ATTACHMENT 3

Long Term Financial Plan 2014 – 2024

This Long Term Financial Plan comprises Part 3 of the *Resourcing Strategy 2014-2024*. It has been provided here as a separate attachment for the purposes of the special variation application.

At the time of publication and public exhibition of this document, each of the proposed options for Resourcing Our Future assumed a rate peg of 3.0% per annum over the 10 years of the Long Term Financial Plan. This estimate was made given historical rate pegs, recent reductions in the rate peg and indications of future rate pegs.

An announcement has recently been made to set the rate peg for 2015/16 at 2.4%. There is no impact to overall revenue under Option 1 or Option 2 as a result of this rate peg announcement, since the Council would be seeking a special variation in 2015/16 under both of these options. There is, however, an increase to the additional revenue available as a result of the special variation under both of these options.

In regards to Option 3 (baseline scenario), the announcement results in slightly less revenue under this option due to the lower than expected rate peg.

The tables and figures in this document still reflect the assumed rate peg of 3.0% for 2015/16, which was our best estimate at the time of publication.

Attachment 3

3: Long Term Financial Plan 2014-2024

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List of Acronyms

ABS	Australian Bureau of Statistics
ACLG	Australian Classification of Local Governments
AMIP	Asset Management Improvement Program
AMP	Asset Management Policy
AMS	Asset Management Strategy
APZ	Asset Protection Zones
BIRR	Built Infrastructure Renewal Ratio
BMCC	Blue Mountains City Council
CSP	Community Strategic Plan (i.e. Sustainable Blue Mountains 2025)
ELT	Executive Leadership Team
FAG	Financial Assistance Grant (from Australian Government)
FSR	Floor Space Ratio
GRSG	Governance and Risk Steering Group
IPART	Independent Pricing and Regulatory Tribunal
IPF	Integrated Planning Framework
IRSD	Index of relative Socio-economic Disadvantage (one of the SEIFA indices)
LGA	Local Government Area
LGPMC	Local Government and Planning Ministers' Council
LGSA	Local Government and Shires Association
LTFP	Long-Term Financial Plan 2014-2024
NAVF	Natural Area Visitor Facility
NBN	National Broadband Network
OLG	Office of Local Government
RFS	Rural Fire Service
RMS	Roads and Maritime Service
SAMSC	Strategic Asset Management Steering Committee
SBM 2025	Sustainable Blue Mountains 2025 (the Community Strategic Plan)
SEIFA	Socio-economic Indexes for Areas (prepared by the ABS)
SES	State Emergency Service
SGC	Superannuation Guarantee Charge
SV	Special Variation (for Rates)
TCorp	Treasury Corporation (NSW Government)
UFL	Urban fringe large (council – ACLG category)
WHS	Work Health and Safety
WMF	Waste Management Facility
WMS	Workforce Management Strategy

3.1 Introduction

This *Long Term Financial Plan* (LTFP) outlines the Council's:

- Current financial position and financial performance ***(Section 3.3 –** Current financial position)*
- Commitment to financial sustainability and key factors that will drive the achievement of financial targets ***(Section 3.4 –** A Council committed to financial sustainability)*
- Long-term financial projections based on three alternative financial scenarios and their impact on rates and service expenditure ***(Section 3.5** – Development of options for Resourcing Our Future)*
- Projected financial performance of each financial scenario based on industry benchmarks ***(Section 3.6** – Measuring financial sustainability)*
- Key planning assumptions used in the development of the three financial scenarios ***(Section 3.7** – Key planning assumptions, revenue and expenditure)*
- Financial plan risks ***(Section 3.8)*** and financial planning conclusions ***(Section 3.9)***

3.2 Executive Summary

The *Long Term Financial Plan* (LTFP) establishes the framework for sound financial decisions, as well as being a financial modelling tool that:

- Assesses revenue building capacity to resource the implementation of our Community Strategic Plan - *Sustainable Blue Mountains 2025*
- Establishes the Council's transparency and accountability to the community in managing the City's finances
- Provides an opportunity for early identification of financial issues and any likely impacts in the longer term
- Confirms that the Council can be financially sustainable in the longer term

Like most NSW councils, we continue to face increasing pressures on our financial sustainability and on our ability to provide our community with the current levels of services and facilities within available funding. These pressures are a result of costs rising faster than the allowable increase in rating revenue, cost shifting and funding cuts from other levels of government and the financial and risk management challenges arising from ageing infrastructure.

To ensure we achieve financial sustainability into the future a review of the *LTFP* occurs each year to confirm the Council's financial management strategies are meeting the needs of the City.

The *LTFP*'s strategic approach is underpinned by the *Six Strategies for Financial Sustainability* that were adopted by the Council in 2013. These financial strategies are:

- Strategy 1: Avoiding shocks
- Strategy 2: Balancing the budget
- Strategy 3: Managing borrowings responsibly
- Strategy 4: Increasing income
- Strategy 5: Reviewing and adjusting service levels
- Strategy 6: Increasing advocacy and partnerships

These strategies ensure that:

- We maintain sufficient cash reserves to meet our short term working capital requirements
- We can achieve, within available funding, our *Asset Management Strategy* and *Asset Works Program*, including required renewal and maintenance of assets at agreed affordable levels of service
- We manage risks responsibly so that we fulfil our custodian role
- We deliver the best possible range of value for money services to meet community needs within available funding

The strategic directions in this revised Plan involve the implementation of all six strategies. Three financial scenarios are provided, based on the three rating options which were presented to the community in 2014 for consideration:

Financial Scenario 1 based on **Rating Option 1**

Reinstates the existing Environment Levy in 2015/2016 on a permanent basis and includes special rate variation annual increases of 6.6% in 2015/2016, followed by three increases of 9.6% from 2016/2017 to 2018/2019 (i.e. A special variation rate increase of 40.4% over four years including 3% annual rate peg and the 3.6% existing Environment Levy). This raises an additional $98.5M by 2023/2024. Under this Option, service levels are improved, with the proportion of built assets in poor condition moving from 21% to 17% by 2024 and the current capacity of the Council to protect and restore the natural environment being retained.

Financial Scenario 2 based on **Rating Option 2**

Reinstates the existing Environment Levy in 2015/2016 on a permanent basis and includes special rate variation annual increases of 6.6% in 2015/2016, followed by three increases of 7.4% from 2016/2017 to 2018/2019 (i.e. A special variation rate increase of 32.1% over four years including 3% rate peg and the 3.6% existing Environment Levy). This raises an additional $70.3M by 2023/2024. Under this Option, service levels are maintained with the proportion of built assets in poor condition remaining at 21% by 2024 and the current capacity of the Council to protect and restore the natural environment being retained.

Financial Scenario 3 based on **Rating Option 3**

Discontinues the existing Environment Levy when it expires in June 2015, resulting in a reduction in rating revenue of $17.0M by 2023/2024. Rates increase by rate peg only, estimated at 3% per annum. Under this Option, there is a significant reduction in service levels with deterioration in the Council's built assets from the current 21% to 37% in poor condition by 2024 and significantly reduced capacity to protect and restore the natural environment (i.e. Rates increase of 12.6% over four years).

Financial Scenarios 1 and 2, which involve special rate increases will, to varying degrees, reset our long-term operations to positions that better deliver the community's priorities as reflected in the Community Strategic Plan - *Sustainable Blue Mountains 2025*. These scenarios enable us to continue to provide the best possible services for our community while working toward financial sustainability into the future.

Projections under Financial Scenario 3 indicate an unsustainable position, as even with considerable adjustments to the services provided by the Council, a significant operating deficit remains for the entire life of the *LTFP* and the proportion of Council's built assets in poor condition increase to 37% (currently 21%).

The Council has engaged with the community on all three Funding Options, as required by Independent Pricing and Regulatory Tribunal (IPART), before considering whether to apply for a special rate increase.

3.3 Current financial position

As confirmed by NSW Treasury Corporation (TCorp) and by the Council's Annual Financial Statements, the Council's financial results are sound, albeit with significant challenges each year in managing costs rising faster than available revenue. Revenue has increased over the past few years and our expenditure has been well managed. Our cash liquidity is sound and the majority of the financial performance measures are above benchmark. The critical issue is that the Council's asset renewal and maintenance requirements are significantly underfunded, which impacts our operating result including depreciation.

Put simply, the Council does not have the required level of revenue to meet expenditure requirements – without strong corrective measures, the financial sustainability of the Council will deteriorate significantly. The current financial position of the Council is summarised in *Table 3-1* Sources of Revenue and *Table 3.2* Areas of Council expenditure below.

Table 3-1 Sources of Council revenue 2012-2013 (Source: BMCC Audited Annual Financial Statements 2012/2013)

Revenue Source	% of Budget	$M
Rates & Annual Charges	59%	$56.1
User Charges & Fees	14%	$13.7
Interest on Investments	2%	$1.4
State Government Grants (operating)	3%	$3.2
State Government Grants (capital)	0%	$0.3
Federal Government Grants (operating)	11%	$10.4
Federal Government Grants (capital)	2%	1.7
Contributions (operating)	1%	1.3
Contributions (capital)	1%	1.2
Other Revenue	7%	6.6
Total Revenue (including capital)	**100%**	**$95.9**

Table 3-2 Areas of Council expenditure 2012-2013 (Source: BMCC Audited Annual Financial Statements 2012/2013)

Expenditure	% of Budget	$M
Employee Benefits & On-costs	44%	$43.4
Borrowing Costs	4%	$3.6
Materials & Contracts	22%	$21.2
Depreciation & Amortisation	17%	$16.2
Other Expenses	13%	$13.3

Table 3-3 Summary of financial statements as at 30 June 2013 (Source: BMCC Audited Annual Financial Statements 2012/2013)

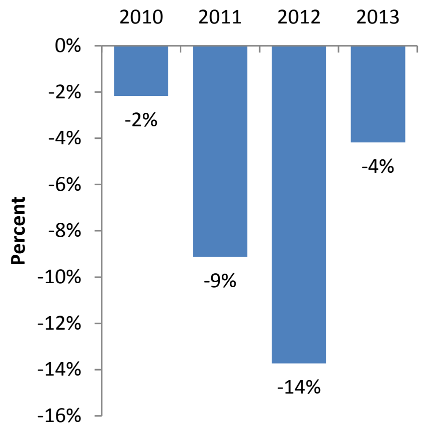
	$M
INCOME STATEMENT	
Total Income from Continuing Operations (including capital)	$95.9
Total Expenses from Continuing Operations	($97.7)
Net Operating Result for the year (including capital)	($1.8)
Net Operating Result excluding Capital Revenue	($5.0)
BALANCE SHEET	
Total Current Assets	$43.2
Total Non-Current Assets	$833.9
Total Current Liabilities	($23.6)
Total Non-Current Liabilities	($50.8)
Total Equity	**$802.7**
CASH FLOW	
Net Cash Provided Operating Activities	$17.5
Net Cash Used in Investing Activities	($41.4)
Net Cash Provided Financing Activities	$5.0
Net Decrease in Cash	**($18.9)**
Cash – Beginning of Year	$31.5
Cash End of the Year	**$12.6**
Investments on Hand – End of Year	$25.0
Total Cash, Cash Equivalents & Investments	**$37.6**

3.3.1 Current financial performance

We measure our financial performance against seven local government and NSW Treasury Corporation (TCorp) financial performance indicators. The following graphs present our performance to date against prior years' performance. While some of the results surpass the benchmark targets, a number demonstrate that we had, and will continue to have, significant challenges for managing long-term financial sustainability, unless strong action is not taken to address these challenges.

Figure 3.1 Financial performance indicators 2010-2013

1. OPERATING RESULT % (including depreciation, excluding capital revenue)



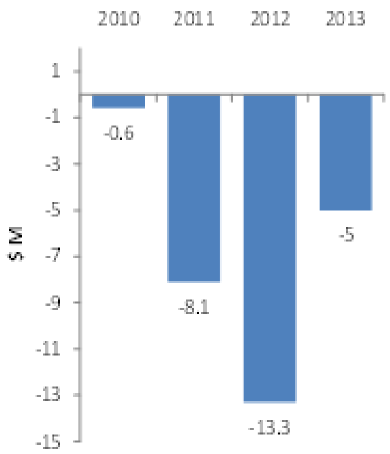
What is being measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation) measured as a percentage

Calculation: Total operating revenue (excluding capital revenue) less total operating expenses (including depreciation costs) divided by total operating revenue (excluding capital revenue)

Target: Within the range of 1% to -1%

Comment: Significant improvement has occurred in recent years due to a review of asset data, resulting in a more accurate depreciation calculation. However the target is not met which indicates an unsustainable financial position since revenue is not covering expenditure requirements, particularly funding for asset depreciation.

2. OPERATING RESULT $ (including depreciation, excluding capital revenue)



What is being measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation) measured in dollars

Calculation: Total operating revenue (excluding capital revenue) less total operating expenses (including depreciation costs)

Target: Within the range of $1 Million to -$1 Million

Comment: Significant improvement has occurred in recent years due to a review of asset data, resulting in a more accurate depreciation calculation. However the target is not met which indicates an unsustainable financial position since revenue is not covering expenditure requirements, particularly funding for asset depreciation.

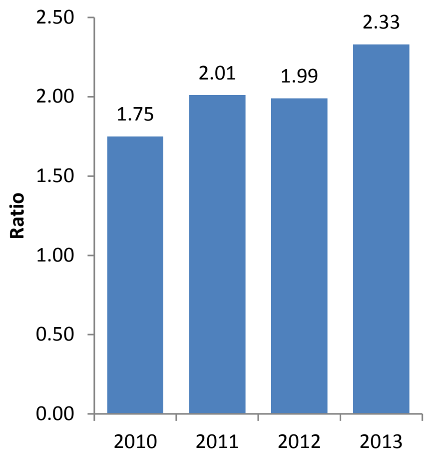
3. UNRESTRICTED CURRENT RATIO

What is being measured: The adequacy of the Council's unrestricted working capital cash funds to meet short term unrestricted financial obligations as they fall due

Calculation: Ratio of unrestricted current assets divided by unrestricted current liabilities.

Target: Greater than 1.5 : 1.0

Comment: The Council has adequate working capital funds to meet shorter term financial obligations as they fall due.



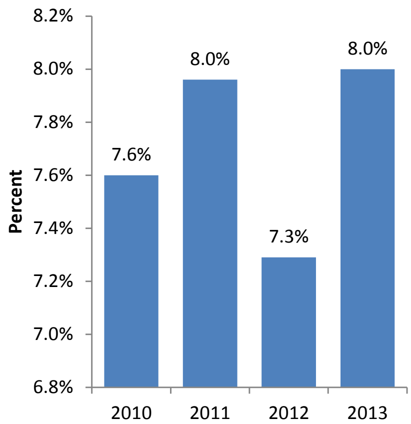
4. DEBT SERVICE RATIO

What is being measured: Percentage of the Council's total revenue used to service debt

Calculation: Total loan principal & interest payments divided by operating revenue

Target: Less than 10%

Comment: The Council has the ability to service its debt and is currently within the acceptable benchmark level. However any further debt needs to comply with the Council's Borrowing Policy and long-term strategic approach to debt particularly in respect of the Council's capacity to service additional debt costs.



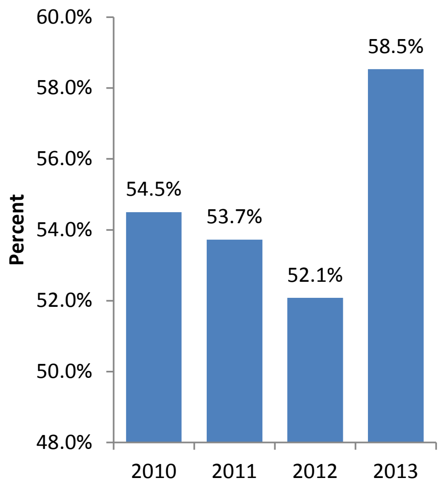
5. RATES & ANNUAL CHARGES COVERAGE RATIO

What is being measured: The Council's reliance on rates & annual charges revenue to fund operations and the security of the Council's total revenue

Calculation: Rates and annual charges as a percentage of operating revenue

Target: Greater than 40% = Sustainable

Comment: This result affords the Council a degree of certainty with regard to its principal revenue stream – Rates. Meeting and exceeding the target also reduces the risk of unplanned revenue shocks impacting service levels.



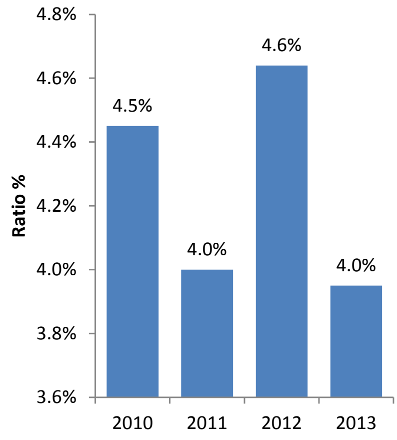
6. RATES, ANNUAL CHARGES, INTEREST & EXTRA CHARGES OUTSTANDING PERCENTAGE

What is being measured: The impact of uncollected rates and annual charges on the Council's liquidity and the adequacy of debt recovery efforts

Calculation: Outstanding rates and annual charges as a percentage of collectible rates and annual charges

Target: Less than 5%

Comment: The target is currently being met and this result reflects that efficient credit management practices are being applied. It also indicates that a very high proportion of residents are managing to pay their rates on time and that residents have capacity to pay rates.



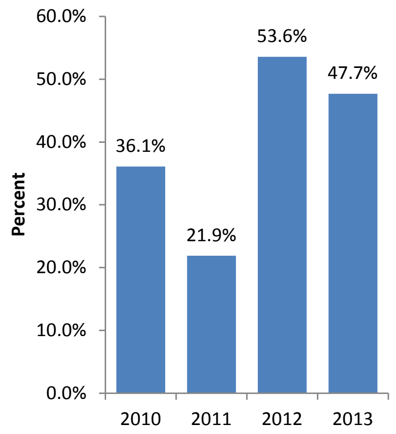
7. BUILDING & INFRASTRUCTURE RENEWALS RATIO

What is being measured: The Council's ability to fund the renewal of road, drainage and building assets relative to the amount of funding projected to be required from depreciation expenditure requirements

Calculation: Road, drainage and building asset renewal expenditure divided by depreciation expenditure

Target: Equal to 100% = Good; Less than 100% = Unsustainable

Comment: This ratio indicates the Council does not have the ability to fund the renewal of its road, drainage and building assets. This is evidenced in the *Asset Management Strategy* which estimates that approximately 21% of the Council's almost $1 billion worth of built assets are in poor condition. Without corrective action this is projected to grow to 37% by 2023/2024.



3.3.2 Key constraints

It is important to note that while long-term financial sustainability is the Council's goal, like most council's in NSW, this will be difficult to achieve in the current environment due to:

- The Council not being able to fund current built asset life cycle cost at current levels of service and available revenue. Which means the condition of assets will continue to deteriorate in the short term unless there is, on average, an additional $23.8M spent on assets each year for the next 10 years
- The scale of the shortfalls in infrastructure maintenance funding and asset renewal funding for has already led to some deterioration in asset condition.
- The unique environmental, geographic, geomorphic, heritage and urban development characteristics of the City (as discussed in *Part 2: City Context* of the *Resourcing Strategy*), which effectively results in:
  - Limited opportunity for urban expansion and, therefore, for new rating revenues
  - Costly management of world heritage and tourism

- Demand for increasing service levels, in line with resident expectations and access to facilities/services
- Costly management of bushfire risks
- Large asset portfolio due to number and spread of settlements
- Low economies of scale in service delivery costs across low density, fragmented areas

Australian and NSW Government fiscal policy changes are a major factor in reaching financial sustainability. Key Australian and NSW Government policy issues that the *LTFP* must take into consideration are:

- Constrained rate revenue; for 35 years the NSW Government has imposed rate pegging, which limits the amount by which councils can increase their rate income in any given year, irrespective of the amount by which costs have actually increased. As a result, NSW councils have the lowest rates in Australia.

Table 3-4 NSW Rate Peg variations since 2005/2006

2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
3.5%	3.6%	3.4%	3.2%	3.5%	2.6%	2.8%	3.6%	3.4%	2.3%

- The impact of local government collecting approximately 3% of taxation revenue, but being responsible for 36% of non-financial assets held by all spheres of government
- Significant additional cost burdens from the continual shifting of responsibilities for service provision from the Australian and NSW Governments to local government, without corresponding funding. For example, in 2010-2011 the impact of cost shifting on Blue Mountains Council was $6.9 million in additional expenditure requirements

Long-term financial sustainability for the Council can be achieved through successfully implementing the all Council endorsed *Six Strategies for Financial Sustainability*. However, ‘where we need to be’ will be informed by, and contingent upon, the input received from the community engagement on rating funding options within each of the financial scenarios. This engagement with the community will identify the preferred option of either increasing the revenue available to maintain and/or improve our infrastructure shortfall or, alternatively, reduce the revenue available and reduce the existing levels of service.

Australian and NSW Government Policy influences on the Council’s long-term financial position

Australian Government: Family Day Care

Changes to the Australian Government, Department of Education *Community Support Programme* (CSP) were announced in the 2014/15 Australian Government Budget. As at 30 June 2015 the Department of Education (DoE) will terminate all CSP contracts with family day care approved services. This includes services receiving both Operational Support Funding and Sustainability.

Assistance. Services that currently are eligible for CSP funding will continue to receive funding until 30 June 2015. All Services must make a new application for Operational Support Funding under the CSP and be assessed under the new eligibility criteria. Successful applications for Operational Support Funding will be capped at $250,000 and funding agreements offered to services for 2015/16 will be for one year only.

Under the new criteria it will be very difficult for the Council's Family Day Care service to meet the eligibility criteria. There are limited options available to compensate for this loss forcing fees to parents to increase. The CSP funding for Blue Mountains Family Day Care was in the order of $210,000 per annum. The Blue Mountains Family Day Care service is currently under review.

Australian Government: Natural Disaster Relief and Recovery Funding

The Australian Government released a Productivity Commission draft report on Natural Disaster Funding Arrangements in September 2014. The recommendations of the Productivity Commission are of extreme importance to the Blue Mountains given its high exposure to natural disaster events; such as bushfire, snow and storms. The draft report proposes to reduce post-disaster support to encourage state and local governments to invest in mitigation or insurance. The Report broadly implies substantial cost-shifting to local government and greater fiscal responsibility in managing natural disaster events by landowners and local government. The full implications to local government and landowners is not made clear; however, the intention to constrain natural disaster funding at the Australian Government level is made quite clear by the Productivity Commission comment:

> "Raising the small disaster criterion and the reimbursement threshold would mean that Australian Government involvement is triggered only when states are faced with extraordinary fiscal impacts from natural disasters."

IPART also submitted to the Productivity Commission:

> "We agree with the Productivity Commission's assessment of the NSW Fire Services Levy, noting the distortionary effects it has on insurance prices and affordability. This was discussed in our Review of State Taxation (June 2008) where we recommended removing the Fire Services Levy and replacing it with a corresponding increase in local government contributions and rates. This would increase the contribution from all property owners via local government rates".

The current funding process works so that when a severe natural disaster occurs, causing damage to 'essential assets' in excess of $240,000 (including roads, bridges and Crown lands), the NSW Treasurer or his delegate may issue a Natural Disaster Declaration. Under these circumstances the Commonwealth and NSW Governments provide financial assistance to local government through Natural Disaster Relief and Recovery Arrangements (NDRRA) for emergency work and restoration of damaged council assets. A salient point is that whilst these current arrangements exist, many events do not trigger the funding threshold. In addition changes to the eligibility criteria for the Commonwealth/State Natural Disaster Relief and Recovery Arrangements were made 23 October 2013 that withdraw the ability to claim financial assistance for restoration of public assets at reserves, sporting fields, recreational facilities, including play equipment. Therefore, damage to these asset classes as a result of a natural disaster must be funded by local government or other non-government sources or, if considered to be essential to restoring the social fabric of a community, assistance may be granted through the NDRRA Community Recovery Fund.

