



LONG-TERM FINANCIAL MANAGEMENT PLAN

2023-2033



City of HOBART

Acknowledgment of Country

In recognition of the deep history and culture of this place, the City of Hobart acknowledges Tasmanian Aboriginal people as the Traditional Custodians of this land. We acknowledge the determination and resilience of the Palawa people who have survived invasion and dispossession and continue to maintain their identity, culture and rights.

We recognise that we have much to learn from Aboriginal people today, who represent the world's oldest continuing culture. We pay our sincere respects to Elders past and present and to all Aboriginal people here today.

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Overview

The City of Hobart Long-Term Financial Management Plan 2023 – 2033 (LTFMP) is a strategic planning document that will activate the vision for Hobart to be the best small capital city in Australia.

The LTFMP is informed by the contextual setting of the Tasmanian economic environment, financial assumptions, modelling and strategies, and performance indicators. These factors impact the strategic financial framework within which the City will make sound financial decisions.

The City's key financial management strategy is to ensure the financial sustainability of the organisation, through sound fiscal management. Financial sustainability will ensure the City can meet its public service requirements to residents and visitors of the capital city.

The City will aim to provide quality and efficient service delivery to the community, both now and into the future, while ensuring each generation is responsible for the cost of services and resources they consume.

The LTFMP is based on a range of assumptions and is based on the 2023-24 Budget Estimates. The assumptions are then used to model potential outcomes for the City, across the 10 year period of the plan.

The LTFMP demonstrates that the City is in a sound financial position and is forecast to remain in a robust financial position over the long-term.

Revenue growth will average approximately 3.4 per cent over the LTFMP, while expenses are expected to grow by approximately 3.3 per cent over the same period.

The City maintains appropriate levels of cash and investments to ensure it has liquid assets to meet its short-term financial commitments, while also managing levels of debt that are both manageable and reasonable.

The City maintains a significant asset base with replacement cost of these assets at over \$2.5 billion, and it will continue to invest in critical infrastructure including parks, cycle ways, roads, sports grounds and other public facilities over the next 10 years.

The City will undertake a comprehensive review of the City's Asset Management Plan during 2023-24. In conjunction with the review of the Plan, the City is also developing a new framework to identify and prioritise critical capital projects each financial year.

Legislative Framework

The City of Hobart is required under Section 70 of the *Local Government Act 1993* to prepare a Long-Term Financial Management Plan for the municipal area. The plan is to be for a period of at least 10 years.

Under section 70(3) of the *Local Government Act 1993*, a long-term financial management plan for a municipal area is to –

- (a) be consistent with the strategic plan for the municipal area; and
- (b) refer to the long-term strategic asset management plan for the municipal area; and
- (c) contain at least the matters that are specified in an order made under section 70F as required to be included in a long-term financial management plan.

The *Local Government (Content of Plans and Strategies) Order 2014* sets out what is required to be included in the long-term financial management plan.

Section 70A of the *Local Government Act 1993* also requires the City of Hobart to prepare a Financial Management Strategy for the municipal area. Under section 70A(2), a financial management strategy for a municipal area is to –

- (a) be consistent with the strategic plan for the municipal area; and
- (b) contain at least the matters that are specified in an order made under section 70F as required to be included in a long-term financial management plan.

The *Local Government (Content of Plans and Strategies) Order 2014* sets out what is required to be included in the financial management strategy.

Planning Framework

The City of Hobart's Integrated Planning and Reporting Framework will be implemented over the coming year to align annual planning and reporting with performance evaluation and continuous improvement.

The Integrated Planning and Reporting Framework also ensures that the Capital City Strategic Plan and LTFMP are put into action through the City's Annual Plan and Annual Budget Program.

The effectiveness of the strategic priorities, major actions and initiatives in the City's Annual Plan will be monitored through progress reports to the Council and through the City of Hobart Annual Report. The progress of the Capital City Strategic Plan will also be reviewed and evaluated annually.

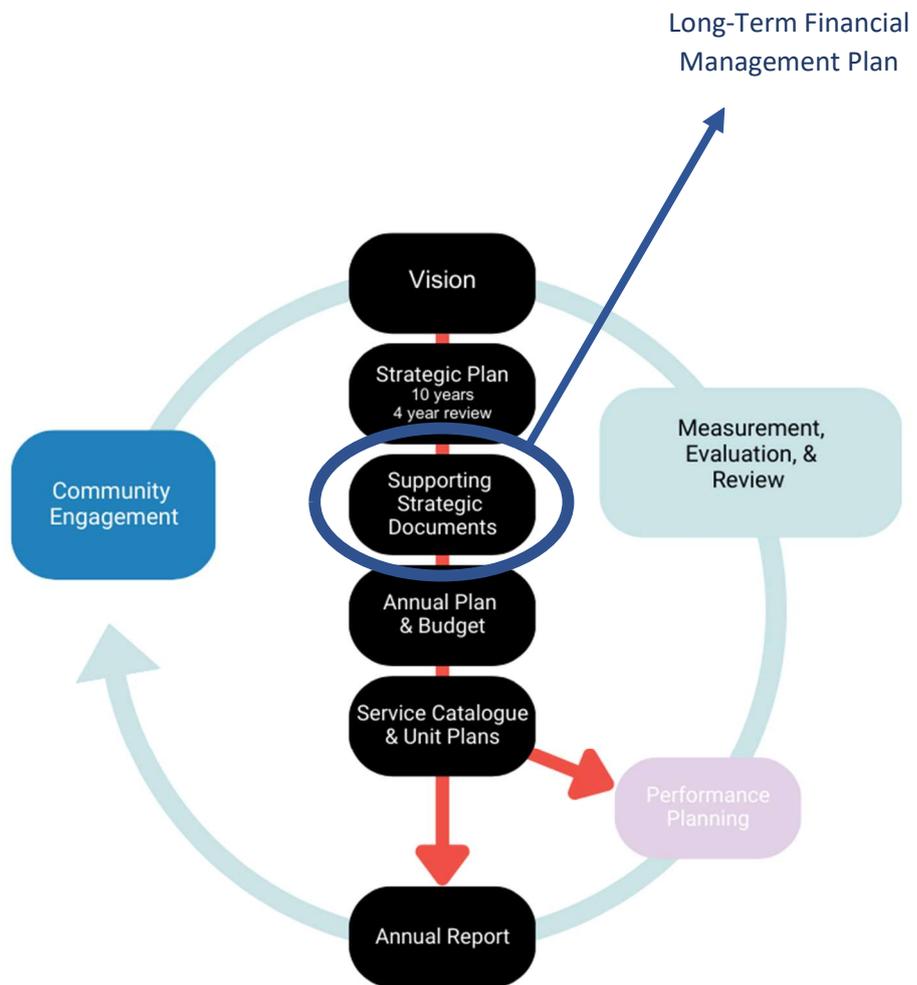
The City's Community Vision outlines what people value about Hobart and what they aspire to for its future. The vision guides the City of Hobart's work and calls on us to demonstrate long-term commitment to help create the Hobart our communities want.

