7.1 LATE REPORT: ADOPTION OF LONG TERM FINANCIAL PLAN FOR THE PERIOD 2017/18 - 2026/27

TRIM Ref: **D18/100333**

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Attachments: **1. DRAFT City of Vincent Long Term Financial Plan 2018 19 -2027 28**

RECOMMENDATION:

That Council:

1. **ADOPTS the Long Term Financial Plan for the period 2018/19 – 2027/28 as per Attachment 1;**

2. **AUTHORISES the Chief Executive Officer to forward the City of Vincent Long Term Financial Plan to the Department of Local Government and Communities; and**

3. **COMMENCES the Review of the Long Term Financial Plan in December 2018 as a pre-cursor to the 2019/20 Annual Budget Process.**

PURPOSE OF REPORT:

To consider the adoption of a Long Term Financial Plan (LTFP) for the period 2018/19 – 2027/28 as part of the City's Integrated Planning and Reporting Framework (IPRF).

BACKGROUND:

As part of the IPRF, all local governments in Western Australia are required to have developed and adopted a "plan for the future", comprising at a minimum of a Strategic Corporate Plan and Corporate Business Plan. Supporting these plans are a number of informing documents which include the:

- Workforce Plan;
- Asset Management Plans; and
- Long Term Financial Plan.

The LTFP is a key component of the City's integrated planning framework and will enable the City to set priorities, based on the resourcing capabilities for the delivery of short, medium and long term priorities.

The City's current LTFP was adopted on 22 August 2017. Administration has comprehensively reviewed the LTFP in order to reflect the current economic and financial environment in which the City is operating and to ensure its alignment to the City's recently adopted Corporate Business Plan 2016/17 – 2019/20.

DETAILS:

The LTFP is a 10 year rolling plan that is used to activate priorities in the Strategic Community Plan. The outcomes from this will ensure that the City's annual budgets are aligned with the strategic objectives of the City.

The LTFP provides an indication of a local government's long term financial sustainability and allows early identification of financial issues and their longer term impacts, shows the linkages between specific plans and strategies and enhances the transparency and accountability of the Council.

Further details relating to the LTFP are discussed in **Attachment 1.**

CONSULTATION/ADVERTISING:

The LTFP is an internal planning tool used to support the City's broader strategic planning framework and in particular the Strategic Community Plan. As part of the current project to finalise a new Strategic Community Plan, the City undertook the largest community engagement exercise in the City's history. This engagement exercise has informed the City's strategic planning for the next 10 years.

LEGAL/POLICY:

The Long Term Financial Plan is a significant component in requirements of the regulations for the Plan for the Future under the *Local Government Act 1995*.

RISK MANAGEMENT IMPLICATIONS:

Medium: The Long Term Financial Plan will be used for planning future annual budgets and assessing the future financial sustainability and therefore it is important that the estimates are based on the appropriate and relevant assumptions.

In preparing long term estimates there is a risk that the assumptions on which the estimates are based do not hold true over time and this will impact on the outcomes forecast in the plan.

STRATEGIC IMPLICATIONS:

The Long Term Financial Plan is an integral part of the suite of documents that support the City's Strategic Community Plan.

Strategic Plan Community Plan 2013 -2023, Plan for the Future.

"4.1.4 Plan effectively for the future:

(a) Review and update the City's Long Term Financial Plan to ensure the long term financial sustainability of the City."

SUSTAINABILITY IMPLICATIONS:

Not applicable.

FINANCIAL/BUDGET IMPLICATIONS:

The Long Term Financial Plan will assist in the preparation of future Annual Budgets for the Council.

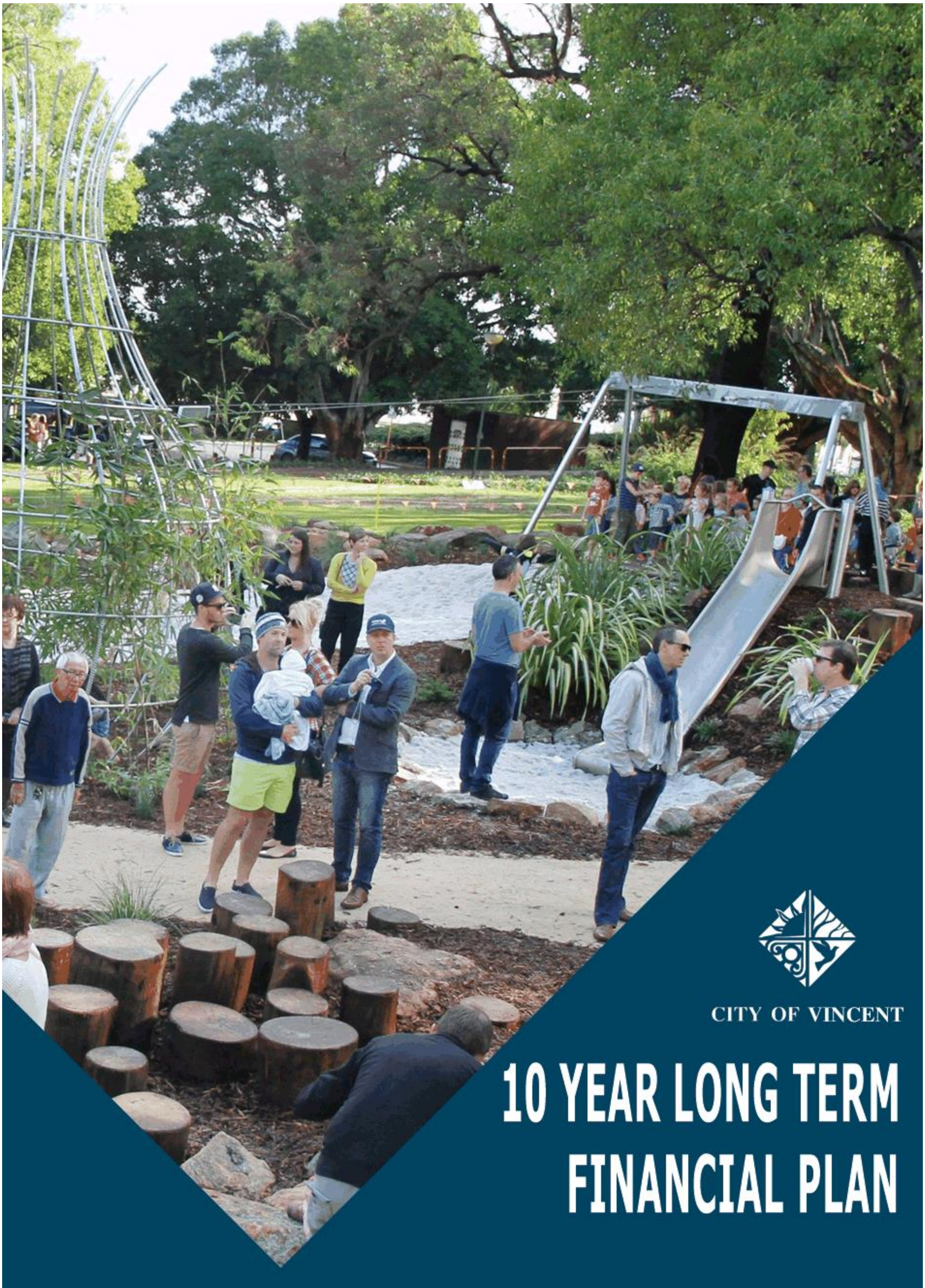
COMMENTS:

The LTFP is an important planning tool to demonstrate the capacity of the City to deliver on its strategies over the longer term. While it is based on a range of assumptions and strategies considered reasonable at the time of development, it does not provide a commitment from the City to undertake all the plans envisaged at this time. The financial and economic assumptions made, particularly over the longer term (years four to ten) may change and the demands of the community may vary. Hence, annual reviews of the LTFP are essential to ensuring it remains relevant and useful as a planning tool.

This LTFP provides a reasonably positive outlook over the 10 years of the plan particularly after 2020/21. The Key Financial Indicators generally improve over time and meet or move towards meeting industry benchmarks over the life of the plan.

However it is noted that there are a number of major projects that are yet to have defined costs or budgets allocated, as well as an inadequate capital management plan to underpin assumptions made in the plan. Over time, this information will firm up and provide a more robust set of financial plans for the City.

As a consequence of the proposed formalisation of the City's budgeting process and developments in the City's asset management plans in the first half of the 2018/19 financial year, the LTFP will be reviewed in the last quarter of 2018 to ensure it is relevant and useful as an input to the budget process for 2019/20.



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10 YEAR LONG TERM FINANCIAL PLAN

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10 YEAR LTFP 2018/19 - 2027/28

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1. EXECUTIVE SUMMARY

The Long Term Financial Plan (LTFP) is an important planning tool to demonstrate the alignment between the City's organisational capacity and Council's strategic aspirations developed in conjunction with the community. The plan considers the impact of a range of financial strategies on the City of Vincent's economic environment over a ten-year horizon.

There is a legislative requirement for local governments to have adopted a LTFP and to review it annually. This LTFP has been developed recognising that the following factors are likely to impact the 2018/19 review:

- the review of the Strategic Community Plan conducted in 2018, which established the aspirations of the community and Council priorities and strategies for the subsequent 10 years; and
- the City's developing, yet still incomplete understanding of the asset renewal requirements across all asset classes to meet acceptable levels of service, and the financial implications of implementing the necessary maintenance renewal and upgrade programs.

Its development is based on a range of assumptions and strategies considered reasonable at the time of developing the LTFP. However, it is not a commitment or guarantee that the assumptions will prevail, or economic environment remain aligned, demonstrating the importance of annual reviews.

The LTFP benefits from ongoing improvements in budget processes and rating strategies, generally enhancing confidence in forecasts and financial capacity. In addition, it recognises a major positive factor in the City's financial position over the longer term is generated by the increasing population, which in turn is anticipated to deliver a 1.8% growth in the rate base annually. Fortunately, this growth is not anticipated to require to be matched with a corresponding increase in facilities and services, thereby delivering a net improvement to the City's operating position over time.

Whilst the City is undertaking substantial work compiling condition data on the assets under its control and stewardship, the LTFP recognises that increased funding needs to be allocated to capital renewal of assets. Over the life of the LTFP, that funding increases to be closer to the level that matches annual depreciation, thereby achieving the Department of Local Government, Sport and Cultural Industries' (the Department of Local Government) target standard for the Asset Sustainability ratio.

Despite this, it is noted that the overall condition of the City's assets, as demonstrated by the Asset Consumption ratio depicts a slightly declining condition in the period immediately prior to this plan, but this is thought to be primarily in the Buildings asset class. This view is however formed purely on a financial ratio derived from the values and asset condition information currently available. This reinforces the need for an ongoing, improved understanding of the physical condition of the assets.

Overall, the LTFP provides a relatively positive forecast, including substantial improvement in funding the renewal of infrastructure and property, plant and equipment. Ideally, the City would benefit from generating a stronger unrestricted cash position in the earlier years of the plan. Any windfall gain could be used also to increase discretionary Reserves over the life of the plan to provide some degree of resilience to meet future financial challenges.

This plan provides a sound financial foundation, but it is one that can and should be enhanced through effective treasury management and timely leadership interventions to strengthen the City's financial position in future iterations of the plan and to ensure reliable delivery of services to the community.

Review of the Long Term Financial Plan will occur from December 2018 to inform the 2019/20 Annual Budget development process.

