ORDINARY COUNCIL MEETING
24 FEBRUARY 2015

CCL 24/02/15
ADOPTION OF LONG TERM FINANCIAL PLAN 2015-2025

Attachment A: **Long Term Financial Plan 2015-2025**

DISTRIBUTED UNDER SEPARATE COVER

Long Term Financial Plan

2015 - 2025

www.newcastle.nsw.gov.au

The City of Newcastle

1624-FEB15

The City of Newcastle Council acknowledges that we are meeting on the traditional country of the Awabakal and Worimi peoples.

We recognise and respect their cultural heritage, beliefs and continuing relationship with the land, and that they are the proud survivors of more than two hundred years of dispossession.

Council reiterates its commitment to address disadvantages and attain justice for Aboriginal and Torres Strait Islander peoples of this community.

Long Term Financial Plan prepared by the Corporate Services Group of Newcastle City Council.

Enquiries
For information about this document contact:
Manager Finance
Ph: 4974 2000

Published by
The City of Newcastle
PO Box 489, Newcastle NSW 2300
Ph: 4974 2000 Fax: 4974 2222
Email: mail@ncc.nsw.gov.au
Web: www.newcastle.nsw.gov.au

February 2015

Table of Contents

1. Executive Summary

Introduction

The Long Term Financial Plan (LTFP) is a key document in the Integrated Planning and Reporting (IP&R) Framework mandated as a requirement for all NSW councils. More detail is provided later in this planning document however the purpose of the LTFP is to reflect the actual and projected financial position of Council over a 10 year period. The plan incorporates Council's current financial position, strategies, and assumptions (including economic assumptions) and analyses the potential financial impact of a number of alternate future funding scenarios to assist in determining the most appropriate course of action which will support the service delivery level required by the community while ensuring the long term financial sustainability of the organisation. Sensitivity analysis has also been undertaken on the various scenarios to further assess potential risks associated with each scenario.

This revised version of the LTFP has been updated to ensure it is as current as possible and includes more comprehensive and detailed financial analysis as well as including the community feedback received during the Road to Recovery engagement activities undertaken during October 2014 as part of the SRV application process. The outcome is a more robust and reliable model to assess Council's longer term financial situation and provide improved guidance to determine the future financial direction of the organisation. The previous LTFP has been updated to reflect actual financial performance through to June 2014, the forecast for 2014/15 and progress made on key operational initiatives. In addition there is more current and accurate information available to assist in projecting revenues and expenses for the 10 year period of the model. The model assumptions have also been updated to reflect recent changes in economic conditions and expert forecasts.

Background

A high level 10-year Integrated Strategic Financial Analysis (ISFA) was originally developed to assist Council in prudently managing their long term financial sustainability. The ISFA document was utilised to form the initial four years of the Delivery Program and subsequently reflected in the 2012-2023 LTFP. Significant progress has been made on the primary financial objective of achieving financial sustainability. The original intention, as detailed in the Delivery Program endorsed by Council in June 2013, was to undertake a significant program of initiatives to reduce operating expenses, increase revenues and implement a disciplined and measured capital works program. It was also agreed by Council at that time that a Special Rate Variation (SRV) application would only proceed as a last resort. The programed initiatives have now been implemented and have realised the aggregate benefits envisaged in the original Delivery Program. In a number of cases the program was accelerated resulting in expense reductions being realised ahead of schedule.

Some challenges not originally anticipated and outside of the control of the Council have impacted on the accuracy of the previous model assumptions. These include Federal and State Government budgetary pressures (especially Federal Government) and revised grant funding criteria (for example State Government criteria for assigning the Financial Assistance Grant (FAG)). These assumptions have been corrected in the current update of the LTFP.

In addition ratepayer feedback (both directly and via their elected Council representatives) has not only favoured current services being retained but in some cases expanded to support revitalisation. These changes have been incorporated into the updated model. The more robust and detailed financial modelling completed during the current revision of the LTFP 2015-2025 has allowed the scale of the SRV required to meet both community service expectations and to ensure financial sustainability to be more accurately assessed.

The key objective of the LTFP remains financial sustainability through the continuing implementation of a series of previously endorsed Budget Principles aimed at ensuring ongoing, prudent financial stewardship of the organisation. This needs to be achieved whilst delivering Council's strategic objectives as specified in The City of Newcastle's 2013-2017 Delivery Program and Operational Plan which have been endorsed by Council. During the ongoing community engagement process the feedback from ratepayers and Councillors has consistently supported, as a minimum requirement, the retention of current service level but with a recently emerging preference for the reinstatement of some services which had previously been reduced, together with the further expansion of a limited number of other services to support the revitalisation of the City. This has been further demonstrated during the recent Road to Recovery SRV community engagement process in which the majority of both Councillors and ratepayers offered strong support for the proposed Special Rate rise of 8% per annum over five years.

Council's Progress

Council operations have been impacted by growth in wages costs and reduction in government funding. The original assumption of reduced government funding has been confirmed with a freeze on the FAG which actually resulted in a reduction in Council's grant funding due to a redistribution of funds towards rural councils and those believed to be in a weaker financial position. It is unlikely that the pressure on these two key areas will improve in the immediate future, accordingly, it will be necessary to achieve future income growth whilst containing costs in order to achieve a positive underlying operating position by 2016/17. Due to the significant savings already achieved in expenses any further cost savings are likely to be only incremental so revenue growth will need to be the main lever for further improvement in the net operating position.