The vision and its identity statements and pillars detail the values and special qualities that the community want to see reinforced, developed or improved and highlights the aspirations for the future of Hobart.

The vision is used to guide and direct the City's strategies, plans and priorities now and into the future. All strategic actions and programs are designed to deliver on the vision.

The LTFMP is a fundamental supporting strategic document and sets out the City of Hobart's strategy to deliver the organisational plans and objectives in financial terms.

Figure 1 – Integrated Planning and Reporting Framework



Financial Management Strategy

The City of Hobart's Financial Management Strategy provides a strong and effective framework for the management of the City's Budget. The Strategy is focused on the achievement of long-term fiscal principles that aim to deliver budget sustainability.

Importantly, and consistent with the LTFMP, the Financial Management Strategy aims to ensure the City conducts its activities efficiently and effectively, while providing residents and ratepayers with a level and quality of service that meets appropriate expectations.

Financial Principles

The financial principles underlying the Financial Management Strategy are:

1. Managing the City's finances efficiently and effectively for the benefit of the residents and ratepayers of Hobart;
2. Allocating City resources to activities and services that maximise community benefit;
3. Investing in the City's infrastructure to support resilience, growth and renewal within the Capital City;
4. Supporting a strong local economy that promotes business activity and sustainable development across all sectors;
5. Adopting risk management practices that identify and appropriately manage risks and unforeseen events;
6. Explore partnering opportunities to deliver outcomes for the community; and
7. Applying good governance practices that ensure transparency and accountability in developing, implementing and reporting fiscal objectives.

Key Financial Management Strategies

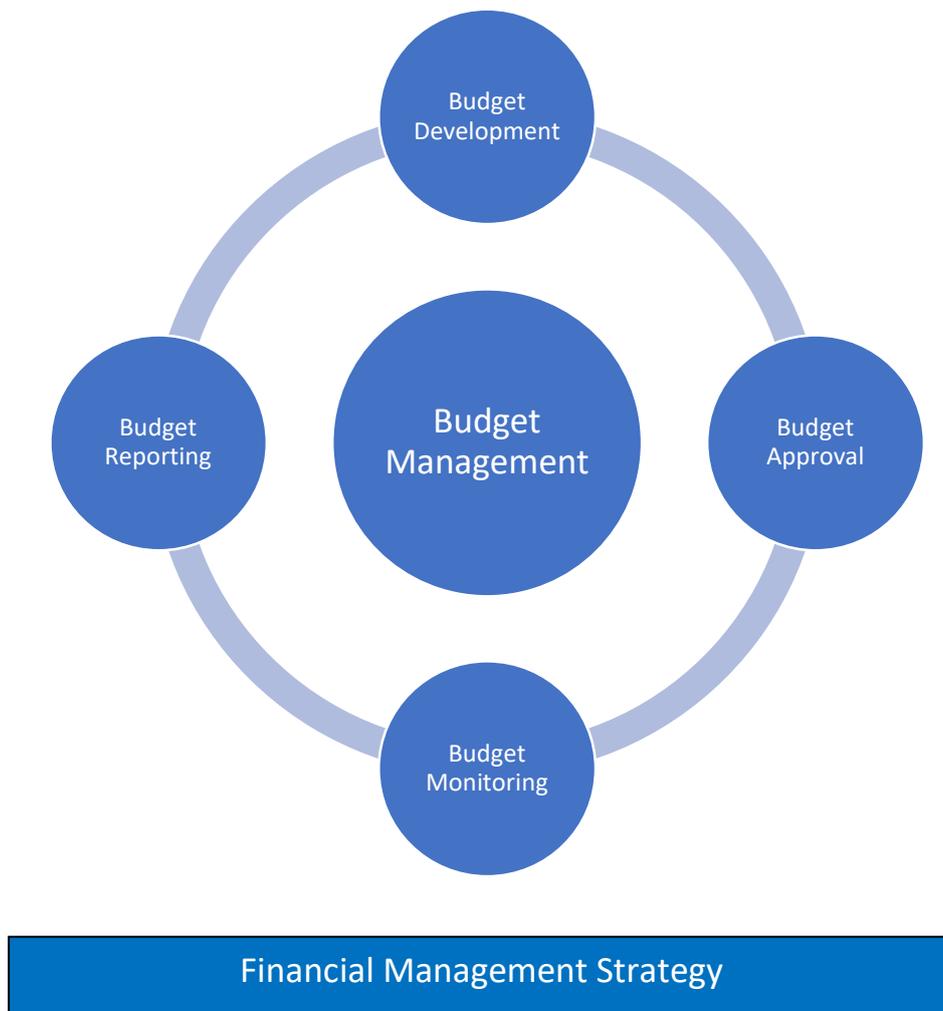
The City of Hobart's Financial Management Strategy includes six strategic actions that are aimed at achieving the fiscal principles. These strategic actions are:

1. Incrementally deliver an underlying surplus of two per cent of total revenue over the period of the LTFMP.
2. Annual increases in rates are lower than the long-term average increase in the Local Government Association of Tasmania's (LGAT) Council Cost Index over the period of the LTFMP.
3. Annual growth in the City's operating expenses are lower than the long-term average increase in the LGAT Council Cost Index over the period of the LTFMP.

4. The City's infrastructure investment will maintain existing assets, respond to economic and population growth and reflect the changing needs of the community.
5. Debt is only used to support strategic investment in new infrastructure.
6. The City will openly and transparently communicate its budget and financial plans.

The Financial Management Strategy underpins the annual budget process. The annual budget process results in the Budget, being the financial plan to establish resource allocations for the coming financial year.

Figure 2 – City of Hobart Budget Process



Asset Plan Integration

Integration to the Asset Management Plan is a requirement under the *Local Government Act 1993* and is essential to ensure future funding is allocated to support service delivery in terms of the plans and the effective management of the City's assets into the future.

The Asset Management Plan identifies the operational and strategic requirements which will ensure the City manages assets across their life cycle in a financially sustainable manner. The Asset Management Plan is designed to inform the LTFMP by identifying the amount of funding required over the life of the plan. The level of funding will incorporate knowledge of asset condition, the risk assessment issues as well as the impact of interventions undertaken.

In addition to identifying the operational and strategic requirements that ensure the City manages assets across their life cycle in a financially sustainable manner, the Asset Management Plan quantifies the asset portfolio and the financial implications of those practices. Together the LTFMP and the Asset Management Plan seek to balance projected investment requirements against projected budgets.

The current City of Hobart Asset Management Plan 2016 - 2036 will undergo a significant review and update during 2023-24.

