 1.5										
<i>current assets / current liabilities</i>										
<b>Own Source Operating Revenue</b>										
<i>This ratio measures the level of Council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. Council's financial flexibility improves the higher the level of its own source revenue</i>	51.45%	50.50%	53.55%	53.61%	53.68%	53.83%	53.93%	54.02%	54.07%	54.14%
Benchmark - Greater than 60%										
<i>rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)</i>										
<b>Debt Service Cover Ratio</b>										
<i>This ratio measures the availability of cash to service debt including interest, principal, and lease payments</i>	49.11	58.21	49.13	17.35	17.87	6.35	6.61	6.88	7.16	7.44
Benchmark - Greater than 2.0										
<i>operating result before interest and depreciation (EBITDA) / principal repayments + borrowing interest costs</i>										
<b>Interest Cover Ratio</b>										
<i>This ratio indicates the extent to which Council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon Council's operating cash</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benchmark - Greater than 4.0										
<i>operating result before interest and depreciation (EBITDA) / interest expense</i>										
<b>Capital Expenditure Ratio</b>										
<i>This ratio indicates the extent to which Council is forecasting to expand its asset base with capital expenditure spent on both new assets and replacement and renewal of existing assets</i>	1.86	1.96	3.01	1.39	5.20	1.17	1.17	1.16	1.16	1.15
Benchmark - Greater than 1.1										
<i>annual capital expenditure / annual depreciation</i>										



## FACTORS OUTSIDE NIRCS CONTROL SCENARIO

The Factors Outside of NIRCs Control Scenario uses the base scenario and makes three key adjustments to it. It places Council in a deficit position in the first year with an inability to meet the minimum asset renewal required despite an increased reliance upon the Commonwealth for capital grants at 75:25 split. This scenario uses all of the assumptions listed in the base scenario but with the following adjustments:

- The financial assistance grant calculation is not increased and Council receives approximately what it received in 2016-17 of \$1.9mil.
- The landing fees for the International Airport are not increased as per Council's request.
- In 2022-23 when the final stage of the airport apron/runway reseal is undertaken, Council will fund this project entirely through an interest free loan over 20 years from the Commonwealth for \$24.7m as sufficient reserves will not exist.



This result presents a significantly deteriorated financial position for Council. Over the planning period Council will not realise a surplus in any of the planning years. Although Council will remain viable, as it will still generate a small cash surplus it will be unable to undertake infrastructure renewal as required. As a consequence, Council owned infrastructure on Norfolk Island will continue to deteriorate to the detriment of the Norfolk Island community.

Unlike the base scenario, without the additional landing fees been applied, the airport will merely breakeven pending continued good tourist numbers. As a result, cash reserves will not be made from this business unit and the general fund will also not have adequate cash to fund the 10% contribution towards the airport reseal as per the base scenario. Council will need to seek Commonwealth assistance to receive the full amount for the reseal as an interest free loan over twenty years. By doing so, this will increase Council's future loan repayments putting additional pressure on the minimal cash reserves.

Council's cash reserves start at a modest level but rapidly reduce in 2019-20 due to the contribution towards stage one of the airport and other planned infrastructure renewals. At this point in time, Council's cash will be at a minimal level required for trading and Council will not be able to fund infrastructure renewals at the rate that they are consumed. This in turn is going to result in an ever growing infrastructure backlog for the Community that already is significant with most assets being rated as poor to reasonable at best. Over the planning period Council will only be able to invest \$98mil into infrastructure replacement (as compared to \$126m in the previous scenario) and over a third of that will be the airport reseal.

This scenario also highlights the reliance that Council has on federal funding for operational purposes. Each of Council's core business units are operating at either breakeven or in surplus positions, and Council as a whole is still in deficit. Council has a relatively small ratepayer base and the capacity to generate significant revenue through rates is implausible. The idea of horizontal fiscal equalisation is to support local governments that have disability factors and provide them with an adequate amount of funding so that they can provide services and infrastructure to their communities with the ideology that one should not be significantly disadvantaged due to their location. Councils general fund currently raises as much revenue through profits from the sale of alcohol as it does from federal funding and is an unsustainable model over the long term.