NSW Government: Waste Levy

$ 2.9m in 2014/15 required for the NSW Government's Waste Levy which is a measure to deter waste but Council operates own facilities and already has a deterrent to extend life of facilities

In summary, ongoing Australian and NSW Government policy changes in the area natural disaster management may have dramatic consequences to the Council's ability to fund from its existing constrained revenues the additional service budget requirements for natural disaster mitigation and recovery. The outcomes of the Productivity Commission's draft recommendations may directly influence the Council's financial ability to 'avoid shocks' during natural disasters, resulting in decline or disruption to other services.

3.4 A Council committed to financial sustainability

To address our financial challenges, the Council has developed a 10-year plan, which will strengthen our financial capabilities and ensure we:

- Resource the continued implementation of *Sustainable Blue Mountains 2025*
- Fund future asset maintenance and renewal requirements in accordance with the level identified as affordable by the *Asset Management Strategy* and the *Asset Management Plans*
- Continue to balance our annual cash budget
- Improve our annual operating result

This plan involves the implementation of the S*ix Financial Strategies for Financial Sustainability*. When implemented together, these strategies will ensure that the Blue Mountains City Council is continually working to improve its financial position. These strategies apply equally to each of the three financial scenarios detailed in this plan.

The financial strategies provide direction and guidance for Councillors, the Council's management and the community on how the Council will achieve improved long-term financial sustainability.

The Council will only be able to achieve such a goal through the implementation of all of the strategies.

In considering the likely revenue that will be available to meet these objectives and in developing rating funding options, the Council has considered affordability of rates by reviewing:

- The current level of rates and charges
- The socio-economic profile of our community
- The potential to reduce the reliance on rates through increased revenues from other sources e.g. fees and charges, grants

Figure 3-2 BMCC's Six Financial Strategies for Financial Sustainability

- The potential growth or decline in rating revenue from changing demographics and industry makeup
- The possible need to increase reliance on rating due to a reduction in revenues from other sources such as a decline in grants or subsidies
- The projected impact of the rate peg
- Opportunities for a further special variation to rates
- The Council's current rating policy and likely changes to that policy in the future.

Further, the community engagement in August/September 2014 will provide information on the community's willingness to pay additional rates.

3.4.1 BMCC's Six Financial Strategies for Financial Sustainability

Strategy 1 – Avoid shocks

The Council proactively implements financial planning to ensure we live responsibly within our means, manage risks and prioritise resources to achieve best outcomes.

The *LTFP* assesses the Council's revenue capacity and projects future costs. This strategy of avoiding shocks will be achieved by the Council proactively using the *LTFP* to manage and smooth projected increases in costs or decreases in revenue. This provides the Council with an opportunity for early identification of financial issues and longer-term impacts. It also helps the Council make strategic decisions based on these issues and impacts – with the aim of minimising unexpected events.

By managing and making appropriate adjustments for increases in costs or decreases in revenue, this strategy positions the City to better withstand costly unexpected events and to continue to deliver quality services that meet community needs. Examples of unexpected events include the devastating October 2013 bushfires and the recent $2.9 million reduction in Australian Government Financial Assistance Grant funding to the Blue Mountains over the next four years.

Strategy 2 - Balance the budget

A. Annual cash budget

This strategy involves balancing the Council's cash budget each year, and over 10 years balancing the Operating Result (including depreciation and excluding capital grants) through a combination of strategies, including reducing debt, increasing revenue and adjusting of services as outlined below, as well as achieving operating savings through continuous business improvement initiatives.

Given that costs are rising in real terms by 2% more than income, the Council is taking action to balance its budget each year through a continued commitment to cost containment and business efficiency. Cost containment also includes intentional actions to reduce the cost of labour and materials and review servicing requirements.

The Council has been striving for continuous improvement to enable it to balance its annual operating budget over the longer term. It has a rolling program of service reviews and enforces budget containment strategies each year to enable the cash budget to be balanced (i.e. expenditure equals available income).

Some notable efficiency and revenue achievements are listed in *Table 3-5* below.

Table 3-5 Savings, efficiencies, revenues and productivity achievements

Current (past) savings $13 million over the past eight years from direct efforts to reduce costs.	Savings are those which occur from direct action taken to reduce costs of labour and/or materials. – Other operating costs - $1.0M – Contract management and insurance -$3.5M – Vehicle and purchases/management - $2.5M – Business and process Improvements - $0.4M – Materials management practices - $0.4M – Labour and consultancy costs - $4.0M – Waste initiatives -$2.0M
Projected savings $3.5 over the next five years	$3 million of the above past savings are likely to continue on an annual basis, that is, the direct action taken to reduce costs has an ongoing financial benefit. This is because those recurring annual costs would remain today if the action to reduce costs did not occur. – Savings in interest payments - $3.0M – Contract savings for utilities, hardware $0.5M
Efficiencies A number of initiatives have streamlined procedures and improved customer satisfaction.	– The contribution of Bushcare volunteers in conservation activities is estimated to save the Council $0.3M per annum in natural asset maintenance costs. – Implementation of initiatives to reduce energy costs; many projects achieved through grant programs. – Review of shoulder slashing work practices and equipment has resulted in more efficient use of workforce, estimated to save the Council $0.3M per annum – The implementation of split shift facility cleaning in town centres has improved service quality and reduced security contract costs. – The replacement of the oval mower plant with one that has a larger mowing deck has reduced the workforce requirement for parks mowing. – Implementation of self-checkout at Katoomba Library. – A number of system and process changes to improve service turnaround of planning and regulatory matters. – New e-lodgement and tracking system for customer service requests – Developed and published guides to development application processing resulting in 17% reduction in the number of rejected applications, producing a significant saving to clients. – The introduction of emailed rate notices to ratepayers, and Bpay payment option for debtors has improved cash flow and customer service. – Commencement of a continuous improvement project team to manage the achievement of a

	balanced annual budget has improved corporate information, systems, and decision-making. – Commenced a values led leadership development program across whole of the Council to align organisational behaviour to strategic workforce goals.
Grant Revenues	– Since 2009 the Council has raised $40 million in additional revenue for specific purpose grants. – A further $47 million is received from FAGs and other contributions
Productivity	– The *Workforce Management Strategy* monitors a number of workforce productivity indicators; such as, employee retention, works compensation costs and leadership (see *Part 5 of the Resourcing Strategy* for details), which have shown significant improvement over recent years.

Without these savings, the Council would have not been able to balance its cash budget for these years.

B. Annual Operating Result (including depreciation, excluding capital grants)

The Council's strategy is to balance the annual operating result within 10 years (including depreciation, excluding capital grants) to ensure it lives within its means. Once the operating result is balanced, the Council will start to build operating surpluses. This will be achieved by:

- Continuing to review and improve the accuracy of asset depreciation projections, including useful lives and asset revaluations. Being the key driver of the operating deficit, it is important that depreciation accurately represents the level of funding required to maintain agreed service levels
- Implementing the strategies outlined below including reducing debt, increasing revenue, reviewing and adjusting services

Balancing the annual operating result will allow the Council to reduce the annual deterioration of its assets, and any operating surpluses will then be available to address future backlogs in asset maintenance and renewal.

Strategy 3 - Manage borrowings responsibly

While the Council's debt service financial indicator (i.e. the degree of revenue from continued operations committed to the repayment of debt) is within the industry benchmark, our financial planning has identified that we have reached our capacity to incur debt. That is, our available revenue is insufficient to support any further loan interest and principal repayments. As a result, this strategy focuses on minimising future borrowings and reducing existing debt.

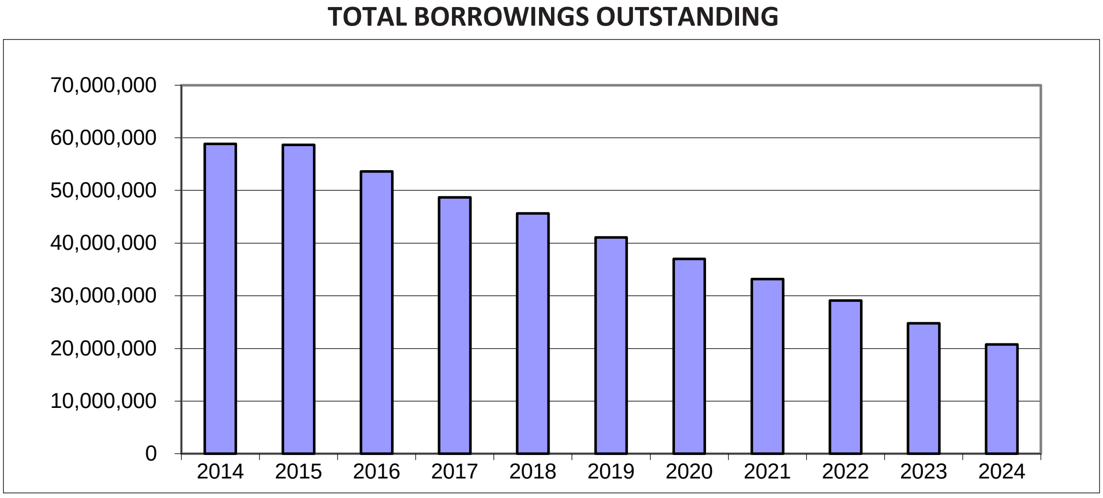
The Council's Long Term Financial Planning has included reviewing the Council's loan borrowings to better support the City's requirements and financial sustainability. The implementation of this strategy has included ceasing new loan borrowings subject to annual reviews of the financial capacity of the Council unless:

- The proposed new borrowing is supported by a comprehensive business case and resolved by the Council
- The cost of debt is able to be funded from sufficient income or cost savings generated by the project
- Financially subsidised loan funding is available and is resolved by Council to be used

In addition, the Council has committed to reducing its debt position by ceasing the practice of borrowing $2.3 million each year for non-major asset works, as well as directing any surplus cash funds to reducing borrowings wherever it is effective to do so. The *LTFP* also recommends reducing existing debt liabilities by reviewing existing interest rate terms and conditions and renegotiating these through organisations like Western Sydney Regional Organisation of Councils (WSROC). This would further reduce the projected outstanding loan balance.

As shown in *Figure 3-3*, this strategy is projected to bring the borrowing balance down from $59M in 2013-2014 to $21M in 2023-2024 and further to $16.8M in 2024-2025.

Figure 3-3 Total borrowings outstanding 2014-2024



Note: includes current planned borrowings

To support the implementation of this strategy the Council has developed a Borrowing Policy (outlined in the Councils Delivery Program 2013-2017) that ensures we manage the cost of debt responsibly, taking into account principles of inter-generational equity and the financial capacity of the Council.

After a period of consolidation of approximately 10 years, the Council will be once again in a position to reconsider further borrowings. The Council may then decide to borrow additional funds, which it can use to:

- Address any infrastructure failures/risks from the *Asset Management Strategy/Plans* if required; and/or
- Asset renewal if our long-term planning determines this as appropriate and financially responsible. Such future borrowings will only be undertaken for one-off major projects and the period of debt repayment will not exceed the period over which the project benefits are received or the life of the asset – whichever is the lesser

Such borrowings, if used to fund asset renewal, will assist the Council to bring depreciation under control and therefore could improve the Council's operating result.

Strategy 4 - Increase income

For long-term financial sustainability and funding of the infrastructure shortfall (see further *Part 4 of the Resourcing Strategy: Section 4.5, Funding base for operations, maintenance and renewal*), it is essential that the Council increase its income.

For every dollar residents pay in rates, the Council at least matches it with revenue from sources such as grants, commercial activities e.g. Caravan Parks and Visitor Information Centres) and from fees and charges. Over the past five years, the Council's revenue base has included over $87 million in externally acquired grant funding for the community.

Initiatives for increasing income range from seeking external grants, setting appropriate levels for fees and charges, achieving sound financial returns from Council's commercial activities (for example commercial property and caravan parks) and engaging the community on possible rate increases to support required levels of service.

While opportunities to increase income are limited due to rate pegging and limited growth opportunities, other options include:

A. Applications to IPART for a Special Variation to rates

Rates are the most reliable source of any council's income. The Office of Local Government notes that applications to IPART to vary rates above the approved annual rate peg are a valid solution to financial sustainability, because special variations to rates are:

> *….an important means of providing additional funding to councils in delivering services and infrastructure that the community has requested and the council is unable to fund within its existing revenue."*

Each year, approximately 25 councils in NSW apply for a special variation, the majority seeking additional funding to address infrastructure backlogs.

Strategy 4 includes implementing a two-staged approach to increasing revenue through special rate variations phased in gradually over time, and taking into account community capacity and willingness to pay increased rates to achieve desired levels of service provision.

The Council developed a two-staged approach in order to:

- Minimise the impacts of the reform of its rating structure on ratepayers
- Coincide with the expiry of the existing 10 year Environment Levy
- Better align better with the Council's planning cycle, and
- Phasing the rate increases over a period of four years to minimise the impact of increased rates on ratepayers

This two-staged Strategy was previously publically exhibited (with no adverse community response) and adopted for implementation in June 2013 as part of the 2013-2023 Resourcing Strategy. In summary:

Stage 1 – Renewal of existing s508(2) Special Variation for Infrastructure

Current revenue projections within this *LTFP* include the additional income being raised from the renewal of an existing special variation, which was approved by IPART in June 2013. This variation replaced the program of annually borrowing at least $2.3M to fund asset maintenance and renewal works and by 2023 it will raise $23M in revenue. Stage 1 of this approach was achieved in 2013 with community endorsement for continuing an existing special variation to rates. As detailed further below, the Council is now seeking to implement Stage 2 including community engagement on three alternative options for Resourcing our Future.

Stage 2 – Further Application to IPART

In summary, the second stage of this approach includes engaging the community on a possible application in 2015 incorporating:

- Continuation of the existing s508(2) special variation for the Environment – Due to expire on 30 June 2015, the *LTFP* includes the continuation of this variation known as the Environment Levy from 2015-2016 on an ongoing basis
- Additional variations - Under Rating Options 1 and 2 a special rate variation is proposed in 2015/2016 to improve the Council's financial position, address the critical funding shortfall for renewal and maintenance of the City's $1 billion worth of built assets (including roads, footpaths, storm water drainage, emergency management infrastructure, community and recreational facilities such as parks, ovals, pools, libraries and child care centres) and enable continuation of an existing Environment Levy (due to expire in June 2015) that has been funding the protection and restoration of approximately 10,000 ha of bushland and water ways

Stage 2 is detailed further in *Section 3.5 Rating Options for Resourcing our Future*.

B. Revenue strategy and other revenue initiatives

While it is prudent that the Council maximises all current and future revenue streams to fulfil the community needs, this must be balanced against socio-economic realities and principles of fairness and affordability. The *LTFP* proposes that a review of the Council's existing revenue strategies be undertaken to develop financial strategies that articulate the goals and actions of each particular revenue stream to ensure that revenue is maximised in an equitable as well as a business-like manner. Such a review will incorporate (but not be limited to) the current and future income streams of:

- Rates and levies
- Annual charges such as domestic waste management charges
- Fees and charges
- Property Disposal and Investment Program
- Commercial activities income
- Operational and capital grant income
- Interest income
- Other revenue generating initiatives

The Council has given a major focus to achieving other sources of revenue to support needed community infrastructure projects. Some examples where the Council has been successful in obtaining significant additional external revenue funding include:

• Blue Mountains Theatre and Community Hub	$9.5M
• Blue Mountains Business Park in Lawson	$3.5M
• Blue Mountains Cultural Centre, New Katoomba Library & Civic Centre	$5.0M
• Lawson Town Centre	$5.9M

- NSW Building Partnership Infrastructure Funding, over $2.5M

Any review of the Council's revenue strategies will require a consideration of any impacts on the community and will also involve engagement with the community.

Strategy 5 – Review and adjust service levels in consultation with community

This strategy involves the Council implementing ongoing and targeted service reviews to ensure best value service provision to the community.

The "*Blue Mountains City Council Service Framework – Guidelines for Achieving Best Value Service that Meet Community Needs*" adopted in June 2013, outlines key service provision principles and guidelines for the planning and review of Council services. The framework aims to ensure that within available resources the Council provides the best range of quality "value for money" services that meet the needs of the most number of residents and visitors to the City.

Given the Council's financial challenges, it is important that there are processes in place that ensure available resources are effectively and transparently targeted in consultation with the community, and in a way that best addresses identified risks and assessed needs.

Examples of service areas reviewed include the review of the bulky waste collection service resulting in a shift to a more responsive booked service, review of the Council's Caravan Parks resulting in increased revenue and the Sealing of Unsealed Roads Program resulting in significant ongoing cost savings and improved service delivery.

Strategy 6 – Increase advocacy and partnerships

This strategy involves advocating to other levels of government for a fair share of funding and reduced cost shifting, and building partnerships with others to achieve positive outcomes for the Blue Mountains. This is particularly important given the characteristics and challenges of the Blue Mountains such as its location adjacent to the Greater Blue Mountains World Heritage Area and its significance as a major Australian tourist destination.

Such advocacy can be achieved through local members, the Local Government Association, council partnerships, such as WSROC, and through submissions to the various local government inquiries. The potential for additional revenue from this strategy is quite significant. Examples of the Council's previous success with this include the $9.5M Australian Government grant for Springwood Cultural Facilities Upgrade and the Blue Mountains Cultural Centre public/private partnership.

A recent achievement of Strategy 6 also includes the Council's work following the October 2013 bush fire disaster where the Council's advocacy ensured safe and appropriate disposal of fire impacted waste outside the City and successfully achieved $1.8 million in grant funding from the State Government to support recovery. The Council actively worked in partnership with NSW Government, NSW RFS and a range of agencies and organisations during the response and now in the recovery phase. Developing partnerships with other organisations and with the community and business sectors is also a key focus of this strategy. Some examples of where the Council has assisted others in advocacy and partnership initiatives include:

- Blue Mountains Economic Enterprise
- The Stronger Families Alliance
- Gully Cooperative Agreement
- Reconnecting to Country project

- Domestic Squalor Information Package & Blue Mountains Homelessness Forum
- Bicentenary of the Crossing event
- Emergency Management services with SES and RFS

3.5 Development of options for *Resourcing Our Future*

3.5.1 Three financial scenarios

The *LTFP* process has developed three alternative financial scenarios, which include three rating funding options and various revenue and expenditure assumptions over the 10 years of the plan. The three scenarios are:

- ***Financial Scenario 1*** – Service Levels Improved (includes Rating Option 1)
- ***Financial Scenario 2*** – Service Levels Maintained (includes Rating Option 2)
- ***Financial Scenario 3*** – Service Levels Reduced (includes Rating Option 3)

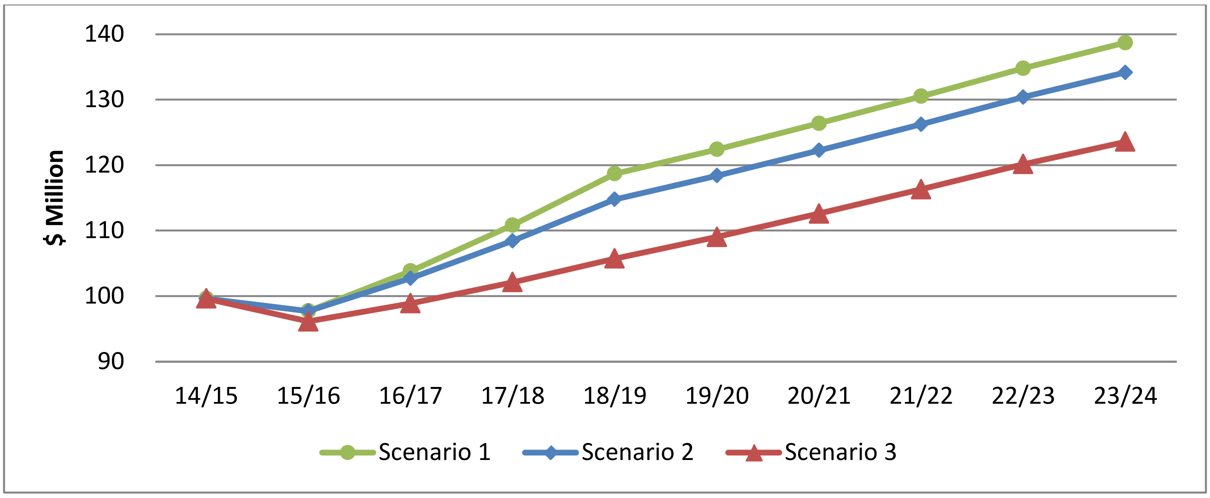
The rationale for these scenarios was a longer-term consideration of all of the following:

- Extent of our financial challenges, particularly costs rising faster than the Council's ability to increase revenue
- Level of, and risks around, the built and natural asset infrastructure backlogs
- Our ability to provide the , services our community needs and expects based on existing revenue streams, and
- The community's capacity to pay as evidenced by the City's SEIFA IRSD index and other socio-economic indicators

Projected revenue and expenditure – three scenarios

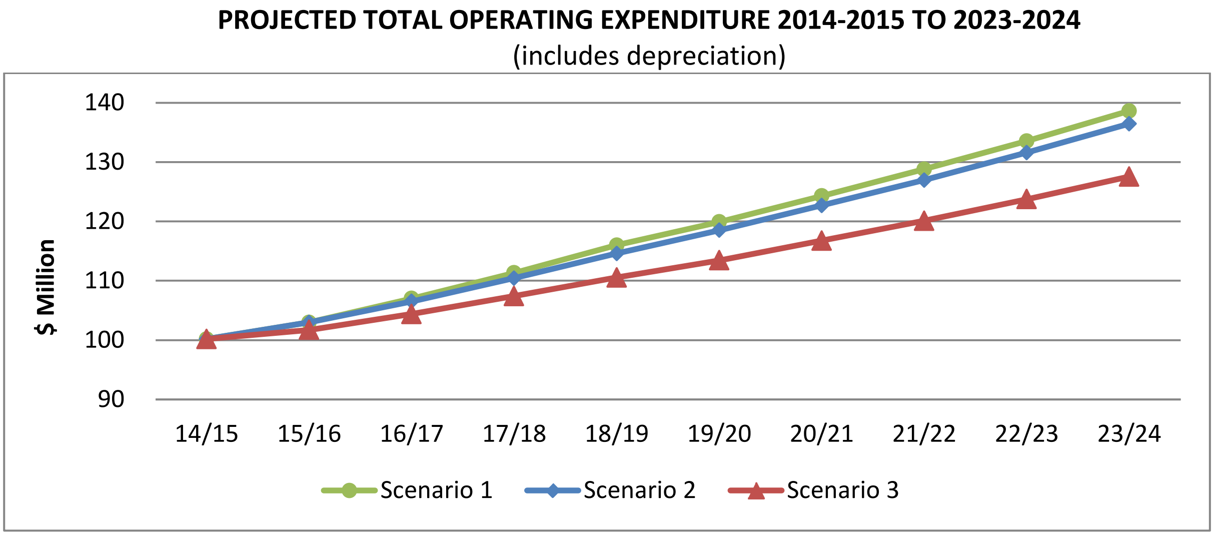
Illustrated below is the impact of the revenue and expenditure assumptions on the Council's total projected revenue (*Figure 3-4)* and operating expenditure (*Figure 3-5)* over the 10-year planning period.

PROJECTED TOTAL REVENUE 2014-2015 TO 2023-2024
(including capital revenue)



($Million)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	100	98	104	111	119	122	126	131	135	139
Scenario 2	100	98	103	108	115	118	122	126	130	134
Scenario 3	100	96	99	102	106	109	113	116	120	124

Figure 3-4 Projected total revenue 2014-2015 to 2023-2024



($ Million)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	100	103	107	111	116	120	124	129	134	139
Scenario 2	100	103	107	110	115	118	123	127	132	136
Scenario 3	100	102	104	107	111	113	117	120	124	128

Figure 3-5 Projected total operating expenditure 2014-2015 to 2023-2024

Effect of scenarios on long-term financial position

Table 3-6 shows the effect of the various financial scenarios on the Council's overall long-term financial position.