Economic Outlook

Global growth is forecast by the Reserve Bank of Australia in its Monetary Policy, February 2023 to remain well below the historical average over the next two years. Real incomes have declined as the cost of living has escalated.

Economic growth is forecast to slow in Australia in 2023 due to rising interest rates, the high cost of living and a decline in real wealth. Domestic activity is forecast to pick up a little from late 2024 onwards as the damping of growth from the current monetary policy tightening starts to wane and inflation moderates.

Consumer price inflation was 7.8 per cent over 2022 and remains high. Global factors including pandemic-related disruptions to supply chains and Russia's invasion of Ukraine have accounted for much of the increase in inflation over the past year. Domestically, strong domestic demand, a tight labour market, flood related disruptions and capacity constraints have also contributed to the upward pressure on prices.

Inflation is forecast to decline to the Reserve Bank of Australia's target of 2-3 per cent over the coming years. The easing of global price pressures flowing to domestic prices, slower growth in domestic demand and moderation in labour markets are expected to reduce domestic inflationary pressures.

The Tasmanian Government's 2023-24 Budget notes that the Tasmanian economy is expected to grow by 1½ per cent in 2022-23, a significant decline from the 4.3 per cent growth experienced in 2021-22. The Budget anticipates more subdued growth over the next three years, which reflects the impact on the Tasmanian economy of high inflation, rising interest rates and other global events.

The Budget also forecasts a slowdown in Tasmania of employment growth to ½ of one per cent, consistent with the expected slowing of the economy, before returning closer to the long-term average in 2024-25, with forecast growth of 1 per cent.

Private investment grew strongly through the pandemic, with high levels of dwelling investment. However, dwelling investment has been easing and is expected by the Tasmanian Treasury to continue to ease.

Consistent with the RBA's forecasts for national Consumer Price Index (CPI), the Hobart CPI is expected to continue to grow in the final quarter of 2022-23 and it is forecast that the series will grow by 7¼ per cent in year-average terms in 2022-23.

More moderate growth of 4¼ per cent is forecast for 2023-24. This lower growth compared with 2022-23 reflects the expectation that tightening monetary policy will be effective at reducing inflationary pressures. In 2024-25, year-average growth in the Hobart CPI is expected to ease further, with growth of 3¼ per cent forecast.

The City of Hobart is not immune to the global and domestic economic conditions and the direct impact on its budgetary position to ensure ongoing financial sustainability.

Financial Sustainability

The City of Hobart's key financial management strategy is to ensure the financial sustainability of the organisation, through sound fiscal management. Financial sustainability will ensure the City can meet its public service requirements to the residents, businesses and visitors of the capital city.

The City of Hobart will aim to provide quality and efficient service delivery to the community, both now and into the future, while ensuring each generation is responsible for the cost of services and resources they consume.

The *Local Government (Management Indicators) Order 2014* establishes four key financial management indicators and three key asset management indicators. In addition, the City of Hobart has adopted an additional three indicators to monitor the overall performance of the organisation.

Table 1 – Financial Management Indicators and Targets

Measure	Formula	Description	Target
Underlying surplus or deficit *	<i>Adjusted recurrent income less recurrent expenses</i> Expressed as a dollar amount	Indicates the extent to which operational income raised (excluding capital items) covers operational expenses	> \$0
<p>Overall measure of financial operating effectiveness.</p> <p>A positive amount indicates that surplus revenue is available to support investment in capital projects, or to hold in reserve to offset past or expected future operating deficits.</p> <p>A negative amount indicates an operating deficit. Operating deficits can not be sustained in the long term.</p>			
Underlying surplus ratio *	<i>Underlying surplus or deficit divided by the adjusted recurrent income</i> Expressed as a percentage	Indicates the extent to which operational incomes raised cover operational expenses	>0%
<p>Overall measure of financial operating effectiveness.</p> <p>A positive amount indicates that surplus revenue is available to support investment in capital projects, or to hold in reserve to offset past or expected future operating deficits.</p> <p>A negative amount indicates an operating deficit. Operating deficits can not be sustained in the long term.</p>			
Net financial liabilities *	<i>Liquid financial assets less total liabilities</i> Expressed as a dollar amount	Indicates what is owed to others less money held, invested or owed to the City of Hobart	\$0- (\$50m)
<p>Overall measure of the level of indebtedness</p> <p>Includes items such as employee long-service leave entitlements and other amounts payable.</p>			
Net financial liabilities ratio *	<i>Net financial liabilities divided by the adjusted recurrent income</i> Expressed as a percentage	Indicates the extent to which net financial liabilities could be met by operating income	0%- (50%)
<p>Indicates the extent to which net liabilities can be met by adjusted recurrent income.</p> <p>If the net financial liabilities ratio is greater than (50 per cent) of operating revenue, the council has limited capacity to increase loan borrowings and may experience stress in servicing current debt.</p>			

Table 1 – Financial Management Indicators and Targets (continued)

Measure	Formula	Description	Target
Asset sustainability ratio *	<i>Capital expenditure on replacement and renewal of existing assets divided by the annual depreciation expense</i> Expressed as a percentage	Indicates the extent to which assets are replaced as they reach the end of their useful lives	100%
	Provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation		
	Provides a measure of whether Council is reinvesting in existing infrastructure assets.		
	A long-term indicator as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.		
Asset consumption ratio *	<i>Depreciated replacement cost of asset divided by current replacement cost of asset</i> Expressed as a percentage	Provides a measure of the condition of a Council's assets by comparing their age with their replacement cost	>60%
	Shows the average proportion of new condition left in the depreciable assets.		
	Measures the current value of assets relative to what it would cost to build a new asset with the same benefit to the community.		
Asset renewal funding ratio *	<i>Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required</i> Expressed as a percentage	Measures the capacity to fund asset replacement requirements	90-100%
	An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels.		
	Provides an indication of Council's performance of asset renewal and replacement.		

Table 1 – Financial Management Indicators and Targets (continued)

Measure	Formula	Description	Target
Net interest expense cover ratio	<i>Net annual interest expense divided by operating income</i> Expressed as a percentage	Indicates the extent to which the Council's operating income is committed to meeting the net interest expense	<7%
	The proportion of recurrent income used to pay the interest expense on loans, net of interest income.		
Debt coverage ratio	<i>Total principal repayments and interest expense divided by adjusted recurrent income</i> Expressed as a percentage	Indicates the amount of adjusted recurrent income that is used to repay debt and interest charges	0-20%
	Measures the cash flow available to pay current third party debt obligations		
Working capital ratio	<i>Current assets divided by current liabilities</i> Expressed as a number	Measures the Council's ability to meet short-term liabilities with short-term assets	≥1.0
	<p>Basic measure of liquidity.</p> <p>A working capital ratio of less than one is indicative of potential future liquidity problems.</p> <p>A working capital ratio of greater than two can indicate the Council could be employing its assets better to generate maximum possible revenue.</p>		

* Indicates the management indicators required under the *Local Government (Management Indicators) Order 2014*

Table 2 has the modelled financial management indicators for the LTFMP. It identifies that the indicators associated with assets are not currently meeting target. This will be addressed as part of the review of the Asset Management Plan during 2023-24.

