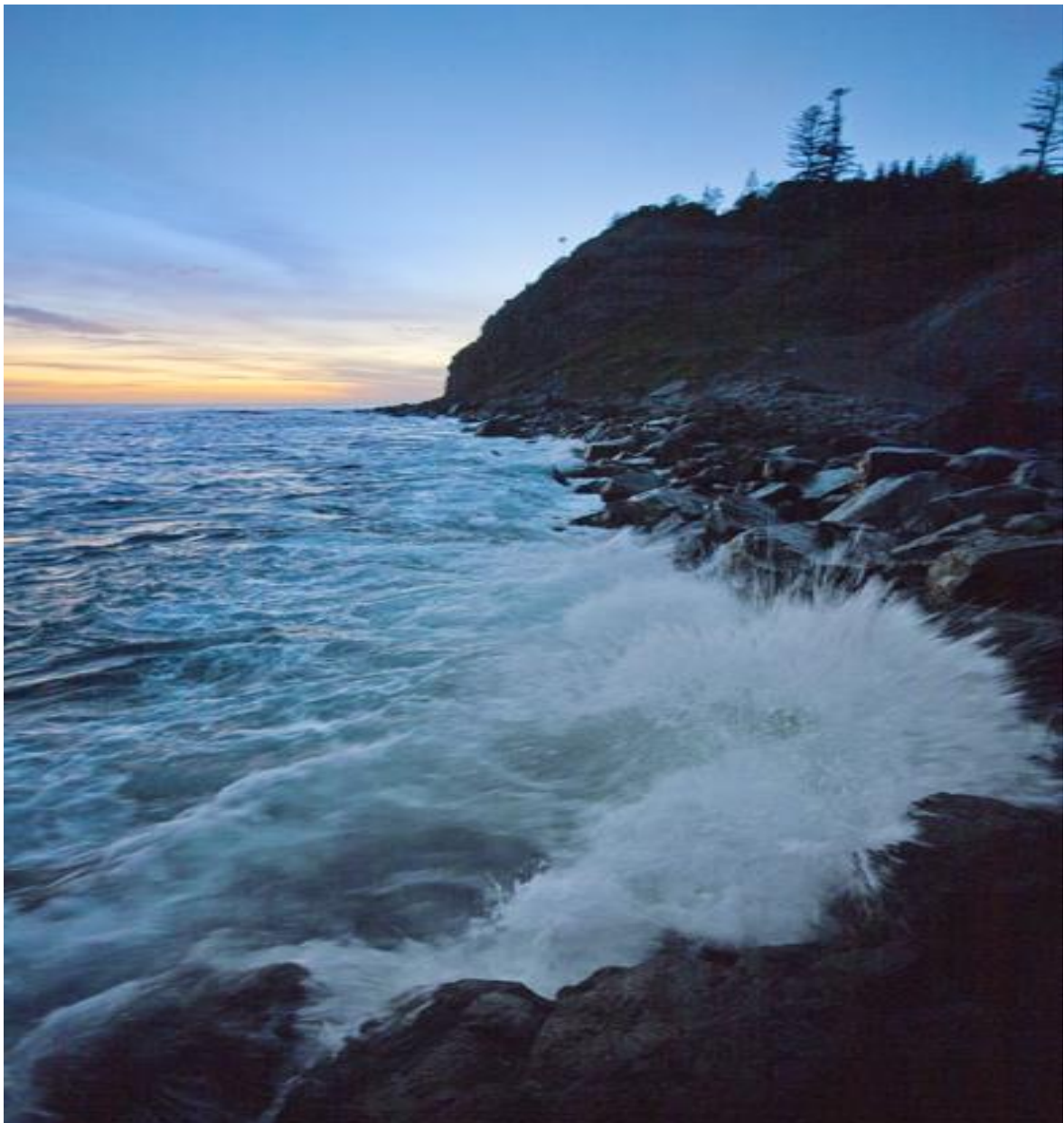


# NORFOLK ISLAND REGIONAL COUNCIL LONG TERM FINANCIAL PLAN 2017-2026



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## 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 Council's 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 2016/17 to 2025/26. 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.

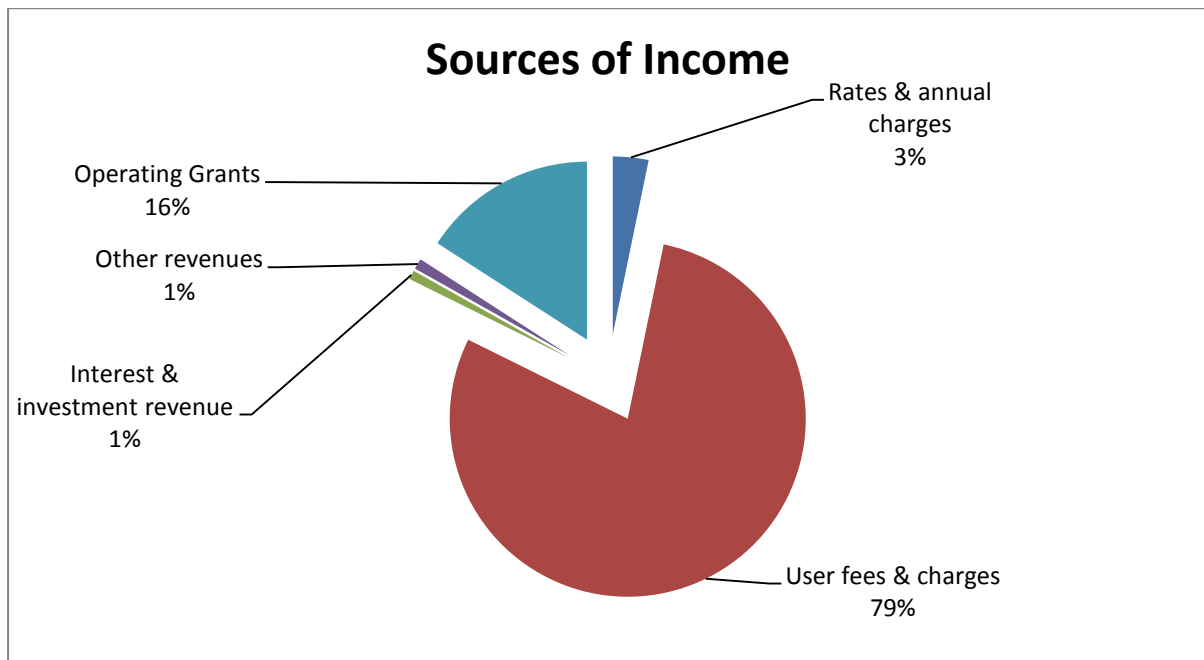
The aims of Norfolk Island Regional Council's Long Term Financial Plan are to:

- 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.

## 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.

Council currently operates on an annual income of just over \$24 million, with the vast majority being derived from user fees and charges that are subject to fluctuations and ever changing business conditions. The graph below shows sources of income:



The current adopted revised budget, projects expenses of over \$29.5m resulting in a deficit of \$5.3m. The current financial situation is unsustainable and must be addressed in a responsible and prudent manner.

Current funding levels received will not sustain the Council as addressed in the base scenario. Funds received in 2015-16 have been offset by the lack of Capital Expenditure over the last two years which has further exacerbated the poor condition of infrastructure assets. This, in conjunction with current commitments made in 2015-16 has restricted Council's ability to commence savings or to address urgent asset repairs in the current financial year.

The transitional phase from the previous administration to the Council was not adequately planned and implemented. Critical transitional aspects such as the implementation of Civica and the relocation of Council's administration staff to the Bi-Centennial building did not occur as was originally planned.

Council has needed to devote its limited resources to addressing these issues amongst many others that were left unresolved, whilst addressing the day to day business of the Council.

It is becoming apparent that a lot of the 'receivables' inherited by Council are debts that are well outside normal trading terms, some of which span years. It is unclear where or not debt collection processes were undertaken in the past, and the collectability of these debts is highly uncertain.

An asset revaluation requiring the physical inspection of assets is currently underway by a professional and accredited infrastructure valuer. Although firm figures have yet to be received it has been indicated that asset impairments may be likely, which in turn will reduce the value of Council's assets, further highlighting their very poor state, and the neglected condition upon which Council inherited them.