Table 3-6 Impact of options on key financial performance measures

Measure	Financial Scenario 1	Financial Scenario 2	Financial Scenario 3
Operating Balance: Whether Council has sufficient revenue to cover expenditure requirements (including depreciation) *Benchmark: should be +/ - $1M*	√ By 2023/24 Operating Balance is within acceptable benchmark at deficit of -$672K	X By 2023/24 Operating Balance is NOT within acceptable benchmark being a deficit of - $3M	X By 2023/24 Operating Balance is NOT within acceptable benchmark being a deficit of - $5M
Assets Renewal Ratio: Council's ability to renew ALL built assets relative to the rate at which they are depreciating. *Benchmark: should be 100%*	50% Under this measure by 2023/24 the Council is **only meeting 50%** of its built asset funding requirement	40% Under this measure by 2023/24 the Council is **only meeting 40%** of its built asset funding requirement	33% Under this measure by 2023/24 the Council is **only meeting 33%** of its built asset funding requirement
Building & infrastructure Renewal Ratio: The Council's ability to fund renewal of roads, drainage and building assets to the rate at which they are depreciating. *Benchmark: should be 100%*	54% Under this measure by 2023/24 the Council is **only meeting 54%** of its building & infrustructure renewal requirement	46% Under this measure by 2023/24 the Council is **only meeting 46%** of its building & infrastructure renewal requirement	33% Under this measure by 2023/24 the Council is **only meeting 33%** of its building & infrustructure renewal requirement
Debt Service Ratio: The percentage of Council revenue used to service debt *Benchmark: should be below 10%*	√ By 2023/24 debt ratio is **4.2%**	√ By 2023/24 debt ratio is **4.4%**	√ By 2023/24 debt ratio is **4.8%**
Summary	**Significant improvement** ↑ in most key financial performance (particularly the Operating Result) measures with a need to continue addressing built asset funding shortfall	**Some improvement** ↑ with need to further improve Operating Result and address built asset funding shortfall	**Unsustainable financial position** ↓ with significant deterioration in built infrastructure

Rating impact and special levy expenditure areas

Table 3-7 Impact of rating options on average rates on A: Residential, B: Business and C: Farmland shows the annual and cumulative rating impact over the next four years.

It should be noted, that none of these funding options propose to fully address the infrastructure backlog as the level of funding required is likely to be beyond the capacity of our community to pay. The financial scenarios therefore offer the community the opportunity to determine the right balance between how much they wish to pay for services through rating, against the extent to which they wish the Council to implement its other financial strategies.

Table 3-7 Impact of rating options on average rates on A: Residential, B: Business and C: Farmland

A: IMPACT ON AVERAGE RESIDENTIAL RATES		2014/15	2015/16	2016/17	2017/18	2018/19	Total increase over 4 years	
OPTION 1: IMPROVING SERVICES	Annual rate	$1,272	$1,310	$1,436	$1,574	$1,725	$453	40.4%
	Annual increase		$38	$126	$138	$151		
OPTION 2: MAINTAINING SERVICES	Annual rate	$1,272	$1,310	$1,407	$1,511	$1,623	$351	32.1%
	Annual increase		$38	$97	$104	$112		
OPTION 3: REDUCING SERVICES (rate peg only)	Annual rate	$1,272	$1,266	$1,304	$1,343	$1,383	$111	12.6%
	Annual increase		-$6	$38	$39	$40		
B: IMPACT ON AVERAGE BUSINESS RATES		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total increase over 4 years**	
OPTION 1: IMPROVING SERVICES	Annual rate	$3,071	$3,163	$3,466	$3,799	$4,164	$1,093	40.4%
	Annual increase		$92	$303	$333	$365		
OPTION 2: MAINTAINING SERVICES	Annual rate	$3,071	$3,163	$3,397	$3,648	$3,918	$847	32.1%
	Annual increase		$92	$234	$251	$270		
OPTION 3: REDUCING SERVICES (rate peg only)	Annual rate	$3,071	$3,056	$3,147	$3,242	$3,339	$268	12.6%
	Annual increase		-$15	$91	$95	$97		
C: IMPACT ON AVERAGE FARMLAND RATES		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total increase over 4 years**	
OPTION 1: IMPROVING SERVICES	Annual rate	$2,021	$2,081	$2,281	$2,500	$2,740	$719	40.4%
	Annual increase		$60	$200	$219	$240		
OPTION 2: MAINTAINING SERVICES	Annual rate	$2,021	$2,081	$2,235	$2,401	$2,578	$557	32.1%
	Annual increase		$60	$154	$166	$177		
OPTION 3: REDUCING SERVICES (rate peg only)	Annual rate	$2,021	$2,011	$2,071	$2,133	$2,197	$176	12.6%
	Annual increase		-$10	$60	$62	$64		

Table 3-8 describes how the additional rate revenue will be spent under Options 1 and 2 for the expenditure areas of built infrastructure, environment, emergency preparedness and response, and community and recreation. Please note that this allocation of additional revenue was based on an estimated rate peg of 3.0% for 2015/16.

Table 3-8 Proposed allocation of additional revenue - subject to annual review

	OPTION 1	**OPTION 2**
Built Infrastructure	**$47.3 million (over 4 years)**	**$33.0 million**
	Including $37.8 million for: • Renewal and maintenance of the sealed road network funding shortfalls • Road shoulder work required to prevent overall deterioration of roads and improved stormwater management • Stormwater management infrastructure gaps • Renewal of aging bridges • Footpath renewal priorities • Legislatively required bus stop disability access upgrades • Stormwater management infrastructure	*Including $24.9 million for:* As for Option 1 but **with $12.9 million less funding** for required: • Renewal and maintenance of sealed road network • Stormwater management infrastructure • Traffic facility renewal • Footpath renewal
	Including $9.5 million for: • Improving town centre maintenance regimes • Tree management • Town centre public domain infrastructure improvement programs • Improve building compliance • Public toilet upgrade in town centres • Building cleansing • Building maintenance and renewal • Information technology upgrades including disaster recovery systems	*Including $8.1 million for:* As for Option 1 but **with $1.4 million less funding** for required: • Public toilet upgrade in town centres • Building cleansing • Building renewals
Environment	**$22.5 million**	**$19.3 million**
	Including $11.7 million for: • Weed control • Restoration of water ways and water quality monitoring • Stormwater pollution control • Bushland restoration, Bushcare and Landcare programs • Wildlife habitat restoration and protection of rare and unique animal and plant species • Environmental education	*Including $11.4 million for:* As for Option 1 but **with $0.3 million less funding** for required: • High risk environmental program areas
Environment Cont'd	*Including $10.8 million for:* • Walking tracks and lookouts • Improvements to natural area visitor facilities	*Including $7.9 million for:* As for Option 1, but **with $2.9 million less funding** for required:

	OPTION 1	OPTION 2
		• High risk walking track and natural area visitor facility renewals • Walking track maintenance
Emergency Preparedness and Response	**$4.5 million for:**	**$2.0 million for:**
	• Disaster and emergency management planning • Bushfire impact preparedness and prevention - Asset Protection Zone high priority works • Improved cyclic maintenance of fire trails	As for Option 1, **but with $2.5 million less funding** for required: • High priority Asset Protection Zone works • Improved fire trail cyclic maintenance programs
Community & Recreation	**$24.2 million**	**$16.0 million**
	Including $9.4 million for: • Sporting facility operating costs • Priority areas for renewal of recreational sporting surfaces, equipment, buildings and toilets • Park Revitalisation Program	*Including $5.6 million for:* As for Option 1 **but with $3.8 million less funding** for required: – Renewal, maintenance and upgrade of parks, sports grounds and playing surfaces
	Including $5.0 million for: • Swimming pool renewal and infrastructure priorities	*Including $4.6 million for:* As for Option 1, **but with $0.4 million less funding for** required swimming pool renewal, and infrastructure priorities
	Including $9.8 million for: • Renewal, maintenance and operation of community facilities including libraries, community centres, halls, youth facilities, child care facilities, neighbourhood centres • Community development programs to improve social outcomes • Rehabilitation of cultural assets	*Including $5.8 million for:* As for Option 1, **but with $4.0 million less funding** for required: – Community facilities renewal and upgrade – Community development programs to improve social outcomes – Community building cleansing
Total	**$98.5 million**	**$70.3 million**

3.5.2 Overview of the three financial scenarios

Each of the financial scenarios are summarised below, including:

- an overview of the revenue and expenditure assumptions
- the impact on service levels
- key financial statements (Profit & Loss, Cash Flow and Balance Sheet)

Long Term Financial Plans are inherently uncertain as they contain a wide range of assumptions over an uncertain period of 10 years. The summaries that follow therefore also include a sensitivity analysis that tests key revenue and expenditure assumptions, which if inaccurate, could have moderate to significant impacts on the Council's *LTFP*.

FINANCIAL SCENARIO 1
(including Funding Option 1 – Services Levels Improved)

REVENUE ASSUMPTIONS

Under this scenario the Environment Levy is continued in 2015-2016 (6.6% rate increase including the estimated 3% rate peg) and there are three additional rates increases of 9.6% each (including 3% rate peg) - a cumulative rate increase of 40.4% over four years (including rate peg).

This is an additional $98.5M in revenue over the ten year term.

Current service levels are retained with targeted improvements in key areas, and there will be an improvement in the condition of built and natural assets.

Apart from the key rating revenue assumptions above, other assumptions include revenue increases in Contributions, Discretionary Fees and Other Revenue by 3%, Annual Charges by 5%, Financial Assistance Grant by 0% for the first 3 years and then by 4%, Special Purpose Grants by 1.5% and Regulatory Fees by 1%.

EXPENDITURE ASSUMPTIONS

Scenario 1 ($M) YR	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
Operating Expenditure (excl. Depreciation.)	84	87	91	95	100	104	109	113	118	123	**1,024**
Capital Expenditure	26	9	9	15	16	16	16	16	16	16	**155**
***LTFP* Total Expenditure (excl. Depreciation.)**	**110**	**96**	**100**	**110**	**116**	**120**	**125**	**129**	**134**	**139**	**1,179**

Under Scenario 1 the proposed allocation of the additional $98.5 Million revenue obtained from the Special Rate Variation over 2015 to 2024 is expended as follows (subject to an annual review of Asset Management Plan priority risk assessment and best value resource allocation):

- Built Infrastructure $47.3 Million;
- Environment $22.5 Million;
- Emergency Preparedness and Response $4.5 Million; and
- Community & Recreation Facilities $24.2 Million

Option 1 proposes reinstating the existing Environment Levy and continuing it on a permanent basis to fund environment operational and capital works. According to the *Workforce Management Strategy (Part 5 Section 5.5)* the additional funding produced from this Option will require the need for additional 30 full time employees over the 10 year period. However, through natural attrition it is expected overall that there will be a neutral impact on the size of the workforce.

Additionally, under Option 1, the loan repayment savings from the Council's Strategy 3 are used to fund operations which allows the Council a parameter of 3% on operational cost which means service's will not need to be constrained to the same degree as under Options 2 and 3.

IMPACT ON SERVICE LEVELS

- We achieve better built infrastructure: better and safer roads, improved town centres, public toilets and buildings. Better footpaths, walking tracks and stormwater drainage
- We improve emergency preparedness and response: greater capacity to prepare for and respond to bushfires, better disaster planning, improved asset protection zones and fire-trail maintenance
- We continue to protect the environment: continue weed control, water quality monitoring, stormwater pollution control, restore bushland, and support Bushcare and Landcare programs.
- We improve services to community: better sporting fields, parks, pools, libraries and community facilities, improved capacity to support community, including those in need.

FINANCIAL STATEMENTS

Summary of Profit & Loss Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Revenues Excluding Capital Grants	94	97	103	110	118	121	125	129	134	138
Total Expenses from Ordinary Activities	100	103	107	111	116	120	124	128	134	139
Net surplus/(deficit) operating result for the year before grants and contributions provided for capital purposes	(6)	(6)	(4)	(1)	2	1	1	1	0	(1)
NON CASH ITEMS	17	17	17	16	16	16	16	16	16	16
Total Net Surplus/(Deficit) from Operating Activities excluding non-cash items (used to fund Capital Expenditure)	11	11	13	15	18	17	17	17	16	15
Capital Grants and Contributions	5	1	1	1	1	1	1	1	1	1
Total Net Surplus/(Deficit) from Operating Activities plus Capital Grants	(1)	(5)	(3)	0	3	2	2	2	1	0

Summary of Cash Flow Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Receipts	100	97	103	110	117	122	126	130	134	138
Total Payments	84	86	90	95	99	104	108	112	117	121
Net Cash provided by (or used in) Operating Activities	16	11	13	15	18	18	18	18	17	17
Total Receipts	10	3	3	4	2	2	2	2	2	3
Total Payments	26	9	11	16	16	16	16	16	15	16
Net Cash provided by (or used in) Investing Activities	(16)	(6)	(8)	(12)	(14)	(14)	(14)	(14)	(13)	(13)
Net Cash provided by (or used in) Financing Activities	0	(5)	(5)	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Net Increase (Decrease) in cash held	0	0	0	0	0	0	0	0	0	0
Cash Assets	23	23	23	23	23	23	23	23	23	23

Summary of Balance Sheet Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Assets	877	866	859	856	854	853	852	850	847	844
Total Liabilities	81	76	72	69	65	61	58	54	50	47
NET ASSETS	796	790	787	787	789	792	794	796	797	797
TOTAL EQUITY	796	790	787	787	789	792	794	796	797	797

SUMMARY OF SCENARIO

The Council can continue to meet its short-term financial obligations and in the long-term its financial position is healthier than Option 2, though a number of key measures remain under the benchmark for the life of the *LTFP*. By 2023/24 Operating Result is within acceptable benchmark with a deficit of -$672K.

Significant improvement in most key financial performance measures (particularly the Operating Result), but with a need to continue addressing built asset funding shortfall.

SENSITIVITY ANALYSIS

Optimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue increases										
Rates (inc growth)	0.3%	146	310	505	736	959	1196	1448	1715	1998
Discretionary Fees	0.5%	50	102	160	220	284	350	421	497	577
Untied Grants from 17/18	0.5%	0	0	46	96	149	208	270	338	412
Expenditure decreases										
Employment	(0.3%)	140	292	457	458	832	1040	1263	1502	1757
Other Expenditure	(0.5%)	131	270	418	753	741	914	1097	1291	1496

Pessimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue decreases										
Rates (inc growth)	(0.3%)	($146)	($309)	($502)	($730)	($949)	($1,180)	($1,424)	($1,681)	($1,953)
Discretionary Fees	(1.0%)	($100)	($205)	($314)	($430)	($550)	($675)	($807)	($944)	($1,087)
Untied Grants from 17/18	(1.0%)	$0	$0	($92)	($189)	($294)	($407)	($526)	($654)	($789)
Expenditure increases										
Employment	0.3%	($147)	($308)	($484)	($677)	($886)	($1,109)	($1,350)	($1,608)	($1,888)
Other Expenditure	1.0%	($261)	($545)	($848)	($1,173)	($1,522)	($1,894)	($2,292)	($2,718)	($3,172)

SUMMARY OF SENSITIVITY ANALYSIS

Sensitivity analysis has highlighted that under the Optimistic analysis, revenue could increase by between $46k and $1,998k (i.e. up to 1.4% of total revenue) and expenditure could decrease by between $131k and $1,757k (i.e. up to 1.3% of total expenditure). In either of these optimistic events, the Council would apply the favourable outcome towards asset renewal and maintenance requirements and/or reducing Council's debt to improve the operating deficits.

Under the pessimistic case, revenue could decrease by between $92k and $1,953k (i.e. up to 1.4% of total revenue) and expenditure could increase by between $147k and $3,172k (i.e. up to 2.3% of total expenditure). In either of these pessimistic events, the Council would manage the unfavourable outcome by reducing and rebalancing service levels to address priority risks.

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BUDGET SUMMARY - GENERAL FUND
Scenario: 1

					Projected Years					
	2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000
Income from Continuing Operations										
Rates & Annual Charges	60,415	62,330	67,844	73,868	80,702	83,536	86,459	89,492	92,639	95,353
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue	1,513	1,518	1,522	1,527	1,532	1,537	1,542	1,548	1,553	1,559
Other Revenues	3,189	3,275	3,364	3,455	3,549	3,645	3,745	3,848	3,954	4,063
Grants & Contributions provided for Operating Purposes	12,630	12,660	12,692	13,081	13,485	13,903	14,337	14,786	15,252	15,741
Grants & Contributions provided for Capital Purposes	5,151	752	752	752	752	752	752	752	752	752
Net gains from the disposal of assets	236	243	250	258	266	274	282	290	299	308
Total Income from Continuing Operations	**99,616**	**97,716**	**103,830**	**110,828**	**118,668**	**122,384**	**126,374**	**130,509**	**134,793**	**138,687**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	46,023	47,946	50,198	52,651	55,216	57,569	59,965	62,391	64,989	67,694
Borrowing Costs	3,987	3,825	3,502	3,184	2,966	2,685	2,422	2,164	1,890	1,612
Materials & Contracts	19,522	20,553	22,427	24,132	25,791	27,009	28,444	29,909	31,394	33,050
Depreciation & Amortisation	16,615	16,735	16,514	16,311	16,212	16,167	16,145	16,123	16,105	16,088
Other Expenses	14,038	13,917	14,373	15,054	15,806	16,474	17,316	18,203	19,157	20,163
Total Expenses from Continuing Operations	**100,185**	**102,977**	**107,014**	**111,332**	**115,991**	**119,904**	**124,291**	**128,790**	**133,535**	**138,607**
Net Operating Profit /(Loss) for the Year	**(568)**	**(5,261)**	**(3,185)**	**(503)**	**2,677**	**2,480**	**2,083**	**1,719**	**1,258**	**80**
Capital (Balance Sheet) and Reserve Movements										
Capital Expenditure	(25,837)	(8,132)	(9,105)	(14,409)	(15,612)	(15,716)	(15,690)	(15,625)	(15,631)	(15,508)
Loan Repayments (External)	(4,706)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Finance Lease Repayments	-	(44)	(43)	(43)	(45)	(44)	(43)	(43)	(45)	(45)
New Loan Borrowings (External)	4,579	240	135	2,000	-	-	-	-	-	-
Proceeds from Sale of intangible & tangible Assets	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Other Capital Receipts	-	-	71	45	58	-	71	45	58	-
Net Transfers (to)/from Reserves	6,428	(958)	(2,352)	(2,164)	(1,024)	(485)	(250)	300	1,017	1,780
Total Capital (Balance Sheet) and Reserve Movements	**(16,047)**	**(11,474)**	**(13,329)**	**(15,808)**	**(18,889)**	**(18,647)**	**(18,228)**	**(17,842)**	**(17,363)**	**(16,168)**
Net Result (including Depreciation & Other non-cash items)	**(16,615)**	**(16,735)**	**(16,514)**	**(16,311)**	**(16,212)**	**(16,167)**	**(16,145)**	**(16,123)**	**(16,105)**	**(16,088)**
Add back Depreciation Expense (non-cash)	16,615	16,735	16,514	16,311	16,212	16,167	16,145	16,123	16,105	16,088
Cash Budget Surplus/(Deficit)	**0**	**(0)**	**(0)**	**0**	**(0)**	**(0)**	**0**	**(0)**	**(0)**	**(0)**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
CASH FLOW STATEMENT - GENERAL FUND
Scenario: 1

					Projected Years					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash Flows from Operating Activities										
Receipts:										
Rates & Annual Charges	60,350	62,265	67,658	73,665	80,472	83,441	86,361	89,390	92,533	95,261
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue Received	1,561	1,492	1,451	1,455	1,463	1,510	1,514	1,523	1,534	1,550
Grants & Contributions	17,769	13,453	13,443	13,829	14,233	14,651	15,085	15,534	16,000	16,489
Other	3,322	3,303	3,355	3,446	3,545	3,611	3,706	3,808	3,913	4,017
Payments:										
Employee Benefits & On-Costs	(46,023)	(47,946)	(50,198)	(52,651)	(55,216)	(57,569)	(59,965)	(62,391)	(64,989)	(67,694)
Materials & Contracts	(20,018)	(20,401)	(22,060)	(23,750)	(25,403)	(26,700)	(28,072)	(29,526)	(30,995)	(32,617)
Borrowing Costs	(3,981)	(3,824)	(3,503)	(3,185)	(2,964)	(2,685)	(2,422)	(2,165)	(1,889)	(1,612)
Other	(14,038)	(13,917)	(14,373)	(15,054)	(15,806)	(16,474)	(17,316)	(18,203)	(19,157)	(20,163)
Net Cash provided (or used in) Operating Activities	15,426	11,363	13,180	15,644	18,706	18,522	18,148	17,763	17,294	16,142
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities	6,428	-	-	-	-	-	-	41	386	908
Sale of Infrastructure, Property, Plant & Equipment	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Payments:										
Purchase of Investment Securities	-	(605)	(1,706)	(1,385)	(577)	(289)	(384)	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(25,917)	(8,132)	(9,176)	(14,455)	(15,670)	(15,716)	(15,761)	(15,670)	(15,689)	(15,508)
Net Cash provided (or used in) Investing Activities	(16,000)	(6,024)	(7,769)	(11,976)	(13,884)	(14,391)	(14,532)	(14,015)	(13,689)	(12,986)
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	4,579	240	206	2,045	58	-	71	45	58	-
Proceeds from Finance Leases	58	-	71	45	58	-	71	45	58	-
Payments:										
Repayment of Borrowings & Advances	(4,803)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Repayment of Finance Lease Liabilities	(24)	(24)	(38)	(43)	(45)	(44)	(43)	(43)	(45)	(44)
Net Cash Flow provided (used in) Financing Activities	(190)	(5,078)	(4,910)	(3,053)	(4,559)	(4,060)	(3,831)	(4,085)	(4,305)	(4,052)
Net Increase/(Decrease) in Cash & Cash Equivalents	(764)	261	501	615	264	71	(214)	(337)	(700)	(896)
plus: Cash, Cash Equivalents & Investments - beginning of year	13,489	12,725	12,986	13,487	14,102	14,366	14,436	14,222	13,885	13,185
Cash & Cash Equivalents - end of the year	**12,725**	**12,986**	**13,487**	**14,102**	**14,366**	**14,436**	**14,222**	**13,885**	**13,185**	**12,288**
Cash & Cash Equivalents - end of the year	12,725	12,986	13,487	14,102	14,366	14,436	14,222	13,885	13,185	12,288
Investments - end of the year	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Cash, Cash Equivalents & Investments - end of the year	**22,632**	**23,497**	**25,705**	**27,705**	**28,546**	**28,906**	**29,076**	**28,698**	**27,612**	**25,808**
Representing:										
- External Restrictions	5,867	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545
- Internal Restricitons	13,053	14,333	16,686	18,849	19,873	20,358	20,608	20,309	19,292	17,512
- Unrestricted	3,712	3,619	3,475	3,311	3,128	3,003	2,923	2,845	2,776	2,751
	22,632	**23,497**	**25,705**	**27,705**	**28,546**	**28,906**	**29,076**	**28,698**	**27,612**	**25,808**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BALANCE SHEET - GENERAL FUND
Scenario: 1

	Projected Years									
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ASSETS										
Current Assets										
Cash & Cash Equivalents	12,725	12,986	13,487	14,102	14,366	14,436	14,222	13,885	13,185	12,288
Investments	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Receivables	5,257	5,299	5,614	5,957	6,327	6,518	6,719	6,923	7,128	7,311
Inventories	363	382	417	449	479	502	529	556	584	614
Other	299	307	328	349	371	387	408	429	450	474
Total Current Assets	28,551	29,486	32,064	34,460	35,723	36,313	36,731	36,605	35,774	34,207
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	837,297	826,224	816,022	810,560	807,920	806,129	804,413	802,637	800,905	799,020
Investments Accounted for using the equity method	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267
Investment Property	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535
Total Non-Current Assets	848,099	837,026	826,824	821,362	818,722	816,931	815,215	813,439	811,707	809,822
TOTAL ASSETS	**876,650**	**866,511**	**858,888**	**855,822**	**854,446**	**853,244**	**851,947**	**850,044**	**847,482**	**844,029**
LIABILITIES										
Current Liabilities										
Payables	8,020	8,220	8,691	9,182	9,686	10,064	10,515	10,979	11,462	11,981
Borrowings	5,378	5,210	5,195	4,726	4,126	3,996	4,227	4,472	4,118	3,543
Provisions	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729
Total Current Liabilities	25,128	25,158	25,614	25,637	25,540	25,788	26,470	27,180	27,309	27,253
Non-Current Liabilities										
Borrowings	53,295	48,386	43,491	40,907	36,948	33,018	28,956	24,626	20,675	17,197
Provisions	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
Total Non-Current Liabilities	55,737	50,828	45,934	43,349	39,391	35,460	31,399	27,068	23,118	19,640
TOTAL LIABILITIES	**80,865**	**75,986**	**71,548**	**68,986**	**64,931**	**61,249**	**57,869**	**54,248**	**50,426**	**46,893**
Net Assets	**795,785**	**790,525**	**787,340**	**786,836**	**789,515**	**791,995**	**794,078**	**795,796**	**797,055**	**797,136**
EQUITY										
Retained Earnings	370,365	365,105	361,920	361,416	364,095	366,575	368,658	370,376	371,635	371,716
Revaluation Reserves	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420
Total Equity	**795,785**	**790,525**	**787,340**	**786,836**	**789,515**	**791,995**	**794,078**	**795,796**	**797,055**	**797,136**

FINANCIAL SCENARIO 2
(including Funding Option 2 – Service Levels Maintained)

REVENUE ASSUMPTIONS

Under this scenario the Environment Levy is continued in 2015-16 (6.6% including the estimated 3% rate peg) and there are three additional rates increases of 7.4% each (including 3% rate peg)-a cumulative rate increase of 32.1% over four years (including rate peg).
This is an additional $70.3M in revenue over these 10 years.
Apart from the key rating revenue assumptions above, other assumptions include revenue increases in Contributions, Discretionary Fees and Other Revenue by 3%, Annual Charges by 5%, Financial Assistance Grant by 0% for the first 3 years and then by 4%, Special Purpose Grants by 1.5% and Regulatory Fees by 1%.