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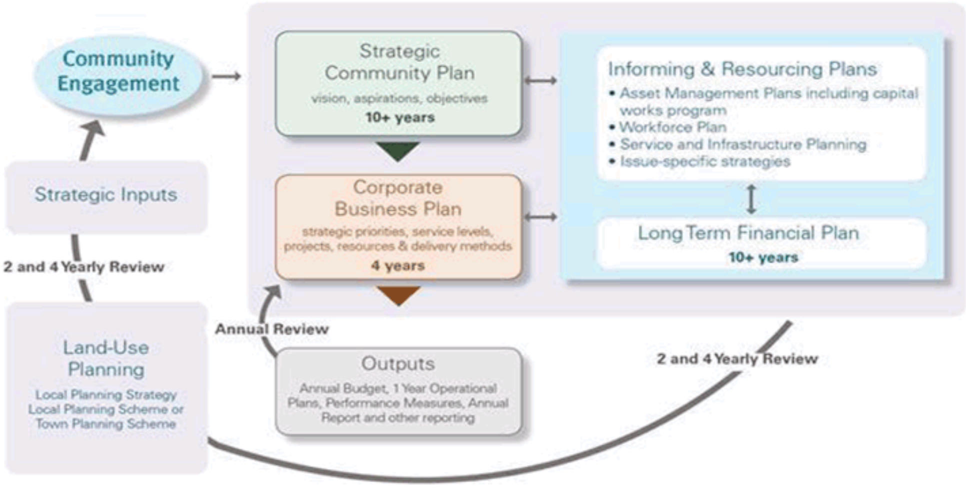
2. INTRODUCTION

2.1 Integrated Planning and Reporting Framework

In 2010, the Integrated Planning and Reporting Framework (IPRF) and Guidelines were introduced in Western Australia as part of the State Government's Local Government Reform Program. This was supported by amendments to the *Local Government (Administration) Regulations 1996*, which came into effect on 1 July 2013 requiring all local governments to have developed and adopted a Strategic Community Plan (SCP) and a Corporate Business Plan (CBP) - supported and informed by resourcing and delivery strategies. These plans are intended to drive the development of each local government's Annual Budget and through a process of continuous improvement local governments should be better able to plan for and meet the needs of their communities.

In essence, the IPRF is a process designed to:

- Articulate the community's vision, outcomes and priorities
- Allocate resources to achieve the vision, striking a considered balance between aspirations and affordability
- Monitor and report progress



Core Components of the IPRF

Strategic Community Plan	Community vision, strategic direction, medium and longer term priorities and resourcing implications over 10+ years.
Corporate Business Pan	Four-year delivery program, aligned to the SCP.
Long Term Financial Plan	Long term financial plan to deliver the SCP strategies and CBP actions.
Asset Management Plans	Approach to managing assets to sustainably deliver chosen service levels.
Workforce Plan	Shaping workforce to deliver organisational objectives now and in the future.
Issue or Area Specific Plans	Any other informing plans or strategies (eg ICT, recreation plans, youth plan, local area plans etc).
Annual Budget	Financial statements, year 1 priorities and services

The Long Term Financial Plan, Asset Management Plans and Workforce Plan are referred to collectively as the "core" informing strategies.

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IPRF Cycle

The Integrated Planning and Reporting Framework is cyclical. Nominally, it begins with community visioning, which forms the front end of the SCP, containing the community's aspirations for the long and medium term.

Long Term

Minimum ten-year horizon. The SCP and LTFP both operate within this time period and ensure capacity to deliver on the vision. Both are regularly reviewed as detailed below to ensure ongoing relevance.

Medium Term

The short to medium term priorities are detailed in the CBP. The first four years of the LTFP are updated accordingly and final changes made to the SCP, Asset Management Plans and Workforce Plan if and as required. It is a highly iterative process as the SCP, CBP and core Informing Strategies ideally settle together and fully integrate.

Annual Cycle

The next part of the cycle is the annual cycle. It consists of the Annual Budget, monitoring its implementation, and the Annual Report. The Annual Budget is based on the relevant year's work program and financial year in the CBP and LTFP. The CBP and LTFP are rolling plans and also updated annually, within the context of the SCP.

Each year the CBP is updated and reviewed. As both progress, significant revisions are recorded in the Annual Report. The LTFP is also reviewed, with an additional year added so that the plan always reflects a yen year model.

Strategic Review

Every second year, the process enters the Strategic Review phase. The strategic review alternates between the minor and major versions. The minor version is generally a desktop review process and tends to focus on resetting the Corporate Business Plan. The major review involves re-engagement with the community on vision, outcomes and priorities, and a comprehensive review of the whole IPRF suite.

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2.2 Planning for Financial Sustainability

The Long Term Financial Plan (LTFP) is the link between the aspirations and resourcing needs contained in each of the other framework documents and the City's financial resourcing capacity. It should allow the City to proactively identify potential future financial challenges or distress so that it can develop and implement timely remedial strategies and future funding plans.

This is particularly important to ensure that the community is not adversely impacted by service delivery constraints or a significant deterioration in the condition of community infrastructure in future years. Through the long term financial planning process, a local government can determine if it is meeting both the current and long term needs of its community in a financially responsible manner.

The Department of Local Government has developed an Advisory Standard to provide guidance to local governments to assist them through a process of continuous improvement in integrated planning activities and to allow them to assess their financial performance against industry benchmarks. The Advisory Standard includes a series of key financial indicators (KFI), which are assessed as either:

- not being met
- meeting a basic standard
- meeting an intermediate standard
- meeting an advanced standard

This ten-year LTFP may indicate circumstances where deviation away from the standards occurs, but this deviation may nonetheless be supported where it is believed that the greater benefit of the community can be achieved in what the City considers to be a financially sustainable manner over the longer term.

2.3 Strategic Community Plan (SCP)

The Strategic Community Plan outlines community long term (ten year) vision, values, aspirations and priorities, with reference to other local government plans, information and resourcing capabilities. A major review of the City's SCP was undertaken in 2017/18. This resulted in the identification of a number of strategic priorities that have been drawn from the feedback received from our community, and reflect our past, present and future. No one priority is more substantial than another; each works in concert with the others to deliver on our community's overall Vision.

Our priorities for 2018 to 2028 are detailed below:

Enhanced Environment

The natural environment contributes greatly to our inner-city community. We want to protect and enhance it, making best use of our natural resources for the benefit of current and future generations.

Accessible City

We want to be a leader in making it safe, easy, environmentally friendly and enjoyable to get around Vincent.

Connected Community

We are a diverse, welcoming and engaged community. We want to celebrate what makes us unique and connect with those around us to enhance our quality of life.

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Thriving Places

Our vibrant places and spaces are integral to our identity, economy and appeal. We want to create, enhance and promote great places and spaces for everyone to enjoy.

Sensitive Design

Design that 'fits in' to our neighbourhoods is important to us. We want to see unique, high quality developments that respect our character and identity and respond to specific local circumstances.

Leadership and Governance

The City of Vincent has a significant role to play in supporting our community to realise its vision. To achieve this, we will be an innovative, honest, engaged and responsible that manages resources well, communicates effectively and takes its stewardship role seriously.

With the completion of the new community led 2018 - 2028 Strategic Community Plan, the City's financial planning, asset planning and service delivery focus will now be directly informed by this important strategic document from 2018/19.

2.4 Long Term Financial Plan (LTFP)

The ten-year Long Term Financial Plan is the high-level strategic document that helps align our community aspirations, strategic intent and organisational capacity. It guides our approach to delivering infrastructure and services to the community and demonstrates our commitment to managing our operations in a responsible and sustainable manner. The plan achieves this objective by projecting our financial position over a ten-year time horizon using a series of realistic, conservative financial assumptions.

This financial modelling provides the City with appropriate information to assess our capacity to maintain overall financial sustainability into the long term and, most importantly, ensure that we have in place the necessary funding arrangements to support proposed capital replacement programs and new capital projects.

The Long Term Financial Plan is underpinned by the following principles:

- alignment with strategic aspirations
- responsible stewardship of community assets
- financial sustainability
- financial accountability
- prudence
- transparency

Responsible stewardship of community assets is one of the City's most important responsibilities. Through careful planning, effective asset management and timely maintenance interventions, we can ensure that our infrastructure such as roads, paths, drainage networks, parks and streetscapes will continue meet community needs into the future. This responsibility also refers to planning so that community buildings and facilities, technology and equipment are well maintained and fit for purpose into the future.

Financial sustainability refers to how the LTFP ensures the protection of the City's assets and financial capacity over the medium to longer term and how it mitigates risk to the community's assets. The plan assumes a balanced budget philosophy each year, inclusive of transfers to Reserves to help build the City's financial capacity and resilience.

Financial accountability refers to how the City demonstrates that it delivers best value outcomes from use of its resources, whether they be financial, equipment or people. Through rigorous forward planning to inform decision making, effective monitoring and transparently discharging accountability for the use of those resources, the City can ensure that the community enjoys best value from our operations.

Prudence refers to the sound financial judgement that is applied in developing the LTFP by basing it on information and assumptions reasonably known or understood at the time of preparation. Estimates are developed conservatively and based on the best available information at the time. Where strategic projects such as master planning exercises are listed in the CBP, results and recommendations will be considered for inclusion in future iterations of the CBP and LTFP.

Transparency refers to the LTFP fully disclosing the modelling assumptions and other relevant supporting information that is used to build the plan's financial schedules. This allows objective assessment of the modelling assumptions and, therefore, the validity of the model.

2.5 Asset Management Plans (AMP)

Local governments are custodians of a significant value of community assets including infrastructure assets, buildings, plant and equipment and land. Currently, the City has responsibility for planning for the maintenance, renewal and upgrade of approximately:

- $130M worth of Infrastructure Assets (roads, paths, drainage network, parks and car parks),
- $165M worth of Community Buildings and Facilities
- $8M worth of Plant and Equipment
- $128M worth of Land Assets

Given the significant value of these assets and the need to ensure that they are well maintained and fit for purpose into the future, asset management is an important strategic responsibility of the City.

To inform decisions regarding these assets, local governments are required as part of the integrated planning and reporting framework to develop and maintain Asset Management Plans (AMP) which contain information about each asset class including:

- a catalog of the individual assets by asset component (as different components of a road or drainage system may have differing useful lives and replacement needs); and
- an assessment of the condition of each asset component

This information is then used to develop renewal models which help predict when each asset or asset component needs to be renewed, so that Council may then allocate its available funding based on an informed understanding of the highest priorities.

It also allows the City to evaluate the funding that it is providing for each asset class for renewal and upgrade relative to what the asset management planning is indicating should be required to maintain the assets at an appropriate standard. It can then proactively identify these future funding needs and can initiate strategies to ensure that the funding will be available when required in future years. This action is important to avoid deterioration of community assets and to alleviate the harsh rates fluctuations in individual years resulting from the need to respond to unanticipated asset failures.

The modelling may also identify where an asset class is perhaps being over-maintained, meaning that funds may be able to be re-deployed from that asset group to another more needy asset class to maximise the benefit from each dollar spent on asset renewal.

Further discussion in relation to asset management planning in the City of Vincent context can be found at Part 4 - City of Vincent LTFP Planning Context.

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3. CITY OF VINCENT - LOCAL CONTEXT

3.1 About the City of Vincent

Vincent is a vibrant and diverse inner city community, containing within its boundaries a varied and rich history stretching back long before the settlement of the Swan River Colony. The City is situated immediately north of the City of Perth and is bordered by the City of Stirling to the north, City of Bayswater to the east and Town of Cambridge to the west.

Since settlement, much of Vincent's rich heritage stems from the 1890s and 1900s when many community buildings were established, and North Perth emerged as a suburb in its own right. Development was rapid in Leederville and North Perth. In 1895, the section of the Perth Roads Board area covering North Perth, Leederville and West Leederville were gazetted Roads Boards, with Leederville becoming a municipality a year later and North Perth in 1901.