Table 2 – Long-Term Financial Management Plan Indicators

Financial Management Indicators and Targets	Target	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Underlying surplus or deficit	> \$0	500	1,945	2,634	2,944	3,654	4,395	5,167	5,969	6,804	7,670
Underlying surplus ratio	> 0%	0.30%	1.11%	1.45%	1.56%	1.87%	2.17%	2.46%	2.74%	3.01%	3.28%
Net financial liabilities	> \$0	(9,006)	(6,910)	(3,208)	390	6,796	15,082	18,061	22,078	28,614	37,216
Net financial liabilities ratio	0%-(50%)	(5.38%)	(3.94%)	(1.76%)	0.21%	3.47%	7.44%	8.59%	10.14%	12.68%	15.91%
Asset sustainability ratio	100%	34.42%	70.24%	70.65%	77.82%	68.28%	72.10%	71.30%	72.09%	78.14%	91.74%
Asset consumption ratio	>60%	41.33%	41.37%	41.37%	41.37%	41.35%	41.37%	41.40%	41.39%	41.37%	41.39%
Asset renewal funding ratio	90-100%	44.73%	97.56%	97.56%	97.56%	97.56%	97.56%	97.56%	97.56%	97.56%	97.56%
Net interest expense cover ratio	<7%	0.89%	0.75%	0.66%	0.58%	0.50%	0.42%	0.34%	0.27%	0.20%	0.13%
Debt coverage ratio	0-20%	6.94%	3.07%	2.49%	2.40%	2.32%	2.24%	2.16%	2.08%	2.01%	1.94%
Working capital ratio	≥1.0	2.5	2.4	2.4	2.3	2.3	2.4	2.3	2.3	2.3	2.5

Loans

The City of Hobart has a number of loans that were undertaken for the purposes of investing in capital works. The maturity date for the loans extends from June 2024 to June 2036. The level of debt held by the City is considered manageable and reasonable.

Table 3 – City of Hobart Loan Schedule

Lender	Purpose	Term (Years)	Maturity Date	Fixed Interest Rate	Loan Amount	Forecast Loan Balance 30 June 2023
				%	\$'000	\$'000
TASCORP	Capital Works	10	Jun-24	4.56	2,375	288
TASCORP	Capital Works	3	Jun-24	0	15,000	5,054
TASCORP	Capital Works	3	Aug-24	0	5,000	2,517
National Australia Bank	Capital Works	15	Jun-33	4.02	10,000	7,297
TASCORP	Capital Works	15	Jan-34	3.59	20,000	15,663
National Australia Bank	Capital Works	15	Mar-35	2.45	20,000	16,009
Commonwealth Bank	Porter Hill Land Purchase	30	Jun-36	6.41	4,800	3,163
Total					77,175	49,991

LTFMP Objectives

The LTFMP reflects in financial terms how the City proposes to deliver its vision and outcomes for the next 10 years. The fundamental goal of the LTFMP is to ensure that the City of Hobart can deliver its vision and outcomes and remain financially sustainable.

The LTFMP is a key component of the City's strategic planning framework and along with the Asset Management Plan, forms the basis of the City's resource and capacity planning tools to inform decision making processes.

LTFMP Inputs and Assumptions

The LTFMP is based on a baseline set of data and a range of assumptions. It is important to understand the key inputs into the LTFMP model as this will assist in decision making, now and into the future, to ensure the organisation has the capacity to deliver services to the community.

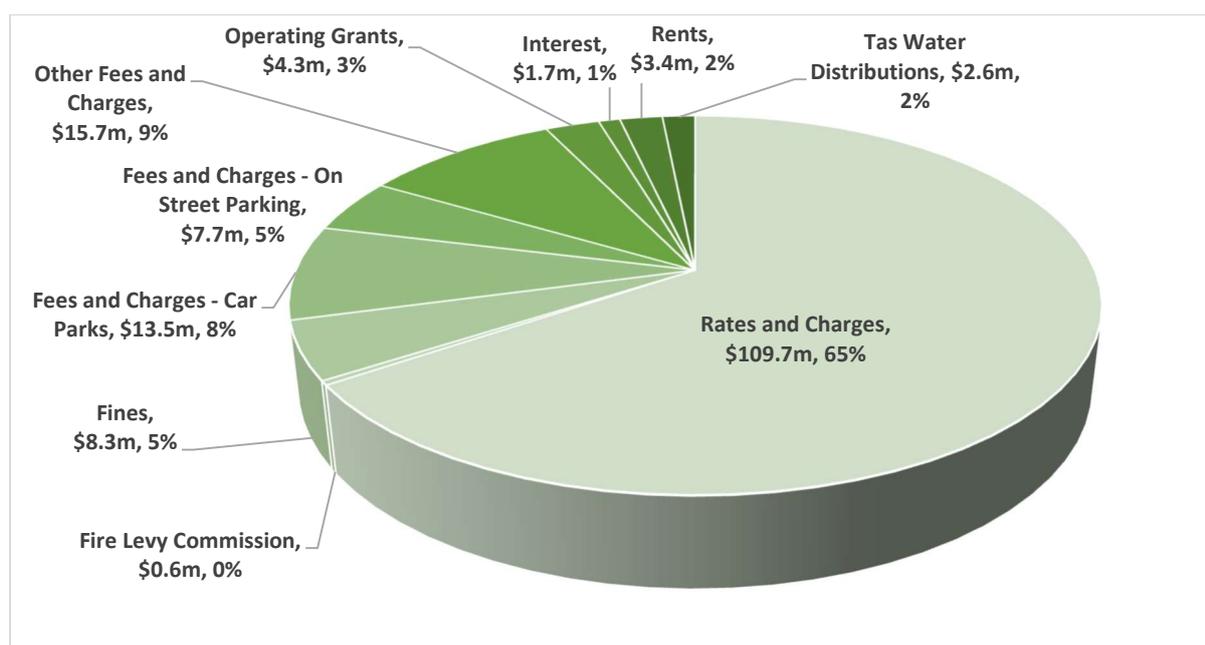
Since 2016, the Local Government Association of Tasmania has published a Council Cost Index. The Council Cost Index is produced to provide a more accurate indication of the cost increases associated with the delivery of council services, recognising that CPI alone is not a perfect measure.

Over the past 10 years, the City of Hobart has increased rates by 2.15 per cent, compared to a 2.6 per cent increase in the Council Cost Index. This has resulted in the City managing internal costs to maintain low increases in rates and charges below the Council Cost Index. However, this is not an effective long-term strategy, if applied in isolation.