EXPENDITURE ASSUMPTIONS

Scenario 2 ($M)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
Operating Expenditure (excl. Depn.)	84	87	91	95	99	103	107	112	116	121	**1,015**
Capital Expenditure	26	9	9	13	13	13	13	13	13	13	**135**
***LTFP* Total Expenditure (excl. Depn.)**	**110**	**96**	**100**	**108**	**112**	**116**	**120**	**125**	**129**	**134**	**1,150**

Under Scenario 2 the proposed allocation of the additional $70.3 Million revenue obtained from the Special Rate Variation over 2015 to 2024 is expended as follows (subject to an annual review of *Asset Management Plan* priority risk assessment and best value resource allocation):

– Built Infrastructure $33.0 Million;
– Environment $19.3 Million;
– Emergency Preparedness and Response $2.0 Million; and
– Community & Recreation Facilities $16.0 Million

Option 2 proposes reinstating the existing Environment Levy and continuing it on a permanent basis to fund environment operational and capital works. According to the *Workforce Management Strategy (Part 5 Section 5.5)* the additional funding produced from this Option will require the need for additional skills in the order of 25 full time employees over the 10 year period. However, with natural attrition it is expected that overall there will be a small reduction in the size of the workforce of approx. 5 full time employees.
Additionally, under Option 2, the loan repayment savings from the Council's Strategy 3 are used to fund operations which allows the Council a parameter of 3% on operational cost which means service's will not need to be constrained to the same degree as under Option 3.

IMPACT ON SERVICE LEVELS

- We only maintain built infrastructure: 21% of built assets stay in poor condition, funding prioritized to maintain rather than renew of upgrade and to manage risk
- We only retain emergency preparedness and response: retain existing capacity to address emergencies, no improvement.
- We continue to protect the environment: continue weed control, water quality monitoring, stormwater pollution control, restore bushland, and support Bushcare and Landcare programs.
- We only maintain services to community: maintain current capacity to support and advocate for community services. No improvement to facilities, funding targeted to manage risk. Possible closure of unsafe facilities.

FINANCIAL STATEMENTS

A summary of the financial statements is included below, with the full statements included in the attachments.

Summary of Profit & Loss Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Revenues Excluding Capital Grants	94	97	102	107	114	117	121	125	129	133
Total Expenses from Ordinary Activities	100	103	107	110	115	118	122	127	131	136
Net surplus/(deficit) operating result for the year before grants and contributions provided for capital purposes	(6)	(6)	(5)	(3)	(1)	(1)	(1)	(2)	(2)	(3)
NON CASH ITEMS	17	17	17	16	16	16	16	16	16	16
Total Net Surplus/(Deficit) from Operating Activities excluding non-cash items (used to fund Capital Expenditure)	11	11	12	13	15	15	15	14	14	13
Capital Grants and Contributions	5	1	1	1	1	1	1	1	1	1
Total Net Surplus/(Deficit) from Operating Activities plus Capital Grants	(1)	(5)	(4)	(2)	0	0	0	(1)	(1)	(2)

Summary of Cash Flow Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Receipts	100	97	102	108	114	118	122	126	130	134
Total Payments	84	86	90	94	98	102	106	111	115	120
Net Cash provided by (or used in) Operating Activities	16	11	12	14	16	16	16	15	15	14
Total Receipts	10	3	3	4	2	2	2	2	2	3
Total Payments	26	9	10	14	14	14	14	13	13	13
Net Cash provided by (or used in) Investing Activities	(16)	(6)	(7)	(11)	(11)	(12)	(12)	(11)	(11)	(10)
Net Cash provided by (or used in) Financing Activities	0	(5)	(5)	(3)	(5)	(4)	(4)	(4)	(4)	(4)
Net Increase (Decrease) in cash held	0	0	0	0	0	0	0	0	0	0
Cash Assets	23	23	23	23	23	23	23	23	23	23

Summary of Balance Sheet Statement ($M)

	Projected									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Assets	877	866	858	853	850	846	842	837	832	827
Total Liabilities	81	76	71	69	65	61	58	54	50	47
NET ASSETS	796	790	787	784	785	785	784	783	782	780
TOTAL EQUITY	796	790	787	784	785	785	784	783	782	780

SUMMARY OF SCENARIO

The Council can continue to meet its short-term financial obligations and in the long-term, its position is healthier though a number of key measures remain under the benchmark for the life of the *LTFP*.

By 2023/24 Operating Result is NOT within acceptable benchmark being a deficit of - $3M.

Some improvement with need to further improve Operating Result and address built asset funding shortfall.

SENSITIVITY ANALYSIS

Optimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue increases										
Rates (inc growth)	0.3%	146	306	491	703	913	1,137	1,374	1,626	1,893
Discretionary Fees	0.5%	50	102	159	219	284	351	422	496	577
Untied Grants from 17/18	0.5%	-	-	46	95	149	208	271	339	412
Expenditure decreases										
Employment	(0.3%)	140	292	457	638	833	1,041	1,263	1,502	1,757
Other Expenditure	(0.5%)	131	270	418	574	739	913	1,097	1,291	1,496

Pessimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue decreases										
Rates (inc growth)	(0.3%)	($145)	($306)	($488)	($697)	($903)	($1,121)	($1,351)	($1,594)	($1,850)
Discretionary Fees	(1.0%)	($99)	($205)	($314)	($429)	($550)	($675)	($806)	($943)	($1,087)
Untied Grants from 17/18	(1.0%)	$0	$0	($92)	($190)	($295)	($407)	($527)	($654)	($789)
Expenditure increases										
Employment	0.3%	($308)	($308)	($485)	($676)	($886)	($1,109)	($1,349)	($1,608)	($1,888)
Other Expenditure	1.0%	($101)	($545)	($847)	($1,174)	($1,522)	($1,894)	($2,293)	($2,718)	($3,172)

SUMMARY OF SENSITIVITY ANALYSIS

Sensitivity analysis has highlighted that under the Optimistic analysis revenue could increase by between $46k and $1,893k (i.e. up to 1.4% of total revenue) and expenditure could decrease by between $131k and $1,757k (i.e. up to 1.3% of total expenditure). In either of these optimistic events, the Council would apply the favourable outcome towards asset renewal and maintenance requirements and/or reducing Council's debt to improve the operating deficits.

Under the pessimistic case, revenue could decrease by between $92k and $1,850k (i.e. up to 1.4% of total revenue) and expenditure could increase by between $101k and $3,172k (i.e. up to 2.3% of total expenditure). In either of these pessimistic events, the Council would manage the unfavourable outcome by reducing and rebalancing service levels to address priority risks.

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BUDGET SUMMARY - GENERAL FUND
Scenario: 2

	Projected Years									
	2014/15 $'000	**2015/16 $'000**	**2016/17 $'000**	**2017/18 $'000**	**2018/19 $'000**	**2019/20 $'000**	**2020/21 $'000**	**2021/22 $'000**	**2022/23 $'000**	**2023/24 $'000**
Income from Continuing Operations										
Rates & Annual Charges	60,415	62,330	66,746	71,483	76,814	79,526	82,323	85,225	88,238	90,813
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue	1,513	1,518	1,522	1,527	1,532	1,537	1,542	1,548	1,553	1,559
Other Revenues	3,189	3,275	3,364	3,455	3,549	3,645	3,745	3,848	3,954	4,063
Grants & Contributions provided for Operating Purposes	12,630	12,660	12,692	13,081	13,485	13,903	14,337	14,786	15,252	15,741
Grants & Contributions provided for Capital Purposes	5,151	752	752	752	752	752	752	752	752	752
Net gains from the disposal of assets	236	243	250	258	266	274	282	290	299	308
Total Income from Continuing Operations	**99,616**	**97,716**	**102,732**	**108,443**	**114,781**	**118,374**	**122,238**	**126,242**	**130,392**	**134,148**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	46,023	47,946	50,198	52,651	55,216	57,569	59,965	62,391	64,989	67,694
Borrowing Costs	3,987	3,825	3,502	3,184	2,966	2,685	2,422	2,164	1,890	1,612
Materials & Contracts	19,522	20,553	21,944	23,257	24,427	25,690	26,990	28,272	29,687	31,182
Depreciation & Amortisation	16,615	16,735	16,514	16,299	16,171	16,078	16,004	15,933	15,868	15,804
Other Expenses	14,038	13,917	14,373	15,054	15,806	16,474	17,316	18,203	19,157	20,163
Total Expenses from Continuing Operations	**100,185**	**102,977**	**106,531**	**110,445**	**114,586**	**118,496**	**122,697**	**126,963**	**131,591**	**136,455**
Net Operating Profit /(Loss) for the Year	**(568)**	**(5,261)**	**(3,799)**	**(2,002)**	**195**	**(122)**	**(459)**	**(721)**	**(1,198)**	**(2,307)**
Capital (Balance Sheet) and Reserve Movements										
Capital Expenditure	(25,837)	(8,132)	(8,503)	(12,931)	(13,146)	(13,089)	(13,079)	(13,076)	(13,027)	(12,936)
Loan Repayments (External)	(4,706)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Finance Lease Repayments	-	(44)	(43)	(43)	(45)	(44)	(43)	(43)	(45)	(45)
New Loan Borrowings (External)	4,579	240	135	2,000	-	-	-	-	-	-
Proceeds from Sale of intangible & tangible Assets	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Other Capital Receipts	-	-	71	45	58	-	71	45	58	-
Net Transfers (to)/from Reserves	6,428	(958)	(2,339)	(2,132)	(967)	(420)	(177)	381	1,107	1,879
Total Capital (Balance Sheet) and Reserve Movements	**(16,047)**	**(11,474)**	**(12,715)**	**(14,297)**	**(16,366)**	**(15,956)**	**(15,545)**	**(15,212)**	**(14,670)**	**(13,497)**
Net Result (including Depreciation & Other non-cash items)	**(16,615)**	**(16,735)**	**(16,514)**	**(16,299)**	**(16,171)**	**(16,078)**	**(16,004)**	**(15,933)**	**(15,868)**	**(15,804)**
Add back Depreciation Expense (non-cash)	16,615	16,735	16,514	16,299	16,171	16,078	16,004	15,933	15,868	15,804
Cash Budget Surplus/(Deficit)	**0**	**(0)**	**0**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
CASH FLOW STATEMENT - GENERAL FUND
Scenario: 2

	Projected Years									
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash Flows from Operating Activities										
Receipts:										
Rates & Annual Charges	60,350	62,265	66,597	71,323	76,635	79,435	82,229	85,128	88,137	90,727
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue Received	1,561	1,492	1,462	1,467	1,477	1,511	1,516	1,525	1,536	1,552
Grants & Contributions	17,769	13,453	13,443	13,829	14,233	14,651	15,085	15,534	16,000	16,489
Other	3,322	3,303	3,346	3,436	3,533	3,610	3,705	3,807	3,912	4,016
Payments:										
Employee Benefits & On-Costs	(46,023)	(47,946)	(50,198)	(52,651)	(55,216)	(57,569)	(59,965)	(62,391)	(64,989)	(67,694)
Materials & Contracts	(20,018)	(20,401)	(21,645)	(22,931)	(24,108)	(25,375)	(26,638)	(27,915)	(29,297)	(30,771)
Borrowing Costs	(3,981)	(3,824)	(3,503)	(3,185)	(2,964)	(2,685)	(2,422)	(2,165)	(1,889)	(1,612)
Other	(14,038)	(13,917)	(14,373)	(15,054)	(15,806)	(16,474)	(17,316)	(18,203)	(19,157)	(20,163)
Net Cash provided (or used in) Operating Activities	15,426	11,363	12,536	14,123	16,167	15,841	15,451	15,113	14,596	13,454
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities	6,428	-	-	-	-	-	-	41	386	908
Sale of Infrastructure, Property, Plant & Equipment	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Payments:										
Purchase of Investment Securities	-	(605)	(1,706)	(1,385)	(577)	(289)	(384)	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(25,917)	(8,132)	(8,574)	(12,976)	(13,204)	(13,089)	(13,151)	(13,122)	(13,085)	(12,936)
Net Cash provided (or used in) Investing Activities	(16,000)	(6,024)	(7,167)	(10,497)	(11,417)	(11,765)	(11,921)	(11,467)	(11,086)	(10,414)
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	4,579	240	206	2,045	58	-	71	45	58	-
Proceeds from Finance Leases	58	-	71	45	58	-	71	45	58	-
Payments:										
Repayment of Borrowings & Advances	(4,803)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Repayment of Finance Lease Liabilities	(24)	(24)	(38)	(43)	(45)	(44)	(43)	(43)	(45)	(44)
Net Cash Flow provided (used in) Financing Activities	(190)	(5,078)	(4,910)	(3,053)	(4,559)	(4,060)	(3,831)	(4,085)	(4,305)	(4,052)
Net Increase/(Decrease) in Cash & Cash Equivalents	(764)	261	459	573	191	16	(301)	(439)	(794)	(1,013)
plus: Cash, Cash Equivalents & Investments - beginning of year	13,489	12,725	12,986	13,444	14,018	14,208	14,225	13,924	13,485	12,690
Cash & Cash Equivalents - end of the year	**12,725**	**12,986**	**13,444**	**14,018**	**14,208**	**14,225**	**13,924**	**13,485**	**12,690**	**11,678**
Cash & Cash Equivalents - end of the year	12,725	12,986	13,444	14,018	14,208	14,225	13,924	13,485	12,690	11,678
Investments - end of the year	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Cash, Cash Equivalents & Investments - end of the year	**22,632**	**23,497**	**25,663**	**27,621**	**28,388**	**28,694**	**28,777**	**28,298**	**27,118**	**25,197**
Representing:										
- External Restrictions	5,867	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545
- Internal Restricitons	13,053	14,333	16,673	18,804	19,771	20,191	20,369	19,988	18,881	17,002
- Unrestricted	3,712	3,619	3,446	3,272	3,073	2,958	2,864	2,765	2,692	2,651
	22,632	**23,497**	**25,663**	**27,621**	**28,388**	**28,694**	**28,777**	**28,298**	**27,118**	**25,197**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BALANCE SHEET - GENERAL FUND
Scenario: 2

	Projected Years									
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ASSETS										
Current Assets										
Cash & Cash Equivalents	12,725	12,986	13,444	14,018	14,208	14,225	13,924	13,485	12,690	11,678
Investments	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Receivables	5,257	5,299	5,566	5,854	6,159	6,345	6,540	6,737	6,936	7,112
Inventories	363	382	408	432	454	477	502	525	552	580
Other	299	307	324	341	359	376	395	414	435	458
Total Current Assets	28,551	29,486	31,960	34,248	35,360	35,892	36,214	35,975	35,041	33,346
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	837,297	826,224	815,421	808,492	803,427	799,098	794,913	790,778	786,680	782,506
Investments Accounted for using the equity method	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267
Investment Property	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535
Total Non-Current Assets	848,099	837,026	826,223	819,294	814,229	809,900	805,715	801,580	797,482	793,308
TOTAL ASSETS	**876,650**	**866,511**	**858,183**	**853,542**	**849,589**	**845,792**	**841,929**	**837,554**	**832,523**	**826,654**
LIABILITIES										
Current Liabilities										
Payables	8,020	8,220	8,601	9,016	9,425	9,810	10,237	10,669	11,139	11,630
Borrowings	5,378	5,210	5,195	4,726	4,126	3,996	4,227	4,472	4,118	3,543
Provisions	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729
Total Current Liabilities	25,128	25,158	25,524	25,470	25,279	25,534	26,192	26,870	26,986	26,902
Non-Current Liabilities										
Borrowings	53,295	48,386	43,491	40,907	36,948	33,018	28,956	24,626	20,675	17,197
Provisions	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
Total Non-Current Liabilities	55,737	50,828	45,934	43,349	39,391	35,460	31,399	27,068	23,118	19,640
TOTAL LIABILITIES	**80,865**	**75,986**	**71,458**	**68,819**	**64,670**	**60,994**	**57,591**	**53,938**	**50,103**	**46,542**
Net Assets	**795,785**	**790,525**	**786,726**	**784,723**	**784,919**	**784,797**	**784,338**	**783,616**	**782,420**	**780,113**
EQUITY										
Retained Earnings	370,365	365,105	361,306	359,303	359,499	359,377	358,918	358,196	357,000	354,693
Revaluation Reserves	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420
Total Equity	**795,785**	**790,525**	**786,726**	**784,723**	**784,919**	**784,797**	**784,338**	**783,616**	**782,420**	**780,113**

FINANCIAL SCENARIO 3
(including Funding Option 3 – Service Levels Reduced)

REVENUE ASSUMPTIONS

The current Environment Levy expires in June 2015 and is not renewed, resulting in a loss of $17M in revenue by 2023-2024.

Rates increase by rate peg only (estimated at 3% annually)- a cumulative increase over four years of 12.6%

Apart from the key rating revenue assumptions above, other assumptions include revenue increases in Contributions, Discretionary Fees and Other Revenue by 3%, Annual Charges by 5%, Financial Assistance Grant by 0% for the first 3 years and then by 4%, Special Purpose Grants by 1.5% and Regulatory Fees by 1%.

EXPENDITURE ASSUMPTIONS

Scenario 3 ($M)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
Operating Expenditure (excl. Depn.)	84	85	89	91	95	98	101	105	108	112	**968**
Capital Expenditure	26	8	7	10	8	9	9	10	10	10	**107**
***LTFP* Total Expenditure (excl. Depn.)**	**110**	**93**	**96**	**101**	**103**	**107**	**110**	**115**	**118**	**122**	**1,075**

Option 3 proposes no Special Variation including the expiry of the current Environment Levy. There will be a loss of $17 Million in revenue over the 10 year period which will result in a significant decrease in funding of environmental operational and capital works. According to the *Workforce Management Strategy (Part 5 Section 5.5)* the reduction in funding resulting from this Option will impact the workforce directly engaged in Environmental Levy work; consequently a reduction of approximately eight full-time employees will take effect in 2015/16.

Additionally, under Option 3, the loan repayment savings from the Council's Strategy 3 are used to fund the needs of the Asset Works Program and the Council will be required to constrain its annual operational budget by a parameter of 2% for operational costs, which means a reduction in the Council service levels to the community.

Operating expenditure, other than employment costs have been constrained to provide additional funding for asset maintenance and renewal works.

IMPACT ON SERVICE LEVELS

- We cannot further invest in built infrastructure: worse roads, town centres, public toilets, buildings, footpaths and drainage.
- We cannot improve emergency preparedness and response: less capacity to prepare for and respond to emergencies such as bushfires. More fire trails and asset protection zones in poor condition.
- We cannot continue to protect the environment: No water quality monitoring, less weed control, less restoration of bushland, habitat and waterways, less stormwater pollution control.
- We cannot support or improve services to community: Worse community and recreation facilities, less capacity to support and advocate for community services. Closure of unsafe facilities.

FINANCIAL STATEMENTS

A summary of the financial statements is included below, with the full statements included in the attachments to this report.

Summary of Profit & Loss Statement ($M)

	Projected $M									
	14/15	**15/16**	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**
Total Revenues Excluding Capital Grants	94	95	98	101	105	108	112	115	119	122
Total Expenses from Ordinary Activities	100	101	104	107	111	113	117	120	124	127

FINANCIAL SCENARIO 3
(including Funding Option 3 – Service Levels Reduced)

Net surplus/(deficit) operating result for the year before grants and contributions provided for capital purposes	(6)	(6)	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(5)
NON CASH ITEMS	17	17	17	16	16	16	16	16	15	15
Total Net Surplus/(Deficit) from Operating Activities excluding non-cash items (used to fund Capital Expenditure)	11	11	11	10	10	11	11	11	10	10
Capital Grants and Contributions	5	1	1	1	1	1	1	1	1	1
Total Net Surplus/(Deficit) from Operating Activities plus Capital Grants	(1)	(5)	(5)	(5)	(5)	(4)	(4)	(4)	(4)	(4)

Summary of Cash Flow Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Receipts	100	96	99	102	105	109	112	116	120	122
Total Payments	84	85	88	91	94	98	101	104	108	111
Net Cash provided by (or used in) Operating Activities	16	11	11	11	11	11	11	12	12	11
Total Receipts	10	3	3	4	2	2	2	2	2	3
Total Payments	26	9	9	12	9	9	9	10	10	10
Net Cash provided by (or used in) Investing Activities	(16)	(6)	(6)	(8)	(7)	(7)	(7)	(8)	(8)	(7)
Net Cash provided by (or used in) Financing Activities	0	(5)	(5)	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Net Increase (Decrease) in cash held	0	0	0	0	0	0	0	0	0	0
Cash Assets	23	23	23	23	23	23	23	23	23	23

Summary of Balance Sheet Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Assets	877	866	855	847	838	830	823	815	807	800
Total Liabilities	81	76	71	68	64	60	57	53	49	45
NET ASSETS	796	790	784	779	774	770	766	762	758	755
TOTAL EQUITY	796	790	784	779	774	770	766	762	758	755

SUMMARY OF SCENARIO

While the Council can continue to meet its short term financial obligations, the long-term position is unsustainable despite significant adjustments to the services and the number of facilities provided by the Council.

By 2023/2024 Operating Result is NOT within acceptable benchmark being a deficit of - $5M.

Unsustainable financial position with significant deterioration in built infrastructure.