# Long Term Financial Plan - Factors Outside NIRC's Control

## INCOME STATEMENT

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Income from Continuing Operations											
Revenue:											
Rates & annual charges		1,180	1,198	1,219	1,244	1,269	1,294	1,320	1,346	1,373	1,401
User charges & fees		15,144	15,447	15,756	16,087	16,425	16,786	17,155	17,533	17,918	18,312
Interest & investment revenue		120	210	163	91	92	105	105	113	139	166
Other revenues		4,930	5,029	5,129	5,237	5,347	5,464	5,585	5,708	5,833	5,961
Grants & contributions for operating purposes		5,741	4,546	4,637	4,729	4,829	4,935	5,044	5,155	5,268	5,384
Grants & contributions for capital purposes		3,075	2,000	2,754	3,026	3,117	3,624	3,714	3,808	3,905	4,005
Other Income:											
Net gains from disposal of assets		-	-	-	-	-	-	-	-	-	-
Net share of interests in joint ventures		-	-	-	-	-	-	-	-	-	-
<b>TOTAL INCOME FROM CONTINUING OPERATIONS</b>		<b>30,190</b>	<b>28,429</b>	<b>29,658</b>	<b>30,414</b>	<b>31,078</b>	<b>32,208</b>	<b>32,923</b>	<b>33,662</b>	<b>34,437</b>	<b>35,229</b>
Expenses from Continuing Operations											
Employee benefits & costs		10,322	9,952	10,096	10,295	10,498	10,601	10,705	10,810	10,916	11,023
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Materials & contracts		10,323	10,029	10,230	10,445	10,558	10,682	10,808	10,935	11,064	11,194
Depreciation & amortisation		4,958	5,265	5,507	6,052	6,235	7,248	7,429	7,616	7,810	8,010
Impairment		-	-	-	-	-	-	-	-	-	-
Other expenses		3,121	3,183	3,247	3,315	3,351	3,391	3,430	3,471	3,512	3,553
Net losses from disposal of assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES FROM CONTINUING OPERATIONS</b>		<b>28,724</b>	<b>28,430</b>	<b>29,081</b>	<b>30,108</b>	<b>30,642</b>	<b>31,921</b>	<b>32,372</b>	<b>32,832</b>	<b>33,301</b>	<b>33,780</b>
<b>OPERATING RESULT FOR THE YEAR</b>		<b>1,466</b>	<b>(1)</b>	<b>577</b>	<b>306</b>	<b>436</b>	<b>287</b>	<b>551</b>	<b>830</b>	<b>1,135</b>	<b>1,449</b>
<b>NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS &amp; CONTRIBUTIONS FOR CAPITAL PURPOSES</b>		<b>(1,609)</b>	<b>(2,001)</b>	<b>(2,177)</b>	<b>(2,720)</b>	<b>(2,681)</b>	<b>(3,337)</b>	<b>(3,164)</b>	<b>(2,978)</b>	<b>(2,769)</b>	<b>(2,555)</b>
<b>Assumptions</b>											
Rate Peg		1.80%	1.50%	1.80%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
General Index		1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Employee Cost Index - including superannuation		0.00%	3.00%	3.00%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Grant Index		0.00%	2.00%	2.00%	2.00%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Investment Interest rate		2.50%	2.50%	2.50%	2.75%	2.75%	3.00%	3.00%	3.00%	3.25%	3.25%
Overdue rates interest rate		8.00%	7.50%	7.50%	8.00%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%
Efficiency gain on Materials & Contracts			0.00%	0.00%	0.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%