In 1914 the Councils of Perth, North Perth and Leederville agreed to the union of the three municipalities, which took effect on 22 December 1914. This structure remained until 1 July 1994, with the restructure of the City of Perth, creating three new local governments: the Towns of Vincent, Cambridge and Shepparton (now Victoria Park), plus a smaller City of Perth. Commissioners were appointed until elections were held in May 1995. Having met the requirements to be designated a City, on 1 July 2011 the Town became the City of Vincent.

Although only relatively new as an independent municipality, within its boundaries Vincent holds a rich and varied history. It is a place of cultural diversity with residents whose origins lie in places like Europe and Asia, and 43% of whom were born overseas.

There is more than a hundred years of built history and heritage within the boundaries of the municipality and as inner city living has become ever more popular, there has been a growing demand for new development and infill, and old and new can now be seen side by side in Vincent's leafy suburbs. With the increasing popularity of inner city living, the City's shopping precincts have expanded and become popular café strips for residents and visitors alike.

The City's population has steadily increased and developed into a rich melting pot of cultures, which has contributed to its unique diversity. But the City has remained passionate about preserving and expanding green space for the enjoyment of residents and ratepayers, and our parks and reserves provide vital oases dotted throughout the City.

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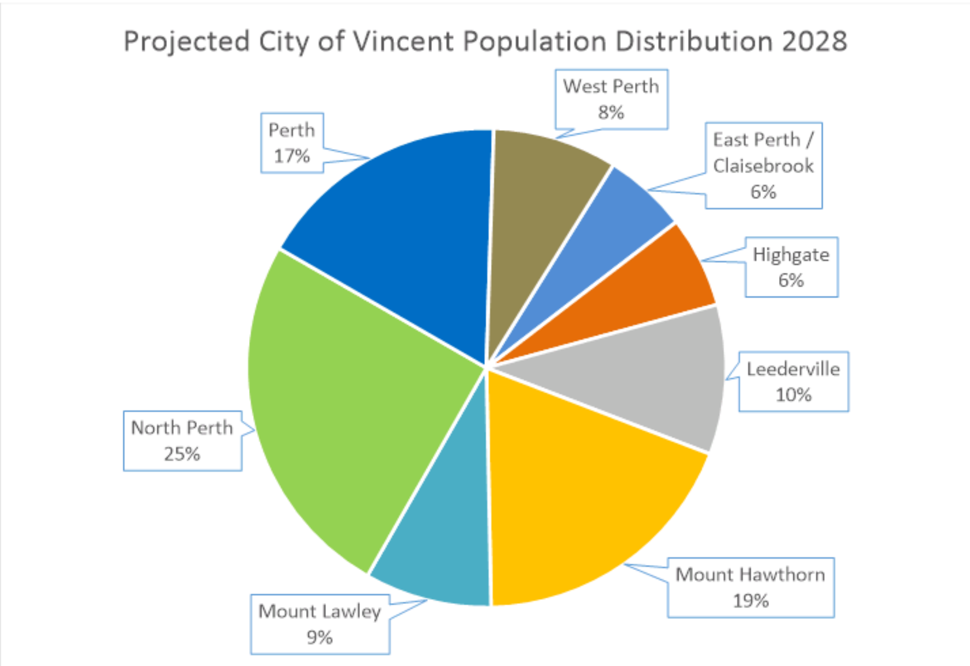
3.2 *Table 1 - Key Statistics*

	30 June 2018	30 June 2028 Forecast
Population	36,880	46,177
Ratable Properties	18,851	19,207
Number of Dwellings	18,810	21,812
Number of Electors	23,909	24,100
Number of Council Employees	231.9 FTE	259.3 FTE
Total Rates Levied	$32.94M	$50.46M
Total Operating Revenue	$52.28M	$77.36M
Number of Council Members	Mayor and eight Council Members	
Distance from Perth City	3km from Perth GPO	
Area	11.3 square km	
Area of Parks and Gardens	106.4 hectares	
Length of Roads / Rights of Way	181 km	

3.3 *Table 2 - Demographic information - Overview*

	2018 Actual	2028 Forecast
Median Age Band	30 - 34 years	30 - 34 years
Gender - Male	51.2%	51.1%
Gender - Female	48.8%	48.9%
Average Household Size	2.23	2.23

The suburban distribution of the population in shown below.



More detailed discussion of the City's demographic profile and population trends is provided In **Appendix A.**

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3.4 Mission and Values

Our Purpose

To provide and facilitate services for a safe, healthy and sustainable Vincent community.

Our Values

The following values guide us towards the achievement of our purpose.

Caring and Empathy

We are committed to the wellbeing and needs of our employees and community and value each other's views and contributions.

Excellence and Service

We aim to pursue and deliver the highest possible standard of service and professionalism to the Vincent community.

Honesty and Integrity

We are honest, fair, consistent, accountable, open and transparent in our dealings with each other and are committed to building trust and mutual respect.

Innovation and Diversity

We encourage creativity, innovation and initiative to realise the vibrancy and diversity of our vision.

Teamwork and Commitment

Effective teamwork is vital to our organization and we encourage co-operation, teamwork and commitment within and between our employees and our business partners and community.

3.5 Services

The City provides an extensive range of services to the community, including:

- Building and planning approvals
- Rangers and community safety
- Environmental health services
- Management and operation of community facilities
- Library services
- Community development and community capacity building
- Aged care and senior citizens initiatives
- Child health facilities
- Festivals and community events
- Maintenance of community infrastructure including roads, paths and drainage systems
- Maintenance of parklands and streetscapes
- Maintenance of sportsgrounds and active recreation areas
- Natural bushland and environmental initiatives
- Waste management
- Economic development
- Advocacy on behalf of the City of Vincent community
- Leadership and governance activities.

In developing the ten-year Long Term Financial Plan, the City has carefully considered the resource and funding requirements necessary to deliver ongoing services and programs, statutory and governance activities, asset network renewal expenditures and opportunities for major discretionary capital expenditure initiatives.

To achieve this, the City has necessarily assumed the continuation of the current range of services and continuation of the existing service levels across the next ten years, notwithstanding that any future review of services or creation of a service plan to inform resourcing decisions may result in some adjustments to the catalogue of services, the associated service levels or service delivery

4. CITY OF VINCENT - FINANCIAL PLANNING CONTEXT

The major elements to be considered in the long term financial planning exercise are:

- Operational service delivery
- Asset renewal / upgrade and new
- Discretionary capital projects

In the LTFP context, operational service delivery refers to developing the funding model that ensures that planned services to our community can be consistently and reliably delivered to an agreed standard across the ten years of the plan. Asset renewal planning refers to ensuring that an appropriate level of funding is provided to maintain infrastructure assets to an appropriate standard through timely intervention / maintenance across the life of the plan. When modelling the LTFP, upgrade of assets usually refers to major enhancements to community buildings and facilities. The last element listed above, discretionary capital projects, refers to major new projects that may emerge through master planning exercises such as major streetscape enhancements or commercial precinct enhancements.

The City of Vincent has performed the financial planning associated with its operational service delivery robustly in the past with the result being that services and service levels have been appropriately and responsibly funded and the community has generally enjoyed reliable, value for money services.

In the revision of the LTFP, the City initiated or continued several measures aimed at reducing operational expenditures (without impacting on service levels) including acquiring leased equipment outright upon cessation of operating leases, more actively managing the recovery and reimbursement of expenses and variable outgoings associated with leased properties and introducing photovoltaic cells to reduce power costs into the future. This proactive approach is expected to continue in the future with regular monitoring of the economic environment, changing community demographics or new / emerging service delivery models being used to refine the operational financial planning model so that best value outcomes are achieved.

Until recently, the City's long term financial planning in relation to asset renewal and upgrade has not reflected the level of rigour or sophistication that the Integrated Planning and Reporting Framework would anticipate, or that our community may expect.

Incomplete or unreliable asset datasets (particularly in relation to asset condition) and the absence of strategically focused Asset Management Plans has hampered better practice financial planning for renewal or upgrade of City assets. Consequently, investment decisions may have not been strategically prioritised or optimally informed. Funding allocations may have potentially been reactive and ad-hoc rather than strategically planned. The challenge that this has presented is that funding allocations associated with significant future asset renewal or upgrades may not be available when needed.

The intent of responsible and sustainable financial planning for assets renewal is that these future funding needs are identified well in advance, allowing financial strategies to be put in place to generate the required funding. It also provides objective evidence of whether the City has been investing adequately in asset renewal and upgrade. It has now been recognised that the City's ratio of renewal versus new asset investment in the past has been skewed to the detriment of renewal of some asset classes, particularly community buildings and facilities.

Having recognised and acknowledged these matters, the City will be progressing a program to enhance the asset datasets (particularly condition data) to inform the creation of strategically focused Asset Management Plans. In the interim, the City has used its projected asset renewal ratios to determine an appropriate monetary amount to allocate to asset renewal in each future year of the plan. As the asset data becomes available, the allocations for each asset class will be strategically prioritised to the extent of that allocation. When more sophisticated AMPs are finalised they may, in later years, drive the funding allocation requirement based on asset condition / risk management data.

Given the preceding comments in relation to asset renewal funding relative to discretionary capital project funding, the development of future LTFPs will require that a proposed funding model is developed for each major discretionary project showing the indicative anticipated contributions from each funding source - municipal funds, grants, loan borrowings and reserve funds before the project is considered for inclusion in the plan modelling.

Ideally, these projects should be placed indicatively on the City's LTFP financial model to provide evidence that these initiatives can be funded and delivered in future years. However, such an inclusion is to allow informed financial planning and resource allocation decisions. A discretionary capital project proposal still does not automatically proceed in the nominated year, and it would be the subject of appropriate future Council deliberations and community consultation before any decision is made. It does mean however, that should a decision be made to proceed, that funding has been provided to support that project.

Where a major renewal or discretionary capital project is known but is yet to be quantified, or cannot be currently accommodated within the available funding pool, it will be acknowledged in the LTFP narrative and may be considered in future revisions of the plan. This will help in prioritisation of these projects as new projects emerge in later years.

Discussion on the City's projected financial position and funding allocations across the ten years of the plan is provided at Part 7 - Financial Overview.

5. LTFP MODELLING

5.1 Informing strategies and modelling information

The LTFP uses the annual financial statements and annual budget to reflect the current financial position of the City then builds on this base with future information relating to:

- Asset Management Plans for land, roads, paths, parks, drainage and buildings
- Workforce Planning
- Strategic Community Plan initiatives
- Corporate Business Plan initiatives
- Long term technology capital budget (yet to be developed)
- Plant replacement programs
- Assumptions regarding the proposed catalog of services and service levels
- Discretionary capital revenue projections
- Capital project plans and proposals
- Anticipated government grants and subsidies

The informing strategies and modelling information is also supplemented by state and federal government forecasts in relation to CPI, wage indexes and government charges such as utilities. Each of these sources of LTFP modelling information is reviewed annually and assessed for reasonableness.

5.2 Qualifying comments - assumptions and strategies

It should be noted that the LTFP is a high-level strategic document that is used to assist in planning for the future and aligning our community aspirations, strategic intent and organisational capacity. As such, it is primarily intended for use as a planning tool to identify funding challenges and allow proactive interventions.

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The plan is necessarily based on a number of financial assumptions relating to the anticipated movements in both revenues and expenditures, the anticipated timeframes for cash flows into and out of the organisation and expectations of the continuation of existing funding initiatives by both commonwealth and state governments.

Included in the financial assumptions are anticipated movements in the consumer price index, wages growth and interest rates as they relate to both investment returns and borrowing costs. Unanticipated changes in any of these parameters - or indeed in government policy directions, are likely to have an impact on the financial modelling.