SENSITIVITY ANALYSIS

Optimistic:

FINANCIAL SCENARIO 3
(including Funding Option 3 – Service Levels Reduced)

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue increases										
Rates (inc growth)	0.3%	140	290	450	620	800	991	1,195	1,410	1,639
Discretionary Fees	0.5%	50	103	160	219	284	350	421	496	576
Untied Grants from 17/18	0.5%	$0	$0	46	95	149	207	271	339	412
Expenditure decreases										
Employment	-0.3%	140	291	457	636	829	1,035	1,255	1,490	1,743
Other Expenditure	-0.5%	130	264	399	540	688	840	998	1,162	1,331

Pessimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue decreases										
Rates (inc growth)	-0.3%	($140)	($289)	($447)	($614)	($790)	($978)	($1,174)	($1,382)	($1,602)
Discretionary Fees	-1.0%	($100)	($205)	($314)	($429)	($550)	($675)	($807)	($943)	($1,087)
Untied Grants from 17/18	-1.0%	$0	$0	($92)	($190)	($295)	($407)	($527)	($654)	($789)
Expenditure increases										
Employment	0.3%	($147)	($308)	($483)	($673)	($880)	($1,101)	($1,338)	($1,593)	($1,867)
Other Expenditure	1.0%	($261)	($529)	($811)	($1,107)	($1,417)	($1,743)	($2,085)	($2,446)	($2,825)

SUMMARY OF SENSITIVITY ANALYSIS

Sensitivity analysis has highlighted that under the Budget improvements analysis revenue could increase by between $46k and $1639k (i.e. Up to 1.3% of total revenue) and expenditure could decrease by between $130k and $1,743k (i.e. up to 1.3% of total expenditure). In either of these optimistic events, the Council would apply the favourable outcome towards asset renewal and maintenance requirements and/or reducing Council's debt to improve the operating deficits.

Under the pessimistic case, revenue could decrease by between $92k and $1602k (i.e. up to 1.3% of total revenue) and expenditure could increase by between $147k and $2,825k (i.e. up to 2.2% of total expenditure). In either of these pessimistic events, the Council would manage the unfavourable outcome by reducing and rebalancing service levels to address priority risks.

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BUDGET SUMMARY - GENERAL FUND
Scenario: 3

					Projected Years					
	2014/15 $'000	**2015/16 $'000**	**2016/17 $'000**	**2017/18 $'000**	**2018/19 $'000**	**2019/20 $'000**	**2020/21 $'000**	**2021/22 $'000**	**2022/23 $'000**	**2023/24 $'000**
Income from Continuing Operations										
Rates & Annual Charges	60,415	60,737	62,908	65,162	67,755	70,182	72,684	75,283	77,983	80,235
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue	1,513	1,518	1,522	1,527	1,532	1,537	1,542	1,548	1,553	1,559
Other Revenues	3,189	3,275	3,364	3,455	3,549	3,645	3,745	3,848	3,954	4,063
Grants & Contributions provided for Operating Purposes	12,630	12,660	12,692	13,081	13,485	13,903	14,337	14,786	15,252	15,741
Grants & Contributions provided for Capital Purposes	5,151	752	752	752	752	752	752	752	752	752
Net gains from the disposal of assets	236	243	250	258	266	274	282	290	299	308
Total Income from Continuing Operations	**99,616**	**96,123**	**98,894**	**102,123**	**105,722**	**109,030**	**112,599**	**116,300**	**120,137**	**123,569**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	46,023	47,932	50,068	52,374	54,782	57,094	59,454	61,842	64,399	67,064
Borrowing Costs	3,987	3,825	3,502	3,184	2,966	2,685	2,422	2,164	1,890	1,612
Materials & Contracts	19,522	19,407	20,468	21,325	22,014	22,729	23,628	24,517	25,498	26,523
Depreciation & Amortisation	16,615	16,735	16,509	16,268	16,075	15,879	15,710	15,549	15,401	15,260
Other Expenses	14,038	13,814	13,837	14,268	14,716	15,051	15,533	16,034	16,555	17,098
Total Expenses from Continuing Operations	**100,185**	**101,712**	**104,384**	**107,419**	**110,553**	**113,439**	**116,746**	**120,106**	**123,744**	**127,556**
Net Operating Profit /(Loss) for the Year	**(568)**	**(5,590)**	**(5,490)**	**(5,296)**	**(4,831)**	**(4,409)**	**(4,147)**	**(3,806)**	**(3,607)**	**(3,987)**
Capital (Balance Sheet) and Reserve Movements										
Capital Expenditure	(25,837)	(7,943)	(7,281)	(10,252)	(8,377)	(8,765)	(8,994)	(9,449)	(9,696)	(10,096)
Loan Repayments (External)	(4,706)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Finance Lease Repayments	-	(44)	(43)	(43)	(45)	(44)	(43)	(43)	(45)	(45)
New Loan Borrowings (External)	4,579	240	135	2,000	-	-	-	-	-	-
Proceeds from Sale of intangible & tangible Assets	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Other Capital Receipts	-	-	71	45	58	-	71	45	58	-
Net Transfers (to)/from Reserves	6,428	(819)	(1,865)	(1,485)	(614)	(258)	(280)	223	651	1,263
Total Capital (Balance Sheet) and Reserve Movements	**(16,047)**	**(11,145)**	**(11,019)**	**(10,972)**	**(11,244)**	**(11,470)**	**(11,563)**	**(11,743)**	**(11,794)**	**(11,273)**
Net Result (including Depreciation & Other non-cash items)	**(16,615)**	**(16,735)**	**(16,509)**	**(16,268)**	**(16,075)**	**(15,879)**	**(15,710)**	**(15,549)**	**(15,401)**	**(15,260)**
Add back Depreciation Expense (non-cash)	16,615	16,735	16,509	16,268	16,075	15,879	15,710	15,549	15,401	15,260
Cash Budget Surplus/(Deficit)	**0**	**0**	**(0)**	**0**	**(0)**	**0**	**(0)**	**(0)**	**(0)**	**0**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
CASH FLOW STATEMENT - GENERAL FUND
Scenario: 3

					Projected Years					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash Flows from Operating Activities										
Receipts:										
Rates & Annual Charges	60,350	60,726	62,835	65,086	67,668	70,100	72,600	75,196	77,892	80,159
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue Received	1,561	1,509	1,487	1,496	1,505	1,515	1,519	1,528	1,536	1,551
Grants & Contributions	17,769	13,453	13,443	13,829	14,233	14,651	15,085	15,534	16,000	16,489
Bonds & Deposits Received	-	-	-	-	-	-	-	-	-	-
Other	3,322	3,290	3,328	3,416	3,511	3,608	3,703	3,805	3,909	4,013
Payments:										
Employee Benefits & On-Costs	(46,023)	(47,932)	(50,068)	(52,374)	(54,782)	(57,094)	(59,454)	(61,842)	(64,399)	(67,064)
Materials & Contracts	(20,018)	(19,433)	(20,286)	(21,104)	(21,814)	(22,545)	(23,390)	(24,277)	(25,239)	(26,253)
Borrowing Costs	(3,981)	(3,824)	(3,503)	(3,185)	(2,964)	(2,685)	(2,422)	(2,165)	(1,889)	(1,612)
Bonds & Deposits Refunded	-	-	-	-	-	-	-	-	-	-
Other	(14,038)	(13,814)	(13,837)	(14,268)	(14,716)	(15,051)	(15,533)	(16,034)	(16,555)	(17,098)
Net Cash provided (or used in) Operating Activities	15,426	10,914	10,805	10,784	11,025	11,236	11,365	11,537	11,598	11,096
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities	6,428	-	-	-	-	-	-	41	386	908
Sale of Infrastructure, Property, Plant & Equipment	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Payments:										
Purchase of Investment Securities	-	(605)	(1,706)	(1,385)	(577)	(289)	(384)	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(25,917)	(7,943)	(7,352)	(10,298)	(8,435)	(8,765)	(9,066)	(9,494)	(9,754)	(10,096)
Net Cash provided (or used in) Investing Activities	(16,000)	(5,834)	(5,945)	(7,819)	(6,648)	(7,441)	(7,836)	(7,840)	(7,754)	(7,574)
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	4,579	240	206	2,045	58	-	71	45	58	-
Proceeds from Finance Leases	58	-	71	45	58	-	71	45	58	-
Payments:										
Repayment of Borrowings & Advances	(4,803)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Repayment of Finance Lease Liabilities	(24)	(24)	(38)	(43)	(45)	(44)	(43)	(43)	(45)	(44)
Net Cash Flow provided (used in) Financing Activities	(190)	(5,078)	(4,910)	(3,053)	(4,559)	(4,060)	(3,831)	(4,085)	(4,305)	(4,052)
Net Increase/(Decrease) in Cash & Cash Equivalents	(764)	2	(50)	(88)	(183)	(265)	(302)	(388)	(461)	(530)
plus: Cash, Cash Equivalents & Investments - beginning of year	13,489	12,725	12,726	12,677	12,588	12,406	12,141	11,839	11,451	10,990
Cash & Cash Equivalents - end of the year	**12,725**	**12,726**	**12,677**	**12,588**	**12,406**	**12,141**	**11,839**	**11,451**	**10,990**	**10,460**
Cash & Cash Equivalents - end of the year	12,725	12,726	12,677	12,588	12,406	12,141	11,839	11,451	10,990	10,460
Investments - end of the year	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Cash, Cash Equivalents & Investments - end of the year	**22,632**	**23,238**	**24,895**	**26,191**	**26,586**	**26,610**	**26,693**	**26,264**	**25,417**	**23,979**
Representing:										
- External Restrictions	5,867	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545
- Internal Restricitons	13,053	14,194	16,060	17,544	18,158	18,417	18,697	18,474	17,823	16,560
- Unrestricted	3,712	3,500	3,291	3,102	2,883	2,649	2,451	2,245	2,049	1,875
	22,632	**23,238**	**24,895**	**26,191**	**26,586**	**26,610**	**26,693**	**26,264**	**25,417**	**23,979**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BALANCE SHEET - GENERAL FUND
Scenario: 3

	Projected Years									
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS										
Current Assets										
Cash & Cash Equivalents	12,725	12,726	12,677	12,588	12,406	12,141	11,839	11,451	10,990	10,460
Investments	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Receivables	5,257	5,228	5,395	5,571	5,756	5,928	6,110	6,295	6,483	6,649
Inventories	363	361	380	396	409	422	439	456	474	493
Other	299	296	306	317	327	337	349	361	375	389
Total Current Assets	28,551	29,123	30,976	32,476	33,078	33,297	33,591	33,376	32,749	31,510
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	837,297	826,034	814,014	804,438	794,700	786,246	778,270	770,892	763,930	757,460
Investments Accounted for using the equity method	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267
Investment Property	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535
Total Non-Current Assets	848,099	836,836	824,816	815,240	805,502	797,048	789,072	781,694	774,732	768,262
TOTAL ASSETS	**876,650**	**865,959**	**855,792**	**847,716**	**838,581**	**830,346**	**822,663**	**815,070**	**807,481**	**799,772**
LIABILITIES										
Current Liabilities										
Payables	8,020	7,997	8,230	8,503	8,756	8,990	9,286	9,584	9,906	10,236
Borrowings	5,378	5,210	5,195	4,726	4,126	3,996	4,227	4,472	4,118	3,543
Provisions	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729
Total Current Liabilities	25,128	24,935	25,153	24,957	24,610	24,714	25,241	25,785	25,752	25,508
Non-Current Liabilities										
Borrowings	53,295	48,386	43,491	40,907	36,948	33,018	28,956	24,626	20,675	17,197
Provisions	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
Total Non-Current Liabilities	55,737	50,828	45,934	43,349	39,391	35,460	31,399	27,068	23,118	19,640
TOTAL LIABILITIES	**80,865**	**75,763**	**71,086**	**68,307**	**64,000**	**60,174**	**56,640**	**52,853**	**48,870**	**45,148**
Net Assets	**795,785**	**790,197**	**784,706**	**779,409**	**774,580**	**770,171**	**766,024**	**762,217**	**758,611**	**754,624**
EQUITY										
Retained Earnings	370,365	364,777	359,286	353,989	349,160	344,751	340,604	336,797	333,191	329,204
Revaluation Reserves	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420
Total Equity	**795,785**	**790,197**	**784,706**	**779,409**	**774,580**	**770,171**	**766,024**	**762,217**	**758,611**	**754,624**

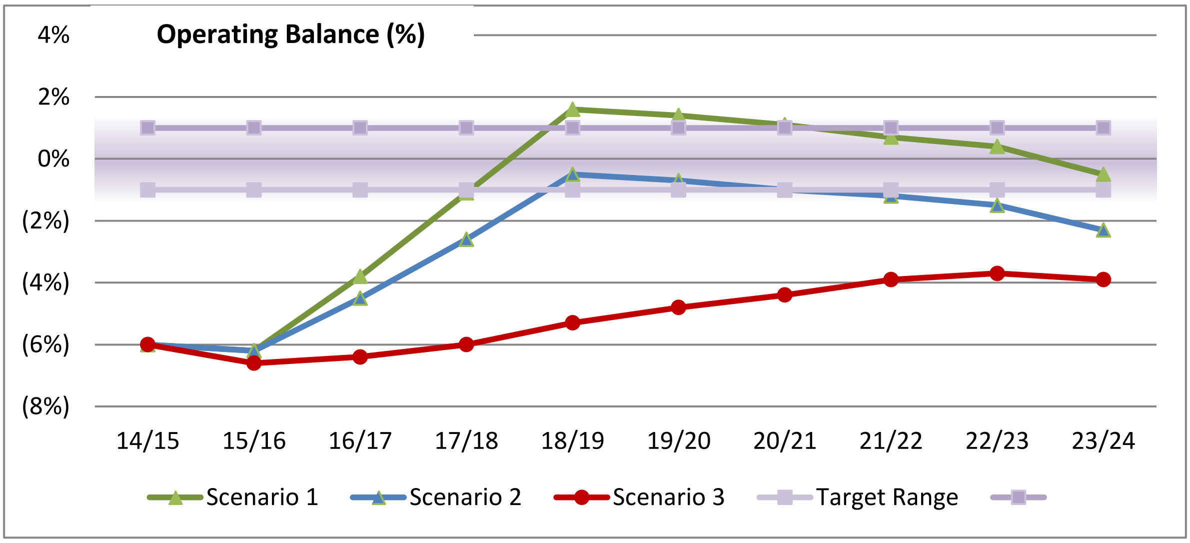
3.6 Measuring financial sustainability

The following sections discuss the impact of each financial scenario on financial performance measures over the 10-year planning period (2014-2024).

3.6.1 Operating Balance %

What is being measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation)
Calculation: Total operating revenue (excluding capital items) less total operating expenses (including depreciation costs) divided by total revenue
Target: Within the range of 1% to -1% (TCorp target is better than -4%)
Comment:

- **Scenario 1**: This indicates a healthier financial position compared to Scenarios 2 and 3 as from 2018-2019 the Council's operating position is in surplus and above the target level of between 1% and -1%. The operating balance increases to a greater extent than under Option 2 and 3 due to the annual rate increases from 2015/2016 to 2018/2019.
- **Scenario 2:** This indicates an unsustainable financial position as the ratio remains below the benchmark for the life of the *LTFP*. The operating balance improvements are, however, greater than under Option 3 due to the annual special variation rate increases from 2015/2016 to 2018/2019.
- **Scenario 3:** The Council is unable to meet the benchmark over the life of the *LTFP*, indicating an unsustainable financial position. This means that the Council will be unable to fully achieve its responsibilities under the City's community strategic plan – *SBM 2025* without significant service adjustments that may not be acceptable to the community.
- **Generally:** The trend in later years of a decrease in the ratio for all scenarios is a result of operating costs continuing to rise faster than the Council's ability to raise revenue due to inflationary cost pressures. It signals the need for the Council to continue its focus on implementing all six strategies to improve financial sustainability of the Council.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	(6%)	(6%)	(4%)	(1%)	2%	1%	1%	1%	0%	(1%)
Scenario 2	(6%)	(6%)	(5%)	(3%)	(1%)	(1%)	(1%)	(1%)	(2%)	(2%)
Scenario 3	(6%)	(7%)	(6%)	(6%)	(5%)	(5%)	(4%)	(4%)	(4%)	(4%)

Figure 3-6 10-year projection - operating balance (%)

3.6.2 Operating balance $ (including depreciation, excluding capital revenue)

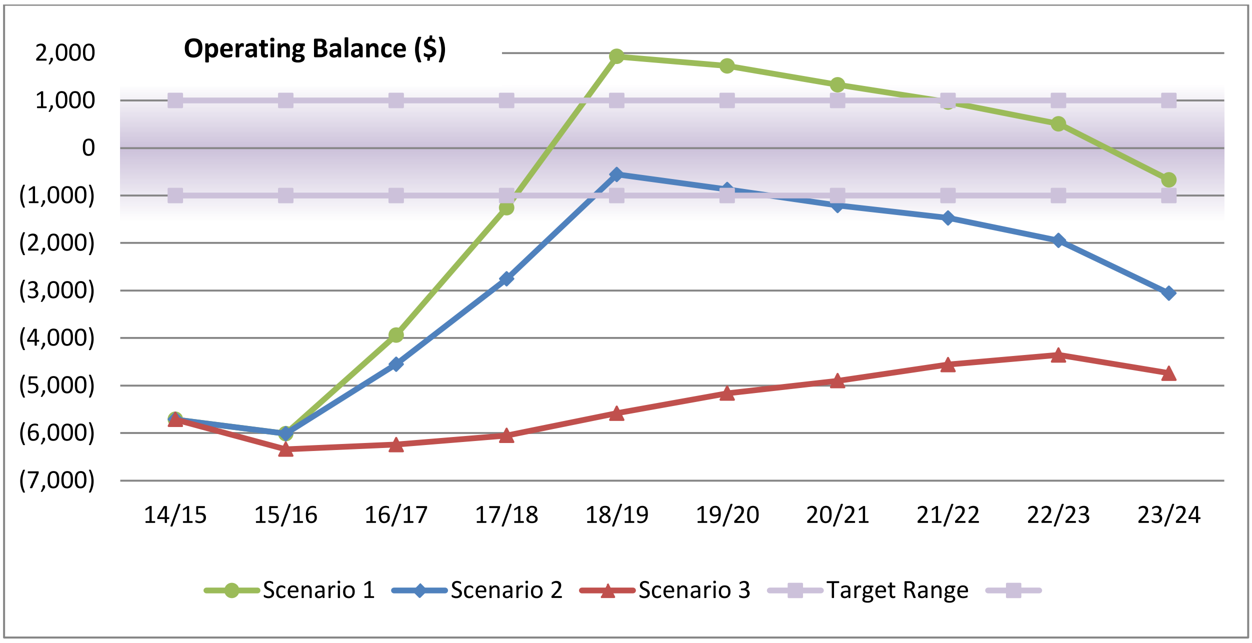
What is being measured: Whether the Council has sufficient revenue (excluding capital grants and contributions) to cover expenditure requirements (including depreciation)

Calculation: Total operating revenue (excluding capital grants and contributions) less total operating expenses (including depreciation costs)

Target: Within the band of $1M to - $1M (Target set by the Council's *LTFP*)

Comment:

- **Scenario 1:** The operating position reaches a surplus in 2018-2019 and remains healthy and above the benchmark, until the final year when the continuing inflationary cost pressures outstrips the Council's revenue capacity. **Importantly, only special variation option 1 achieves the Council's goal of long term financial sustainability since it is the only option that sustains operating surpluses and improves funding of required infrastructure, maintenance and renewal. This option also positions the Council to meet the required "Fit for the Future" criteria within the next 4-10 years.**
- **Scenario 2:** While this measure under this option indicates a significantly healthier operating balance, it remains under the benchmark for the life of the *LTFP*.
- **Scenario 3:** This measure indicates that the Council will have a significant operating deficit for the entire life of the *LTFP* (i.e. a deficit of $4.7M in 2023-2024 and $54M cumulative deficit over the 10 years) which will occur despite significant adjustments to the services provided by the Council. This means that the Council will be unable to fully achieve its responsibilities under the City's Community Strategic Plan – *Sustainable Blue Mountains 2025* without significant service adjustments that may not be acceptable to the community.
- **Generally:** The trend in later years for a decrease in the measure for all options is a result of costs continuing to rise faster than the Council's ability to raise revenue. It signals the need for the Council to continue its focus on implementing all six strategies to improve financial sustainability of the Council. Reducing borrowing costs over the ten years has a positive impact on the Councils operating balance.



$'000)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	(5,713)	(6,012)	(3,937)	(1,256)	1,927	1,728	1,331	966	508	(672)
Scenario 2	(5,713)	(6,012)	(4,552)	(2,755)	(558)	(874)	(1,211)	(1,474)	(1,949)	(3,059)
Scenario 3	(5,713)	(6,340)	(6,243)	(6,049)	(5,581)	(5,161)	(4,899)	(4,559)	(4,358)	(4,739)

Figure 3-7 10-year projection - operating balance ($)

3.6.3 Unrestricted current ratio

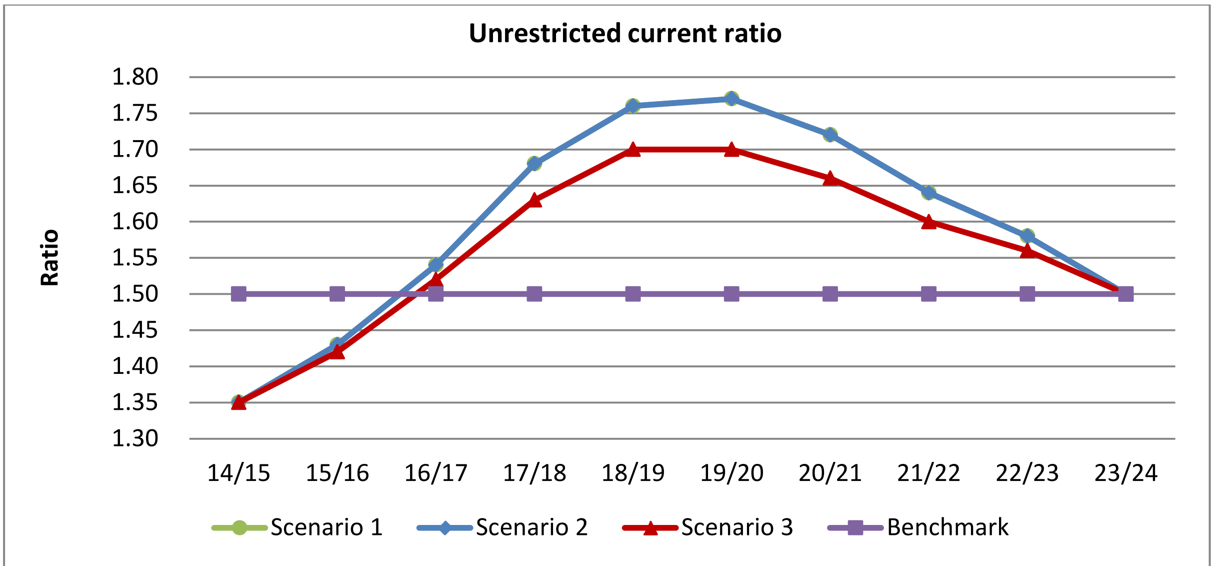
What is being measured: The Council's ability/liquidity to meet short term financial obligations such as loans, payroll and leave entitlements and fund expenditure requirements

Calculation: Ratio of unrestricted current assets (excludes externally restricted assets) divided by unrestricted current liabilities.

Target: Greater than 1.5 : 1.0

- **Scenario 1:** From 2016-2017 the Council maintains a ratio greater than the benchmark with a higher level of liquidity throughout the balance of the life of the *LTFP*
- **Scenario 2:** From 2016- 2017 the Council maintains a ratio greater than the benchmark with a higher level of liquidity throughout the balance of the life of the *LTFP*
- **Scenario 3**: From 2016-2017 the Council maintains a ratio greater than the benchmark with a high level of liquidity throughout the balance of the life of the *LTFP* however at a reduced level compared to Scenarios 1 and 2
- **Generally:** All options in the first half of the *LTFP* reflect the impact of increased Property Investment Fund sales and reduced current outstanding borrowing costs as debt is retired, which both have a favourable impact on the ratio. The ratio reduces over the second half of the *LTFP* due to the retirement of debt being relatively smaller over this period. Each option ensures that the Council has sufficient cash or cash equivalent funds to meet its short-term commitments.