## Long Term Financial Plan - Factors Outside NIRC's Control

### STATEMENT OF FINANCIAL POSITION

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Assets</b>											
<i>Current Assets:</i>											
Cash & cash equivalents		8,292	6,423	3,196	3,237	3,398	3,401	3,655	4,180	4,999	6,122
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		3,002	3,502	4,011	4,531	5,062	5,605	6,160	6,725	7,304	7,895
Inventories		1,689	1,723	1,757	1,794	1,832	1,872	1,913	1,955	1,998	2,042
Other		-	-	-	-	-	-	-	-	-	-
Non-current assets classified as 'held for sale'		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>12,983</b>	<b>11,647</b>	<b>8,964</b>	<b>9,562</b>	<b>10,292</b>	<b>10,878</b>	<b>11,728</b>	<b>12,861</b>	<b>14,302</b>	<b>16,059</b>
<i>Non-Current Assets:</i>											
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment		113,048	115,048	125,893	125,318	149,464	147,653	145,842	144,031	142,220	140,409
Investments accounted for using the equity method		-	-	-	-	-	-	-	-	-	-
Investment property		-	-	-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>113,048</b>	<b>115,048</b>	<b>125,893</b>	<b>125,318</b>	<b>149,464</b>	<b>147,653</b>	<b>145,842</b>	<b>144,031</b>	<b>142,220</b>	<b>140,409</b>
<b>TOTAL ASSETS</b>		<b>126,031</b>	<b>126,695</b>	<b>134,857</b>	<b>134,880</b>	<b>159,755</b>	<b>158,530</b>	<b>157,570</b>	<b>156,891</b>	<b>156,521</b>	<b>156,467</b>
<b>Liabilities</b>											
<i>Current Liabilities:</i>											
Payables		2,856	2,913	2,971	3,034	3,097	3,166	3,235	3,306	3,379	3,454
Borrowings		200	200	200	575	575	1,811	1,811	1,811	1,811	1,811
Provisions		-	50	52	53	55	56	57	58	59	60
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,056</b>	<b>3,163</b>	<b>3,223</b>	<b>3,662</b>	<b>3,727</b>	<b>5,032</b>	<b>5,103</b>	<b>5,175</b>	<b>5,249</b>	<b>5,325</b>
<i>Non-Current Liabilities:</i>											
Payables		-	-	-	-	-	-	-	-	-	-
Borrowings		11,000	10,800	18,100	17,525	41,671	39,860	38,049	36,238	34,427	32,616
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,000</b>	<b>10,800</b>	<b>18,100</b>	<b>17,525</b>	<b>41,671</b>	<b>39,860</b>	<b>38,049</b>	<b>36,238</b>	<b>34,427</b>	<b>32,616</b>
<b>TOTAL LIABILITIES</b>		<b>14,056</b>	<b>13,963</b>	<b>21,323</b>	<b>21,187</b>	<b>45,398</b>	<b>44,892</b>	<b>43,152</b>	<b>41,413</b>	<b>39,676</b>	<b>37,941</b>
<b>NET ASSETS</b>		<b>111,975</b>	<b>112,732</b>	<b>113,534</b>	<b>113,693</b>	<b>114,357</b>	<b>113,638</b>	<b>114,418</b>	<b>115,478</b>	<b>116,845</b>	<b>118,526</b>
<b>Equity</b>											
Retained earnings/(accumulated deficit)		2,311	3,068	3,870	4,029	4,693	3,974	4,754	5,814	7,181	8,862
Revaluation reserves		109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664
Council equity interest		111,975	112,732	113,534	113,693	114,357	113,638	114,418	115,478	116,845	118,526
Non-controlling interest		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EQUITY</b>		<b>111,975</b>	<b>112,732</b>	<b>113,534</b>	<b>113,693</b>	<b>114,357</b>	<b>113,638</b>	<b>114,418</b>	<b>115,478</b>	<b>116,845</b>	<b>118,526</b>