Indicative funding or cost estimates included in this plan may relate to broad proposals that:

- have been approved by Council and are in progress
- have been considered by Council but have yet to be given final approval to proceed
- have only been considered by Council at a strategic or conceptual level
- have only been considered by City Administration officers
- are operational in nature and based on the continued delivery of existing services
- are operational in nature and relate to the maintenance of City assets in accordance with management plans and maintenance plans.

Any assumptions in relation to the financial modelling parameters, projects or service proposals may subsequently be shown to be less than fully accurate in respect to likely funding requirements, timing or financial estimates - or they may not eventuate at all. However, the Long Term Financial Plan is prepared on a basis of the best available information and knowledge to hand and it is subject to ongoing review and revision.

Adoption of the Long Term Financial Plan by Council does not constitute an irrevocable commitment to any particular project or service, nor to its timing. Similarly, it does not preclude the possible subsequent inclusion of further initiatives in future years if the financial modelling and strategic direction of Council indicate that it could be supported without adversely impacting on the City's financial sustainability.

5.3 Modelling Assumptions & Parameters

There are a number of financial parameters used in modelling this LTFP. Detailed below is some commentary to help readers of this plan understand the assumptions underpinning the financial model. Figures used in the financial model are based on present conditions or known factors and the forward projections allow for known significant legislative changes. The primary modelling assumptions / parameters are:

Rates
Rates are modelled using an estimated 2% increase plus the historical 1.8% growth in the property base through interim rating from infill development. The 2019/20 year also includes an additional 1% increase necessary to address a funding shortfall in that year. A small revaluation premium may be realised in the years when Landgate (Valuer General's Office) provides new gross rental values (GRV) for all properties in the City.

Operating Grants
Operating grants are modelled based on the base year (adjusted for previous year advance payments) which are then indexed by a 2% base.

Fees & Charges
Fees and charges are modelled using an estimated 2% increase on the base (previous) year.

Other Revenue
These revenues are modelled using an estimated 2% increase on the base (previous) year.

Non Operating Grants & Subsidies
Non operating grants are modelled using the base year as a representative or typical year and the balances are then indexed by an anticipated 2% increase.

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Employee Expenses
These expenses are modelled using the base year which is then indexed by known EBA increments. Where known or expected changes in staff establishment are able to be reliably estimated using the Workforce Plan, they have been incorporated into the model.

Materials and Contracts
These expenses are modelled using an estimated 2% increase on the base (previous) year other than specifically known increases and changes. Adjustments have been made for expenses that recur only in certain years (such as election expenses).

Utilities Expenses
Typically, these expenses have increased at a rate of at least twice the rate of CPI - particularly in relation to electricity which represents the majority of this expenditure classification. However, anticipated savings from the City's 2018/19 investment in photovoltaic cells on the four City buildings that represent the bulk of our current power requirements, allows this cost category to be modelled at anticipated CPI plus only a small premium.

Insurance Expenses
In the absence of better forecasting data, these expenses are modelled using an estimated 2% increase on the base (previous) year.

Other Expenditure
These expenses are modelled using an estimated 2%l increase on the base (previous) year.

Capital Expenditure
Capital expenditure is modelled to progressively move the City's investment in renewal expenditure on its infrastructure assets and property, plant and equipment from its current modest levels to levels that may approach local government key financial indicator benchmarks. This means that the City may need to consider its project management capability and / or the outsourcing of some major project delivery in future years to achieve this target.

Capital Revenue - Tamala Park Land Sale Proceeds
These are modelled from information in the Tamala Park Regional Council long term financial plan. Funds are transferred into the Tamala Park Regional Council Reserve and then drawn down to support proposed asset renewal projects each year.

5.4 Acknowledged but excluded future projects

In developing the LTFP it is recognised that there are several major discretionary capital projects that may be expected to occur within the life of this plan, but which have yet to be assigned timelines or funding models. Because these are likely to generate significant capital expenditure proposals in future years but are not currently financially modelled, it is considered prudent that they are acknowledged only in the LTFP narrative at this time, pending the development of indicative preliminary cost estimates and funding plans so that they may be modelled in future revisions of the plan.

The most significant of these projects are:

- Beatty Park Leisure Centre Strategic Review
- Leederville Oval Master Plan
- Implementation of the Waste Management Strategy

In a similar vein, it is acknowledged that there are 'master plans' that have been developed in conjunction with the community for certain precinct projects. To this point, these are considered conceptual in nature for financial planning purposes as there are no firmly costed proposals associated with the plans.

The most significant of these master plans are:

- Public Open Space Strategy
- Banks Reserve Master Plan
- Axford Park Master Plan

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Proposals to make prudent allocations of funding to Reserves in future budgets to provide some funding towards these discretionary capital projects will be considered for inclusion in the next revision of the LTFP. However, it is important to recognise that addition of further proposals or promotion of priority of any of these projects will require a critical review and re-assessment of these acknowledged but currently unfunded project proposals.

6. LTFP FINANCIAL STATEMENTS

6.1 Primary Financial Statements

The published version of the ten-year Long Term Financial Plan is presented as a suite of summarised financial statements:

- FS1 - Statement of Comprehensive Income by Nature and Type
- FS2 - Statement of Funding (Rate Setting Statement)
- FS3 - Statement of Cash Flows
- FS4 - Statement of Net Current Asset Position
- FS5 - Statement of Financial Position
- FS6 - Statement of Change in Equity

An explanation of the purpose of each of these statements is provided below.

FS1 - Statement of Comprehensive Income

This financial statement includes estimates of all revenues and expenditures that are included in the operating (normal day to day) activities of the City. This also includes non-cash items such as depreciation as well as interest payments on loans. It excludes repayments of loan principal, proceeds from loan borrowings and capital expenditure items - those are all reflected in the aggregated Rate Setting Statement FS2. It also allows for estimated (book entry) movements in the value of the City's non-current assets.

Information from the Income Statement is used to calculate the Operating Surplus Ratio which is one of the statutory measures of financial sustainability.

FS2 - Statement of Funding (Rate Setting Statement)

This important statutory financial statement includes estimates of all operating and non-operating revenues and expenditures as well as repayments of loan principal, proceeds from loan borrowings, capital expenditure items and transfers to or from cash backed reserves. It does however, exclude all non-cash items.

The purpose of the statement is to demonstrate the calculation of the amount of rates expected to be required to fund the budget each year.

FS3 - Statement of Cash Flows

This financial statement demonstrates the projected impact on the overall cash position of the City of the planned financial transactions. It is derived from the Operating Position which is then adjusted for the impact of the non-cash transactions and non-operating items.

FS4 - Statement of Net Current Asset Position

This financial statement contains projected balances for Current Assets (Cash, Receivables and Inventories) and Current Liabilities (Creditors, Provisions and Restricted Reserves) across each year of the plan.

It is used to calculate the Net Current Assets figure which is essentially the starting point for developing the Rate Setting Statement which determines the amount of rates required to fund the budget each year.

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FS5 - Statement of Financial Position

This financial statement demonstrates the impact of the proposals in the Long Term Financial Plan on the assets and liabilities of the City. The financial plan should indicate maintenance or improvement in the value of the City's Equity (Net Assets).

FS6 - Statement of Change in Equity

This financial statement recognises the impact on the City's Net Assets (Equity).

6.2 Supporting Schedules

There are numerous supporting schedules which provide financial inputs for the Long Term Financial Plan model. A number of these are internal working documents such as maintenance and replacement programs and are not reproduced in this document.

Supporting schedules (SS1 to SS3) included in this document provide details of major financial parameters that have been used to produce the 10 Year Long Term Financial Plan:

- SS1 - Funding Assumptions - Reserves
- SS2 - Funding Assumptions - Loans
- SS3 - Statement of Movements in Fixed Assets (Capital Expenditure by Asset Class)

6.3 Key Financial Indicators (KFI)

Key Financial Indicators required by the Department of Local Government Advisory Standard have been calculated from the data in the Financial Statements. Explanations of the Key Financial Indicators are provided at Section 7.3 of this plan.

There is no one indicator, or financial year, that can be used in isolation to judge the financial sustainability of the City. Spikes in indicators can occur for a number of reasons.

Table 3 provides a snapshot of the indicators and Section 7.3 of this plan provides commentary on the projected indicators and how they relate to the Advisory Standard.

In the Key Performance Indicator table (Table 3):

- GREEN indicates that the projected indicator exceeds the target
- AMBER indicates that the projected indicator is an intermediate achievement
- RED indicates that the projected indicator does not meet the target

The Key Financial Indicators required to be produced by all local governments can be collectively used to calculate a Financial Health Indicator (FHI) for individual local governments.

The FHI score can be calculated using future-focused data to enable local governments to project changes to the local government's financial position over the course of their long term financial plan.

This information assists local governments to have an informed dialogue with the community about affordable local government services and infrastructure as well as examining the impact of different scenarios on a local government's overall financial health.

6.4 Loan Borrowings

Loan borrowings are a part of a balanced funding package and are included in the City's Long Term Financial Plan where appropriate. The City restricts the purposes for which City borrowings can be used. Acceptable purposes include funding major capital initiatives that deliver / enhance a City asset such as a community facility or initiatives that deliver the City a new recurring revenue stream or recurring cost saving.

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No new borrowings are included in the Long Term Financial Plan after 2019/20, but this option may subsequently be considered as part of a responsible funding strategy to provide additional flexibility in the later years of the plan.

Currently the City has outstanding loan borrowings of $14.89M with a further loan of $428,000 proposed for solar power initiatives at four major City buildings. This loan will be taken out in 2018/19 and is repayable monthly over 3 years. A residual balance of $1.0M after a $4.1M balloon payment on the Department of Sports & Recreation building in 2019/20 is also refinanced over 5 years at 2.42%.

The outstanding loan balance reduces to $8.95M in 2019/20 and then progressively declines to $2.18M in 2027/28.

There is a statutory financial ratio that relates to the use of debt as a funding option. This is included in the supporting schedules at Table1. Further information on Loans is provided in SS2.

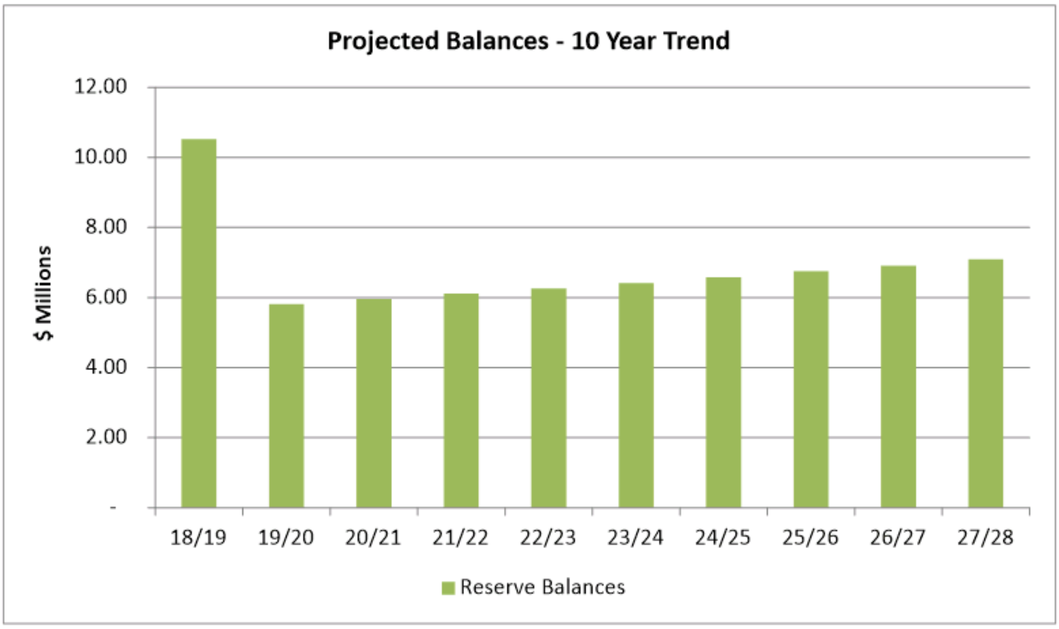
6.5 Reserves

Cash backed Reserves are used to accumulate funds for proposed major projects. They play an important part in the resourcing strategy underpinning the Long Term Financial Plan - helping to avoid the need for large or irregular rates movements in the years that the larger projects are delivered.