Figure 3-8 shows for each financial scenario, the 10-year annual performance of the unrestricted current ratio.



Note: Scenario 1 and Scenario 2 trend the same under this ratio, and therefore Scenario 1 is not observable on this chart.

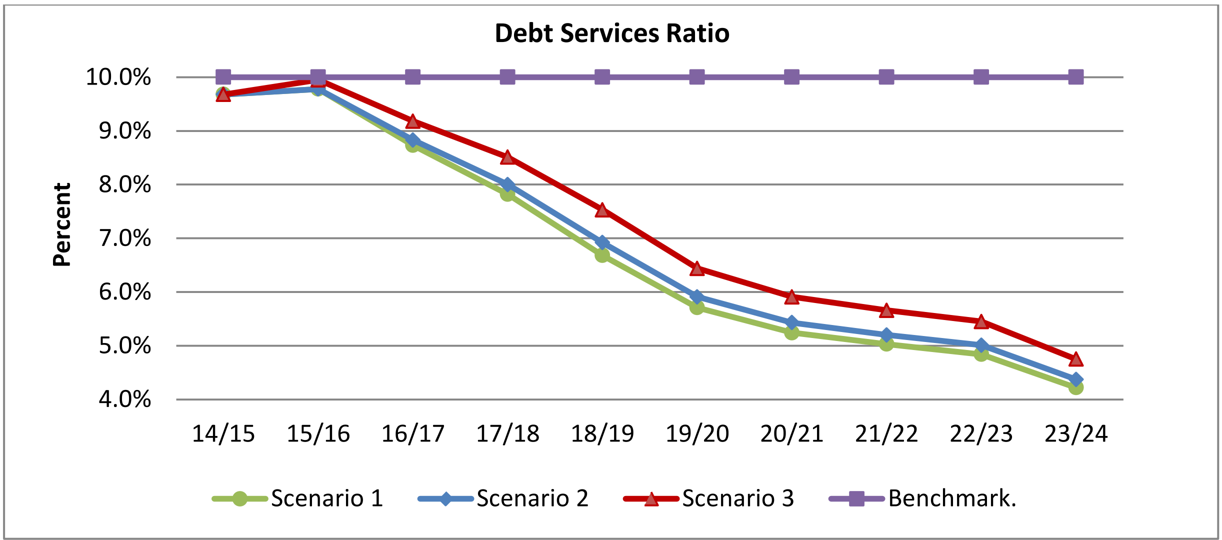
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	1.35	1.43	1.54	1.68	1.76	1.77	1.72	1.64	1.58	1.50
Scenario 2	1.35	1.43	1.54	1.68	1.76	1.77	1.72	1.64	1.58	1.50
Scenario 3	1.35	1.42	1.52	1.63	1.70	1.70	1.66	1.60	1.56	1.50

Figure 3-8 10-year projection - unrestricted current ratio

3.6.4 Debt service ratio

What is being measured: Percentage of the Council's total revenue used to service debt
Calculation: Total loan interest and principal repayments divided by operating revenue
Target: Less than 10%
Comment:

- **Scenario 1**: By 2023-2024 the projected debt service ratio is more sustainable at 4.2% and is significantly below the benchmark.
- **Scenario 2**: By 2023-2024 the projected debt service ratio is more sustainable at 4.4% and is significantly below the benchmark.
- **Scenario 3:** By 2023-2024 the projected debt service ratio is sustainable at 4.8% and is significantly below the benchmark. The ratio is less favourable compared to Scenarios 1 and 2 since these scenarios have increased operating revenue from special variation funding options
- **Generally:** The slight increase in the ratio in 2015-2016 is largely due to the servicing requirements of the NSW Government subsidised loans for Blue Mountains Community & Cultural Facility – Springwood ($6M) and Blaxland Waste Management Facility ($4.9M) that increase loan repayments costs. Improvements to the ratio occur from 2016-2017 as no new debt (apart from prior commitments or contingent on a business case) is incurred in accordance with the financial strategy to manage borrowings responsibility. At the same time, from 2015-2016 to 2019-2020 existing debts with large repayment amounts are retired in each year but from 2019-2020 there are fewer existing debts retiring and operating revenue is increasing. The Council will have sufficient resources to service existing loans over terms of up to 20 years.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	9.7%	9.8%	8.7%	7.8%	6.7%	5.7%	5.2%	5.0%	4.8%	4.2%
Scenario 2	9.7%	9.8%	8.8%	8.0%	6.9%	5.9%	5.4%	5.2%	5.0%	4.4%
Scenario 3	9.7%	10.0%	9.2%	8.5%	7.5%	6.4%	5.9%	5.7%	5.5%	4.8%

Figure 3-9 10-year projection - debt services ratio

3.6.5 Rates & annual charges coverage ratio

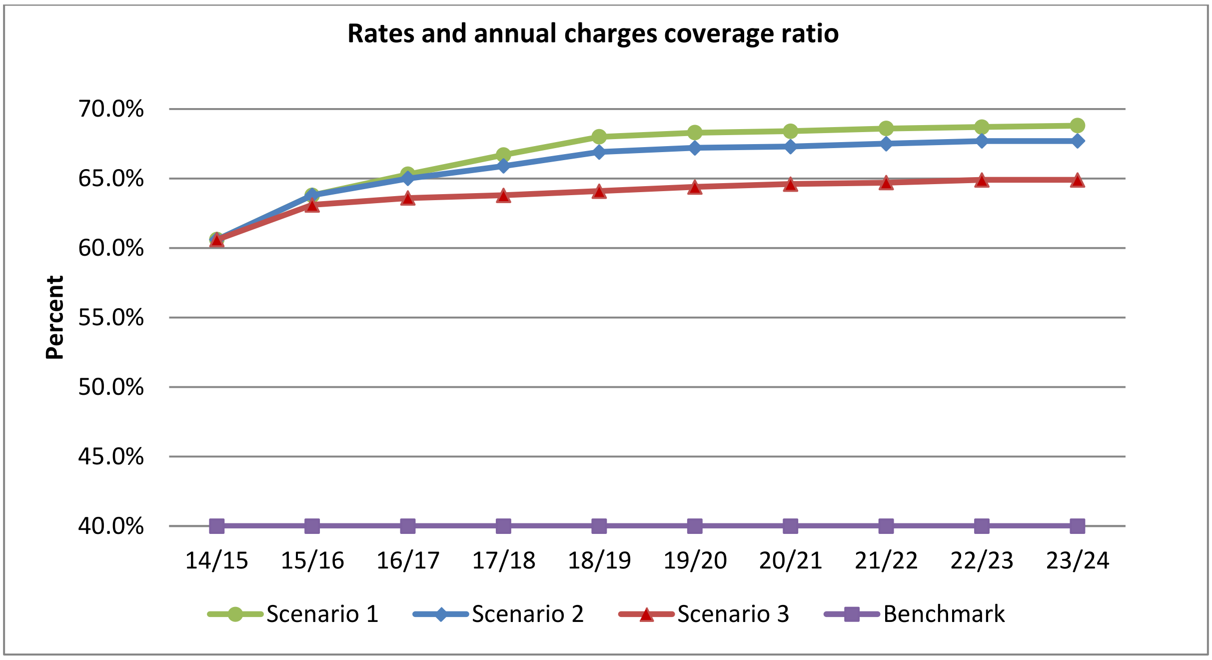
What is being measured: The Council's reliance on rates revenue to fund operations

Calculation: Rates and annual charges as a percentage of operating revenue

Target: Greater than 40% = Sustainable

Comment:

- **Scenario 1:** By 2023-2024 it is projected that the Council will have a sustainable rates and annual charges coverage of 68.8% due to the increased revenue from the special variation application
- **Scenario 2:** By 2023-2024 it is projected that the Council will have a sustainable rates and annual charges coverage of 67.7%, due to the increased revenue from the special variation application
- **Scenario 3:** By 2023-2024 it is projected that the Council will have a sustainable rates and annual charges coverage of 64.9%
- **Generally:** As rates and annual charges provide over half of the Council's revenue, the Council will have a high degree of certainty that this source of funding will be maintained over the next 10 years.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	60.6%	63.8%	65.3%	66.7%	68.0%	68.3%	68.4%	68.6%	68.7%	68.8%
Scenario 2	60.6%	63.8%	65.0%	65.9%	66.9%	67.2%	67.3%	67.5%	67.7%	67.7%
Scenario 3	60.6%	63.1%	63.6%	63.8%	64.1%	64.4%	64.6%	64.7%	64.9%	64.9%

Figure 3-10 10-year projection - Rates and annual charges coverage ratio

3.6.6 Rates, annual charges, interest & extra charges outstanding percentage

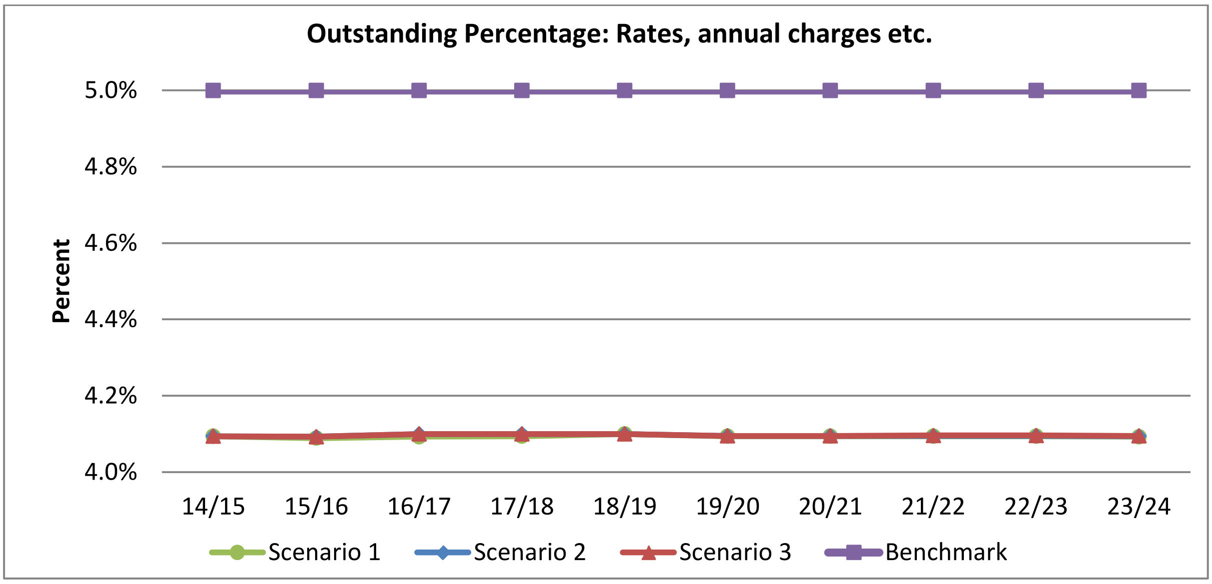
What is being measured: The impact of uncollected rates and annual charges on the Council's liquidity and the adequacy of debt recovery efforts

Calculation: Outstanding rates and annual charges as a percentage of collectible rates and annual charges

Target: Less than 5%

Comment:

- **Scenario 1:** Notwithstanding the increase in rates due to the special variation to rates application, this ratio remains under the 5% benchmark at around 4.1%
- **Scenario 2:** Notwithstanding the increase in rates due to the special variation to rates application, the ratio remains under the 5% benchmark at around 4.1%
- **Scenario 3:** For the life of the *LTFP*, this ratio remains under the 5% benchmark at around 4.1%
- **Generally:** Each result is a reflection of efficient credit management practices that ensure the Council's cash liquidity



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Scenario 2	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Scenario 3	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%

Figure 3-11 10-year projection - Rates, annual charges, interest & extra charges outstanding percentage

3.6.7 Building & infrastructure renewals ratio

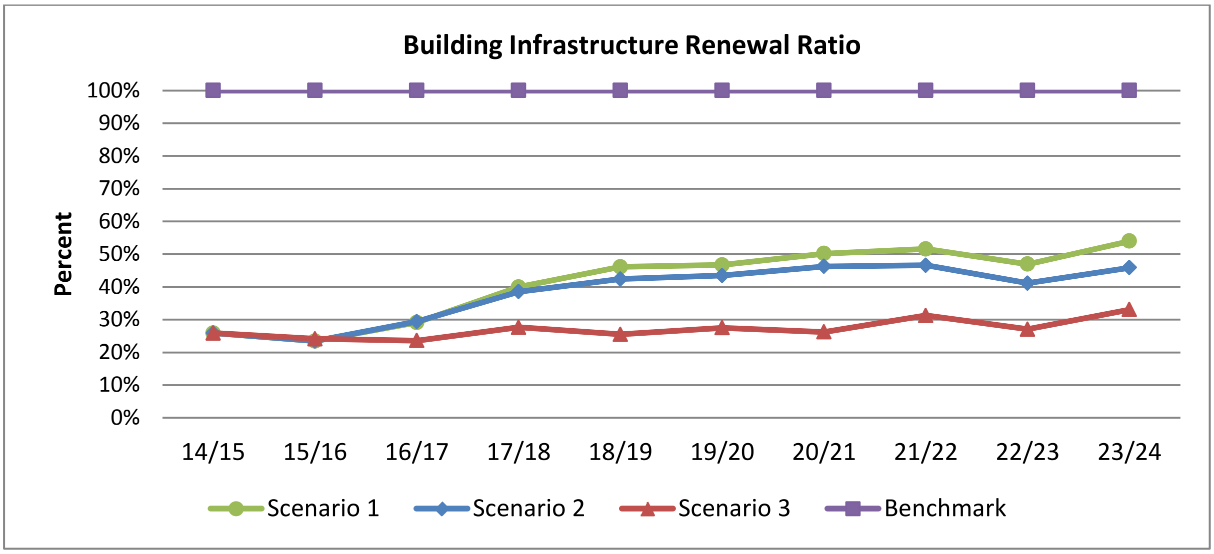
What is being measured: The Council's ability to fund the renewal of road, drainage and building assets relative to the rate at which these assets are depreciating

Calculation: Asset renewal expenditure divided by depreciation expenditure

Target: Greater than 100% = Good | Less than 100% = Unsustainable

Comment:

- **Scenario 1:** This ratio indicates that the Council is significantly underfunding asset renewal, though to a lesser extent than under Options 2 and 3. By 2023-2024 it is only renewing its assets at 54% of the required expenditure.
- **Scenario 2:** This ratio indicates that the Council is significantly underfunding asset renewal, though to a lesser extent than under Option 3. By 2023-2024 it is only renewing its assets at 46% of the required expenditure.
- **Scenario 3:** This ratio indicates that the Council is significantly underfunding the renewal of road, drainage and building assets and by 2023-2024 it is only renewing its assets at 33% of the required expenditure. As a result, significant deterioration in the condition of built assets will occur with resulting reactive closure/removal if they breakdown or are unsafe.
- **Generally:** This ratio indicates the impact the proposed special variation to rates options has on these assets, though asset renewal continues to be underfunded under all options. To ensure the Council can responsibly manage its assets, it must implement all the actions within its financial strategy.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	26%	23%	29%	40%	46%	47%	50%	52%	47%	54%
Scenario 2	26%	23%	29%	39%	42%	43%	46%	47%	41%	46%
Scenario 3	26%	24%	24%	28%	25%	27%	26%	31%	27%	33%

Figure 3-12 10-year projection - Building and infrastructure renewal ratio

3.6.8 Asset renewals ratio

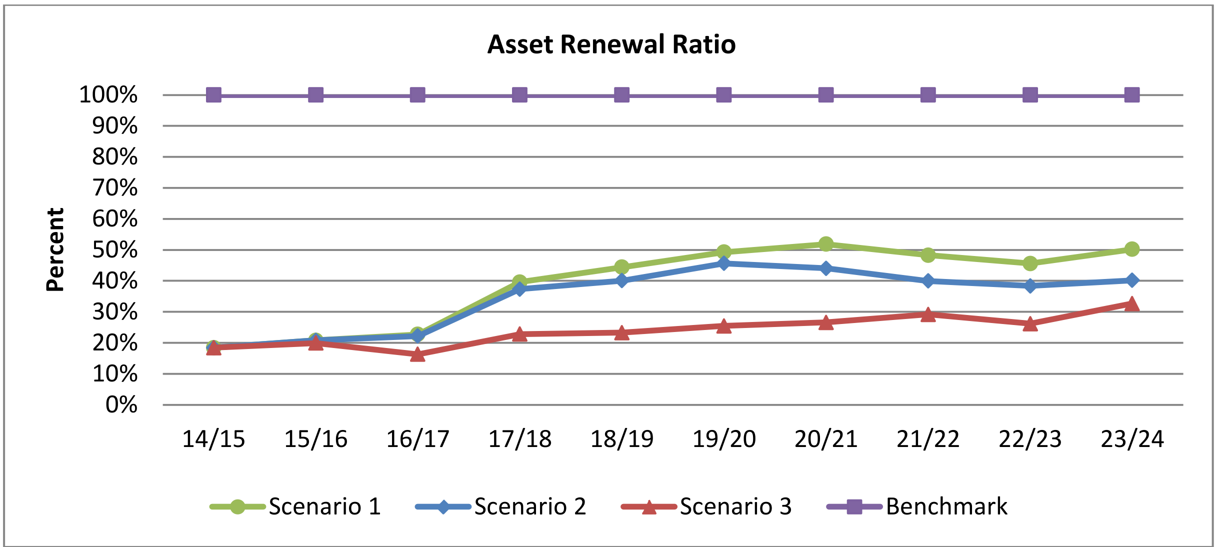
What is being measured: The Council's ability to fund the renewal of ALL built assets relative to the rate at which these assets are depreciating

Calculation: Asset renewal expenditure divided by depreciation expenditure

Target: Greater than 100% = Good | Less than 100% = Unsustainable

Comment:

- **Scenario 1:** This ratio indicates a significant underfunding of asset renewal, though to a lesser extent than under Options 2 and 3. By 2023-2024 renewal is only at 50% of the required expenditure. The ratio under this scenario is still less than the target of 100% which means that the Council still requires investment in efficiency and cost saving strategies to achieve the target. The Special Variation Option 1 provides the Council with a solid plan for financial sustainability which will improve this ratio over a 20 year period.
- **Scenario 2:** This ratio indicates a significant underfunding of asset renewal, though to a lesser extent than under Option 3. By 2023-2024 renewal is only at 40% of the required expenditure.
- **Scenario 3:** This ratio indicates that the Council is significantly underfunding the renewal of built assets and by 2023-2024 it is only renewing its assets at 33% of the required expenditure. As a result, significant deterioration in the condition of built assets will occur with resulting reactive closure/removal of facilities if they breakdown or are unsafe.
- **Generally:** This ratio indicates the impact the proposed special variation to rates options has on all built assets, though asset renewal continues to be underfunded under all options. To ensure the Council can responsibly manage its assets, it must implement all the actions within its financial strategy. The fluctuations in the ratio from year to year are represented by the special variation expenditure being shifted between renewal expenditure and new/upgrade/maintenance /operational expenditure.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	18%	21%	23%	40%	44%	49%	52%	48%	46%	50%
Scenario 2	18%	21%	22%	37%	40%	46%	44%	40%	38%	40%
Scenario 3	18%	20%	16%	23%	23%	25%	27%	29%	26%	33%

Figure 3-13 10-year projection - Asset renewals ratio

3.7 Key planning assumptions, revenue and expenditure forecasts

The *LTFP* has been prepared on a 10-year basis from 2014/2015 to 2023/2024. The *LTFP*'s first year uses the 2014/2015 adopted budget as its starting point. The following years are derived through a number of external planning and internal assumptions that are used to project revenue and expenditure budget allocations over the next nine year period.

Each of the assumptions listed below include a brief description of the revenue or expenditure item, the source of the assumption and the external influences that come to bear on these assumptions where relevant.

A number of one-off or recurring adjustments have also been included in the *LTFP*. Where relevant, a brief description of these adjustments is also included.

The *LTFP* financial statements should be read with reference to the assumptions and adjustments listed in the sections that follow, which were utilised in the Council's financial modelling. Note that variation in actual prices and costs to Council due to uncontrollable external events will affect Council's financial projections. The extent of this impact will depend on the size of the revenue or expenditure assumption, the extent of variation, and the degree to which Council is able to mitigate the variation.

Council will review its assumptions and adjustments at least annually and analyse the impacts of these changes. Significant changes will be addressed as they become known. Additionally, the financial impact of some of these events are further explored through the various scenarios and sensitivity analysis contained within this *LTFP* document.

3.7.1 Planning assumptions

The *LTFP* is based on assumptions relating to Population and Socio-economic factors such as household income and urban growth that are largely outside the control of the Council. Details of these assumptions are set out *Part 2 – City Context.* Assumptions relating to economic trends are discussed here.

3.7.2 Inflation (Consumer Price Index) forecasts

The projected inflation rate of 3% has been taken into consideration when determining appropriate income and expenditure increases to ensure that the Council's projected budget amounts reflect movements due to inflationary increases. In determining the inflation forecast, the Council has used the Reserve Bank of Australia and National Australia Bank estimated CPI forecasts. The inflation assumption has been applied across discretionary revenue and expenditure budget allocations where specific data modelling or specific internal assumptions cannot be determined or where the amounts are determined as immaterial (e.g. Contributions Income, Discretionary Fee Income, Other Revenue and some Other Expenditure budget allocations).

3.7.3 Interest rate movements

Market Interest rate assumptions apply for both investment income and borrowing cost projections.

For investment income projections, Council's interest income rates and returns are based on anticipated cash holdings, Reserve Bank of Australia forecast 90-day bank bill rates and Council's investment strategy and policy. The Council's anticipated cash holdings are drawn from projected revenues and expenditures and anticipated internal and external restricted cash reserve balances. These will fluctuate over the life of the *LTFP*. It is anticipated that the average annual portfolio over the 10 years will be in the vicinity of $20-24 million and on the average the Council will earn around $1.4 million in interest income per annum over the 10 years.

For borrowing costs projections, the Council's interest expenditure rate movements are based on loan terms and conditions for existing loan commitments and the Reserve Bank of Australia cash rate forecasts, plus a retail bank margin. Rates of 5.22% per annum over five and 15-year loans have been applied to any of the Council's current borrowing commitments. The Reserve Bank of Australia's cash rate forecast has been used to determine the projected rate of any future borrowings.

3.7.4 Revenue Forecasts

In considering the Council's likely revenue that will be available to meet our community's long-term service needs and funding priorities, the Council's Long Term Financial Planning process considers each component of the Council's revenue and funding base including:

- Rates and annual charges
- Fees and charges
- Grants and subsidies
- Borrowings
- Cash Reserves

LTFP revenue projections over the 10 years of the plan have been based on current knowledge on revenue indices, Australian and NSW Government funding indications, historical trend analysis, and through consultation with relevant stakeholders.

As noted earlier, a key action within the adopted *Six Strategies for Financial Sustainability* is the proposed review of the Council's existing revenue strategies, to ensure revenue is maximised in an equitable, as well as a business-like manner.

Rates & annual charges

Income from rates and annual charges is a major component of the Council's total revenue base ($60 million or 49% of total revenue sources for 2014/2015). The *Resourcing Strategy Part 2 - Section 2.9* includes an assessment of the community's capacity to pay rates and whether there is potential for changes in that capacity. This assessment considered relevant socio-economic indicators, and our rating position in comparison to other councils.