# Long Term Financial Plan - Factors Outside NIRC's Control

## STATEMENT OF CASH FLOWS

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Cash Flows from Operating Activities</b>											
<i>Receipts:</i>											
Rates & annual charges		1,145	1,162	1,183	1,206	1,230	1,255	1,280	1,306	1,332	1,359
User charges & fees		14,690	14,983	15,283	15,604	15,932	16,282	16,640	17,007	17,381	17,763
Investment & interest revenue received		203	210	163	91	92	105	105	113	139	166
Grants & contributions		11,316	6,546	7,390	7,756	7,946	8,559	8,758	8,963	9,173	9,389
Bonds, deposits & retention amounts received		-	-	-	-	-	-	-	-	-	-
Other		4,782	4,878	4,975	5,080	5,186	5,301	5,417	5,536	5,658	5,783
<i>Payments:</i>											
Employee benefits & costs		(10,322)	(9,952)	(10,096)	(10,295)	(10,498)	(10,601)	(10,705)	(10,810)	(10,916)	(11,023)
Materials & contracts		(10,013)	(9,729)	(9,923)	(10,132)	(10,241)	(10,361)	(10,484)	(10,607)	(10,732)	(10,858)
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Bonds, deposits & retention amounts refunded		-	-	-	-	-	-	-	-	-	-
Other		(3,028)	(3,088)	(3,150)	(3,216)	(3,251)	(3,289)	(3,328)	(3,367)	(3,406)	(3,447)
<b>NET CASH PROVIDED (OR USED IN) OPERATING ACTIVITIES</b>		<b>8,773</b>	<b>5,010</b>	<b>5,825</b>	<b>6,093</b>	<b>6,396</b>	<b>7,251</b>	<b>7,683</b>	<b>8,141</b>	<b>8,629</b>	<b>9,132</b>
<b>Cash Flows from Investing Activities</b>											
<i>Receipts:</i>											
Sale of investment securities		-	-	-	-	-	-	-	-	-	-
Sale of infrastructure, property, plant & equipment		-	-	-	-	-	-	-	-	-	-
Deferred debtors receipts		-	-	-	-	-	-	-	-	-	-
Other investing activity receipts		-	-	-	-	-	-	-	-	-	-
<i>Payments:</i>											
Purchase of investment securities		-	-	-	-	-	-	-	-	-	-
Purchase of infrastructure, property, plant & equipment		(9,215)	(7,265)	(16,352)	(5,477)	(30,381)	(5,437)	(5,618)	(5,805)	(5,999)	(6,199)
Deferred debtors & advances made		-	-	-	-	-	-	-	-	-	-
<b>NET CASH PROVIDED (OR USED IN) INVESTING ACTIVITIES</b>		<b>(9,215)</b>	<b>(7,265)</b>	<b>(16,352)</b>	<b>(5,477)</b>	<b>(30,381)</b>	<b>(5,437)</b>	<b>(5,618)</b>	<b>(5,805)</b>	<b>(5,999)</b>	<b>(6,199)</b>
<b>Cash Flows from Financing Activities</b>											
<i>Receipts:</i>											
Proceeds from borrowings & advances		-	-	7,500	-	24,721	-	-	-	-	-
<i>Payments:</i>											
Repayment of borrowings & advances		(200)	(200)	(200)	(575)	(575)	(1,811)	(1,811)	(1,811)	(1,811)	(1,811)
<b>NET CASH PROVIDED (OR USED IN) FINANCING ACTIVITIES</b>		<b>(200)</b>	<b>(200)</b>	<b>7,300</b>	<b>(575)</b>	<b>24,146</b>	<b>(1,811)</b>	<b>(1,811)</b>	<b>(1,811)</b>	<b>(1,811)</b>	<b>(1,811)</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>(642)</b>	<b>(2,455)</b>	<b>(3,227)</b>	<b>41</b>	<b>161</b>	<b>3</b>	<b>254</b>	<b>525</b>	<b>819</b>	<b>1,122</b>
<i>plus: CASH &amp; CASH EQUIVALENTS - beginning of year</i>		<i>9,520</i>	<i>8,878</i>	<i>6,423</i>	<i>3,196</i>	<i>3,237</i>	<i>3,398</i>	<i>3,401</i>	<i>3,655</i>	<i>4,180</i>	<i>4,999</i>
<b>CASH &amp; CASH EQUIVALENTS - end of year</b>		<b>8,878</b>	<b>6,423</b>	<b>3,196</b>	<b>3,237</b>	<b>3,398</b>	<b>3,401</b>	<b>3,655</b>	<b>4,180</b>	<b>4,999</b>	<b>6,122</b>
<b>Assumptions</b>											
Rates & charges recovery rate		97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%
Debtor recovery rate		97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%
General Index		1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Investment Interest rate		2.50%	2.50%	2.50%	2.75%	2.75%	3.00%	3.00%	3.00%	3.25%	3.25%
Overdue rates interest rate		8.00%	7.50%	7.50%	8.00%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%
No restricted cash											