As indicated in the Asset Management Plans, infrastructure assets are in an extremely poor state. Not only are the assets in a poor state, records and plans associated with these assets are non-existent or in the best case poorly kept and maintained. Without adequate records and plans, applications for grant funding opportunities are difficult to prepare to a standard that guarantees a high chance of success. Additionally, many grants are available either 50:50 or 25:75 which is difficult given the very weak financial position of the Council. Cash is needed to support these applications, and Commonwealth assistance is required to short-track urgent funding (new funding opportunities that have just come to light may assist in this regard).

The Airport is a major concern for the Council. Funding, efficiencies, and some fee increases all need to be addressed to meet costs. The airport is a major part of Norfolk Island's economy, sustainability and the only transportation hub. The preferred option for the Community to ensure a safe, compliant and well maintained airport is for the Commonwealth to take over the responsibility of the assets and the operations. Reductions to some charges made in the past will need to be looked at again in light of the Minister's correspondence: "to place it on a commercial footing".

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 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, currently being 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 is 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 significant deficit and cannot fund themselves in their own right. Council will need to review 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 adopted revised budget is -21.98%
- 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 adopted revised budget is 3.02 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 adopted revised budget is 4.29.
- 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 adopted revised budget is 82.64%. It must be noted however, that this ratio is significantly higher than the bench mark due to the nature of the services supplied by this Council. User fees associated with Telecom, Electricity and sales received from the Liquor Mart are not services usually provided by a Regional Council and inflate this figure in terms of comparisons to other Councils. By the same token, rate revenues only make up 3% of Norfolk Island Regional Council's income, which is significantly lower than NSW Councils.
- 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 adopted revised budget is negative 1.56.



- 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 adopted revised budget is 0.92. It must be noted that a significant portion of this is associated with the Civica Authority EMS project, and is classified as a new asset. Therefore, the deterioration of existing infrastructure assets this year is to a higher extent than what is represented by this ratio.

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.

## **SCENARIO MODELLING**

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

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

The first, known as the 'Base Scenario,' is based on the current 2016/17 adopted budget, assuming no operational efficiencies or additional grant funding with trended forecasts projected out to 2025/26.

The second scenario, known as the 'Fully Costed Scenario,' models full cost recovery of services and a modest increase of grant funding to move to a balanced budget in 2017/18.

The third scenario, known as the 'Ideal Scenario,' looks at a significant but reasonable increase in grant funding, full cost recovery of services and the transfer of the operations and assets of the international airport to the federal government to operate or sub-contract out.

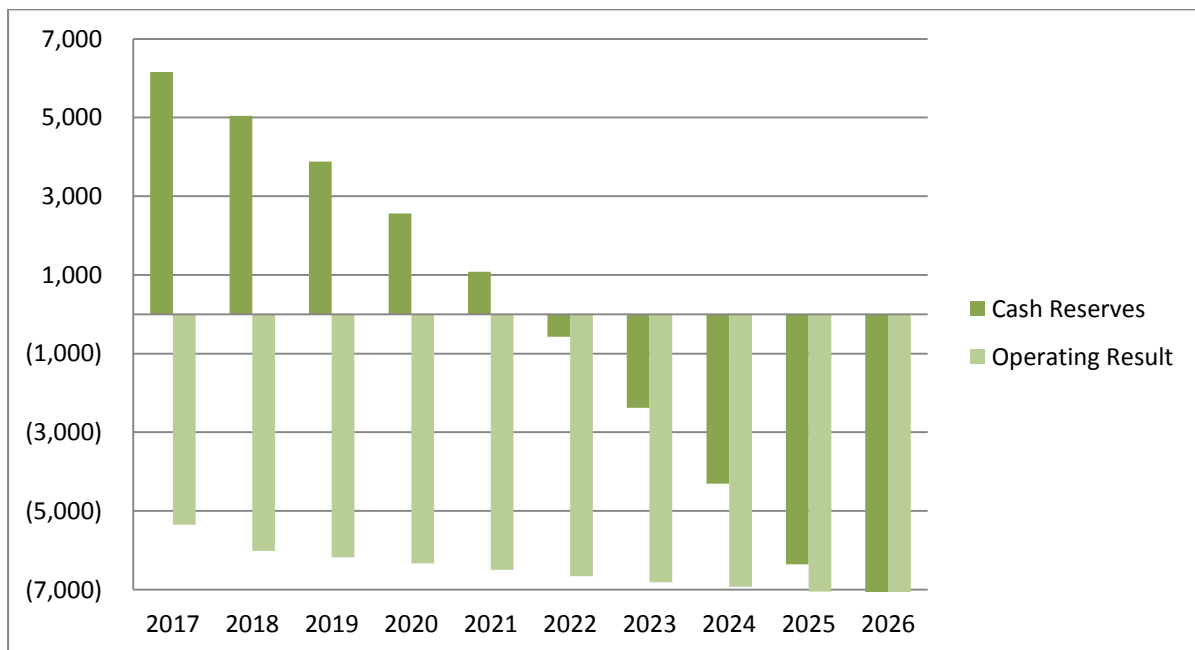
The LTFP details the assumptions used when compiling each scenario as well as the financial outcomes over a 10 year period. It also identifies the major opportunities and risks associated with each scenario to provide an analysis of the sensitivity of the modelling to a variety of changes.

## BASE SCENARIO

The Base Scenario uses the adopted revised 2016/17 budget to forecast a result over the 10 year planning period. It is assumed that Council operates in the same manner it currently is with the only changes to operations being the legislated increase in rate revenue to a minimum of \$1 million, the removal of the absentee landowner's levy and a \$400,000 reduction in depreciation due to the revaluation of assets.

The result presents a catastrophic financial position for Council with cash reserves depleting at an alarming rate each year to just fund operations until 2021-2022 when all cash reserves will be exhausted. As Council will be unable to even fund its basic services and critical maintenance in the near future, there will be no cash available to be used on any asset renewal as it will essentially exhaust all cash reserves immediately and the Council will not be a going concern. This highlights significant problems as, according to the asset management plans, virtually all assets are non-compliant with Australian standards and are at, or well past their end of life functionality. This in turn reduces the reliability and functionality of critical assets associated with communications, sanitation, transportation and energy production. As a result, the quality of life for the Norfolk Island community will continue to further deteriorate over the planning period and the capital required to renew and replace the assets will continue to grow.

This scenario only holds true if Council does nothing differently and takes no action to rectify the situation.



# Long Term Financial Plan - Business as Usual

## INCOME STATEMENT

\$ '000		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Income from Continuing Operations</b>											
<b>Revenue:</b>											
Rates & annual charges		783	1,000	1,020	1,040	1,063	1,087	1,111	1,136	1,162	1,189
User charges & fees		19,320	19,803	20,298	20,806	21,326	21,859	22,405	22,965	23,540	24,128
Interest & investment revenue		200	156	125	103	63	20	-	-	-	-
Other revenues		235	241	247	253	259	266	273	279	286	293
Grants & contributions for operating purposes		3,789	3,796	3,834	3,872	3,930	3,989	4,069	4,150	4,233	4,318
Grants & contributions for capital purposes		-	-	-	-	-	-	-	-	-	-
<b>Other Income:</b>											
Net gains from disposal of assets		-	-	-	-	-	-	-	-	-	-
Net share of interests in joint ventures		-	-	-	-	-	-	-	-	-	-
<b>TOTAL INCOME FROM CONTINUING OPERATIONS</b>		<b>24,327</b>	<b>24,996</b>	<b>25,524</b>	<b>26,074</b>	<b>26,642</b>	<b>27,221</b>	<b>27,857</b>	<b>28,531</b>	<b>29,222</b>	<b>29,929</b>
<b>Expenses from Continuing Operations</b>											
Employee benefits & costs		9,424	10,230	10,537	10,853	11,179	11,514	11,859	12,215	12,582	12,959
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Materials & contracts		13,775	14,119	14,472	14,834	15,205	15,585	15,975	16,374	16,783	17,203
Depreciation & amortisation		5,235	5,396	5,396	5,396	5,396	5,396	5,396	5,396	5,396	5,396
Impairment		-	-	-	-	-	-	-	-	-	-
Other expenses		1,239	1,270	1,302	1,334	1,368	1,402	1,437	1,473	1,510	1,547
Net losses from disposal of assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES FROM CONTINUING OPERATIONS</b>		<b>29,673</b>	<b>31,016</b>	<b>31,707</b>	<b>32,418</b>	<b>33,148</b>	<b>33,897</b>	<b>34,667</b>	<b>35,458</b>	<b>36,271</b>	<b>37,106</b>
<b>OPERATING RESULT FOR THE YEAR</b>		<b>(5,346)</b>	<b>(6,020)</b>	<b>(6,183)</b>	<b>(6,344)</b>	<b>(6,506)</b>	<b>(6,676)</b>	<b>(6,810)</b>	<b>(6,927)</b>	<b>(7,050)</b>	<b>(7,177)</b>
<b>NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS &amp; CONTRIBUTIONS FOR CAPITAL PURPOSES</b>		<b>(5,346)</b>	<b>(6,020)</b>	<b>(6,183)</b>	<b>(6,344)</b>	<b>(6,506)</b>	<b>(6,676)</b>	<b>(6,810)</b>	<b>(6,927)</b>	<b>(7,050)</b>	<b>(7,177)</b>
<b>Assumptions</b>											
Rate Peg		1.80%	1.50%	2.00%	2.00%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%
General Index		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Employee Cost Index		0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Grant Index		0.00%	1.00%	1.00%	1.00%	1.50%	1.50%	2.00%	2.00%	2.00%	2.00%
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%	8.00%	8.00%	8.00%	8.50%	8.50%
Efficiency gain on Materials & Contracts			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