Discretionary Reserves are strategic in nature and are generally accumulated to provide funding for identified future major projects. These reserves may be funded by the proceeds of strategic land disposals or distributions from Tamala Park Regional Council or by appropriation from municipal funds.

Net proceeds from proposed strategic land disposals or distributions may be transferred into the Tamala Park Sales Reserve or the Asset Sustainability Reserve where they are held until required to support identified major capital projects. Other discretionary reserves may also be funded from municipal funds to provide for future replacements of items including plant and equipment, technology or reticulation systems or specific community facilities.

Chart 1- 10 Year Discretionary Reserve Balances



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7. COMMENTARY ON THE 2018/19 - 2027/28 LTFP

7.1 Overall commentary

The Long Term Financial Plan represents a financial commitment of around $745M dollars over the next ten years. These funds are applied to towards delivering a program of relevant services to our community whilst maintaining and renewing our infrastructure and creating new or upgraded community facilities that leave a legacy for our community.

The plan has been presented using a balanced budget philosophy. That is, whatever is proposed to be expended is fully funded by the funding options included in the plan. The financial modelling in the earlier years of the plan is necessarily more certain than the later years - but adequate flexibility is being incorporated into the later years of the plan to cope with new or emerging project opportunities.

In addition to continuing to deliver the comprehensive range of customer focused services and making commitments to maintain our community infrastructure, the City will be embarking on a program to create funding models to support some important major capital expenditure initiatives that are currently identified but not funded or included in the financial modelling The intention is to explore opportunities to fund these projects in future in a sustainable manner and without unreasonable impost on ratepayers.

The Long Term Financial Plan presents the optimum financial model to meet the City's financial needs over the next ten years in a way that works towards achieving the Key Financial Indicators that have been set as the benchmarks for local government to aspire to. Where an indicator may not be attained in a given year, the plan aims to present a responsible strategy to move the City towards the preferred industry benchmark. That is, the LTFP is a financial blueprint for the City's future.

Chart 2 - 10 Year Funding Mix by Source

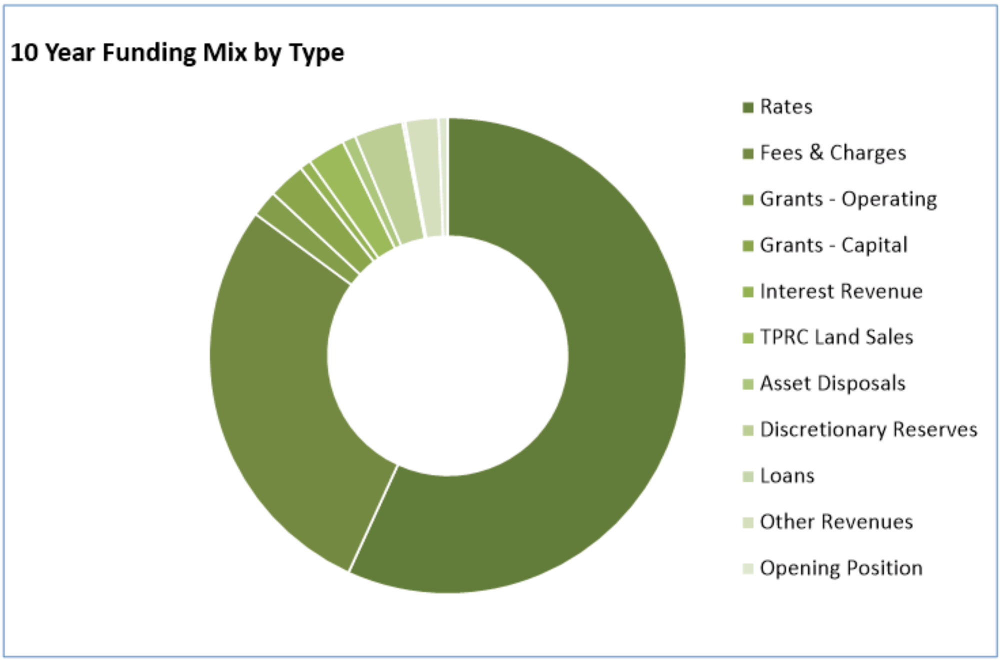
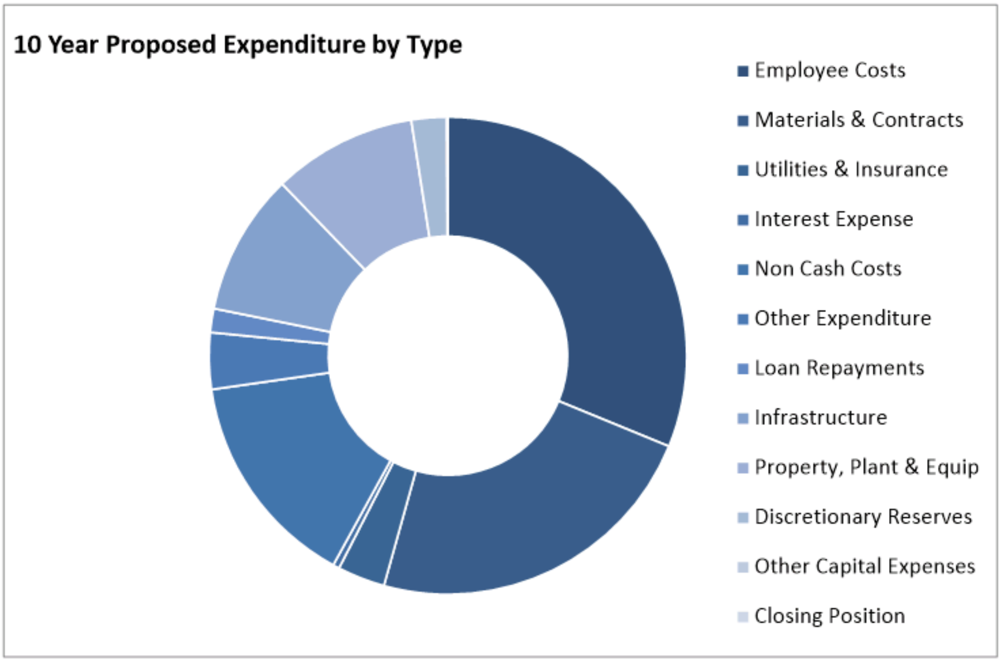


Chart 2 (above) indicates the respective contributions of the various different funding sources to the total funding mix over the ten-year period covered by the plan. The major elements of the funding model are rates (57%), fees and charges (28%), Reserves (4%), grants (4%), land disposals (3%), interest revenue (1%), opening balance (1%) and other sources (2%).

Over the life of the plan, funds will be applied towards meeting the costs of operational service delivery (premised on the existing range of services continuing at current service levels) as well as expenditure on infrastructure renewals, new community asset creation and debt servicing. This is shown below in Chart 3.

The proposed expenditure program reflects approximately 72% being applied to operational expenditure, 11% on infrastructure maintenance and renewals and 12% for property, plant and equipment. A further 2% is used for debt servicing. Fund uses described in Chart 3 (below) as Reserves (3%) reflect prudent allocations of municipal funding to Reserves until required and allocation of interest revenue earned on Reserve funds invested.

Chart 3 - 10 Year Proposed Use of Funds by Type



Analysing the cash expenditure by nature and type reveals that approximately 36% of cash expenditure relates to employee costs and another 27% to materials and contracts (operational and capital component), 3% to utilities and insurances, 2% towards loan servicing and 4% for other expenditure with 23% applied to capital expenditure and the remaining 3% going to Reserves.

The ten-year Long Term Financial Plan model reflects a responsible, balanced and sustainable financial strategy for the City. Funding sources and proposed expenditure have been carefully modelled to ensure ideas proposed can be realistically funded as and when required. The plan will of course be subject to ongoing monitoring, review and updating in future years.

7.2 Commentary on the Financial Statements

The financial statements contained within the Long Term Financial Plan reflect a responsible and sustainable financial blueprint for the City's future. The statements indicate a steady improvement in the City's financial position over the life of the plan and demonstrate progression towards meeting industry benchmarks for key financial indicators.

The Comprehensive Income Statement (FS1) focuses on revenues and operating expenses only. It reflects a tight financial operating environment in the early years of the plan before steadily improving in the mid-term to forecast a modest operating result, and a good one in the later years of the plan. All items shown on the Comprehensive Income Statement reflect growth in line with agreed financial indexing parameters (refer Section 5.3) with the exception of grants for the acquisition of assets which are modelled on realistic expectations for external contributions towards specifically identified capital initiatives. Results forecast on this financial statement are considered to be realistically modelled and are sustainable into the future.

The Statement of Funding (Rate Setting Statement) (FS2) demonstrates the calculation of the amount required to be raised from rates each year (after considering the contribution from all other funding sources excluding rates) and confirms that the proposed rates increases are both appropriate and sustainable over the life of the plan.

The Long Term Financial Plan endeavours to keep rate increases to the most responsible and sustainable levels using a 2% base plus the historical growth of 1.8% annually (exclusive of GRV revaluations).

The rate setting model used in preparing the financial plan represents an average annual rate yield increase of 3.8% - 4.0% (not the increase per property - but the total rates yield including growth through interim rating). This is the level required to ensure that the balance between the City's operational expenditures and its operational revenue generating capacity is maintained at a sustainable level - as reflected in the Operating Surplus Ratio.

The Cash Flow Statement (FS3) indicates a relatively strong cash flow from operating activities over the life of the plan with cash generated from operations each year ranging between \$8.0M and \$17.6M - with an average balance of \$13.0M. This provides the cash flows that support the financing and investing activities in all years in conjunction with the contribution from existing cash reserves.

Generation of cash flows from operating activities in this range is essential to allow the delivery of the program of capital works each year. Proposed annual capital works range from \$12.8M to \$21.3M over the life of the plan, and average \$16.9M. Grant revenues, asset sale proceeds and previously accumulated cash reserves are used to provide a balanced funding model for these essential community infrastructure projects.

Over the life of the plan, net cash held decreases by \$3.2M from \$10.9M to \$7.7M. Generally total projected cash levels are stable - although the proportion of reserve funds to municipal funds reduces from 2019/20 when reserve funds are drawn on to meet the balloon payment on Loan No 2.

The Statement of Financial Position (FS5) demonstrates the cumulative impact of the financial modelling in this plan on the City's current assets and liabilities. The Long Term Financial Plan shows positive movements (improvement) in the Net Asset Position each year of the plan indicating that the City is providing responsible stewardship of the community's assets.

The current ratio calculated from this Statement of Financial Position meets the industry benchmark of greater than 100% in each year of the plan, however, it does not meet the preferred industry benchmarks for the unrestricted current ratio (where it falls to an average of around 65%). This result is a consequence of removing the Reserve fund balances from the calculation.

It also reflects the simplifying modelling assumption that all capital projects are fully completed and paid for in each budget year. This is not a realistic representation of typical local government operations as there are always capital works (and the related funding) that are carried forward into the following year. This means that there will always be higher cash balances (and hence, stronger current ratios) than are reflected in this model.