# Long Term Financial Plan - Factors Outside NIRC's Control

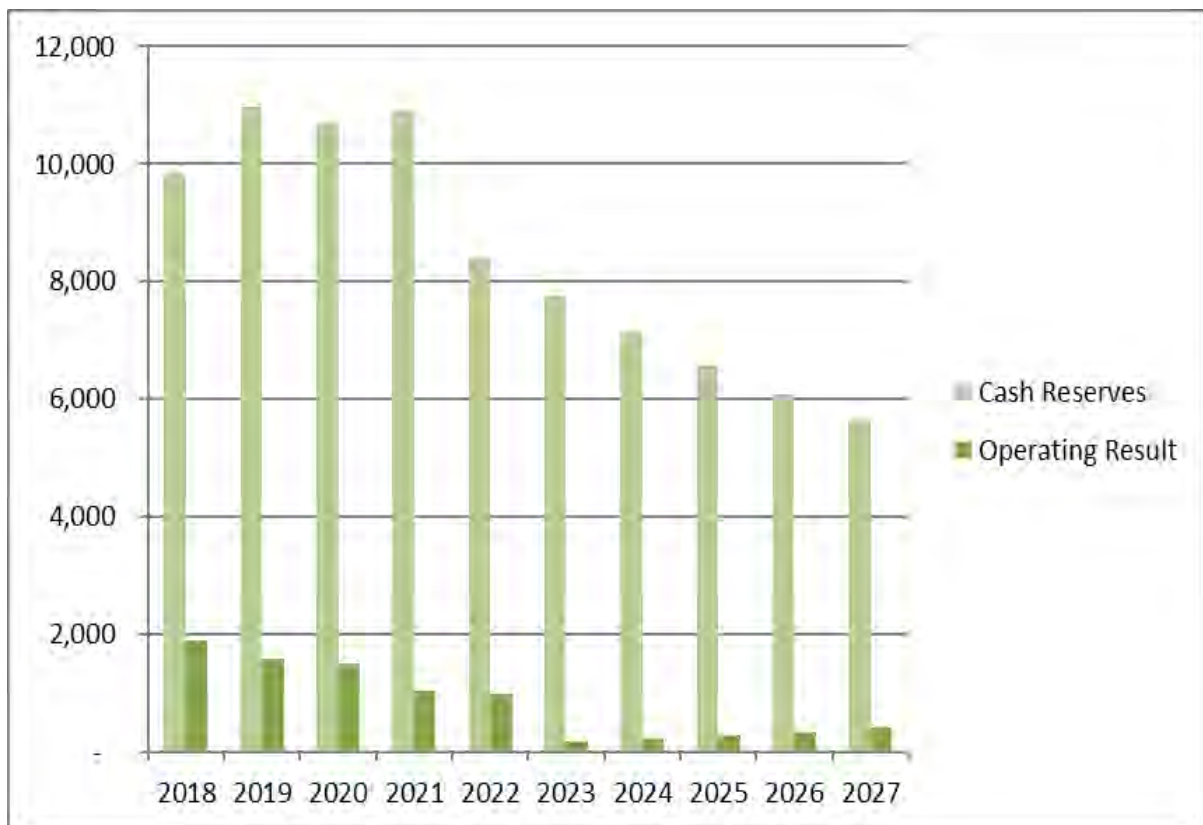
## FINANCIAL RATIOS

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Operating Ratio</b>										
<i>This ratio measures Council's ability to contain operating expenditure within operating revenue</i>	-5.93%	-7.57%	-8.09%	-9.93%	-9.59%	-11.67%	-10.83%	-9.98%	-9.07%	-8.18%
Benchmark - Greater than 0% <i>(operating revenue excl. capital grants and contributions - operating expenses) / operating revenue excluding capital grants and contributions</i>										
<b>Cash Expense Cover Ratio</b>										
<i>This ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow</i>	4.19	3.33	1.63	1.61	1.67	1.65	1.76	1.99	2.35	2.85
Benchmark - Greater than 3.0 months <i>(current year's cash and cash equivalents / (total expenses - depreciation - interest costs) * 12</i>										
<b>Current Ratio</b>										
<i>This ratio represents Council's ability to meet debt payments as they fall due. It should be noted that Council's externally restricted assets will not be available as operating funds and as such can significantly impact Council's ability to meet its liabilities.</i>	4.25	3.68	2.78	2.61	2.76	2.16	2.30	2.48	2.72	3.02
Benchmark - Greater than 1.5 <i>current assets / current liabilities</i>										
<b>Own Source Operating Revenue</b>										
<i>This ratio measures the level of Council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. Council's financial flexibility improves the higher the level of its own source revenue</i>	54.07%	58.55%	57.24%	56.98%	56.93%	56.13%	56.12%	56.08%	56.02%	55.96%
Benchmark - Greater than 60% <i>rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)</i>										
<b>Debt Service Cover Ratio</b>										
<i>This ratio measures the availability of cash to service debt including interest, principal, and lease payments</i>	31.52	25.27	29.61	10.90	11.44	4.10	4.35	4.60	4.86	5.13
Benchmark - Greater than 2.0 <i>operating result before interest and depreciation (EBITDA) / principal repayments + borrowing interest costs</i>										
<b>Interest Cover Ratio</b>										
<i>This ratio indicates the extent to which Council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon Council's operating cash</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benchmark - Greater than 4.0 <i>operating result before interest and depreciation (EBITDA) / interest expense</i>										
<b>Capital Expenditure Ratio</b>										
<i>This ratio indicates the extent to which Council is forecasting to expand its asset base with capital expenditure spent on both new assets and replacement and renewal of existing assets</i>	1.86	1.38	2.97	0.90	4.87	0.75	0.76	0.76	0.77	0.77
Benchmark - Greater than 1.1 <i>annual capital expenditure / annual depreciation</i>										