# Long Term Financial Plan - Business as Usual

## STATEMENT OF FINANCIAL POSITION

\$ '000		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Assets</b>											
<b>Current Assets:</b>											
Cash & cash equivalents		6,158	5,039	3,881	2,561	1,078	(574)	(2,378)	(4,304)	(6,355)	(8,539)
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		3,850	4,474	5,114	5,770	6,442	7,130	7,836	8,560	9,302	10,062
Inventories		1,648	1,689	1,731	1,775	1,819	1,865	1,911	1,959	2,008	2,058
Other		-	-	-	-	-	-	-	-	-	-
Non-current assets classified as 'held for sale'		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>11,656</b>	<b>11,203</b>	<b>10,726</b>	<b>10,106</b>	<b>9,339</b>	<b>8,421</b>	<b>7,369</b>	<b>6,215</b>	<b>4,955</b>	<b>3,581</b>
<b>Non-Current Assets:</b>											
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment		59,212	53,816	48,419	43,023	37,627	32,230	26,834	21,437	16,041	10,645
Investments accounted for using the equity method		-	-	-	-	-	-	-	-	-	-
Investment property		-	-	-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>59,212</b>	<b>53,816</b>	<b>48,419</b>	<b>43,023</b>	<b>37,627</b>	<b>32,230</b>	<b>26,834</b>	<b>21,437</b>	<b>16,041</b>	<b>10,645</b>
<b>TOTAL ASSETS</b>		<b>70,868</b>	<b>65,018</b>	<b>59,145</b>	<b>53,129</b>	<b>46,966</b>	<b>40,651</b>	<b>34,203</b>	<b>27,653</b>	<b>20,996</b>	<b>14,225</b>
<b>Liabilities</b>											
<b>Current Liabilities:</b>											
Payables		2,719	2,787	2,857	2,928	3,001	3,076	3,153	3,232	3,313	3,396
Borrowings		-	200	200	200	200	200	200	200	200	200
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,719</b>	<b>2,987</b>	<b>3,057</b>	<b>3,128</b>	<b>3,201</b>	<b>3,276</b>	<b>3,353</b>	<b>3,432</b>	<b>3,513</b>	<b>3,596</b>
<b>Non-Current Liabilities:</b>											
Payables		-	-	-	-	-	-	-	-	-	-
Borrowings		11,486	11,286	11,086	10,886	10,686	10,486	10,286	10,086	9,886	9,686
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,486</b>	<b>11,286</b>	<b>11,086</b>	<b>10,886</b>	<b>10,686</b>	<b>10,486</b>	<b>10,286</b>	<b>10,086</b>	<b>9,886</b>	<b>9,686</b>
<b>TOTAL LIABILITIES</b>		<b>14,205</b>	<b>14,273</b>	<b>14,143</b>	<b>14,014</b>	<b>13,887</b>	<b>13,762</b>	<b>13,639</b>	<b>13,518</b>	<b>13,399</b>	<b>13,282</b>
<b>NET ASSETS</b>		<b>56,663</b>	<b>50,745</b>	<b>45,003</b>	<b>39,114</b>	<b>33,079</b>	<b>26,888</b>	<b>20,564</b>	<b>14,135</b>	<b>7,597</b>	<b>944</b>
<b>Equity</b>											
Retained earnings/(accumulated deficit)		504	(5,414)	(11,156)	(17,045)	(23,080)	(29,271)	(35,595)	(42,024)	(48,562)	(55,215)
Revaluation reserves		56,159	56,159	56,159	56,159	56,159	56,159	56,159	56,159	56,159	56,159
<b>Council equity interest</b>		<b>56,663</b>	<b>50,745</b>	<b>45,003</b>	<b>39,114</b>	<b>33,079</b>	<b>26,888</b>	<b>20,564</b>	<b>14,135</b>	<b>7,597</b>	<b>944</b>
<b>Non-controlling interest</b>		-	-	-	-	-	-	-	-	-	0
<b>TOTAL EQUITY</b>		<b>56,663</b>	<b>50,745</b>	<b>45,003</b>	<b>39,114</b>	<b>33,079</b>	<b>26,888</b>	<b>20,564</b>	<b>14,135</b>	<b>7,597</b>	<b>944</b>

# Long Term Financial Plan - Business as Usual

## STATEMENT OF CASH FLOWS

Long Term Financial Plan - Business as Usual											
STATEMENT OF CASH FLOWS											
\$ '000		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Cash Flows from Operating Activities</b>											
<b>Receipts:</b>											
Rates & annual charges		760	970	989	1,009	1,031	1,054	1,077	1,102	1,127	1,153
User charges & fees		20,690	19,209	19,689	20,181	20,686	21,203	21,733	22,276	22,833	23,404
Investment & interest revenue received		200	156	128	109	73	35	3	3	3	3
Grants & contributions		3,789	3,796	3,834	3,872	3,930	3,989	4,069	4,150	4,233	4,318
Bonds, deposits & retention amounts received		-	-	-	-	-	-	-	-	-	-
Other		228	234	239	245	252	258	264	271	278	285
<b>Payments:</b>											
Employee benefits & costs		(9,424)	(10,230)	(10,537)	(10,853)	(11,179)	(11,514)	(11,859)	(12,215)	(12,582)	(12,959)
Materials & contracts		(13,362)	(13,696)	(14,038)	(14,389)	(14,749)	(15,118)	(15,496)	(15,883)	(16,280)	(16,687)
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Bonds, deposits & retention amounts refunded		-	-	-	-	-	-	-	-	-	-
Other		(1,202)	(1,232)	(1,263)	(1,294)	(1,327)	(1,360)	(1,394)	(1,429)	(1,464)	(1,501)
<b>NET CASH PROVIDED (OR USED IN) OPERATING ACTIVITIES</b>		<b>1,679</b>	<b>(793)</b>	<b>(959)</b>	<b>(1,120)</b>	<b>(1,282)</b>	<b>(1,453)</b>	<b>(1,604)</b>	<b>(1,725)</b>	<b>(1,851)</b>	<b>(1,984)</b>
<b>Cash Flows from Investing Activities</b>											
<b>Receipts:</b>											
Sale of investment securities		-	-	-	-	-	-	-	-	-	-
Sale of infrastructure, property, plant & equipment		-	-	-	-	-	-	-	-	-	-
Deferred debtors receipts		-	-	-	-	-	-	-	-	-	-
Other investing activity receipts		-	-	-	-	-	-	-	-	-	-
<b>Payments:</b>											
Purchase of investment securities		-	-	-	-	-	-	-	-	-	-
Purchase of infrastructure, property, plant & equipment		(4,841)	-	-	-	-	-	-	-	-	-
Deferred debtors & advances made		-	-	-	-	-	-	-	-	-	-
<b>NET CASH PROVIDED (OR USED IN) INVESTING ACTIVITIES</b>		<b>(4,841)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash Flows from Financing Activities</b>											
<b>Receipts:</b>											
Proceeds from borrowings & advances		-	-	-	-	-	-	-	-	-	-
<b>Payments:</b>											
Repayment of borrowings & advances		(200)	(325)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
<b>NET CASH PROVIDED (OR USED IN) FINANCING ACTIVITIES</b>		<b>(200)</b>	<b>(325)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>(3,362)</b>	<b>(1,118)</b>	<b>(1,159)</b>	<b>(1,320)</b>	<b>(1,482)</b>	<b>(1,653)</b>	<b>(1,804)</b>	<b>(1,925)</b>	<b>(2,051)</b>	<b>(2,184)</b>
<b>plus: CASH &amp; CASH EQUIVALENTS - beginning of year</b>		<b>9,520</b>	<b>6,158</b>	<b>5,039</b>	<b>3,881</b>	<b>2,561</b>	<b>1,078</b>	<b>(574)</b>	<b>(2,378)</b>	<b>(4,304)</b>	<b>(6,355)</b>
<b>CASH &amp; CASH EQUIVALENTS - end of year</b>		<b>6,158</b>	<b>5,039</b>	<b>3,881</b>	<b>2,561</b>	<b>1,078</b>	<b>(574)</b>	<b>(2,378)</b>	<b>(4,304)</b>	<b>(6,355)</b>	<b>(8,539)</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		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Investment Interest rate		2.50%	2.50%	2.50%	2.75%	3.00%	3.00%	3.00%	3.00%	3.25%	3.25%
Overdue rates interest rate		8.00%	7.50%	7.50%	8.00%	8.00%	8.00%	8.00%	8.00%	8.50%	8.50%
No restricted cash											