The revenue generated by the City of Hobart is an important input to the financial sustainability of the organisation. Revenues fund the daily operations across the City as well as contribute to the overall investment in infrastructure across the capital city.

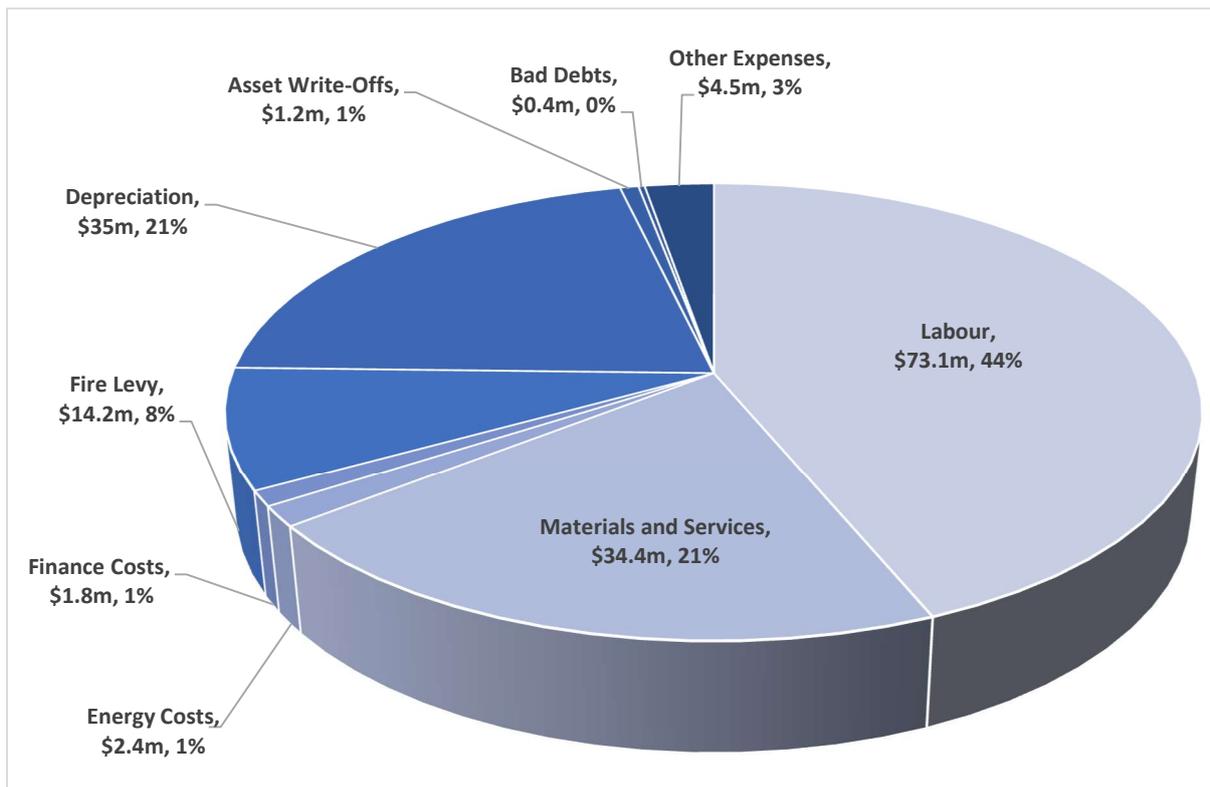
In 2023-24, 66 per cent of revenue will be generated through revenue raised from Rates and Charges, with Other Fees and Charges being the second biggest contributor to the revenue base.

Figure 3 – City of Hobart 2023-24 Operating Revenue Budget



The largest expenditure component of the City's operations is labour. Labour represents 44 per cent of total costs, followed by depreciation at 21 per cent and materials and services at 20 per cent.

Figure 4 – City of Hobart 2023-24 Operating Expenditure Budget



The LTFMP financial model is based on a range of assumptions. The baseline data is set as the 2023-24 Budget Estimates and the assumptions are then used to model potential outcomes for the City, across the 10 year period of the plan.

Primary Assumptions

Table 4 – Key LTFMP Inputs

Key LTFMP Inputs	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
	%	%	%	%	%	%	%	%	%	%
Consumer Price Index	4.25	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Council Cost Index	8.11	5.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Rates and Charges Revenue	8.50	5.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Grants and Donations	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Fines	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Provision of Services	5.50	5.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Distributions from TasWater	0.00	0.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Interest	4.50	4.00	3.50	3.00	2.50	2.50	2.50	2.50	2.50	2.50
Rents	4.50	4.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Employee Costs	6.86	3.50	3.00	3.00	2.50	2.50	2.50	2.50	2.50	2.50
Materials and Services	4.50	4.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Depreciation and Amortisation	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Finance Costs	5.00	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
State Fire Commission Levies	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Other Expenditure	4.50	4.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50

A summary of the primary underlying assumptions contained within the LTFMP are noted below:

Consumer Price Index

CPI is expected to remain high in 2023-24 before beginning to return to the RBA's target of between two and three per cent. The LTFMP has assumed three per cent across the modelled years.

Council Cost Index

The Local Government Association of Tasmania released the Council Cost Index for 2023-24 in March 2023. The Council Cost Index for 2023-24 is 8.11 per cent. The Council Cost Index has historically exceeded CPI due to higher increases in some of the key expenditure categories specific to the Local Government Sector. The Council Cost Index is expected to exceed CPI throughout the timeframe of the LTFMP.

Rates and Charges Revenue

Rates and Charges revenue has been modelled to minimise the individual impact while ensuring the continual delivery of services. The City of Hobart will be undertaking a Strategic Rates Review during 2023-24 and this will be used to inform future updates to the LTFMP.

Grants and Donations

A modest increase has been assumed across the LTFMP, however, the City of Hobart is currently centralising grant management across the organisation. This approach will ensure a more targeted approach to grant applications aligning to the strategic priorities of the City.

Fines

Fines are predominantly set through legislation. Due to the statutory requirements, modest increases have been modelled across the LTFMP.

Provision of Services

Provision of Services increases have been closely modelled on alignment to CPI. The City of Hobart will be commencing a review of all fees and charges and the review will inform the future setting of its fees and charges.

Distributions from TasWater

The Distribution from TasWater has been set on known increases in 2023-24 and 2024-25 and then a 2.5 per cent increase across the remaining periods of the LTFMP.

Interest

In 2023-24, Interest has been based on the average interest across current investments. Over the term of the LTFMP Interest is forecast to closely align to CPI.

Rents

Rents have been forecast in line with the Provision of Services. Rents will also be reviewed as part of the broader review of fees and charges.