### INCREASED ASSET RENEWAL SCENARIO

The Increased Asset Renewal Scenario is based upon the 'Base Scenario' but with a strong focus in rapid asset renewal and replacement over the course of the planning period to help rectify the deteriorated condition of many of Council assets. The assumptions used in this scenario are the same as the base scenario however with the following changes:

- Capital grants of \$4.5m are applied for and received from 2019-20 onwards.
- Asset renewal figures are based on matching depreciation, plus any capital grants, plus an additional \$500k from Council's reserves, less any loan repayments.



This scenario highlights the Council's ability to renew assets at a greater rate than what is proposed in the base scenario. The Council still applies full cost attribution and recovery to the five key services, and still relies on the Commonwealth for adequate financial assistance grant funding and as a consequence Council is able to continue to generate small surpluses throughout the planning period.

In this scenario the cash reserves are depleting at a steady rate from 2022-23 and onwards after dropping drastically in 2021-22 due to the airport apron/runway reseal. Although the cash reserves are decreasing the magnitude of the reduction is reduced each year in line with the gradual increase of the operating surplus. Although cash on hand does decrease to \$5.6m this would still be adequate to fund the operations of Council. However, at this point, Council should look to maintain assets more in line with their consumption rates to replenish the cash reserves.

Over the planning period Council would invest \$144m in infrastructure replacement, renewals and upgrades. This figure represents an overall capital expenditure ratio of 2.02, which essentially means for every \$1 worth of infrastructure that is consumed Council has invested over \$2 in replacement.





# Long Term Financial Plan - Increased Asset Renewal

## INCOME STATEMENT

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Income from Continuing Operations											
Revenue:											
Rates & annual charges		1,180	1,198	1,219	1,244	1,269	1,294	1,320	1,346	1,373	1,401
User charges & fees		16,161	16,484	16,814	17,167	17,528	17,913	18,307	18,710	19,122	19,542
Interest & investment revenue		120	210	277	297	303	255	236	218	217	201
Other revenues		4,930	5,029	5,129	5,237	5,347	5,464	5,585	5,708	5,833	5,961
Grants & contributions for operating purposes		8,241	7,096	7,238	7,382	7,538	7,703	7,873	8,046	8,223	8,404
Grants & contributions for capital purposes		3,075	5,036	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Other Income:											
Net gains from disposal of assets		-	-	-	-	-	-	-	-	-	-
Net share of interests in joint ventures		-	-	-	-	-	-	-	-	-	-
<b>TOTAL INCOME FROM CONTINUING OPERATIONS</b>		<b>33,707</b>	<b>35,052</b>	<b>35,177</b>	<b>35,827</b>	<b>36,484</b>	<b>37,130</b>	<b>37,820</b>	<b>38,527</b>	<b>39,268</b>	<b>40,010</b>
Expenses from Continuing Operations											
Employee benefits & costs		10,322	9,952	10,096	10,295	10,498	10,601	10,705	10,810	10,916	11,023
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Materials & contracts		10,323	10,029	10,230	10,445	10,558	10,682	10,808	10,935	11,064	11,194
Depreciation & amortisation		4,958	5,265	5,609	6,239	6,594	7,785	8,155	8,537	8,932	9,339
Impairment		-	-	-	-	-	-	-	-	-	-
Other expenses		3,121	3,183	3,247	3,315	3,351	3,391	3,430	3,471	3,512	3,553
Net losses from disposal of assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES FROM CONTINUING OPERATIONS</b>		<b>28,724</b>	<b>28,430</b>	<b>29,182</b>	<b>30,294</b>	<b>31,001</b>	<b>32,458</b>	<b>33,098</b>	<b>33,753</b>	<b>34,423</b>	<b>35,109</b>
<b>OPERATING RESULT FOR THE YEAR</b>		<b>4,983</b>	<b>6,623</b>	<b>5,995</b>	<b>5,533</b>	<b>5,483</b>	<b>4,671</b>	<b>4,722</b>	<b>4,775</b>	<b>4,845</b>	<b>4,900</b>
<b>NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS &amp; CONTRIBUTIONS FOR CAPITAL PURPOSES</b>		<b>1,908</b>	<b>1,587</b>	<b>1,495</b>	<b>1,033</b>	<b>983</b>	<b>171</b>	<b>222</b>	<b>275</b>	<b>345</b>	<b>400</b>
<b>Assumptions</b>											
Rate Peg		1.80%	1.50%	1.80%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
General Index		1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Employee Cost Index - including superannuation		0.00%	3.00%	3.00%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Grant Index		0.00%	2.00%	2.00%	2.00%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%
Investment Interest rate		2.50%	2.50%	2.50%	2.75%	2.75%	3.00%	3.00%	3.00%	3.25%	3.25%
Overdue rates interest rate		8.00%	7.50%	7.50%	8.00%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%
Efficiency gain on Materials & Contracts			0.00%	0.00%	0.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%