# Long Term Financial Plan - Business as Usual

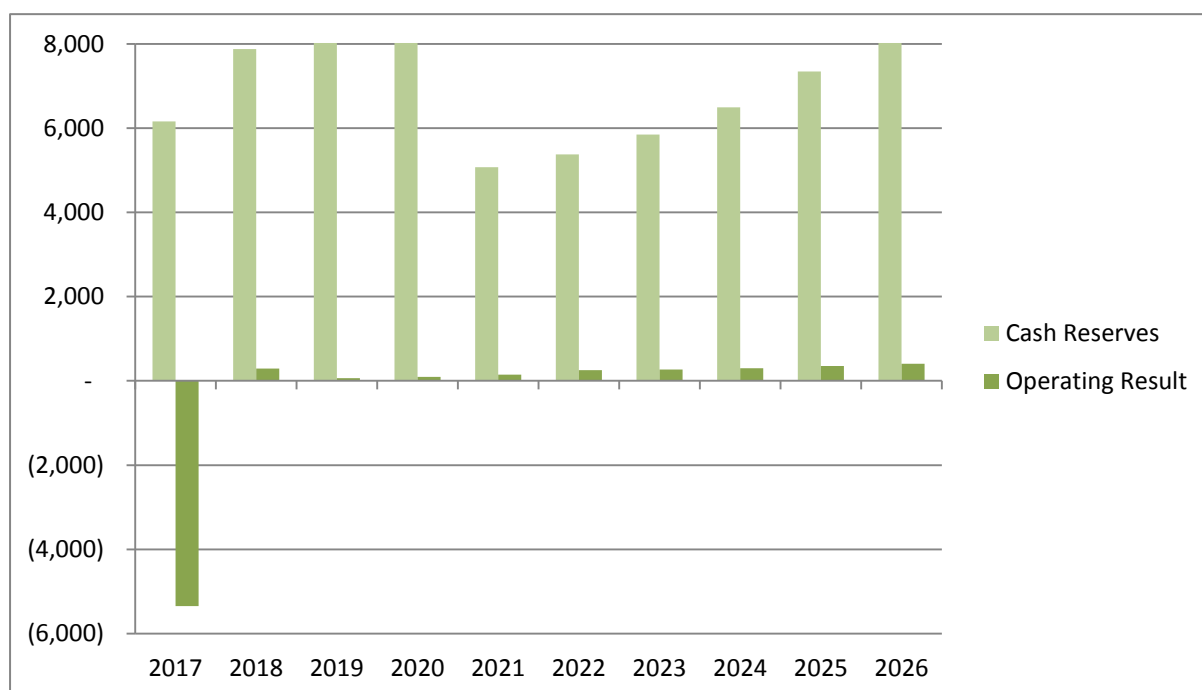
## FINANCIAL RATIOS

	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>	-21.98%	-24.08%	-24.21%	-24.30%	-24.37%	-24.46%	-24.45%	-24.28%	-24.12%	-23.98%
Benchmark - Greater than 0% (operating revenue excl. capital grants and contributions - operating expenses) / operating revenue excluding capital grants and contributions										
<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>	3.02	2.36	1.77	1.14	0.47	-0.24	-0.98	-1.72	-2.47	-3.23
Benchmark - Greater than 3.0 months (current year's cash and cash equivalents / (total expenses - depreciation - interest costs) * 12										
<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>	4.29	3.75	3.51	3.23	2.92	2.57	2.20	1.81	1.41	1.00
Benchmark - Greater than 1.5 current assets / current liabilities										
<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>	82.64%	83.23%	83.51%	83.76%	84.01%	84.25%	84.42%	84.47%	84.53%	84.59%
Benchmark - Greater than 60% rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)										
<b>Debt Service Cover Ratio</b>										
<i>This ratio measures the availability of cash to service debt including interest, principal, and lease payments</i>	-1.56	-2.40	-4.56	-5.25	-5.86	-6.50	-7.07	-7.65	-8.27	-8.90
Benchmark - Greater than 2.0 operating result before interest and depreciation (EBITDA) / principal repayments + borrowing interest costs										
<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 operating result before interest and depreciation (EBITDA) / interest expense										
<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>	0.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Benchmark - Greater than 1.1 annual capital expenditure / annual depreciation										

## FULLY COSTED SCENARIO

The Fully Costed Scenario uses the base scenario and makes several key adjustments to it. It places Council in a small surplus position in the first year with an ability to meet the minimum asset renewal required. It again assumes Council operates in the same manner that it currently is, with the following assumptions:

- Rating revenue is increased to a minimum of \$1 million as legislated.
- The absentee land owner's levy is removed.
- Depreciation is reduced by \$400,000 due to revaluation of assets.
- Financial assistant grant funding is modestly increased by \$3 million taking into account disability factors, isolation and the operations and maintenance of an international airport.
- Capital grants of \$5 million are received to help fund renewal of critical assets.
- Operating efficiencies are identified and implemented in year 2020 and onwards.
- Operating efficiencies within the staff organisational structure are identified and implemented in year 2019 and onwards.
- Core services of Telecom, Electricity, Sewage, Waste and the airport are fully costed and funded through their operations including provisions for asset renewals.
- Additional one off capital grant of \$4m in 2017/18 to fund upgrades to the Waste Service.
- Major refurbishment of the airport's runway, taxiway and apron to take place in 2020/2021 to the value of \$20m.
- Refurbishment of the airport's runway, taxiway and apron funded by \$6m reserves and \$14m Commonwealth loan.





This result presents a significantly and rapidly improved financial situation for Council. Small surpluses are generated each year over the planning period. The cash reserves whilst initially increasing take a significant reduction once the reserves are used towards the airport refurbishment but gradually continue to increase. They do however remain low and careful and prudent cash-flow management will be required to ensure daily operational funds are available to meet Council's obligations in full and when they fall due.

This scenario highlights the costs of key services that were never recovered under the previous administration and why the assets are in such a critically deteriorated state. Usually a significant increase in charges is implemented over a course of several years, however due to the high risk of critical asset failures and the extremely weak financial position of the Council, the full recovery of costs is imperative, not only for the Council but for the local community. A fair and equitable fee base must be developed for the core services listed above and be applied in a consistent and equitable manner to all users of that service.

The increase in fees and charges will put added stress and pressure on the local community. If these fees had been implemented in the past over the course of several years, the assets would not be in such a poor state. Because they weren't, and the assets are well past their effective and useful lives, a drastic approach must be implemented immediately so that the current and future generations can enjoy a basic level of infrastructure and amenities that is in a reasonable condition.

The ability to fully fund the airport is a difficult proposition for the Council. There are restrictions on the airport revenue and the current infrastructure is poor. Additional net revenue in excess of \$1.5m in user fees and charges is not realistic in the short term. A combination of modestly increased fees, efficiencies within the expenditure budget and Government support is needed. Funds will also be needed for critical runway upgrades that are expected to be required within 3 to 4 years.