The findings of the comparative council study suggest that Blue Mountains ratepayers have the capacity to pay higher rates based on the following conclusions summarised in *Table 3-9.*

Table 3-9 Capacity of Blue Mountains ratepayers to pay higher rates

Evidence of capacity to pay	BM LGA is among the top 20% of least disadvantaged LGA's (based on SEIFA IRSD ranking)	Low unemployment rate (4.9%) in comparison to State, National, Greater Sydney and Rest of NSW averages	Weekly household income ($1270) above the NSW ($1237) and national ($1234) average
	Average land values are lower than that of neighbouring Hawkesbury LGA ($305,124), which has similar socio-economic characteristics	Mortgage stress is equivalent to the NSW average (10.5%), but much lower than other Sydney Metropolitan councils	Low rental stress (8.4%) compared to NSW average (11.6%)
	Completed rating reform has provided a fairer rating system	Whilst the proportion of household income spent on rates by Blue Mountains ratepayers is relatively high (1.93%), it is less than other council areas who have SEIFA index of disadvantage greater than ours	Very high level of rate recovery and very low number of financial hardship applications

The community's willingness to pay has been assessed across the three rating Options following the community engagement on *Resourcing our Future*.

It should be noted, that none of these rating options propose to fully address the infrastructure backlog as the level of funding required is likely to be beyond the capacity of our community to pay. The financial scenarios therefore offer the community the opportunity to determine the right balance between how much they wish to pay for services through rating options against the extent to which they wish the Council to implement its other financial strategies, particularly *Strategy 5 – Review and Adjust Services*.

Rates (rate peg, rate growth and rating funding options)

Rates revenue assumptions include increases for rate peg, ratepayer growth and special variations.

Table 3-10 highlights the *LTFP's* annual % increases - not the greater cumulative percentage impact, which is detailed earlier.

Table 3-10 10-yr forecast - Rating options

Income	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Rating- Option 1	3.15%	9.75%	9.75%	9.75%	3.15%	3.15%	3.15%	3.15%	3.15%
Rating- Option 2	3.15%	7.55%	7.55%	7.55%	3.15%	3.15%	3.15%	3.15%	3.15%
Rating- Option 3	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%

It should be noted that following the recent reform to the Council's rating structure (see *Section 2.8.1*); the current structure is now simple, fair, broadly uniform and legislatively compliant. As a result of this reform, a fair and equitable rating platform has been established.

The *LTFP* projects the rate peg to average 3% per annum over the 10 years of the plan, given historical rate pegs, recent reductions in the rate peg and indications of future rate pegs.

Ratepayer growth is limited and fluctuates each year for the Council. The *LTFP* projects a conservative 0.15% per annum increase in rateable properties and this equates to an estimate of around 50 additional rateable properties per annum.

Environment Levy

Under Options 1 and 2 the Environment Levy is proposed to be reinstated and continued on a permanent basis. Under Option 3 the Environment Levy expires and is not reinstated works that are carried out now under the Environment Levy would need to be supported to a lesser extent by the general rates paid by rate payers.

The Environment Levy has been in place since 2005 to generate additional revenue required for restoration, protection and management of the over 10,000 ha of natural bush land and the waterways that the Council is responsible for looking after. This Levy is due to expire in June 2015. The Levy costs the average ratepayer around $43 per year and provides around $1.5 million annually for environmental protection and restoration projects across our City. The proposed allocation of the environment Levy is shown in *Table 3-11.*

Table 3-11 Proposed allocation of the Environment Levy

Row Labels	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total 2015-2024	Total 2015-2019
Natural Environment	**1,042,950**	**1,074,275**	**1,106,200**	**1,139,375**	**1,173,700**	**1,208,750**	**1,245,100**	**1,282,425**	**1,321,025**	**10,593,800**	4,362,800
Maintenance	709,350	730,700	752,500	775,000	798,300	822,150	846,950	872,300	898,550	**7,205,800**	2,967,550
Operating	333,600	343,575	353,700	364,375	375,400	386,600	398,150	410,125	422,475	**3,388,000**	1,395,250
Sport & Recreation - Natural Area Visitor Facilities	**529,350**	**544,925**	**561,500**	**578,325**	**595,500**	**613,550**	**631,800**	**650,875**	**670,475**	**5,376,300**	2,214,100
Maintenance	223,700	230,200	237,200	244,400	251,600	259,300	266,900	275,000	283,300	**2,271,600**	935,500
Operating	57,250	58,925	60,700	62,525	64,400	66,350	68,300	70,375	72,475	**581,300**	239,400
Renewal	248,400	255,800	263,600	271,400	279,500	287,900	296,600	305,500	314,700	**2,523,400**	1,039,200
Water Resource Management	**99,600**	**102,600**	**105,700**	**108,800**	**112,100**	**115,400**	**118,900**	**122,500**	**126,100**	**1,011,700**	416,700
Maintenance	99,600	102,600	105,700	108,800	112,100	115,400	118,900	122,500	126,100	**1,011,700**	416,700
Grand Total	**1,671,900**	**1,721,800**	**1,773,400**	**1,826,500**	**1,881,300**	**1,937,700**	**1,995,800**	**2,055,800**	**2,117,600**	**16,981,800**	**6,993,600**

Annual Charges – Domestic waste

Waste services are Council's single biggest annual cost. In 2013-14 in the order of $20 million, excluding infrastructure improvements was spent on water services. This includes almost $2.9 million in payments to the NSW Government for its Waste Levy in relation to local waste going to Council owned and operated facilities.

The Council has recently been advised that the Waste Levy will be increased from $53.90 per tonne of waste to landfill in 2013-2014 to $65.40 per tonne in 2014-2015. The Council's 2014-2015 budget has made provision for this based on approximately 46,700 tonnes of material being handled at the Katoomba and Blaxland Waste Management Facilities, equating to approximately $2.9M required to be paid to the NSW Government. The Council anticipates continuing to reduce the amount of waste going to landfill to assist in managing this increase.

The Waste Levy is described as an economic lever used in NSW to reduce waste to landfill and encourage recycling. The calculation of the Waste Levy rate is prescribed in the Protection of the Environment Operations (Waste) Regulation 2005.

Council has previously raised this issue with the NSW Government as it considers this tax on residents and businesses equating to $2.9M in 2014-2015, as an additional and unaffordable expense for our community. This is especially the case when the Council and its ratepayers are self-sufficient in the provision of resource recovery and waste management infrastructure and services with a strong incentive to reduce waste to landfill to lengthen the landfill life. Given the other range of services that ratepayers expect from their rates and other cost shifting, the Waste Levy is considered poor value for money. This $2.9M impost prevents further investment in other critical priorities and risk matters within the City.

A key financial challenge is the high cost of providing waste services to our low density, geographically widespread community compared to other more densely populated and compact local government areas. Consistent with the Council's *LTFP*, this challenge is proposed to be addressed in the Council's Draft Waste Strategy through the following strategies:

- Improved asset management and operations at the Waste Management Facilities and associated waste service activities through efficient, value for money business practices.
- Implementation of a Waste Service Review to ensure continued value for money and identify potential for service adjustment, including opportunities to reduce fixed costs.
- Seek suitable Australian and NSW Governments funding opportunities and further regional partnerships with other councils, organisations, and community and business sector for best value for money contracts.

All residential ratepayers pay a Domestic Waste Management charge which is calculated so as to not exceed the reasonable cost to the Council, as is required under the *Local Government Act*. The basis of the charge is the *LTFP* assumption of a 5% per annum increase in the costs of providing waste and recycling collections, educational programs, booked bulky waste and kerbside chipping, landfill remediation costs, provisions for major plant replacements and a portion of tip operational and maintenance costs

The *LTFP* 5% projection is based on historical trends, advice from the Council's Environmental Sustainability Branch and trends in domestic waste contract expenditure.

Fees & charges

Council has the ability to raise revenues through the adoption of a fee or a charge for services or facilities. Some of the services provided by the Council are offered on a full or part cost recovery basis under the application of the 'user pays' principle. Many of the Council's other services are provided either free of charge (in recognition of the public good principle), as a fee determined by statutory requirements or at a commercial rate to produce an acceptable level of profit.

The fees and charges that Council can charge are split into two categories:

A. Regulatory fees

These fees are generally determined by NSW Government Legislation, and primarily relate to building, development or compliance activities. The Council has no control over the calculation and any annual increases of these fees and charges.

Regulatory fees have tended to have large fluctuations and to be heavily subsidised by the Council due to the constraints placed on these fees by external regulatory bodies. Regulatory fees on the average, have achieved a growth of around 1% (far below CPI) and this trend is expected to continue over the term of the *LTFP*.

B. Discretionary fees

Council has the capacity to determine the charge or fee for discretionary works or services, such as the use of community facilities and services.

The Council does not generate a significant amount of income from discretionary fees. This is primarily a result of the need to balance revenue with the need to provide affordable and equitable services to residents, for example, the hire of community facilities and the use of sporting facilities.

Approximately 50% of discretionary fees are generated from Council operated leisure centres. Based on historical trends and advice, fee income is expected to increase at no more than the rate of inflation, assumed at 3% over the 10 years of the plan.

Fees and charges are reviewed on an annual basis in conjunction with the preparation of the annual budget. Detailed user fees and charges and the general principles under which Council sets its fees and charges are contained in Council's *2014/2015 Fees & Charges Schedule* included as part of the *Operational Plan 2014/2015*. The Council will continue its review of the fees and charges policy as an element of *Strategy 4 – Increase Income*.

Grants & contributions

Council receives grants from the Australian and NSW Governments. These are either discretionary or non-discretionary. The majority of grants provided to Council are for specific purposes, such as infrastructure maintenance, provision of community services and environmental programs. Generally the funding received is less than the total cost of the works/services being provided. Typically, it is often a condition of the grant funding that Council provides matching funding.

A. Financial Assistance Grant

The largest single source of Council's grants revenue is the Financial Assistance Grant. This is a general purpose grant and is allocated to councils on a formula basis that has regard for a range of factors such as population, quantum of infrastructure maintained and the relative disadvantage between councils. In general, the total funding available increases each year in line with CPI and population growth.

The FAGs grant is used to maintain a wide range of infrastructure including local roads, bridges, recreation facilities, libraries, cultural facilities and deliver a variety of other services to our community at standards they expect and deserve. Up until the 2013/2014 allocation the Council had seen an increase in its financial assistance grant of 1% above inflation for several years.

The 2014/2015 Australian Government Budget includes a proposal to stop the annual increase to the Financial Assistance Grant for three years from 2014/2015 to 2016/2017. It also reduces the allocation to NSW in each of these years and a proportionate reduction has been assumed for this Council. As shown in *Table 3-14*, the proposed indexation freeze on the Grant means revenue received from the Grant will remain at $8.2 million per annum until 2017/2018. This will have a $253,000 impact on the Council's 2014/2015 budget, and in subsequent years, we will lose revenue of $620,000, $1,003,000 and $1,037,000 in the years 2015/2016, 2016/2017 and 2017/2018 respectively. This is a total of $2.9 million over this period of four years. The indexation freeze also impacts revenue into the future since the foregone revenue will never be recouped, leading to an ongoing loss of revenue of over $1 million per annum from 2017/2018.

Table 3-14 Extent of the 2014 Australian Government budget impact on the Financial Assistance Grant

Year	Original Expectation (4%)	2014 Australian Government Budget Reduced FAGs	Loss over 4 years	2014/2015	2015/2016	2016/2017	2017/2018
2013/2014 - Current Year	8,268,335	8,268,335	0				
2014/2015 - NO Indexation	8,536,000	8,283,421	(252,579)	(252,579)	(262,682)	(273,189)	(284,117)
2015/2016 - NO Indexation	8,877,440	8,257,363	(620,077)		(357,394)	(371,690)	(386,558)
2016/2017 - NO Indexation	9,232,538	8,229,934	(1,002,603)			(357,724)	(366,676)
2017/2018 - Indexation Reinstated	9,601,839	8,564,489	(1,037,350)				0
Totals	**44,516,152**	**41,603,543**	**(2,912,609)**	**(252,579)**	**(620,077)**	**(1,002,603)**	**(1,037,350)**

Over the 10 years of the *LTFP*, the Australian Government budget announcement of cuts to FAG funding will result in $9 Million lost revenue for the Council. To fund this reduction in projected revenue the Council will have to reduce its services to the same magnitude. These offsetting reductions have been included in the *LTFP,* although a decision final decision from the Australian Government is pending.

From 2017/2018 increases are based on the Office of Local Government circular on the financial assistance grant total for the State, which states a 4% increase in 2017/2018.

B. Special purpose grants

Special purpose grant income is generally in decline and the annual increase is less than CPI. Grants should only be accepted where it supports the current operational plan or asset works program, otherwise additional unplanned assets may be created that have ongoing costs for renewal, maintenance, cleaning, etc., that are not funded and other operational and capital projects that meet the strategic direction chosen by the Council may be delayed. The *LTFP* assumes that other grants will increase at 1.5% per annum.

The Family Day Care Childcare Benefit has been assumed in the *LTFP* to have no increase from 2014/2015 and this revenue stream is directly matched to Family Day Care expenditure projections.

C. Section 94 and 94A development contributions

Development contributions are contributions made to the provider of local public facilities by those undertaking development approved under the *Environmental Planning and Assessment Act 1979* (EP&A Act). Contributions may be in the form of money, dedication of land or some other material public benefit (or a combination of these).

The Council's *Developer Contributions Policy (s94A)* seeks 0.5% or 1%, depending on the Policy thresholds, of the proposed cost of carrying out a development (*Table 3-15*). These funds help provide public infrastructure, amenities and services that are associated with new development in the City.

Table 3-15 Section 94A contribution thresholds

Proposed Cost of the Development	Levy Percentage
$0 - $100,000	0%
$100,001 - $200,000	0.5%
More than $200,000	1.0%

In addition to the s94A Contributions Policy, the Council has a 'Section 94 Plan' that relates to a few discrete development precincts.

Both s94A and s94 Contributions are held as an externally restricted asset until they are spent for the purposes designated in the adopted contribution plans. The level and timing of contributions fluctuate according to a variety of factors including economic growth and the level of development activity in the Local Government Area.

Due to relatively stagnant population and growth, developer contributions provide a very limited source of funding for the Council. As at 31 May 2014, the Council has externally restricted asset reserve balances of approximately $35,000 and $156,000 from s94 and s94A contributions, respectively.

Our old Section 94 plan brings in limited funding. However, the *LTFP* assumes that our new s94A plan will raise around $400,000 per annum, noting that the actual amount received in any given year may vary significantly from this estimate.

D. Capital grants and contributions

A grant of $9.5M from Australian Government for the Blue Mountains Theatre and Community Hub facility upgrade at Springwood has been included over the 2013/2014 and 2014/2015 years. The total project cost is $17.9M with $6M from Local Infrastructure Renewal Program Loan Funding, which will be fully repaid upon receipt of the proceeds of property sales with the balance coming from other Council Reserves and contingencies.

The only other projected capital grant revenue is from Roads and Maritime Services (RMS) for road works. This is a matching grant as the receipt of this revenue is reliant on continuing the Council's funding of road renewal. It has been assumed that the amount received in future years will be the same as current funding.

E. Other contributions

Council receives a number of other financial contributions. The most significant of these are for road and footpath restoration works and other RMS transport infrastructure contributions. The *LTFP* assumes these will increase at 3% pa in line with the rate peg.

Table 3-16 summarises the annual planning assumptions for grants and contributions.

Table 3-16 Grants and contributions

Income	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Financial Assistance Grant	-	-	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Special Purpose Grants	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Contributions	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Pensioner subsidy

The pensioner rate subsidy is provided by the NSW and Australian Government to offset the cost of the mandatory $250 pensioner rate rebate that the Council provides to eligible pensioners.

The Australian Government is proposing to withdraw their 5% contribution to this pensioner rate subsidy which would mean that the Council will have a budget shortfall of $80k per annum. The State Government legislatively requires councils to provide pensioners with a rebate of no less than $250 on their rate bill. This costs the Council $1.6M per year. The State Government provides Council with a 50% subsidy, with the Australian Government providing, up to this point, a 5% subsidy. The Council is aware that the State Government has made a commitment to cover the 5% subsidy cost shortfall in 2014-2015.

Borrowings

Over the past decade, the Council has used borrowings as a source of funding for its Asset Works Program to satisfy community needs, as well as for a number of key major projects in order to maintain a vibrant City and support local economies. While the Council's debt service ratio financial indicator (i.e. the degree of revenue from continued operations committed to the repayment of debt) is within industry benchmark, its financial planning has identified that it has reached its capacity to incur new debt. Therefore, a strategy has been included in the Council's adopted *Six Strategies for Financial Sustainability* to manage borrowings responsibly (Strategy 3) by minimising future borrowings and reducing existing debt.

Implementing this Strategy involved replacing current annual borrowings to fund the Asset Works Program with revenue from the continuation of the special rate variation for infrastructure (Stage 1). Where possible, every opportunity will be taken to reduce existing debt from any surplus operational funds. The debt servicing cost savings from reducing the debt will be directed to priority asset maintenance and renewal works.

The *LTFP* includes $4.579M of proposed loans in 2014-2015 comprised of:

- $3.054 million in relation to approved Asset Works deferred from 2013/2014 into 2014-2015 ($2,475,000 Blaxland Waste Management Facility and $579,000 Lawson Town Centre additional/upgraded infrastructure to support the new shopping precinct)
- $1.525 million balance of proposed loans are 2014-2015 Asset Works (Blaxland Waste Management Facility Landfill Stage 3 – New Waste Cell which will be repaid by waste fee income, $525,000 Katoomba and Blackheath Caravan Park upgrades contingent on preparation and approval of comprehensive business case).

In 2015/2016 and 2016/2017 additional loans of $240,000 and $135,000 respectively for Katoomba and Blackheath Caravan Park upgrades are also included, contingent on preparation and approval of comprehensive business cases.

In 2017/2018 a loan for $2M has been included for the next stage of the Blaxland Waste Management Facility.

The Council's borrowing program will result in a manageable debt service ratio, which is below the industry benchmark.

Investment revenues

Interest revenue earned by the Council varies, largely based on the total amount held in Council's Investment Portfolio. Council's *LTFP* projects minimal future movements in the amount of Council's Investment Portfolio since, although there are some fluctuations within certain reserves overall, the balance is projected to be maintained at the current 2014/2015 portfolio balance of around $20-24 million.

Interest Revenue is also subject to external factors such as monetary policy decisions, and economic and investment market conditions. Over the longer term, economic conditions can vary considerably which, in turn, can affect interest rates. In times of economic expansion, rising interest rates can be an effective way of reducing economic growth, thereby lowering inflationary pressures. Conversely, during economic downturns the lowering of interest rates can have a positive impact on economic growth.

Over the past 10 year period the Official Cash Rate has varied from a minimum of 2.5% to a maximum of 7.25%. The average has been 4.84% over this period. In preparing long-term interest revenue projections, the Council has researched available economic data and projections from a variety of sources, in addition to seeking advice from external investment advisers. Based on this research and having regard for the Council's conservative investment policy, the *LTFP* model anticipates that the average annual portfolio over the ten years will be in the vicinity of $20-24 million. On average, the Council will earn around $1.4 million in interest income per annum over the 10 years.

Continual monitoring of projects and updating of the index in the *LTFP* model will occur on a regular basis, having regard for likely future changes in economic conditions.

Cash reserves and restricted assets

The Council has a number of cash reserves which are restricted either through a legislative requirement (externally restricted) or through a Council decision (internally restricted).

The establishment and funding of cash reserves is a financial management strategy to provide funds for future expenditure that could not otherwise be financed during a single year without having a material impact on the Council's budget. For example, local government elections occur every four years, so the Council sets aside one quarter of the estimated cost of the election each financial year.

The balance of Cash Reserves as at 30 June 2013 was $37.6 million comprised of $10.6 million in Externally Restricted Reserves and $23.9 Million in Internally Restricted Reserves and $3.1 million in Unrestricted Cash.

The Council's restricted and unrestricted reserves are reflected as operational and capital funding sources in the *LTFP*.

Other revenues

Other revenues include effluent contract revenue, operations recycling revenue and rental income centres. Revenue from these sources is difficult to predict as they can be susceptible to a range of external factors such as prevailing economic conditions, population growth and changing demographics. Other revenue is projected to increase at 3% per annum based on historical trends in these categories of income and on advice from relevant senior staff managing these businesses.

Sale of plant and property

The sale of property assets is intended to provide a minor contribution to the revenue raising plans of the Council. The anticipated net revenue from the sale of non-strategic assets is estimated at $5.5 million over the next three years. The net revenue from the sales in 2014/15 will be used to fund the repayment of loans associated with the Blue Mountains Theatre and Community Hub Facility – Springwood project.

Profit on sale of assets

Current profits on sales are projected to increase each year at the same rate as CPI. Other fluctuations in sales of assets are based on projections of the Council's Property Disposal Investment Plan (*Table 3-17)*. These proceeds are planned to be used to fund further property development to enable future sales, additional asset renewal, and the majority of the loan payments for the Blue Mountains Theatre and Community Hub Facility – Springwood.

Table 3-17 Property Disposal Investment Plan - profit on sale of assets

Property Investment Fund	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Opening Balance 000's	$1,835	$1,113	$ 175	$ 705	$1,614	$3,233	$3,536	$3,165	$2,783	$ 2,390	$ 1,985
Property Sales	$ 916	$1,888	$1,183	$1,547	$2,230	$ 865	$ 182	$ 182	$ 182	$ 182	$ 182
Development Costs	($1,624)	($2,200)									
Expenses	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)
Loan Repayment		($590)	($590)	($590)	($590)	($590)	($590)	($590)	($590)	($590)	($590)
Interest Revenue	$110	$67	$11	$42	$97	$194	$212	$190	$167	$143	$119
Asset Renewal	($55)	($33)	($5)	($21)	($48)	($97)	($106)	($95)	($83)	($72)	($60)
Closing Balance	**1,113**	**175**	**705**	**1,614**	**3,233**	**3,536**	**3,165**	**2,783**	**2,390**	**1,985**	**1,567**

Commercial activities

The Council delivers a number of services that are classed as commercial activities as these services are delivered with the main intention of generating surpluses from their operations. Such activities are generally considered as non-core activities and do not directly relate to meeting community service obligations. The following services have been defined as commercial activities:

- Caravan parks (at Katoomba and Blackheath)
- Commercial property portfolio (approximately 20 buildings leased as residential and commercial properties with some containing multiple shops)
- Effluent collection Service (2 Tankers for effluent removal)
- Roads and Maritime Service (Agent for RMS at BMCC Katoomba Administrative Centre)

The *LTFP* provides for the Council to continue to maximise ongoing commercial returns through commercial activities and in doing so the Council's commercial activities will focus on:

- Developing and implementing business strategies and plans for commercial activities
- Achieving net revenue targets specified in business plans
- Maintaining/improving service operations and facilities to ensure competitiveness

The achievements against specific targets will be outlined in the commercial in-confidence business plans and reports to the Council. Commercial activities currently generate approximately $3.0 million pa and the *LTFP's Strategy 4 – Increase Income* aims to strengthen the Council's financial sustainability through maximising net revenue from each of these commercial activities wherever there are opportunities for future income and economic growth.

3.7.5 Expenditure forecasts

The *LTFP* considers an array of information on ongoing operational and capital expenditures that are incurred as a consequence of meeting the community's expectations for the future as determined in the Council's Community Strategic Plan – *Sustainable Blue Mountains 2025.*

Balancing community expectations and uncertainty of future expenditure forecasts is one of the most challenging aspects of the Council's *LTFP*.

In developing the Council's expenditure forecasts, the Council has considered the Council's ongoing commitments in alignment with the objectives of the Council's Community Strategic Plan. Relevant sources of information on commitments have included the asset management strategy, previous management plans and repayment schedules for long-term borrowings. Not all of the Council's expenditure trends will continue as they have in the previous years since the *LTFP* includes three options for *Resourcing our Future,* and each option will raise a different level of funds and provide a different level of service.

It is important to understand that the annual fluctuations in prices and quantities of all expenditure items inform the *LTFP* expenditure forecasts but the annual adjustments applied in the *LTFP* are an average of the expected increases over the 10 years. Additionally, annual fluctuations for individual expenditure items, both increases and decreases, effectively average out against other expenditure item fluctuations both within an annual period and over the 10-year period.
The *LTFP*'s new expenditure forecasts include complete costings for capital and recurrent expenditures such as operational, maintenance and replacement asset costs over the useful life of the infrastructure item.