Labour Costs

In 2023-24 Labour Costs are increasing by 6.86 per cent in accordance with the Hobart City Council Enterprise Agreement 2021. 2023-24 is the final year of the current agreement and the outyear estimates will be updated when a new agreement is negotiated.

Materials and Services

Expenditure related to Material and Services is based on known contract costs and forecasts for other expenditure. In 2023-24, an internal efficiency dividend has been applied to Materials and Services to enable revenue from rates and charges to remain below the level that would have been required to fully cover the cost to delivery the existing level of services. This is not an effective cost management strategy in the long term and future cost structures will be informed by review of existing services.

Depreciation and Amortisation

The rate adopted across the LTFMP for Depreciation and Amortisation is set at 3.5 per cent. This is to recognise that the City conducts regular revaluations of major asset classes, constructs new assets during the capital works program and identifies other assets adding to the overall replacement costs of the depreciable asset base.

Finance Costs

Finance costs have been modelled on the average cost to service the existing level of debt.

State Fire Commission Levy

The 2023-24 increase in the State Fire Commission Levy is 6.46 per cent. The forecast from 2024-25 onwards is four per cent.

Other Expenditure

Other Expenditure increases have been modelled on the same basis as Materials and Services across the LTFMP.

Capital Program

As discussed under the Asset Plan Integration section, the City will undergo a significant review of its Asset Management Plan during 2023-24. In addition, the City is developing a new framework for determining and prioritising capital projects in each financial year. The new framework will also consider the ongoing operational costs of undertaking a capital project to ensure the cost for operating and maintaining any new asset is affordable.

The LTFMP does not assume that all desired capital work projects will automatically be funded, particularly those requiring external grant funding. Projects will only be included in the LTFMP when funding is reasonably assured and committed to by the City. This establishes an understanding of what the City can afford and deliver with reasonable certainty over the 10 year period.

The inputs into the LTFMP are only concerned with the quantum of funding forecasts across each category; new, upgrade or renewal. Individual capital projects will continue to be assessed and prioritised for approval annually as part of the Budget development process.

The capital works program for 2023-24 which will have a primary focus on completing projects commenced during 2022-23 is detailed in Table 5:

Table 5 – 2023-24 Capital Program by Category

Category	2023-24 Budget \$'000
New	14,192
Upgrade	3,846
Renewal	12,731
Plant and Equipment	4,231
Total	35,000

The funding breakdown for 2023-24 is detailed in Table 6:

Table 6 – 2023-24 Capital Program by Funding

Funding Source	2023-24 Budget \$'000
City of Hobart Funding	24,425
Grant Funding	10,575
Total Funding	35,000

Other Assumptions

In addition to the primary assumptions underpinning the LTFMP, the following additional assumptions were also considered to inform the plan:

Local Government Reform

There are no assumptions in the current LTFMP on the future direction of the Local Government Reform. Although there is current discussion on the future amalgamation of Councils the discussions have not progressed to the point of understanding or modelling what those changes may be.

Service Levels

The assumptions in the LTFMP assume that the current level of services remain unchanged. These assumptions may require updating in future LTFMP models as the City's Service Catalogue is developed and discussion and decisions regarding the provision of services occur.

Budget

The LTFMP assumes the 2023-24 Budget is adopted and is included in the plan.

Indexation Factors

Indexation factors will be reviewed annually as the LTFMP financial model is updated.

Staffing Levels

The assumption is that the current staffing levels, aligned to current service levels remain constant across the LTFMP. There may be changes within the organisation, however, there is no current forecast to change the current staffing levels.

Sensitivity Analysis

The purpose of sensitivity modelling is to demonstrate the robustness of the adopted financial model and the potential impact on the City's financial position should there be any movement in the assumptions underpinning the model.

Considering the range of assumptions in relation to inputs into the LTFMP model it is inevitable that there will be some variation to the input assumptions. However, reviewing and updating the LTFMP annually will provide robustness in the underlying modelling.

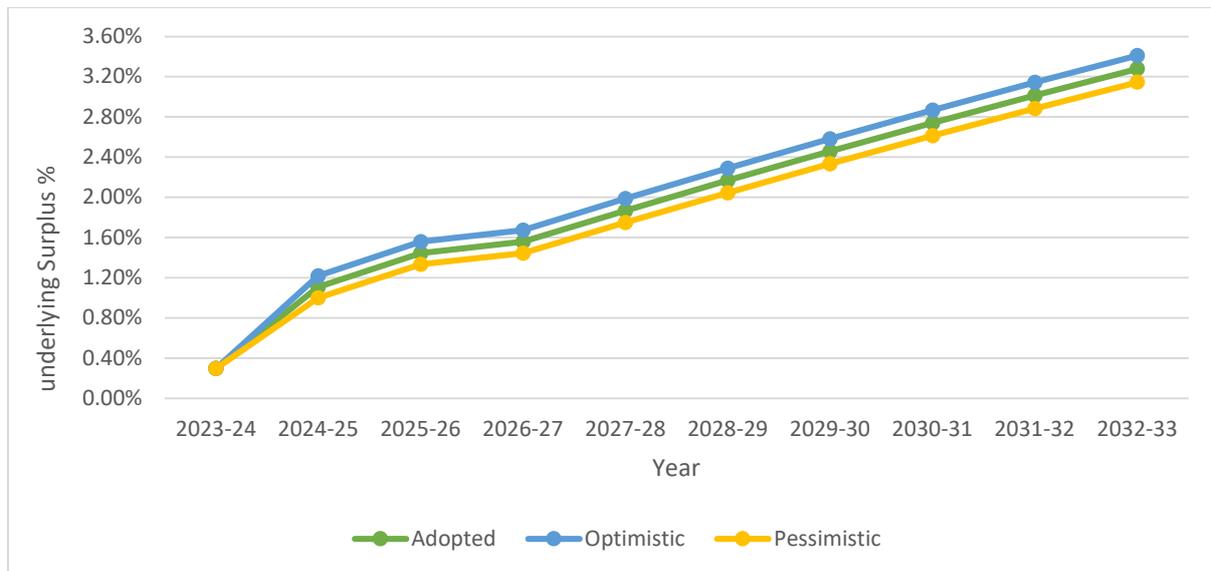
The sensitivity analysis has considered movement in the largest two revenue categories, rates and charges and fees and charges, and largest two expenditure categories, employee costs and materials and services. The analysis in Table 7 assumes a 0.5 per cent movement from the assumed key LTFMP input indices.

Table 7 – Sensitivity Analysis Assumptions

Revenue/Expenditure Item	Optimistic Model	Pessimistic Model	Average Annual Movement
Rates and Charges	Additional 0.5%	Decrease of 0.5%	+/- \$675,000
Fees and Charges	Additional 0.5%	Decrease of 0.5%	+/- \$218,000
Employee Costs	Decrease of 0.5%	Increase of 0.5%	-/+ \$422,000
Materials and Services	Decrease of 0.5%	Increase of 0.5%	-/+ \$223,000

One of the key financial management strategies was to incrementally deliver an underlying surplus of two per cent of total revenue over the period of the LTFMP. The sensitivity analysis in Figure 5 indicates that this will not currently be realised and further reviews will occur during 2023-24 to ensure this can be achieved over the longer term.