In order to fund the upgrade, restricted cash of \$6m (that will be set aside in 2017/2018 to 2019/2020) will be used with an expected loan from the Commonwealth for a further \$14m at 0% interest over 20 years in line with the current loan terms. This will have a significant impact on Council's cash-flow and operating results. In order for Council to continue to be able to provide an airport service to the community it has forecast that an additional \$1m in user fees and charges will need to be raised in 2021/2022 upon completion of the refurbishment of the runway, taxiway and apron. Having a fully funded and commercially viable airport (even with the assistance of grants) is crucial to the ongoing financial sustainability of the Regional Council.

# Long Term Financial Plan - Full Costs Recovered

## INCOME STATEMENT

\$ '000	Notes	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
		Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Income from Continuing Operations</b>											
<b>Revenue:</b>											
Rates & annual charges		783	1,050	1,071	1,092	1,116	1,141	1,166	1,193	1,220	1,248
User charges & fees		19,320	22,303	22,861	23,432	24,018	25,618	26,259	26,915	27,588	28,278
Interest & investment revenue		200	156	199	270	324	155	164	178	214	242
Other revenues		235	241	247	253	259	266	273	279	286	293
Grants & contributions for operating purposes		3,789	7,160	7,231	7,304	7,413	7,525	7,675	7,829	7,985	8,145
Grants & contributions for capital purposes		-	9,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
<b>Other Income:</b>											
Net gains from disposal of assets		-	-	-	-	-	-	-	-	-	-
Net share of interests in joint ventures		-	-	-	-	-	-	-	-	-	-
<b>TOTAL INCOME FROM CONTINUING OPERATIONS</b>		<b>24,327</b>	<b>39,910</b>	<b>36,609</b>	<b>37,351</b>	<b>38,131</b>	<b>39,705</b>	<b>40,537</b>	<b>41,394</b>	<b>42,294</b>	<b>43,207</b>
<b>Expenses from Continuing Operations</b>											
Employee benefits & costs		9,424	10,230	10,379	10,583	10,792	11,004	11,221	11,442	11,668	11,898
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Materials & contracts		13,775	14,119	14,472	14,686	14,902	15,122	15,345	15,572	15,801	16,034
Depreciation & amortisation		5,235	4,996	5,396	5,669	5,947	6,964	7,321	7,684	8,053	8,430
Impairment		-	-	-	-	-	-	-	-	-	-
Other expenses		1,239	1,270	1,302	1,321	1,340	1,360	1,380	1,401	1,421	1,442
Net losses from disposal of assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES FROM CONTINUING OPERATIONS</b>		<b>29,673</b>	<b>30,616</b>	<b>31,549</b>	<b>32,259</b>	<b>32,981</b>	<b>34,451</b>	<b>35,267</b>	<b>36,098</b>	<b>36,944</b>	<b>37,804</b>
<b>OPERATING RESULT FOR THE YEAR</b>		<b>(5,346)</b>	<b>9,294</b>	<b>5,060</b>	<b>5,092</b>	<b>5,149</b>	<b>5,254</b>	<b>5,269</b>	<b>5,296</b>	<b>5,350</b>	<b>5,403</b>
<b>NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS &amp; CONTRIBUTIONS FOR CAPITAL PURPOSES</b>		<b>(5,346)</b>	<b>294</b>	<b>60</b>	<b>92</b>	<b>149</b>	<b>254</b>	<b>269</b>	<b>296</b>	<b>350</b>	<b>403</b>
<b>Assumptions</b>											
Rate Peg		1.80%	1.50%	2.00%	2.00%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%
General Index		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Employee Cost Index - including superannuation		0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Grant Index		0.00%	1.00%	1.00%	1.00%	1.50%	1.50%	2.00%	2.00%	2.00%	2.00%
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%	8.00%	8.00%	8.00%	8.50%	8.50%
Efficiency gain on Materials & Contracts			0.00%	0.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%

# Long Term Financial Plan - Full Costs Recovered

## STATEMENT OF FINANCIAL POSITION

\$ '000		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Assets</b>											
<b>Current Assets:</b>											
Cash & cash equivalents		6,158	7,876	9,712	11,670	5,074	5,374	5,842	6,490	7,346	8,408
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		3,850	4,550	5,268	6,003	6,757	7,560	8,383	9,226	10,089	10,975
Inventories		1,648	1,689	1,731	1,775	1,819	1,865	1,911	1,959	2,008	2,058
Other		-	-	-	-	-	-	-	-	-	-
Non-current assets classified as 'held for sale'		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>11,656</b>	<b>14,116</b>	<b>16,711</b>	<b>19,448</b>	<b>13,651</b>	<b>14,799</b>	<b>16,136</b>	<b>17,674</b>	<b>19,443</b>	<b>21,441</b>
<b>Non-Current Assets:</b>											
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment		59,212	66,217	68,988	71,660	96,231	99,969	103,540	106,946	110,184	113,255
Investments accounted for using the equity method		-	-	-	-	-	-	-	-	-	-
Investment property		-	-	-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>59,212</b>	<b>66,217</b>	<b>68,988</b>	<b>71,660</b>	<b>96,231</b>	<b>99,969</b>	<b>103,540</b>	<b>106,946</b>	<b>110,184</b>	<b>113,255</b>
<b>TOTAL ASSETS</b>		<b>70,868</b>	<b>80,332</b>	<b>85,700</b>	<b>91,108</b>	<b>109,882</b>	<b>114,768</b>	<b>119,676</b>	<b>124,620</b>	<b>129,627</b>	<b>134,696</b>
<b>Liabilities</b>											
<b>Current Liabilities:</b>											
Payables		2,719	2,787	2,857	2,928	3,001	3,076	3,153	3,232	3,313	3,396
Borrowings		-	200	200	200	900	900	900	900	900	900
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,719</b>	<b>2,987</b>	<b>3,057</b>	<b>3,128</b>	<b>3,901</b>	<b>3,976</b>	<b>4,053</b>	<b>4,132</b>	<b>4,213</b>	<b>4,296</b>
<b>Non-Current Liabilities:</b>											
Payables		-	-	-	-	-	-	-	-	-	-
Borrowings		11,486	11,286	11,086	10,886	23,286	22,386	21,486	20,586	19,686	18,786
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,486</b>	<b>11,286</b>	<b>11,086</b>	<b>10,886</b>	<b>23,286</b>	<b>22,386</b>	<b>21,486</b>	<b>20,586</b>	<b>19,686</b>	<b>18,786</b>
<b>TOTAL LIABILITIES</b>		<b>14,205</b>	<b>14,273</b>	<b>14,143</b>	<b>14,014</b>	<b>27,187</b>	<b>26,362</b>	<b>25,539</b>	<b>24,718</b>	<b>23,899</b>	<b>23,082</b>
<b>NET ASSETS</b>		<b>56,663</b>	<b>66,059</b>	<b>71,557</b>	<b>77,094</b>	<b>82,695</b>	<b>88,405</b>	<b>94,137</b>	<b>99,902</b>	<b>105,729</b>	<b>111,615</b>
<b>Equity</b>											
Retained earnings/(accumulated deficit)		504	9,900	15,398	20,935	26,536	32,246	37,978	43,743	49,570	55,456
Revaluation reserves		56,159	56,159	56,159	56,159	56,159	56,159	56,159	56,159	56,159	56,159
<b>Council equity interest</b>		<b>56,663</b>	<b>66,059</b>	<b>71,557</b>	<b>77,094</b>	<b>82,695</b>	<b>88,405</b>	<b>94,137</b>	<b>99,902</b>	<b>105,729</b>	<b>111,615</b>
<b>Non-controlling interest</b>		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EQUITY</b>		<b>56,663</b>	<b>66,059</b>	<b>71,557</b>	<b>77,094</b>	<b>82,695</b>	<b>88,405</b>	<b>94,137</b>	<b>99,902</b>	<b>105,729</b>	<b>111,615</b>