The Council's *LTFP* also phases expenditure appropriately across the 10-year term. For example, for the Council's Asset Works Program where projects are completed during the Long Term Financial Plan, the expenditure reflects when specific expenditure for planning, construction, implementation and maintenance is expected to occur.

Employee benefits and on-costs

A significant component of delivering high quality services to the community are the employment costs associated with the establishment and development of a highly skilled and responsive workforce. Some 46% of the current operational expenditure (excluding capital expenditure) is employment costs, which have remained reasonably static over time due to the nature of Council's operations. That said, the actual cost of the workforce continues to increase at a far greater rate than the Council's revenue capability since our rating revenue is constrained to the NSW Government's rate peg.

While a solution would be to simply reduce the size of the workforce, this is highly problematic, as there is a direct correlation between employment costs and service levels. Essentially, any reduction in staff numbers will lead to a reduction in the level of service. Therefore, the key premise of the Council's *Workforce Management Strategy* is to maximise workforce productivity by ensuring a highly safe, skilled and engaged workforce. Such a holistic approach has a significant flow-on effect and leads to a reduction in turnover, workers compensation costs, leave liabilities and absenteeism – all of which impacts positively on both costs and levels of service. (See *Part 5 Workforce Management Strategy* for analysis of this approach).

Pragmatically, this can be best evidenced with the Council's requirement, over recent years, to deliver activities previously provided by other tiers of government, without increasing the overall size of the workforce. As highlighted in the Council's *Workforce Management Strategy*, the factors mentioned above will also produce real savings of significant order.

Employee Costs include the payment of Salary and Wages, Employee Leave Entitlements, Superannuation and Workers Compensation expenses. The primary drivers of increased employment costs are predominately external factors outside the control of the Council; such as, NSW Local Government (State) Award wage increases, Australian Government determined superannuation increases, WorkCover NSW workers compensation costs, sick leave and leave entitlements. These increases in employment costs have been factored into the Council's *LTFP.*

A new Local Government (State) Award has recently been negotiated for the next three years. The new Award provides for the following wage increases: 2.6% at 1 July 2014; 2.7% at 1 July 2015; and 2.8% at 1 July 2016. These increases add approximately $1.0M to the annual wages bill (in today's terms).

The *LTFP* has considered all of the above factors and increased overall employment costs by 4.20% per annum for the average anticipated increases over the 10 years of the plan. Additionally, future adjustments to employment costs have been factored into Council's *LTFP* due to adjustments to service levels in specific areas of Council. Examples include additional staffing for the Blue Mountains Theatre and Community Hub – Springwood, reduced employment costs at our leisure and aquatic centres and adjustments to employment costs both upwards or downwards depending on the results of the community engagement on the three alternative options for resourcing our future.

Resourcing our Future

A critical component of the *LTFP* is the outcome of the three Options for *Resourcing our Future.* The potential impacts of the three Options are considered in the *LTFP,* including the impact on employment resources, which have been identified as follows:

Employment under Option 1: Service Levels Improved

This additional funding will require additional skills and around 30 additional full-time employees over the 10-year period, which is reflected in the LTFP in additional Assets Works Program expenditure. However, through natural attrition the size of the workforce reduces by an average of 3 full time employees a year. Overall, there should be a neutral impact on the size of the workforce.

Employment under Option 2: Services Levels Maintained

This additional funding will require the need for additional skills in the order of 25 full-time employees over the 10-year period, which is reflected in the *LTFP* through additional Assets Works Program expenditure. However, through natural attrition the size of the workforce reduces by an average of three (3) full time employees a year. Overall, there should be a small reduction in the size of the workforce of approximately 5 full time employees.

Employment under Option 3: Services Levels Reduced

The reduction in funding under this option will have an impact on the workforce directly engaged in Environmental Levy work and result in a reduction of approximately eight (8) full time employees immediately. When coupled with the natural attrition of an average three full time employees a year, the overall size of the workforce will reduce by some 38 full time employees over the 10-year period.

In summary, by ensuring we continue to develop a highly skilled, flexible and engaged workforce to respond appropriately to either improving, maintaining or reducing service levels, the Council's *LTFP* financial scenarios are well positioned to resource appropriately in a planned manner.

Superannuation

Council is required to make compulsory employer superannuation contributions on behalf of its employees. The amount of employer superannuation contributions which are payable by the Council increase in line with wages and depend on whether an employee is in an accumulation scheme or a defined benefit scheme. The main difference between each of these schemes from the Council's perspective is the level of contribution the Council is required to make on behalf of each employee.

For employees in the accumulation scheme, the Council is required to make compulsory employer superannuation contributions in accordance with the compulsory employer superannuation contribution limits of the *Superannuation Guarantee (Administration) Amendment Act 2012* (SGC). The SGC has increased the Council's superannuation obligations for all employees from 9.0% to 9.5% from July 2014 and will continue to increase as follows:

- July 2014 – 9.5%
- July 2015 – 9.5%
- July 2016 – 9.5%
- July 2017 – 9.5%
- July 2018 – 10%
- July 2019 – 10.5%
- July 2020 – 11%
- July 2021 – 11.5%
- July 2022 – 12%

These increases are to be met by the employer and will increase the employment costs to the Council. The current annual superannuation cost to Council is approximately $3.25M. While these increases are to be phased in over time, moving to a 12% SGC will increase the Council's overall superannuation bill by approximately $1.0M annually – a 30% increase.

For employees who are in a *Defined Benefit Superannuation* scheme, Council's superannuation contribution is based on a multiple of the employee's salary. In addition to this amount, all NSW councils were initially advised in 2011 that due to the impact of the Global Financial Crisis and the negative effect this had on the financial position of the *Defined Benefit Superannuation* scheme, all councils would be liable for a separate fixed levy payable over a projected 10-year period. For the Council, this levy is approximately $380,000 annually. Recent advice from Local Government Super is that whilst the financial position of the scheme is reviewed on an annual basis, it would be prudent for the Council to budget for this additional levy in the foreseeable future. As such, this additional cost has been incorporated into the *LTFP* and is assumed to continue for the 10-year life of the plan. Should the required contribution vary from this forecast, the *LTFP* will be revised accordingly.

Workers compensation

In June 2012, the NSW Government introduced changes to the *Workers Compensation Scheme* in NSW. While the reforms improved the return to work process, the key driver of the reform is to return the scheme to financial sustainability without large increases in employer premiums.

It is the responsibility of individual organisations to effectively manage their workers compensation costs and injury management processes, the schemes ongoing viability needs due consideration in the context of workforce planning, as any future increases are likely to be substantial and have a major cost impact.

In anticipation of future premium increases, Blue Mountains City Council has undertaken a major review into its workers compensation and injury management processes. This exercise led to the Council being admitted into WorkCover NSW's *Retro-Paid Loss Scheme* in 2011. While participation in this scheme requires a more proactive management approach, it has seen a significant reduction in workers compensation premiums in the order of 60% and is delivering savings to the Council in excess of $1.0 million annually (as depicted in *Figure 3-14* below). This result positions the Council as one of leading councils in workers compensation and injury management processes when compared to other NSW councils, as evidenced in the NSW Council LGSA Survey.

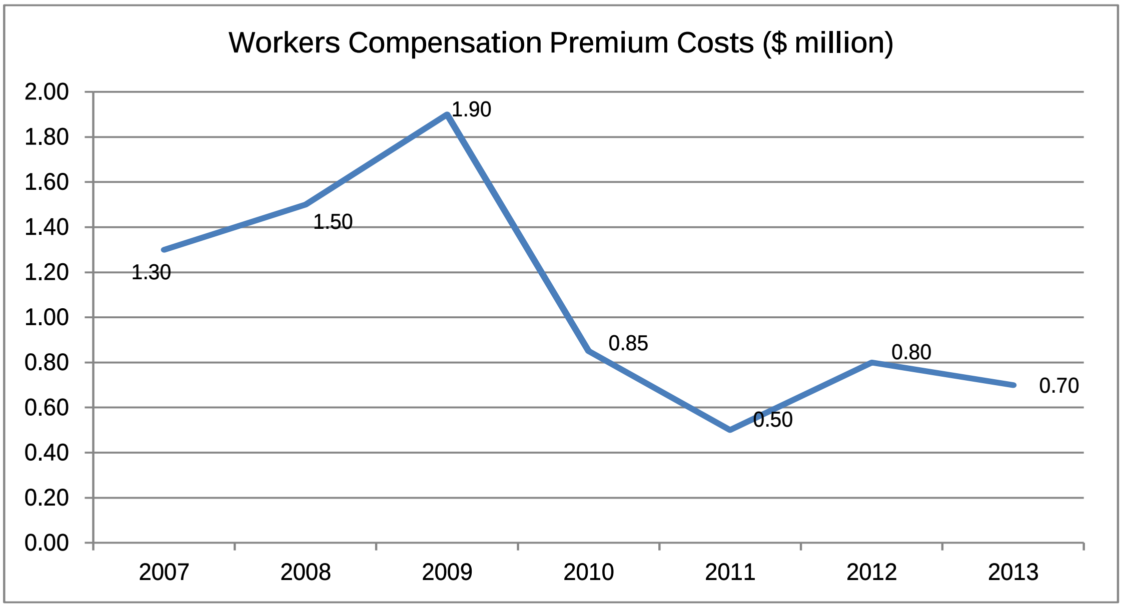


Figure 3-14 Workers compensation premium costs at the Blue Mountains City Council

The Council's *LTFP* projects Workers Compensation expenditure at the same rates as employment cost increases, that is, 4.2%.

Borrowing costs

Current borrowings and additional projected loans have been used to calculate principal and interest loan repayments. Loan repayments peak in 2015/2016 at over $9 million and reduce over the following years as minimal new loans are made and current debt is retired. Interest payments are projected to steadily decline.

The Council has maintained a sound financial position. The *LTFP* has been prepared on the assumption that the Council will continue to reduce debt in the future. As such, no borrowing costs have been included in the financial projections. Should the Council change its policy with regard to maintaining a debt free status, the *LTFP* will be adjusted accordingly.

Council's interest expenditure rate movements incorporate two 10-year infrastructure loans under the State Governments *Local Infrastructure Renewal Scheme* (LIRS). The *Scheme* provides an attractive 4% interest rate subsidy and allows the Council to make use of borrowings to accelerate investment in infrastructure backlogs. Council has subsidised loans of $6.0 million and $4.86 million for the Blue Mountains Theatre and Community Hub – Springwood, and the Blaxland Resource Recovery and Waste Management Facility, respectively.

Council's interest expenditure on loans progressively reduces from $3.9 million in 2014/2015 to $1.6 million in 2023/2024 as the Council continues to implement *Strategy 3 - Manage Borrowings Responsibly.* Furthermore, the Council has implemented an annual review of borrowings, and will endeavour to reduce debt earlier where possible. No new borrowings from 2014/2015 are planned unless:

- The cost of the debt is funded from sufficient income or cost savings generated by the project
- Financially responsible subsidised loan funding is available (e.g. LIRS funding)
- Any proposed new borrowing is supported by a comprehensive business case

- The borrowing relates to deferred asset works carried forward from a prior period as resolved by the Council

Materials & contracts and other expenditure

The Council's materials and contracts and other expenditure includes a broad range of services and expenditures including (but not limited to) advertising, external financial audits, emergency management statutory contributions, utility costs (electricity, water and gas), street lighting, insurances, legal and consultant fees, infrastructure maintenance, cultural services and civic events, cleaning and waste management.

Costs are impacted by many factors such as economic conditions, market competition, and availability, and transport of resources and raw materials.

The *LTFP* projects these costs to increase, on average, over the 10 years of the plan by an annual amount in line with CPI (3%) under Financial Scenarios 1 and 2 where rating income increases. In order to provide balanced cash budget under Financial Scenario 3, Materials & Contracts & Other Expenditure have increased below CPI at 2%. Under Scenario 3 where there is no increase to rates apart from rate peg, expenditure has been constrained to 2% to allow operational funds to be allocated to additional capital expenditure. The assumptions of 3% and 2% apply to all expenditure other than employment and where alternative expenditure forecasts are otherwise noted in the *LTFP (Table 3-18).*

Table 3-18 Materials, contracts and other expenditure assumptions

Expenditure	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Financial Scenario 1	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Financial Scenario 2	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Financial Scenario 3	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

These alternative expenditure forecasts include costs such as electricity, street lighting, Emergency Management Statutory Contributions and other expenditure items like the operational costs of Blue Mountains Theatre and Community Hub – Springwood, which have been indexed at either a higher than CPI rate based on recent trends or other exceptional projection factors. Details of these expenditures are as follows:

A. Electricity and street lighting

Energy costs are an expenditure area where the Council has experienced significant cost increases in previous years. The increases are the result of general increases in energy tariffs along with the introduction of the *Carbon Pricing Mechanism* from 1 July 2012. Additionally increases in the *LTFP* reflect the number of Council provided facilities, such as the new cultural and community facilities at Katoomba and Springwood and a new Katoomba library, which have driven higher energy requirements, even though each of these projects have incorporated energy efficient technologies.

In 2016/2017, the *LTFP* has incorporated a one-off reduction in electricity expenditure to reflect the work that is being undertaken to improve the terms of our electricity contract. The *LTFP* estimates that the Council will save $150,000 in street lighting and $100,000 in other electricity expenditure.

Under Financial Scenario 1 and 2, the *LTFP* projections include additional increases for rapidly increasing electricity and street lighting costs due to tariff increases, increased usage and increased facilities. These include additional expenditure for street lighting starting from $136,000 in 2016/2017 up to $731,000 in 2023/2024. For other electricity expenditure there is an additional $333,000 in 2016/2017 up to $1.27 million in 2023/2024.

B. Emergency management statutory contributions

Another expenditure item which is anticipated to increase at a higher rate than CPI are payments made by the Council to other levels of government such as the rapidly increasing Emergency Management Statutory Contributions. These costs consist of compulsory contributions to the NSW Fire Brigade, Rural Fire Service and State Emergency Services. The *LTFP* projects that these payments will increase annually by an average of 5%. Actual annual contribution increases at times have far exceeded 5% and over the past few years have averaged around 9% per annum. However, the *LTFP* assumes that any significant increase over 5% will require a response from the Council to either advocate to the agencies for costs to be managed within budgets available or the Council will need to make a transparent decision on where funding will come from and which services will be affected.

C. Blue Mountains Theatre and Community Hub - Springwood

Additional operational expenditure has been included for an increase in costs for operating the expanded Blue Mountains Theatre and Community Hub - Springwood. The *LTFP* includes an additional $200,000 in employment costs and an additional $100,000 in operational costs from 2015/2016 and then costs increase in line with other employment and operating costs.

D. Targeted expenditure adjustments

A targeted look at the Council's procurement practices has resulted in reduced expenditure in some areas. Further procurement savings, estimated at $500,000 have been included in 2015/2016 in the expectation of improved contract procurement and includes $250,000 in reduced electricity and street lighting contracts (as mentioned earlier) and $250,000 in estimated fleet procurement savings.

Additionally, to offset the 2014 Australian Government Budget impact on the Council's *Financial Assistance Grant* revenue (discussed earlier in the Revenue assumptions), the Council's *LTFP* includes one-off targeted service review savings of $600,000 in 2015/2016 and an additional $400,000 in 2016/2017. At this stage, adjustments have not been specifically identified with a particular service as the 2014 Australian Government Budget announcement is quite recent and not yet passed by the Government. Any review and adjustment of services will be made transparent through extensive community engagement and only proceeded with by approval from the Council.

In an effort to account for our latest data on the condition of our aquatic centre assets, the *LTFP* includes an expectation that there will be aquatic centre asset failures. The timing of these failures is impossible to predict, however as a prudent and responsible approach the *LTFP* has included associated operational cost savings of $220,000 in 2019/2020 and $120,000 in 2021/2022 to account for these probable events.

3.7.6 Capital expenditure

The Council's 10 year Asset Works Program projections *(Table 3-19)* have been added to the operational capital projections to give total capital expenditure.

Table 3-19-year Capital Expenditure forecasts

Capital Expenditure	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	25,837	8,132	9,105	14,409	15,612	15,716	15,690	15,325	15,631	15,508
Scenario 2	25,837	8,132	8,503	12,931	13,146	13,089	13,079	13,078	13,027	12,938
Scenario 3	25,837	7,943	7,281	10,252	8,377	8,765	8,994	9,449	9,696	10,096

Operational Capital includes Plant and Equipment, Fleet, Information Technology and other small capital purchases. It is projected that these expenditures will increase in line with other expenditure increases as noted above.

The Asset Works Program expenditure matches available funding from capital grants, loans, additional rates from any special variations and specifically allocated operational funding.

Council's Asset Works Program aims to deliver much needed maintenance, renewal and upgrade of infrastructure assets supporting the community, emergency management, the environment and other public infrastructure including roads, town centres and footpaths. For further detail on the Council's 10 year Asset Works Program please refer to *Part 4 – The Asset management Strategy and Policy*.

3.7.7 Depreciation

Projected depreciation costs have been increased for additional capital purchases and reduced for asset sales. Periodic reviews of asset values and useful lives, plus increased asset maintenance to prolong asset lives have been taken into account to show a declining annual depreciation cost in line with how long the Council's assets are made to last given the limited funding available to us.

Depreciation is reducing over the 10 years as more assets are being fully depreciated compared to the level of new depreciable capital expenditure being added over the 10 years of the plan. This trend is reflected in the Asset Renewal Ratio depicted *Section 3.6.8.* The actual depreciation expenditure in future years may be impacted by future asset revaluation methods and timing as stipulated by relevant accounting standards. Council's infrastructure assets have been revalued in accordance with a staged implementation program as advised by the Division of Local Government. The revaluation of Council's assets at fair value is to be undertaken as per the following schedule:

- 2013/14 Financial Year – Land Under Roads
- 2014/15 Financial Year – Roads, Bridges, Footpaths and Drainage
- 2015/16 Financial Year – Community Land, land improvements, other structures and other assets
- 2016/17 Financial Year – Water and Sewerage Assets (only applies to council's responsible for this asset class)
- 2017/18 Financial Year – Operational Land, Buildings, Plant and Equipment

Full revaluations are to be undertaken for all assets on a five year cycle.

3.8 Risk assessment

A risk assessment has been performed on the *LTFP* by examining at a high level the impact of inaccurate projected estimates of operational items and capital expenditure. This risk assessment is largely applicable to all three funding scenarios and has been assessed using the Council's risk matrix *(Figure 3-15).* The severity and frequency of each risk was examined to establish a risk rating for each category. Risk treatments and mitigation strategies were then detailed to identify the best methods to help eliminate and or minimise the potential impacts arising out of the identified risks.

It is important to note that the risk ratings listed below relate only to the inherent risk for each item. Residual risk ratings are determined when the effectiveness of the risk treatments and mitigation strategies are considered.

	LIKELIHOOD				
IMPACT	**Rare (1)**	**Unlikely (2)**	**Possible (3)**	**Likely (4)**	**Almost Certain (5)**
Severe (5)	Moderate	High	Extreme	Extreme	Extreme
Major (4)	Moderate	Significant	High	Extreme	Extreme
Moderate (3)	Low	Significant	Significant	High	Extreme
Minor (2)	Low	Moderate	Significant	Significant	High
Negligible (1)	Low	Low	Low	Moderate	Moderate

Figure 3-15 BMCC Risk assessment matrix

3.8.1 10-Year forward financial plan risk assessment

	Risk of Inaccurate Projected estimates of expenditure	Impact	Likelihood	Risk	Risk Treatments / Mitigation strategies
1	Employee Wages	Major	Possible	High	Budget Variation/Adjustment process Industrial Award negotiations Approval from Executive Management Team required for all replacement and new positions.
2	Wages Liability Super % increase to 12% by 2019 Retirement/Exit Liabilities/Entitlement	Major	Possible	High	Budget Variation/Adjustment process Manage leave entitlements in accordance with the award
3	Workers Compensation	Moderate	Possible	Significant	Proactive management of workers comp claims and return to work programs & monitor key performance measures Budget Variation/Adjustment process Contingency Reserve Provision Staff training
4	Leave entitlements – Annual, LSL.	Moderate	Likely	High	Budget Variation/Adjustment process Restricted cash to cover provision for leave entitlements Maintain appropriate level of reserve provision
5	Unfunded renewal & maintenance and depreciation costs – Infrastructure Funding shortfall/ Unplanned asset failures	Major	Certain	Extreme	Apply for SRV Service levels reduced and rebalanced to address priority risks Continue Service Reviews Enhanced processes and procedures for asset management. Budget Variation/Adjustment process
6.	Waste Levy and other waste costs	Minor	Likely	Moderate	Waste management and recycling initiatives Alternative waste technologies Seek Australian & NSW Government Funding opportunities& further Regional Partnerships Waste Service Review including efficient, value for money

Risk of Inaccurate Projected estimates of expenditure		Impact	Likelihood	Risk	Risk Treatments / Mitigation strategies
7	Cost containment/Service adjustments/Procurements unable to be adequately implemented	Moderate	Likely	High	Transparent reporting Review of discretionary expenditure
8	Natural Disaster Events & Climate Change	Major	Possible	High	Redirection of Capital and maintenance budgets Service levels reduced and rebalanced to address priority risks Resilience Planning Advocate & monitor Productivity Commission outcomes on Disaster Recovery
9	Rate pegging lower than 3%	Minor	Possible	Moderate	Service levels reduced and rebalanced to address priority risks Cost recovery Apply for SRV
10	Inaccurate Financial Assistance Grant Estimate	Moderate	Possible	Significant	Forecast adjustments 2014 Australian Government Budget reductions already factored into *LTFP*
11	Negative effects of global issues on investment markets	Moderate	Unlikely	Significant	LG investment order Council Investment policy Engagement of financial advisors Forecast adjustments
12	Blue Mountains Theatre and Community Hub – Springwood Major Project budget/funding risk	Moderate	Possible	Significant	Maintain adequate project Contingency Project management plan and associated sub plans Project risk assessments Procurement efficiencies High quality well recognised team consultants including Nationally recognised Quantity Surveying company Adjust project scope if required
13	Unplanned Asset Works project	Moderate	Likely	High	Business Case Feasibility Study Risk assessment

3.9 Conclusion

The Council's financial challenges are significant. Our financial position will only be considered sustainable in the long-term if our financial capacity is sufficient – for the near future – to allow the Council to meet its expected financial requirements over time without having to introduce substantial or disruptive revenue and/or expenditure adjustments.

Although our cash liquidity (i.e. our working capital) is sound and the majority of the financial performance measures are above benchmark, there are two key performance indicators that must be addressed; firstly, the Council's Operating Result; secondly, the Asset Renewal Ratio. The Operating Result is currently in a deficit position, which means the Council's revenue is insufficient to meet our City's expenditure requirements. The Asset Renewal Ratio is also less than the benchmark and this means the Council is underfunding all built asset renewal requirements relative to the rate at which these assets are depreciating. If each of these challenges is not addressed, the operating deficits and underfunding of assets will cause a deterioration of the condition of our built assets in future years and may lead to unacceptable impacts on service levels.

Put simply, the Council does not have the required level of revenue to meet expenditure requirements without strong corrective actions. Without such, the financial sustainability of the Council and our capacity to meet the goals of our Community Strategic Plan – *Sustainable Blue Mountains 2025* will deteriorate significantly.

This *LTFP* involves the implementation of *Six Strategies for Financial Sustainability*. When implemented together, these strategies will ensure that the Blue Mountains is a better place to live, work and visit in the future. These strategies apply equally to each of the three alternative funding scenarios detailed in this plan.

The *LTFP* also notes that none of the options for *Resourcing Our Future* will fully address the infrastructure backlog, as the level of funding required is likely to be beyond the capacity of our community to pay. The financial scenarios therefore offer the community the opportunity to determine the right balance between how much they wish to pay for services through rating against the extent to which they wish the Council to implement its other financial strategies.

Our financial future will be informed by, and contingent upon, the input received from the community engagement on affordable and acceptable levels of service across the three alternative financial scenarios.