# Long Term Financial Plan - Increased Asset Renewal

## STATEMENT OF FINANCIAL POSITION

\$ '000		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Assets</b>											
<i>Current Assets:</i>											
Cash & cash equivalents		8,292	10,966	10,679	10,913	8,386	7,741	7,137	6,579	6,086	5,644
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		3,002	3,532	4,073	4,626	5,190	5,766	6,355	6,956	7,570	8,198
Inventories		1,689	1,723	1,757	1,794	1,832	1,872	1,913	1,955	1,998	2,042
Other		-	-	-	-	-	-	-	-	-	-
Non-current assets classified as 'held for sale'											
<b>TOTAL CURRENT ASSETS</b>		<b>12,983</b>	<b>16,221</b>	<b>16,509</b>	<b>17,333</b>	<b>15,407</b>	<b>15,379</b>	<b>15,405</b>	<b>15,490</b>	<b>15,655</b>	<b>15,885</b>
<i>Non-Current Assets:</i>											
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment		113,048	118,084	131,375	135,801	164,927	168,241	171,552	174,858	178,159	181,453
Investments accounted for using the equity method		-	-	-	-	-	-	-	-	-	-
Investment property		-	-	-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>113,048</b>	<b>118,084</b>	<b>131,375</b>	<b>135,801</b>	<b>164,927</b>	<b>168,241</b>	<b>171,552</b>	<b>174,858</b>	<b>178,159</b>	<b>181,453</b>
<b>TOTAL ASSETS</b>		<b>126,031</b>	<b>134,305</b>	<b>147,884</b>	<b>153,133</b>	<b>180,335</b>	<b>183,620</b>	<b>186,957</b>	<b>190,349</b>	<b>193,814</b>	<b>197,337</b>
<b>Liabilities</b>											
<i>Current Liabilities:</i>											
Payables		2,856	2,913	2,971	3,034	3,097	3,166	3,235	3,306	3,379	3,454
Borrowings		200	200	200	575	575	1,685	1,685	1,685	1,685	1,685
Provisions		-	50	52	53	55	56	57	58	59	60
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,056</b>	<b>3,163</b>	<b>3,223</b>	<b>3,662</b>	<b>3,727</b>	<b>4,906</b>	<b>4,977</b>	<b>5,049</b>	<b>5,123</b>	<b>5,199</b>
<i>Non-Current Liabilities:</i>											
Payables		-	-	-	-	-	-	-	-	-	-
Borrowings		11,000	10,800	18,100	17,525	38,950	37,265	35,580	33,895	32,210	30,525
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,000</b>	<b>10,800</b>	<b>18,100</b>	<b>17,525</b>	<b>38,950</b>	<b>37,265</b>	<b>35,580</b>	<b>33,895</b>	<b>32,210</b>	<b>30,525</b>
<b>TOTAL LIABILITIES</b>		<b>14,056</b>	<b>13,963</b>	<b>21,323</b>	<b>21,187</b>	<b>42,677</b>	<b>42,171</b>	<b>40,557</b>	<b>38,944</b>	<b>37,333</b>	<b>35,724</b>
<b>NET ASSETS</b>		<b>111,975</b>	<b>120,342</b>	<b>126,561</b>	<b>131,947</b>	<b>137,657</b>	<b>141,449</b>	<b>146,400</b>	<b>151,404</b>	<b>156,481</b>	<b>161,613</b>
<b>Equity</b>											
Retained earnings/(accumulated deficit)		2,311	10,678	16,897	22,283	27,993	31,785	36,736	41,740	46,817	51,949
Revaluation reserves		109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664	109,664
Council equity interest		111,975	120,342	126,561	131,947	137,657	141,449	146,400	151,404	156,481	161,613
Non-controlling interest		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EQUITY</b>		<b>111,975</b>	<b>120,342</b>	<b>126,561</b>	<b>131,947</b>	<b>137,657</b>	<b>141,449</b>	<b>146,400</b>	<b>151,404</b>	<b>156,481</b>	<b>161,613</b>