# Long Term Financial Plan - Full Costs Recovered

## STATEMENT OF CASH FLOWS

\$ '000		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Cash Flows from Operating Activities</b>											
<b>Receipts:</b>											
Rates & annual charges		760	1,019	1,039	1,060	1,083	1,107	1,131	1,157	1,184	1,211
User charges & fees		20,690	21,634	22,175	22,729	23,297	24,850	25,471	26,108	26,761	27,430
Investment & interest revenue received		200	156	199	270	323	155	164	178	214	242
Grants & contributions		3,789	16,160	12,231	12,304	12,413	12,525	12,675	12,829	12,985	13,145
Bonds, deposits & retention amounts received		-	-	-	-	-	-	-	-	-	-
Other		228	234	239	245	252	258	264	271	278	285
<b>Payments:</b>											
Employee benefits & costs		(9,424)	(10,230)	(10,379)	(10,583)	(10,792)	(11,004)	(11,221)	(11,442)	(11,668)	(11,898)
Materials & contracts		(13,362)	(13,696)	(14,038)	(14,245)	(14,455)	(14,669)	(14,885)	(15,105)	(15,327)	(15,553)
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Bonds, deposits & retention amounts refunded		-	-	-	-	-	-	-	-	-	-
Other		(1,202)	(1,232)	(1,263)	(1,281)	(1,300)	(1,319)	(1,339)	(1,359)	(1,379)	(1,399)
<b>NET CASH PROVIDED (OR USED IN) OPERATING ACTIVITIES</b>		<b>1,679</b>	<b>14,045</b>	<b>10,204</b>	<b>10,498</b>	<b>10,822</b>	<b>11,902</b>	<b>12,260</b>	<b>12,636</b>	<b>13,048</b>	<b>13,463</b>
<b>Cash Flows from Investing Activities</b>											
<b>Receipts:</b>											
Sale of investment securities		-	-	-	-	-	-	-	-	-	-
Sale of infrastructure, property, plant & equipment		-	-	-	-	-	-	-	-	-	-
Deferred debtors receipts		-	-	-	-	-	-	-	-	-	-
Other investing activity receipts		-	-	-	-	-	-	-	-	-	-
<b>Payments:</b>											
Purchase of investment securities		-	-	-	-	-	-	-	-	-	-
Purchase of infrastructure, property, plant & equipment		(4,841)	(12,001)	(8,168)	(8,340)	(30,518)	(10,702)	(10,892)	(11,089)	(11,292)	(11,501)
Deferred debtors & advances made		-	-	-	-	-	-	-	-	-	-
<b>NET CASH PROVIDED (OR USED IN) INVESTING ACTIVITIES</b>		<b>(4,841)</b>	<b>(12,001)</b>	<b>(8,168)</b>	<b>(8,340)</b>	<b>(30,518)</b>	<b>(10,702)</b>	<b>(10,892)</b>	<b>(11,089)</b>	<b>(11,292)</b>	<b>(11,501)</b>
<b>Cash Flows from Financing Activities</b>											
<b>Receipts:</b>											
Proceeds from borrowings & advances		-	-	-	-	14,000	-	-	-	-	-
<b>Payments:</b>											
Repayment of borrowings & advances		(200)	(325)	(200)	(200)	(900)	(900)	(900)	(900)	(900)	(900)
<b>NET CASH PROVIDED (OR USED IN) FINANCING ACTIVITIES</b>		<b>(200)</b>	<b>(325)</b>	<b>(200)</b>	<b>(200)</b>	<b>13,100</b>	<b>(900)</b>	<b>(900)</b>	<b>(900)</b>	<b>(900)</b>	<b>(900)</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>(3,362)</b>	<b>1,719</b>	<b>1,836</b>	<b>1,958</b>	<b>(6,596)</b>	<b>300</b>	<b>468</b>	<b>647</b>	<b>856</b>	<b>1,062</b>
<b>plus: CASH &amp; CASH EQUIVALENTS - beginning of year</b>		<b>9,520</b>	<b>6,158</b>	<b>7,876</b>	<b>9,712</b>	<b>11,670</b>	<b>5,074</b>	<b>5,374</b>	<b>5,842</b>	<b>6,490</b>	<b>7,346</b>
<b>CASH &amp; CASH EQUIVALENTS - end of year</b>		<b>6,158</b>	<b>7,876</b>	<b>9,712</b>	<b>11,670</b>	<b>5,074</b>	<b>5,374</b>	<b>5,842</b>	<b>6,490</b>	<b>7,346</b>	<b>8,408</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		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
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%	8.00%	8.00%	8.00%	8.50%	8.50%
No restricted cash											

# Long Term Financial Plan - Full Costs Recovered

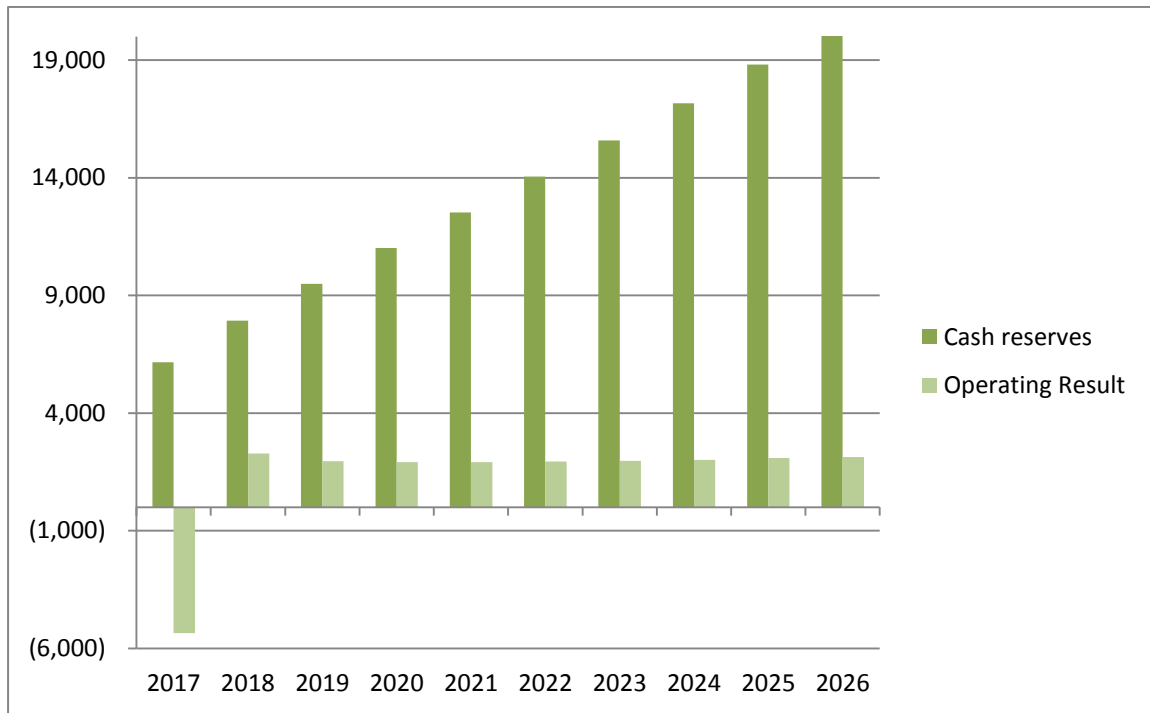
## FINANCIAL RATIOS

	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>	-21.98%	0.95%	0.19%	0.29%	0.45%	0.73%	0.76%	0.81%	0.94%	1.05%
Benchmark - Greater than 0% (operating revenue excl. capital grants and contributions - operating expenses) / operating revenue excluding capital grants and contributions										
<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>	3.02	3.69	4.46	5.27	2.25	2.35	2.51	2.74	3.05	3.43
Benchmark - Greater than 3.0 months (current year's cash and cash equivalents / (total expenses - depreciation - interest costs) * 12										
<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>	4.29	4.73	5.47	6.22	3.50	3.72	3.98	4.28	4.62	4.99
Benchmark - Greater than 1.5 current assets / current liabilities										
<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>	82.64%	58.51%	65.37%	65.66%	65.92%	67.40%	67.65%	67.90%	68.11%	68.34%
Benchmark - Greater than 60% rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)										
<b>Debt Service Cover Ratio</b>										
<i>This ratio measures the availability of cash to service debt including interest, principal, and lease payments</i>	-1.56	43.49	51.29	52.46	11.97	13.40	13.81	14.22	14.66	15.10
Benchmark - Greater than 2.0 operating result before interest and depreciation (EBITDA) / principal repayments + borrowing interest costs										
<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 operating result before interest and depreciation (EBITDA) / interest expense										
<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>	0.92	2.40	1.51	1.47	5.13	1.54	1.49	1.44	1.40	1.36
Benchmark - Greater than 1.1 annual capital expenditure / annual depreciation										

## IDEAL SCENARIO

The Ideal Scenario is based upon the Fully Costed Scenario with optimistic assumptions that would place Council in a positive operating position and would make the Council stable, sustainable and with a greater ability to maintain and renew its assets over the planning period and going further into the future. It again assumes Council operates in the same manner that it currently is, with the following assumptions:

- Rating revenue is increased to a minimum of \$1 million as legislated.
- The absentee land owner's levy is removed.
- Depreciation is reduced by \$400,000 due to revaluation of assets.
- Financial Assistant Grant (FAG) funding is significantly, but still realistically increased by \$4million, taking into account disability factors, isolation.
- Capital Grants of \$7.5 million are received to help fund renewal of critical assets in a shorter timeframe.
- Operating efficiencies are identified and implemented in year 2020 and onwards.
- Core services of Telecom, Electricity, Sewerage, and Waste are fully costed and funded through their operations including provisions for asset renewals.
- Operating efficiencies within the staff organisational structure are identified and implemented in year 2019 and onwards.
- Additional one off capital grant of \$4m in 2017/18 to fund upgrades to the Waste Service.
- In line with the practice on Christmas Island, the operations, maintenance and asset renewal of the international airport is transferred to the Commonwealth of Australia. This drastically reduces Council's asset base and depreciation levels. This also has the added benefit of Council not having to raise fees significantly across the airport to allow for the service to be fully funded from its operations.