The Opening Position shown on the Statement of Funding (Rate Setting Statement) is reconciled to the Net Current Asset Position calculated in accordance with Department of Local Government guidelines using data from the Statement of Financial Position.

At Section 5.3 of this document it was noted that there were several recognised, but unfunded project opportunities - particularly in relation to renewal of some of the major buildings within that asset class. This plan provides for the accumulation of some indicative funding towards those projects in the years 2022/23 to 2027/28 although it would still need to be supplemented by borrowings, grants or some other discretionary capital revenue stream to make a significant impact on these currently unfunded works.

7.3 Commentary on the Key Financial Indicators

There are a number of statutory financial indicators that a local government must calculate and disclose in both their financial planning and financial reporting documents.

The calculation of each indicator - and the specific inclusions in both the denominator and numerator used in the calculation are strictly prescribed in the Local Government Financial Management Regulations (LGFMR). This ensures that financial indicators published by different local governments are comparable.

However, it must be appreciated that there is no single indicator that demonstrates a local government's financial sustainability - nor does it necessarily mean that it is fatal if a particular local government falls below the Department of Local Government's 'preferred' benchmark for that particular indicator in a single year.

It is important to understand not only the trend in a particular indicator but also the circumstances leading to the calculation of that particular indicator value to ensure that it is interpreted 'in context'.

The results of the calculation of each of the key financial indicators and detail of the industry benchmarks is provided in Table 1 below.

It should also be noted that for some asset classes, financial data used in calculating asset related financial ratios has not yet been subject to the extent of rigorous analysis and modelling that we would like to have underpinning our comprehensive asset management plan. Where such datasets are incomplete or insufficiently validated, current forward works schedules have necessarily been used as proxies for required capital expenditures. These datasets continue to be refined over time.

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Table 3 - Status of Projected Key Financial Indicators

Key Financial Indicator	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
Operating Surplus Ratio	●	●	●	●	●	●	●	●	●	●
Benchmark > 0%	(2.9%)	0.9%	3.2%	4.3%	3.8%	3.9%	3.5%	6.0%	5.1%	4.3%
Own Source Revenue Ratio	●	●	●	●	●	●	●	●	●	●
Benchmark > 40%	95.9%	98.8%	101.1%	102.3%	101.7%	101.8%	101.5%	104.3%	103.3%	102.4%
Current Ratio	●	●	●	●	●	●	●	●	●	●
Benchmark > 100%	106%	110%	121%	125%	127%	130%	136%	138%	138%	138%
Debt Service Cover Ratio (Times Cover)	●	●	●	●	●	●	●	●	●	●
Benchmark > 5 times	5.0	4.3	8.7	10.0	12.7	13.9	16.0	20.4	20.5	27.9
Asset Consumption Ratio	●	●	●	●	●	●	●	●	●	●
Benchmark > 50%	68.9%	68.1%	67.3%	66.5%	65.8%	65.0%	64.2%	63.5%	62.8%	62.0%
Asset Renewal Funding Ratio	●	●	●	●	●	●	●	●	●	●
Data not available for calculation	%	%	%	%	%	%	%	%	%	%
Asset Sustainability Ratio	●	●	●	●	●	●	●	●	●	●
Benchmark > 90%	67.5%	62.7%	62.0%	79.8%	77.1%	79.0%	73.4%	90.0%	88.3%	85.1%
Rates Increase (Excluding Interim Growth)	●	●	●	●	●	●	●	●	●	●
	3.2%	3.0%	3.0%	2.0%	2.0%	3.0%	2.0%	2.0%	3.0%	2.0%

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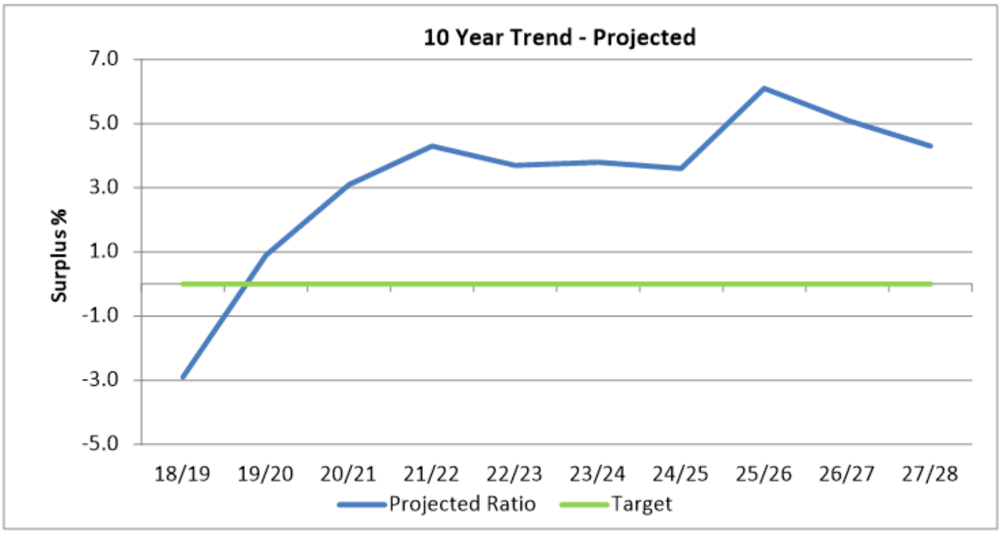
Operating Surplus Ratio

This indicator is used as a measure of capacity to meet operational expenses from revenues and the extent to which surpluses are generated to fund capital projects. The preferred ratio for this indicator is a positive value in the range between 0% and 15%.

Chart 4 - Operating Surplus %

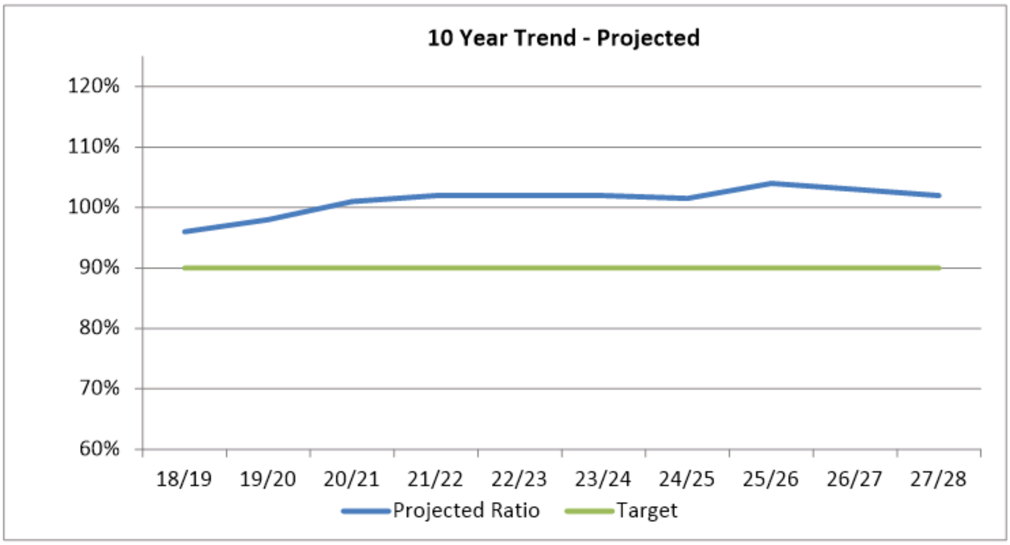


Projected values for the Operating Surplus Ratio range between (2.9%) and 6.0% over the life of the plan. The average value is 3.2%. The value disclosed is modestly positive in all years of the plan except 2018/2019. Nonetheless, the plan demonstrates an effective strategy to move the City's financial performance to the point where the standard is met in all future years.

Own Source Revenue Ratio

This ratio indicates how much of the City's operating expenditure is covered by revenues directly generated by the City.

Chart 5 - Own Source Revenue %



Projected ratios for the Own Source Revenue Ratio range between 96.0% and 104.3%.The average value is 101.3% against a benchmark standard of 90% or more.

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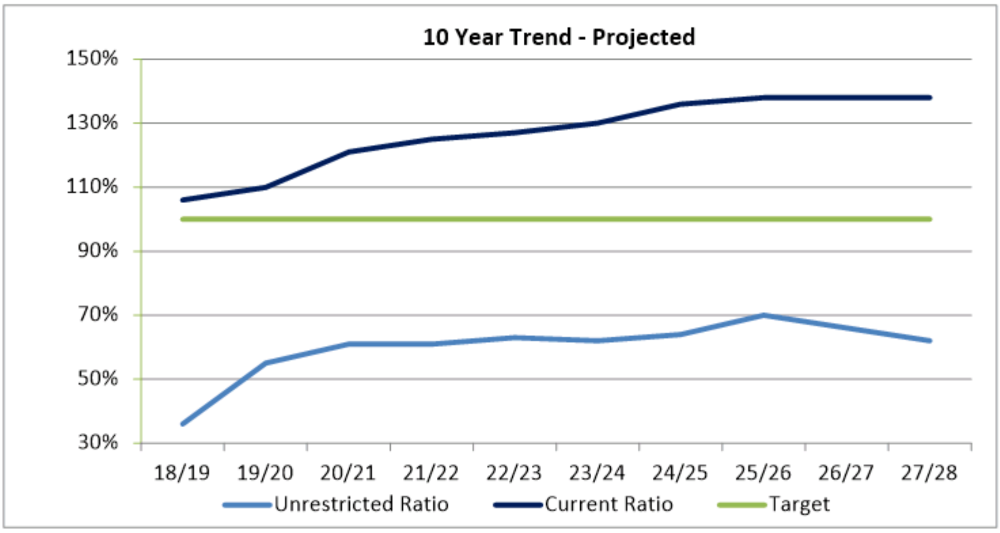
Current Ratio

This indicator is a broadly used ratio in both the public and private sectors to focus on the liquidity (available working capital) of a business at a given point in time. This ratio indicates capacity to meet short term (current) financial obligations as calculated at year end. The preferred ratio for this indicator is a number greater than 100%.

Chart 6 - Current Ratio

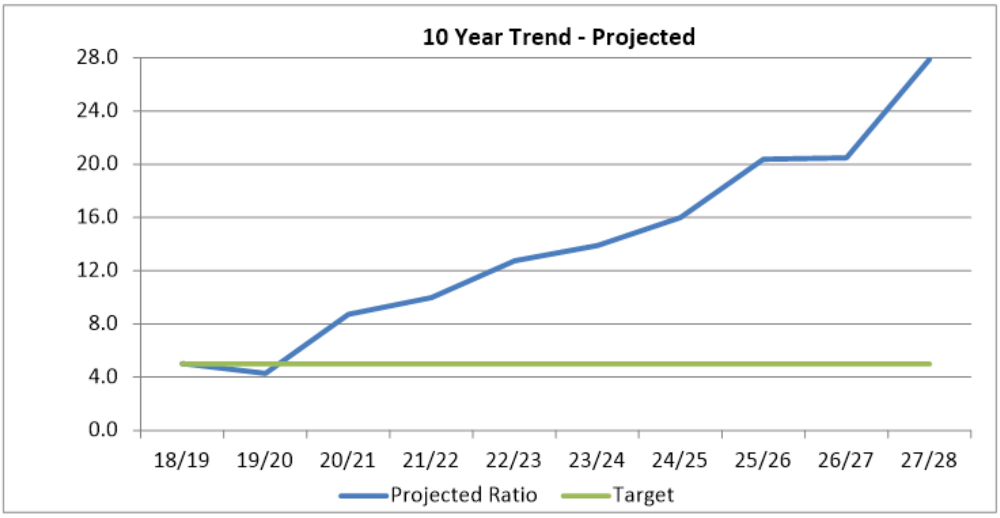


Projections indicate that the standard ratio ranges from 101% to 138% but the unrestricted Current Ratio ranges from 36% in year 1 to a high of 70% in year 8 with an average value of 60%. With appropriate management focus and proactive intervention, positive enhancement in the early years of the plan should flow through the remainder of the plan.