Figure 5 – Underlying Surplus as a percentage of revenue



Risk Management

The City of Hobart is currently undertaking a review of its risk management framework and the strategic risk of the organisation. One of the City’s key risks is its financial sustainability. To realise financial sustainability the City has the:

- Ability to meet the needs of Council and our community now and in the future;
- Ability to absorb unforeseen financial impacts; and
- Ability to manage key and absorb key input costs including the management of supply chain risks and critical suppliers.

There are various external risks over which the City has no direct control. To mitigate and manage these potential risks, the LTFMP will be reviewed and updated annually prior to being presented to Council for adoption. Following are key risks that could have a significant impact on the financial sustainability of the City, or directly impact the inputs of the LTFMP.

Local Government Reforms

No assumptions regarding the outcome of the Local Government reforms have been assumed in this LTFMP. The impacts of any changes under the reform agenda will continue to be monitored and update when required.

Employee Entitlements

Labour expenditure is the biggest cost driver for the City of Hobart, at 44 per cent of total expenditure. Increases in 2023-24 will be in line with the Hobart City Council Enterprise Agreement 2021. Beyond 2023-24 modest increases have been modelled annually, however, these increases will be subject to negotiation of a new Enterprise Agreement from 2024-25.

In addition to the annual salary cost of employees is the employee benefit liabilities. These liabilities are a substantial and pose a financial risk to the City. The City will be undertaking work in 2023-24 to implement plans to manage the current employee liabilities balances.

Price Indices

The LTFMP relies on a number of forecasting measures and assumptions. Any major discrepancy with these indices will impact future projections. This risk is mitigated by updating the LTFMP annually and changing any price indices as require.

Consumer Price Index

CPI is a key measure of household inflation published quarterly to reflect the movement in prices on a wide range of goods and services. Annual Hobart CPI to March 2023 was 6.86 per cent. Any significant movement in CPI from current forecasts could have a material impact on the financial modelling.

Council Cost Index

The Local Government Association of Tasmania publishes an annual index, which reflects cost increases directly associated to services provided by Local Governments. This index recognises that CPI does not fully represent the best measure of costs across the Local Government sector.

Damage to Infrastructure

Council is exposed to the risk that damage will occur to infrastructure such as roads, bridges, stormwater, parks and buildings. Damage can occur through natural disasters or acts of vandalism. Any damage will require redirection of capital and/or operational budgets and could result in changes to levels of service and increases in insurance premiums.

Statement of Comprehensive Income

Statement of Comprehensive Income	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Recurrent Income										
Rates and Charges	110,271	115,785	120,416	124,932	129,617	134,477	139,520	144,752	150,180	155,812
Grants and Donations	4,343	4,452	4,563	4,677	4,794	4,914	5,037	5,162	5,292	5,424
Fines	8,320	8,528	8,741	8,960	9,184	9,413	9,649	9,890	10,137	10,391
Fees and Charges	36,928	38,774	40,325	41,838	43,406	45,034	46,723	48,475	50,293	52,179
Distributions from TasWater	2,606	2,606	2,671	2,738	2,806	2,877	2,948	3,022	3,098	3,175
Interest	1,657	1,723	1,784	1,837	1,883	1,930	1,978	2,028	2,079	2,130
Rents	3,419	3,556	3,698	3,837	3,981	4,130	4,285	4,445	4,612	4,785
Total Recurrent Income	167,544	175,424	182,198	188,818	195,671	202,775	210,140	217,775	225,690	233,896
Recurrent Expense										
Employee Costs	73,074	75,632	77,901	80,238	82,243	84,300	86,407	88,567	90,781	93,051
Materials and Services	37,221	38,710	40,065	41,467	42,918	44,420	45,975	47,584	49,250	50,973
Depreciation and Amortisation	35,000	36,225	37,493	38,805	40,163	41,569	43,024	44,530	46,088	47,701
Finance Costs	1,815	1,897	1,977	2,061	2,149	2,240	2,335	2,435	2,538	2,646
State Fire Commission Levies	14,234	15,088	15,993	16,953	17,970	19,048	20,191	21,403	22,687	24,048
Other	5,700	5,928	6,135	6,350	6,572	6,803	7,041	7,287	7,542	7,806
Total Recurrent Expense	167,044	173,479	179,564	185,874	192,016	198,380	204,973	211,806	218,886	226,226
Underlying Surplus/(Deficit)	500	1,945	2,634	2,944	3,654	4,395	5,167	5,969	6,804	7,670
Capital Income										
Capital grants received specifically for new or upgraded assets	2,979	4,290	4,487	4,017	4,371	4,399	4,369	4,489	4,529	4,574
Net gain on disposal of property, plant and equipment	180	222	176	197	203	197	204	206	208	211
Contributed property, plant and equipment	4,438	4,967	5,772	5,185	5,441	5,603	5,545	5,668	5,745	5,794
Total Capital Income	7,597	9,479	10,435	9,399	10,015	10,198	10,118	10,363	10,482	10,579
Surplus / (Deficit)	8,097	11,423	13,069	12,343	13,669	14,593	15,284	16,333	17,286	18,249