This scenario provides for modest surpluses and a respectable growth in cash reserves that gives Council the ability to react to critical issues or to take advantage of opportunities that present themselves to the Community without reliance on further external grants.

This scenario also allows for a greater degree of asset renewal over the short term. As documented in the Asset Management Plans many assets are past their useful lives and are at a point of failure including essential service assets. This increase in renewal in the short term helps mitigate the risk of critical asset failures.

This scenario is optimistic, and requires significant negotiation with the Commonwealth of Australia. It is the ideal situation for the Council and the community of Norfolk Island, but without full support from the Commonwealth this scenario may not be feasible in the near future.

# Long Term Financial Plan - Ideal

## INCOME STATEMENT

\$ '000	Notes	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
		Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Income from Continuing Operations</b>											
<b>Revenue:</b>											
Rates & annual charges		783	1,000	1,020	1,040	1,063	1,087	1,111	1,136	1,162	1,189
User charges & fees		19,320	19,943	20,442	20,953	21,476	22,013	22,564	23,128	23,706	24,299
Interest & investment revenue		200	156	200	263	305	378	424	470	561	614
Other revenues		235	241	247	253	259	266	273	279	286	293
Grants & contributions for operating purposes		3,789	8,191	8,273	8,356	8,481	8,608	8,780	8,956	9,135	9,318
Grants & contributions for capital purposes		-	11,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
<b>Other Income:</b>											
Net gains from disposal of assets		-	-	-	-	-	-	-	-	-	-
Net share of interests in joint ventures		-	-	-	-	-	-	-	-	-	-
<b>TOTAL INCOME FROM CONTINUING OPERATIONS</b>		<b>24,327</b>	<b>41,031</b>	<b>37,682</b>	<b>38,365</b>	<b>39,085</b>	<b>39,852</b>	<b>40,651</b>	<b>41,469</b>	<b>42,350</b>	<b>43,213</b>
<b>Expenses from Continuing Operations</b>											
Employee benefits & costs		9,424	10,015	10,161	10,309	10,459	10,611	10,765	10,922	11,081	11,242
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Materials & contracts		13,775	13,891	14,239	14,449	14,662	14,878	15,098	15,320	15,546	15,775
Depreciation & amortisation		5,235	2,079	2,532	2,866	3,212	3,569	3,938	4,319	4,713	5,120
Impairment		-	-	-	-	-	-	-	-	-	-
Other expenses		1,239	1,270	1,302	1,321	1,340	1,360	1,380	1,401	1,421	1,442
Net losses from disposal of assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES FROM CONTINUING OPERATIONS</b>		<b>29,673</b>	<b>27,256</b>	<b>28,233</b>	<b>28,945</b>	<b>29,673</b>	<b>30,418</b>	<b>31,181</b>	<b>31,962</b>	<b>32,761</b>	<b>33,580</b>
<b>OPERATING RESULT FOR THE YEAR</b>		<b>(5,346)</b>	<b>13,775</b>	<b>9,449</b>	<b>9,420</b>	<b>9,413</b>	<b>9,434</b>	<b>9,470</b>	<b>9,508</b>	<b>9,589</b>	<b>9,633</b>
<b>NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS &amp; CONTRIBUTIONS FOR CAPITAL PURPOSES</b>		<b>(5,346)</b>	<b>2,275</b>	<b>1,949</b>	<b>1,920</b>	<b>1,913</b>	<b>1,934</b>	<b>1,970</b>	<b>2,008</b>	<b>2,089</b>	<b>2,133</b>
<b>Assumptions</b>											
Rate Peg		1.80%	1.50%	2.00%	2.00%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%
General Index		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Employee Cost Index - including superannuation		0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Grant Index		0.00%	1.00%	1.00%	1.00%	1.50%	1.50%	2.00%	2.00%	2.00%	2.00%
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%	8.00%	8.00%	8.00%	8.50%	8.50%
Efficiency gain on Materials & Contracts			0.00%	0.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%



# Long Term Financial Plan - Ideal

## STATEMENT OF FINANCIAL POSITION

\$ '000		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Assets</b>											
<b>Current Assets:</b>											
Cash & cash equivalents		6,158	7,927	9,490	11,015	12,524	14,045	15,590	17,162	18,804	20,481
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		3,850	4,478	5,123	5,783	6,459	7,152	7,863	8,590	9,337	10,101
Inventories		1,648	1,689	1,731	1,775	1,819	1,865	1,911	1,959	2,008	2,058
Other		-	-	-	-	-	-	-	-	-	-
Non-current assets classified as 'held for sale'		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>11,656</b>	<b>14,094</b>	<b>16,344</b>	<b>18,573</b>	<b>20,803</b>	<b>23,062</b>	<b>25,363</b>	<b>27,711</b>	<b>30,149</b>	<b>32,640</b>
<b>Non-Current Assets:</b>											
Investments		-	-	-	-	-	-	-	-	-	-
Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment		59,212	41,527	49,027	56,527	64,027	71,527	79,027	86,527	94,027	101,527
Investments accounted for using the equity method		-	-	-	-	-	-	-	-	-	-
Investment property		-	-	-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>59,212</b>	<b>41,527</b>	<b>49,027</b>	<b>56,527</b>	<b>64,027</b>	<b>71,527</b>	<b>79,027</b>	<b>86,527</b>	<b>94,027</b>	<b>101,527</b>
<b>TOTAL ASSETS</b>		<b>70,868</b>	<b>55,621</b>	<b>65,371</b>	<b>75,100</b>	<b>84,830</b>	<b>94,589</b>	<b>104,390</b>	<b>114,238</b>	<b>124,176</b>	<b>134,167</b>
<b>Liabilities</b>											
<b>Current Liabilities:</b>											
Payables		2,719	2,787	2,857	2,928	3,001	3,076	3,153	3,232	3,313	3,396
Borrowings		-	200	200	200	200	200	200	200	200	200
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,719</b>	<b>2,987</b>	<b>3,057</b>	<b>3,128</b>	<b>3,201</b>	<b>3,276</b>	<b>3,353</b>	<b>3,432</b>	<b>3,513</b>	<b>3,596</b>
<b>Non-Current Liabilities:</b>											
Payables		-	-	-	-	-	-	-	-	-	-
Borrowings		11,486	11,286	11,086	10,886	10,686	10,486	10,286	10,086	9,886	9,686
Provisions		-	-	-	-	-	-	-	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,486</b>	<b>11,286</b>	<b>11,086</b>	<b>10,886</b>	<b>10,686</b>	<b>10,486</b>	<b>10,286</b>	<b>10,086</b>	<b>9,886</b>	<b>9,686</b>
<b>TOTAL LIABILITIES</b>		<b>14,205</b>	<b>14,273</b>	<b>14,143</b>	<b>14,014</b>	<b>13,887</b>	<b>13,762</b>	<b>13,639</b>	<b>13,518</b>	<b>13,399</b>	<b>13,282</b>
<b>NET ASSETS</b>		<b>56,663</b>	<b>41,348</b>	<b>51,228</b>	<b>61,086</b>	<b>70,942</b>	<b>80,826</b>	<b>90,751</b>	<b>100,720</b>	<b>110,777</b>	<b>120,886</b>
<b>Equity</b>											
Retained earnings/(accumulated deficit)		504	14,374	24,254	34,112	43,968	53,852	63,777	73,746	83,803	93,912
Revaluation reserves		56,159	26,974	26,974	26,974	26,974	26,974	26,974	26,974	26,974	26,974
<b>Council equity interest</b>		<b>56,663</b>	<b>41,348</b>	<b>51,228</b>	<b>61,086</b>	<b>70,942</b>	<b>80,826</b>	<b>90,751</b>	<b>100,720</b>	<b>110,777</b>	<b>120,886</b>
<b>Non-controlling interest</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>56,663</b>	<b>41,348</b>	<b>51,228</b>	<b>61,086</b>	<b>70,942</b>	<b>80,826</b>	<b>90,751</b>	<b>100,720</b>	<b>110,777</b>	<b>120,886</b>