Debt Service Coverage Ratio

This indicator shows how much of the City's annual surplus (before interest and depreciation) is being applied to service debt obligations. It demonstrates that the City has sufficient operating surplus to service cover repayments of principal and interest on borrowings.

Chart 7 - Debt Service Coverage Ratio



Projected ratios for the Debt Service Coverage Ratio range from 4.3 times cover to 27.8 times cover over the life of the plan. The standard for this indicator is a value of 5 times cover.

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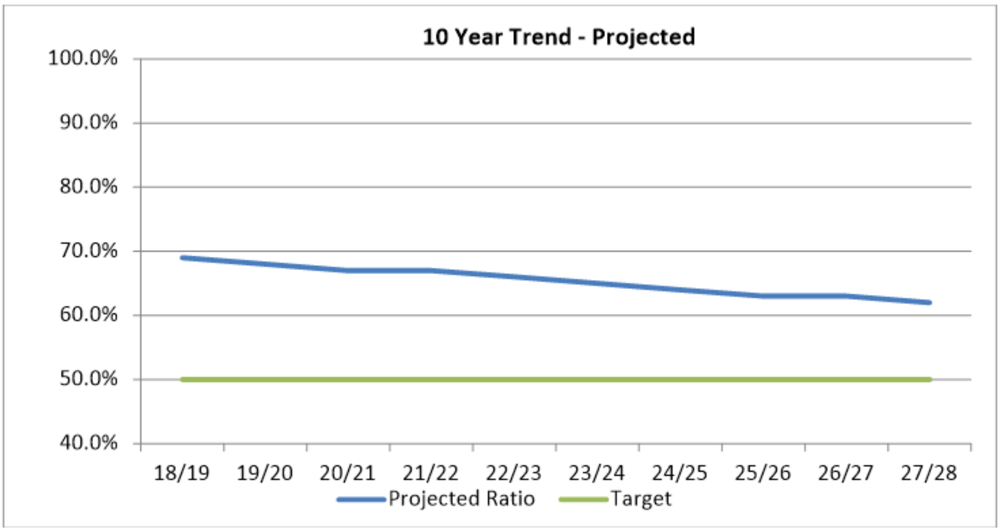
The City is comfortably exceeding the advanced standard benchmark in all years covered by this Long Term Financial Plan other than year 2019/20 when the ratio is marginally below the benchmark. This indicator is used by WA Treasury Corporation should the City wish to undertake borrowings in the second half of the plan period.

Asset Consumption Ratio

This ratio measures the rate at which depreciable assets are being consumed versus the rate at which their replacement is being provided for (excludes land assets).

Chart 8 - Asset Consumption Ratio

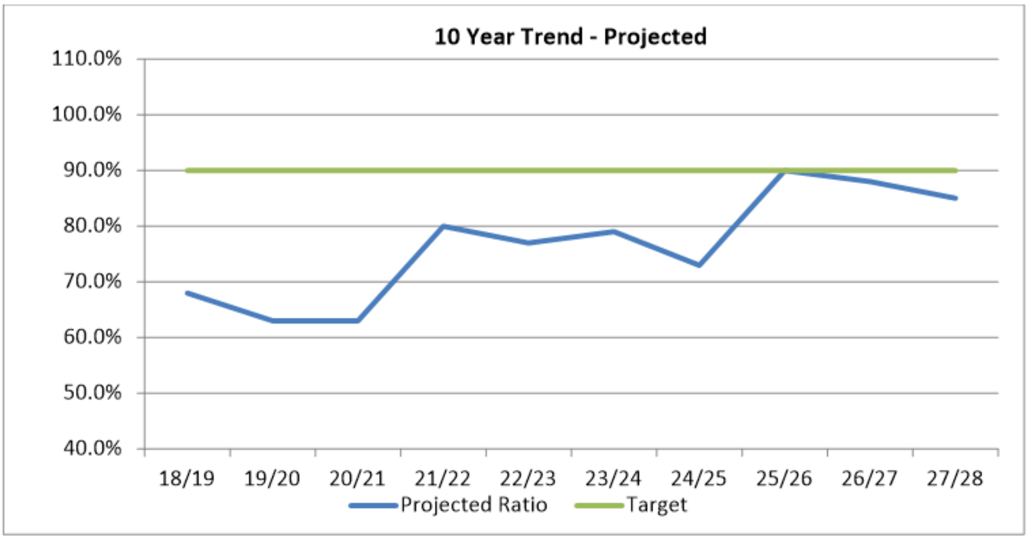


Projected ratios for the Asset Consumption Ratio range between 62% and 69% over the life of the plan. The standard for this indicator is a value between 50% and 60%. The City exceeds the benchmark in all years covered by this plan although the trend is moderately downwards.

Asset Sustainability Ratio

This ratio indicates the extent to which the City's assets are being replaced as they reach the end of their economic life.

Chart 9 - Asset Sustainability Ratio



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Projected ratios for the Asset Sustainability Ratio range between a low of 62% and a high of 90% over the life of the plan. The standard for this indicator is a value of 90%.

This most recent iteration of the Long Term Financial Plan has seen a conscious focus on funding renewals expenditure in each asset class rather than new asset creation, and in particular, on major community buildings and facilities. This strategic shift in funding allocations for capital works is driving a steady improvement in the Asset Sustainability Ratio as shown in the graph above.

Over time, as Asset Management Plans are developed and refined, the ratio will be able to be more accurately calculated in future. As our major asset classes are valued at fair value and depreciated on a component basis rather than a whole asset, one, this ratio is expected improve.

This ratio will continue to be monitored with a view to introducing further remedial strategies if the need for such is identified.

Asset Renewal Funding Ratio

The City is unable to accurately calculate this ratio at this time due to the need for further work to be done on forward planning models for infrastructure and property, plant and equipment.

7. RISK ANALYSIS

7.1 Identified risks potentially affecting the Long Term Financial Plan

A risk analysis was undertaken as part of the financial modelling to develop this Long Term Financial Plan. The following project funding risks have been identified:

- Anticipated major project grant funding may not eventuate - or may be for a lesser amount than anticipated.
- Distributions from strategic land sales associated with Tamala Park Land may not occur in the timeframes modelled in this plan.
- Tamala Park distributions may generate different revenues than was anticipated or may result in different cash flow patterns than those modelled in the Long Term Financial Plan.

The identified risks will be closely monitored and should any of these risks eventuate, the City will proactively intervene - either by deferring the project or by finding an alternative funding source.

The most significant funding risks faced by the City in relation to this plan relate to the timing and amounts received from the Tamala Park land sales as this revenue stream is not controllable by the City. The City of Vincent is only a 1/12 stakeholder in this venture. An alternative LTFP scenario assuming that a lesser portion of this revenue stream is received is briefly discussed at Section 8 - Scenario Modelling.

Operational funding risks potentially impacting the LTFP may include:

- Movements in interest rates may reduce projected interest revenues from investments but conversely, could result in more advantageous borrowing conditions.
- Reduction or loss of grant funding supporting existing community services.
- Changes in government policy or cost-shifting from state to local government.

There are also non-financial risks that may affect the delivery of planned major projects or maintenance activities such as:

- Contractors not being available when required to perform works
- Bids for tendered works may not be as competitive as anticipated
- Hazardous materials may be present in buildings to be refurbished / demolished
- Approvals from external agencies may not be completed in time for proposed projects

Regular review of the City's financial position, project funding strategies, monitoring of the economic environment to allow timely and appropriate interventions should enable the City to responsibly manage its commitments arising from the Long Term Financial Plan.

8. SCENARIO MODELLING

8.1 Sensitivity Analysis

In developing and ultimately settling on the most responsible and sustainable Long Term Financial Plan, several scenarios were developed using different assumptions and modelling variables. This process helped to evaluate the most appropriate model to deliver the services and facilities that our community (through various visioning and strategic planning processes) have indicated that they desire. It has also highlighted where and how our capacity to meet those aspirations may be impacted in different circumstances.

Scenario 1 is the recommended Long Term Financial Plan as presented in this document. This scenario (and the plan developed from it) is considered to be the most appropriate plan to progress the City' strategic vision in a sustainable way without unreasonable impost on the City's ratepayers.

In preparing the model supporting this scenario, consideration was given to the projected key financial indicators (disclosed in Table 1) and the trends that they indicated. This information was important in establishing the ongoing financial viability of our local government entity.

Scenario 2 was modelled assuming that only 50% of the Tamala Park projected land sale revenue was received over the life of the plan.

This scenario would result in operating deficits in years 2 to 10 of the plan - with a cumulative deficit of $10M by 2028 - clearly an unsustainable model. The deficit could potentially be partly overcome by deleting some capital projects, but this is not a preferred option given the previously identified need to improve key asset renewal ratios. There may also be some adverse impact on capacity to deliver services to the same level as at present under this assumption.

An alternative solution may be to seek an alternative discretionary revenue stream. Potentially this cash flow could be generated by a strategic land disposal of any identified City owned but under-utilised land site. This would need to occur only after proper consideration of a land management strategy to ensure that the financial benefit was not achieved by adversely impacting on the provision of required community open space. Should the City be able to generate say, $10M to $12 M through such a strategic land rationalisation, any risk in relation to the Tamala Park distributions could effectively be mitigated.

It is worth noting that the strategic land disposal approach referred to above, could also be successfully incorporated into Scenario 1 which forms the basis of this Long term Financial Plan.

Scenario modelling has demonstrated that the funding assumptions and rate increases modelled in the preferred plan reflect a responsible balance between ensuring that the City can meet its obligations to the community and maintaining only modest rate increases.

After considering the various scenarios and then re-modelling Scenario1 to establish the most appropriate match between delivering on our strategic objectives and effectively managing our organisational cash flow, it was concluded that Scenario 1 (as presented in this Long Term Financial Plan) is the recommended financial model.

9. FINANCIAL STATEMENTS AND SUPPORTING SCHEDULES

CITY OF VINCENT

10 YEAR LTFP 2018/19 - 2027/28

APPENDIX A - DEMOGRAPHIC INFORMATION

Overview	***2018***	***2028***
Population	*36,880*	*46,177*
Age	*25-29 years (majority)*	*25-29 years (majority)*
Gender	*51.2% male 48.8% female*	*51.1% male 48.9% female*
Household size	*two person household*	*two person household*

Population

The City of Vincent's population is expected to grow to 46,177 by 2028 according to *id.forecast* data held by the City. This figure reflects projections based on updated 2016 Census figures.

This summary graph below shows the results of the forecasts for population, households and dwellings in the City of Vincent. The period 2018 to 2028, as the short to medium term, is likely to be the most accurate and useful forecast information for immediate planning purposes. It is important to look at the relationship between population and average household size. If the average household size is falling, then there will need to be growth in the number of households (and dwellings for them to live in) to maintain or grow the population.