Statement of Financial Position

Statement of Financial Position	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current Assets										
Cash and Cash Equivalents	32,062	30,431	26,180	27,496	25,709	30,750	30,413	28,722	27,779	28,822
Inventories	455	473	489	507	524	543	562	581	602	623
Receivables	8,499	8,911	9,261	9,602	9,957	10,324	10,705	11,100	11,509	11,934
Investments	41,000	41,000	46,000	46,000	51,000	51,000	51,000	54,000	58,000	62,000
Prepayments	589	618	642	666	690	716	742	769	798	827
Total Current Assets	82,605	81,433	82,573	84,271	87,880	93,332	93,421	95,173	98,687	104,206
Non-Current Assets										
Investment in TasWater	165,866	171,119	176,504	182,023	187,680	181,881	175,938	182,030	175,785	169,385
Property, Plant and Equipment	2,528,243	2,595,549	2,662,802	2,728,801	2,791,584	2,849,294	2,919,846	2,990,292	3,057,018	3,121,940
Intangibles	3,830	2,949	2,293	1,801	1,434	1,160	956	804	692	609
Right-of-Use Assets	8,804	8,418	8,076	8,464	8,159	7,919	7,760	8,246	8,087	7,911
Employee Benefits	11,240	8,536	11,430	8,234	11,217	8,143	11,277	8,163	11,322	8,133
Total Non-Current Assets	2,717,983	2,786,571	2,861,104	2,929,323	3,000,074	3,048,397	3,115,776	3,189,534	3,252,904	3,307,977
Total Assets	2,800,588	2,868,004	2,943,676	3,013,594	3,087,954	3,141,729	3,209,197	3,284,706	3,351,591	3,412,184
Current Liabilities										
Payables	11,455	11,970	12,465	12,981	13,520	14,084	14,672	15,287	15,929	16,600
Trust Funds, Deposits and Retentions	2,506	2,606	2,697	2,792	2,889	2,991	3,095	3,204	3,316	3,432
Employee Benefits	10,925	11,308	11,647	11,996	12,296	12,604	12,919	13,242	13,573	13,912
Contract Liabilities	3,377	3,529	3,675	3,827	3,986	4,152	4,325	4,507	4,696	4,894
Loans	4,064	3,331	3,448	3,565	3,691	3,818	3,950	4,088	4,231	3,478
Provisions	150	122	149	140	137	142	140	140	140	140
Lease Liabilities	818	813	832	857	884	935	938	967	918	65
Total Current Liabilities	33,295	33,679	34,913	36,158	37,404	38,725	40,040	41,433	42,803	42,522
Non-Current Liabilities										
Employee Benefits	8,447	8,743	9,005	9,275	9,507	9,745	9,988	10,238	10,494	10,756
Loans	35,796	32,465	29,017	25,452	21,761	17,943	13,992	9,904	5,673	2,195
Provisions	3,908	3,639	3,388	3,154	2,937	2,734	2,546	2,370	2,207	2,055
Lease Liabilities	9,121	8,728	8,327	8,668	8,261	7,844	7,489	7,798	7,497	8,012
Total Non-Current Liabilities	57,272	53,574	49,737	46,550	42,466	38,266	34,016	30,311	25,871	23,018
Total Liabilities	90,567	87,253	84,649	82,708	79,870	76,991	74,056	71,744	68,674	65,540
Net Assets	2,710,021	2,780,751	2,859,027	2,930,886	3,008,084	3,064,738	3,135,141	3,212,963	3,282,918	3,346,644
Equity										
Reserves	1,607,906	1,705,128	1,803,322	1,901,909	1,998,605	2,079,991	2,175,281	2,283,674	2,377,438	2,470,646
Retained Earnings	1,102,115	1,075,622	1,055,705	1,028,977	1,009,479	984,747	959,859	929,288	905,480	875,998
Total Equity	2,710,021	2,780,751	2,859,027	2,930,886	3,008,084	3,064,738	3,135,141	3,212,963	3,282,918	3,346,644

Cash Flow Statement

Cash Flow Statement	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash Flows from Operating Activities										
Rates	132,325	138,942	144,499	149,918	155,540	161,373	160,448	166,465	172,707	179,184
Rendering of services (inclusive of GST)	41,902	43,998	45,757	47,473	49,254	51,101	53,017	55,005	57,068	59,208
Interest	1,449	1,507	1,560	1,607	1,647	1,688	1,730	1,773	1,818	1,863
Grants (inclusive of GST)	4,321	4,429	4,540	4,653	4,769	4,889	5,011	5,136	5,264	5,396
Rents (inclusive of GST)	3,824	3,977	4,137	4,292	4,453	4,620	4,793	4,973	5,159	5,352
Fines	7,904	8,102	8,304	8,512	8,725	8,943	9,166	9,395	9,630	9,871
Distributions from TasWater	2,606	2,606	2,671	2,738	2,806	2,877	2,948	3,022	3,098	3,175
Employee costs	(76,728)	(79,413)	(81,796)	(84,249)	(86,356)	(88,515)	(90,727)	(92,996)	(95,320)	(97,704)
Payments to suppliers (inclusive of GST)	(42,804)	(44,516)	(46,074)	(47,687)	(49,356)	(51,083)	(52,871)	(54,722)	(56,637)	(58,619)
Other payments (inclusive of GST)	(18,937)	(19,965)	(21,022)	(22,138)	(23,315)	(24,558)	(25,870)	(27,255)	(28,717)	(30,261)
Net Cash Flow from Operating Activities	55,863	59,665	62,576	65,118	68,166	71,332	67,644	70,797	74,069	77,465
Cash Flows from Investing Activities										
Grants	2,681	3,861	4,038	3,615	3,934	3,959	3,932	4,040	4,076	4,117
Investments	11,000	11,000	5,000	10,000	5,000	10,000	10,000	0	0	0
Sales of Property	81	83	85	87	89	91	93	96	98	100
Sales of Plant and Equipment	700	719	737	755	773	789	808	828	846	864
Sales of Intangibles	80	62	48	38	30	24	20	17	14	13
Investments	(11,000)	(11,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(3,000)	(4,000)	(4,000)
Infrastructure - Employee Costs	(3,876)	(4,012)	(4,132)	(4,256)	(4,362)	(4,471)	(4,583)	(4,698)	(4,815)	(4,936)
Infrastructure and Facilities - Other	(42,980)	(44,124)	(45,268)	(46,390)	(47,457)	(48,438)	(49,637)	(50,835)	(51,969)	(53,073)
Property	(3,792)	(3,893)	(3,994)	(4,093)	(4,187)	(4,274)	(4,380)	(4,485)	(4,586)	(4,683)
Plant and Equipment	(7,585)	(7,787)	(7,988)	(8,186)	(8,375)	(8,548)	(8,760)	(8,971)	(9,171)	(9,366)
Net Cash Flow from Investing Activities	(54,691)	(55,092)	(61,474)	(58,430)	(64,555)	(60,868)	(62,506)	(67,009)	(69,506)	(70,964)
Cash Flows from Financing Activities										
Repayment of Borrowings	(10,132)	(4,064)	(3,331)	(3,448)	(3,565)	(3,691)	(3,818)	(3,950)	(4,088)	(4,231)
Repayment of lease liabilities (principal repayments)	(807)	(818)	(813)	(832)	(857)	(884)	(935)	(938)	(967)	(918)
Interest	(1,496)	(1,323)	(1,209)	(1,092)	(975)	(849)	(722)	(589)	(452)	(309)
Net Cash Flow from Financing Activities	(12,434)	(6,204)	(5,353)	(5,372)	(5,397)	(5,424)	(5,475)	(5,478)	(5,507)	(5,458)
Net Increase/(Decrease) in Cash Held	(11,263)	(1,631)	(4,251)	1,316	(1,787)	5,040	(337)	(1,690)	(944)	1,044
Cash Held at the Beginning of the Year	43,325	32,062	30,431	26,180	27,496	25,709	30,750	30,413	28,722	27,779
Cash held at the End of the Year	32,062	30,431	26,180	27,496	25,709	30,750	30,413	28,722	27,779	28,822