# Long Term Financial Plan - Ideal

## STATEMENT OF CASH FLOWS

\$ '000		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Notes	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
<b>Cash Flows from Operating Activities</b>											
<b>Receipts:</b>											
Rates & annual charges		760	970	989	1,009	1,031	1,054	1,077	1,102	1,127	1,153
User charges & fees		20,690	19,345	19,828	20,324	20,832	21,353	21,887	22,434	22,995	23,570
Investment & interest revenue received		200	156	200	263	305	378	424	470	561	614
Grants & contributions		3,789	19,691	15,773	15,856	15,981	16,108	16,280	16,456	16,635	16,818
Bonds, deposits & retention amounts received		-	-	-	-	-	-	-	-	-	-
Other		228	234	239	245	252	258	264	271	278	285
<b>Payments:</b>											
Employee benefits & costs		(9,424)	(10,015)	(10,161)	(10,309)	(10,459)	(10,611)	(10,765)	(10,922)	(11,081)	(11,242)
Materials & contracts		(13,362)	(13,475)	(13,811)	(14,015)	(14,222)	(14,432)	(14,645)	(14,861)	(15,080)	(15,302)
Borrowing costs		-	-	-	-	-	-	-	-	-	-
Bonds, deposits & retention amounts refunded		-	-	-	-	-	-	-	-	-	-
Other		(1,202)	(1,232)	(1,263)	(1,281)	(1,300)	(1,319)	(1,339)	(1,359)	(1,379)	(1,399)
<b>NET CASH PROVIDED (OR USED IN) OPERATING ACTIVITIES</b>		<b>1,679</b>	<b>15,674</b>	<b>11,794</b>	<b>12,092</b>	<b>12,421</b>	<b>12,790</b>	<b>13,183</b>	<b>13,591</b>	<b>14,056</b>	<b>14,497</b>
<b>Cash Flows from Investing Activities</b>											
<b>Receipts:</b>											
Sale of investment securities		-	-	-	-	-	-	-	-	-	-
Sale of infrastructure, property, plant & equipment		-	-	-	-	-	-	-	-	-	-
Deferred debtors receipts		-	-	-	-	-	-	-	-	-	-
Other investing activity receipts		-	-	-	-	-	-	-	-	-	-
<b>Payments:</b>											
Purchase of investment securities		-	-	-	-	-	-	-	-	-	-
Purchase of infrastructure, property, plant & equipment		(4,841)	(13,579)	(10,032)	(10,366)	(10,712)	(11,069)	(11,438)	(11,819)	(12,213)	(12,620)
Deferred debtors & advances made		-	-	-	-	-	-	-	-	-	-
<b>NET CASH PROVIDED (OR USED IN) INVESTING ACTIVITIES</b>		<b>(4,841)</b>	<b>(13,579)</b>	<b>(10,032)</b>	<b>(10,366)</b>	<b>(10,712)</b>	<b>(11,069)</b>	<b>(11,438)</b>	<b>(11,819)</b>	<b>(12,213)</b>	<b>(12,620)</b>
<b>Cash Flows from Financing Activities</b>											
<b>Receipts:</b>											
Proceeds from borrowings & advances		-	-	-	-	-	-	-	-	-	-
<b>Payments:</b>											
Repayment of borrowings & advances		(200)	(325)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
<b>NET CASH PROVIDED (OR USED IN) FINANCING ACTIVITIES</b>		<b>(200)</b>	<b>(325)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		<b>(3,362)</b>	<b>1,769</b>	<b>1,562</b>	<b>1,526</b>	<b>1,509</b>	<b>1,521</b>	<b>1,545</b>	<b>1,572</b>	<b>1,643</b>	<b>1,676</b>
<b>plus: CASH &amp; CASH EQUIVALENTS - beginning of year</b>		<b>9,520</b>	<b>6,158</b>	<b>7,927</b>	<b>9,490</b>	<b>11,015</b>	<b>12,524</b>	<b>14,045</b>	<b>15,590</b>	<b>17,162</b>	<b>18,804</b>
<b>CASH &amp; CASH EQUIVALENTS - end of year</b>		<b>6,158</b>	<b>7,927</b>	<b>9,490</b>	<b>11,015</b>	<b>12,524</b>	<b>14,045</b>	<b>15,590</b>	<b>17,162</b>	<b>18,804</b>	<b>20,481</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		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
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%	8.00%	8.00%	8.00%	8.50%	8.50%
No restricted cash											

# Long Term Financial Plan - Ideal

## 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>	-21.98%	7.70%	6.46%	6.22%	6.06%	5.98%	5.94%	5.91%	5.99%	5.97%
Benchmark - Greater than 0% (operating revenue excl. capital grants and contributions - operating expenses) / operating revenue excluding capital grants and contributions										
<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>	3.02	3.78	4.43	5.07	5.68	6.28	6.87	7.45	8.05	8.64
Benchmark - Greater than 3.0 months (current year's cash and cash equivalents / (total expenses - depreciation - interest costs) * 12										
<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>	4.29	4.72	5.35	5.94	6.50	7.04	7.56	8.07	8.58	9.08
Benchmark - Greater than 1.5 current assets / current liabilities										
<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>	82.64%	51.04%	56.95%	57.33%	57.67%	57.96%	58.24%	58.51%	58.72%	58.98%
Benchmark - Greater than 60% rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)										
<b>Debt Service Cover Ratio</b>										
<i>This ratio measures the availability of cash to service debt including interest, principal, and lease payments</i>	-1.56	48.30	58.90	60.12	61.60	63.13	64.92	66.78	68.71	70.70
Benchmark - Greater than 2.0 operating result before interest and depreciation (EBITDA) / principal repayments + borrowing interest costs										
<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 operating result before interest and depreciation (EBITDA) / interest expense										
<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>	0.92	6.53	3.96	3.62	3.34	3.10	2.90	2.74	2.59	2.46
Benchmark - Greater than 1.1 annual capital expenditure / annual depreciation										

## CONCLUSION

The Fully Costed Scenario is optimistic but achievable, relatively affordable and significantly improves the financial situation of the Norfolk Island Regional Council, and can be implemented with only a modest increase in reliance upon Commonwealth funding through Financial Assistance (FAG) and Capital Grants for asset renewals. Although it may be optimistic, it is essentially the bare minimum that must be achieved to ensure not only the financial sustainability for the Council but also the continued functionality of critical infrastructure assets.

Although this scenario only provides for a relatively small cash reserve and will require close planning and monitoring of cash inflows and outflows, it will be sufficient in the short to mid-term to allow Council to implement further strategies to address the financial situation of Council. Furthermore, in order to increase the cash reserves at this point in time, core services will need to generate surpluses rather than merely break even as identified in the scenario, or land rates will need to be levied at higher than the legislation \$1m. Although these options are plausible to address the cash reserve issue, it may be prudent not to burden the community with any further additional charges over and above the services that are currently provided. The increase and redistribution of charges to bring these services to a cost neutral position may be significant to some ratepayers.

It is critical for Council that all of the core services provided such as Waste, Sewerage, Electricity, Telecom and the Airport are fully costed and those costs in turn charged to the appropriate users of that service. It is not envisioned that straight fee increases are the answer in all cases. A full review and complete readjustment of the fee structure will be necessary on many inequitable fee bases.

Due to poor management and neglect of the previous administration Council is now tasked with making tough decisions for the Community. Although short term pain will be felt by some and frustration felt by many, Council must act in the long term interests of the community and also think of future generations that will need to rely upon the Council's infrastructure to enjoy a certain quality of life. Planning for asset renewal is an intergenerational task and one generation cannot avoid difficult situations or decisions to the detriment of the community's children and in turn their children. Unfortunately, this has not occurred in the past and now drastic action is required otherwise the assets, the environment and the quality of life on Norfolk Island will continue to deteriorate exponentially.