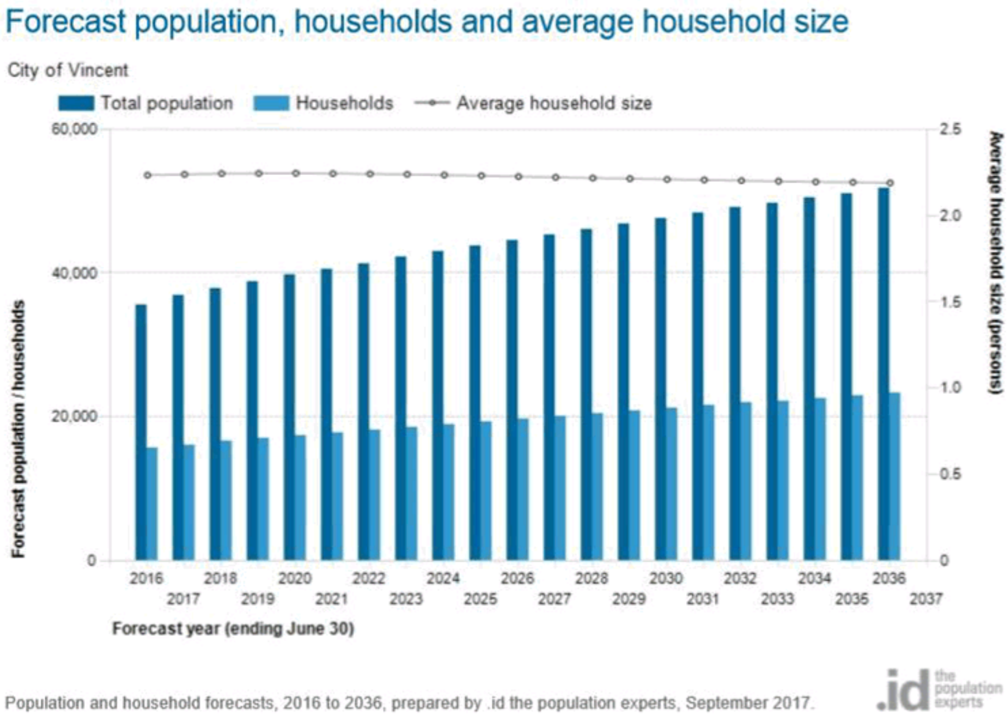

Figure 1 - Population, households and average house size

In 2016, the total population of the City of Vincent was estimated to be 35,592 people and is estimated at 36,880 in 2018. It is expected to increase by over 8,850 people to 44,443 by 2028, at an average annual growth rate of 1.89%. This is based on an increase of over 4,000 households during the period, with the average number of persons per household remaining constant at 2.23 between 2018 and 2028.

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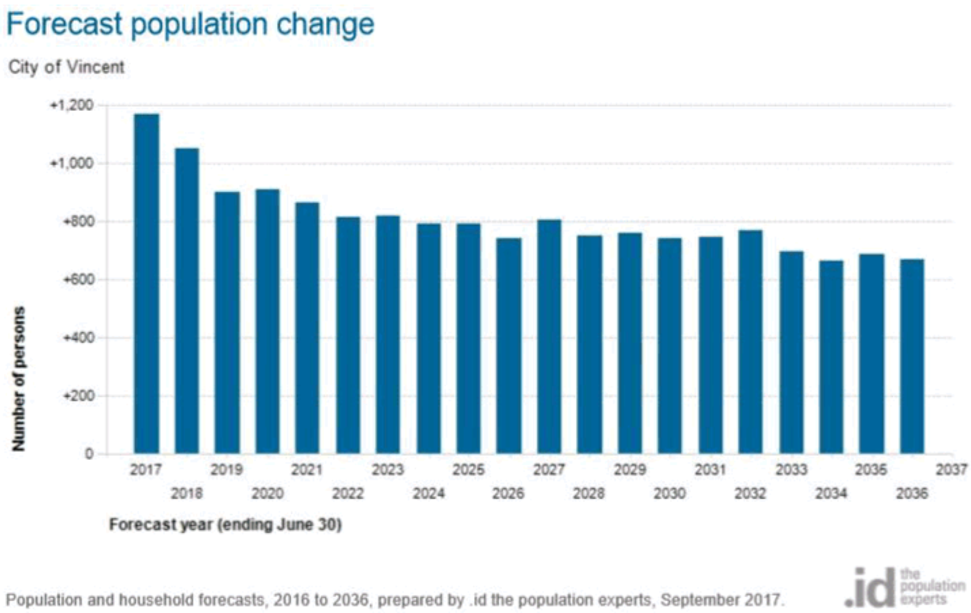

Figure 2 - Forecast population change

Since 2011 the City has experienced an average population growth rate of 2.25% (according to census data). During the period covered by this LTFP (according to id.forecast data), the population is expected to increase at a slightly slower rate of around 1.89% from 36,880 to 46,177.

The following graph demonstrates the projected suburban distribution of the population in 2028. The majority populations are in Mount Hawthorn and North Perth.

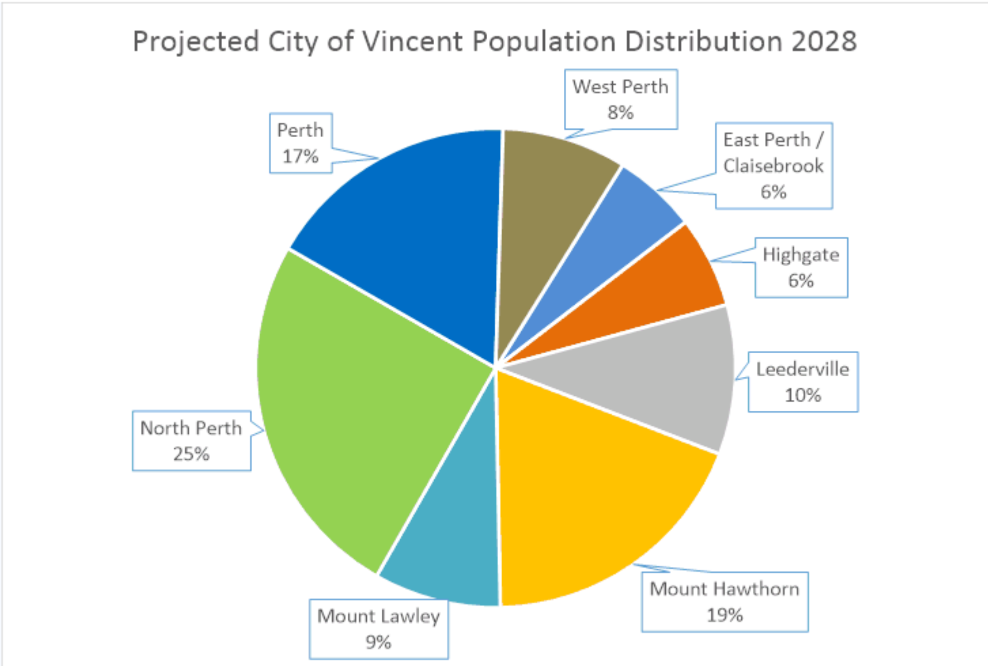

Figure 3 - Population percentage by suburb

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The overall population growth rate is estimated at 25% between 2018 and 2028, however the population increase varies considerably between suburbs.

Figure 4 - Population percentage by suburb

Suburb	2016	2018	2028	Ave Annual Change
East Perth	1,225	1,358	2,623	5.30%
Highgate	2,543	2,588	2,851	0.88%
Leederville	3,281	3,457	4,672	2.65%
Mount Hawthorn	7,876	8,010	8,691	0.85%
Mount Lawley	3,343	3,423	3,965	1.19%
North Perth	9,187	9,491	11,572	1.64%
Perth	5,764	6,023	7,929	2.22%
West Perth	2,373	2,529	3,874	3.24%
	35,592	36,880	46,177	

Age

Vincent has a relatively young population. In 2018 the 25-29 age group and the 30-34 age group are the highest. It is expected by 2027 those groups will reduce slightly and be offset by increases in the 35-39 and 40 years and over groups.

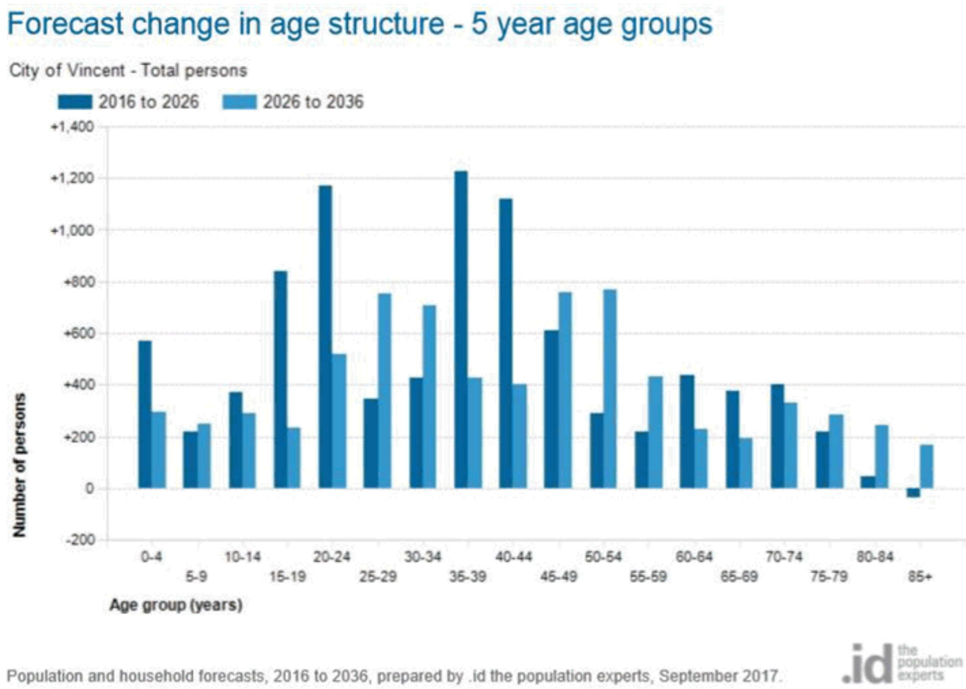

Figure 5 – Age distribution

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Household size

Our household size is smaller than greater Perth with 67.4% of the population in one or two person households.

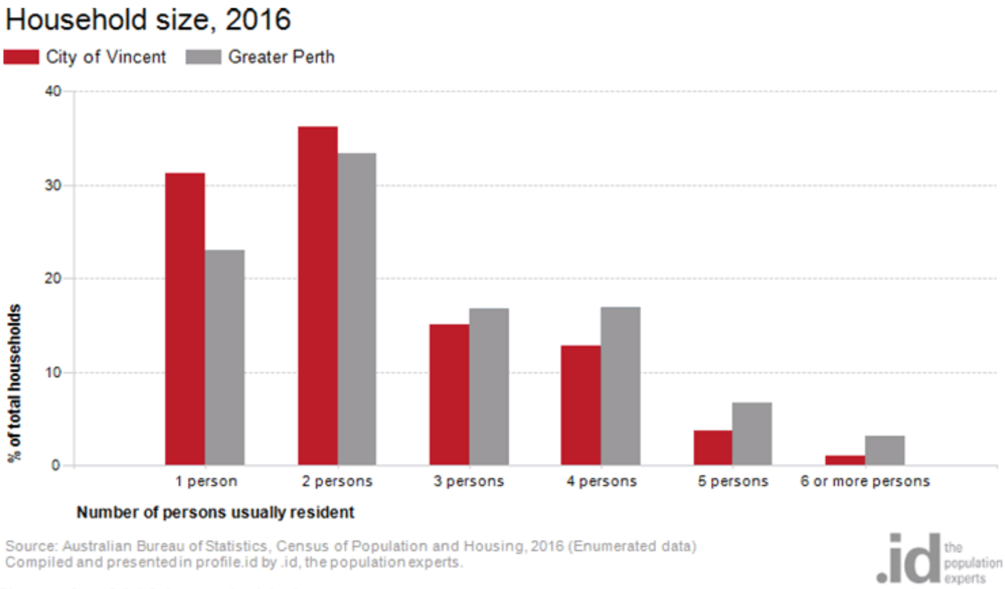

Figure 6 – 2016 household size