# Long Term Financial Plan - Increased Asset Renewal

## FINANCIAL RATIOS

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Operating Ratio</b>										
<i>This ratio measures Council's ability to contain operating expenditure within operating revenue</i>	6.23%	5.29%	4.87%	3.30%	3.07%	0.53%	0.67%	0.81%	0.99%	1.13%
Benchmark - Greater than 0% <i>(operating revenue excl. capital grants and contributions - operating expenses) / operating revenue excluding capital grants and contributions</i>										
<b>Cash Expense Cover Ratio</b>										
<i>This ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow</i>	4.19	5.68	5.44	5.44	4.12	3.76	3.43	3.13	2.87	2.63
Benchmark - Greater than 3.0 months <i>(current year's cash and cash equivalents / (total expenses - depreciation - interest costs) * 12</i>										
<b>Current Ratio</b>										
<i>This ratio represents Council's ability to meet debt payments as they fall due. It should be noted that Council's externally restricted assets will not be available as operating funds and as such can significantly impact Council's ability to meet its liabilities.</i>	4.25	5.13	5.12	4.73	4.13	3.13	3.10	3.07	3.06	3.06
Benchmark - Greater than 1.5 <i>current assets / current liabilities</i>										
<b>Own Source Operating Revenue</b>										
<i>This ratio measures the level of Council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. Council's financial flexibility improves the higher the level of its own source revenue</i>	51.45%	50.44%	51.26%	51.39%	51.52%	51.73%	51.90%	52.06%	52.19%	52.34%
Benchmark - Greater than 60% <i>rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)</i>										
<b>Debt Service Cover Ratio</b>										
<i>This ratio measures the availability of cash to service debt including interest, principal, and lease payments</i>	49.11	58.39	56.63	19.96	20.48	7.24	7.50	7.77	8.05	8.33
Benchmark - Greater than 2.0 <i>operating result before interest and depreciation (EBITDA) / principal repayments + borrowing interest costs</i>										
<b>Interest Cover Ratio</b>										
<i>This ratio indicates the extent to which Council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon Council's operating cash</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benchmark - Greater than 4.0 <i>operating result before interest and depreciation (EBITDA) / interest expense</i>										
<b>Capital Expenditure Ratio</b>										
<i>This ratio indicates the extent to which Council is forecasting to expand its asset base with capital expenditure spent on both new assets and replacement and renewal of existing assets</i>	1.86	1.96	3.37	1.71	5.42	1.43	1.41	1.39	1.37	1.35
Benchmark - Greater than 1.1 <i>annual capital expenditure / annual depreciation</i>										

## CONCLUSION

On the 21<sup>st</sup> December 2016, Council adopted the 'Fully Costed' scenario of the long term financial plan. This action was a financially responsible and prudent action, and pointed Norfolk Island Regional Council on the path to financial sustainability, by accurately capturing costs and ensuring that Council covers these costs through appropriate fees and charges for the five government business units of sewerage, waste, airport, telecom & electricity.

Although this is a good start, there are still many challenges and uncertainties that lie ahead. As discussed in scenario two, Council's sustainable future and ability to meet its asset renewal needs are dependent upon Council receiving a reasonable and fair calculation for the financial assistance grant and having the ability to determine their own fees and charges. At the time of writing this document these details were still unknown, consequently the risk of significant change to the 2017-18 annual budget and the long term financial plan are high, and makes strategic planning difficult.

The airport continues to be a burden for Council. Although as a business unit it has now being budgeted to generate a surplus, the upcoming capital program will require Council to approach the Commonwealth Government to secure funding towards the project, and consequently will affect the cash flow of the Council over the planning period. Under the previous loan agreement, the Administration of Norfolk Island was supposed to place funds into reserve to fund the next runway/apron reseal. This never happened and as a consequence Council has no other options than to secure the funding through additional debt.

Unfortunately, asset planning and adequate asset management did not adequately occur under the previous Administration and as such Council inherited a lot of assets in poor condition including critical assets. Council has identified these assets and has developed plans and strategies around their renewals and the key assets have been included in the forecast capital works of this plan.

Council is committed to continue to supply required services and responsibly manage the community assets at the same time as ensuring the ongoing financial sustainability of the Norfolk Island Regional Council.