Council has made significant progress in turning around the operating position by implementing a number of efficiency initiatives which have resulted in significant cost reductions. Council's sustainable underlying operating position (excluding revenue restricted to capital purposes) had, in prior years, reflected a significant deficit position (averaging $13.4m per year for the period 2011-2013). The 2013/14 financial year has seen a significant turnaround to a deficit and the trend is continuing during 2014/15 year to date.

Council has had more moderate success in addressing the infrastructure backlog. A review of changes to the backlog indicates that asset remediation has not been the primary driver of reductions and current levels of the backlog remain unsustainable and require significant investment and effort to address within reasonable timeframes. The Strategic Asset Management Plans (SAMPs) provide guidance on what constitutes satisfactory condition, what our current position is, what investment is required in maintenance and asset renewal for sustainability and what our current asset backlog is. In summary the current asset backlog significantly exceeds target (9% versus a target of 2%). Progress has been made in recent years however this has been achieved by selling non-core assets which were contributing to the backlog rather than making significant progress in remedying the condition of the assets. Council has historically been underspending on maintenance and currently does not undertake sufficient asset renewal activity to address the backlog in a sustainable manner. A major contributing factor is the historical operating deficits which have depleted the available funding sources for this work. Selling assets is a temporary albeit effective approach in the medium term, but is not sustainable.

The Funding Options

The current LTFP update includes analysis of a number of alternate scenarios so that the impact of the various funding options available to Council can be assessed and a clear course of action determined. The scenarios have been developed based on the objectives documented under the IP&R process. Financial sustainability requires a number of key ratios to be within target ranges or at least be trending towards those targets within reasonable timeframes. The ratios of primary focus within Council are those addressing operating position and infrastructure related ratios covering maintenance, asset renewal and the backlog position.

The aim of the analysis was to determine the optimum funding option available to Council which also ensured:

- Long term financial sustainability was achieved.
- The infrastructure backlog was reduced to a sustainable level.
- The community's service level expectations were met.

Further sensitivity analysis has also been undertaken to ensure the selected funding option is sufficiently robust and resilient

There were five scenarios analysed based on three different rating options. They are:

1. No SRV. Business-as-usual but continue program works to address infrastructure backlog.
   a. No SRV and borrow funds to address the infrastructure renewal objectives.
   b. No SRV and reduce service and capital projects.
2. SRV at the minimum level required to achieve financial sustainability.
3. SRV at a level which achieves financial sustainability allows some service improvement consistent with community feedback.

The following conclusions have been reached based on the analysis

Scenario 1 No SRV	**Base case** This scenario was presented as Option 1 in the Road to Recovery community consultation. This scenario reflects business-as-usual - no SRV but continue program to address infrastructure backlog **This scenario is not sustainable due to persistent and widening operating deficits and Council reserves eroding to such a degree that Council's solvency will be impacted. It also does not meet the community's service delivery requirements.**
Scenario 1B No SRV	**Borrowing** This scenario was modelled in the LTFP but not included as an option in the Road to Recovery community consultation as it is inferior to the base case and provides no additional community benefit. **This scenario is not sustainable due to operating deficits widening and Council not having the capacity to repay the debt. It also does not meet the community's service delivery requirements.**
Scenario 1C No SRV	**Reduce services and capital projects** This scenario was modelled in the LTFP but not included as an option in the Road to Recovery community consultation as it does not support the Council's Community Strategic Plan (CSP), does not meet community expectations and does not adhere to Council's Budget Principles in the Delivery program. **This scenario is also not financially sustainable and does not meet the community's service delivery requirements.**

Scenario 2 SRV- five years 6.5%-6.8% pa	**SRV for financial sustainability** This scenario presented as was Option 2 in Road to Recovery community consultation. This scenario covers the same level of services and capital works as the base case. The SRV however funds this expenditure rather than Council eroding reserves to unsustainable levels. **This scenario is sustainable but does not meet the community's service delivery expectations for the revitalisation.**
Scenario 3 SRV- five years 8% pa	**SRV for sustainability and revitalisation** This was presented as Option 3 in Road to Recovery community consultation and the option selected by Council for the Special Variation Application. This scenario meets the financial sustainability objective of Option 2 and also provides additional revenue to support the revitalisation of the City by delivering the improved services and infrastructure desired by the community. **This scenario is the only one which is sustainable and meets the community's service delivery expectations and also has the resilience to withstand a material change in underlying assumptions.**

In summary:

- Scenarios 1, 1B and 1C are not sustainable and sensitivity analysis indicates the financial pressures would worsen materially if certain assumptions are not correct and adversely impact Council.
- Scenario 2 is sustainable under base assumptions and would most probably be able to achieve sustainability objectives even if individual sensitivity scenarios did eventuate. Council would however probably need to take action post 2023 to address the trend of reducing reserves. Sensitivity analysis indicators a combination of adverse events would probably result in Council not being able to achieve sustainability objectives by 2023.
- Scenario 3 is clearly sustainable and sensitivity analysis indicates there is sufficient capacity to address to a reasonable degree unforeseen adverse events. Scenario 3 is able to cater to community and Councillor expectations of ongoing improvement in Council services as well as meeting sustainability objectives. Sensitivity analysis indicates that whilst Council financials would be impacted Council will achieve the sustainability objectives by 2023 and this option is sufficiently robust to withstand the various sensitivity scenarios.

Conclusion

Despite the significant financial improvements generated from the initiatives completed over the past two years, an increase in rates via an SRV is still required to ensure that the Council generates underlying ongoing operating surplus to achieve financial sustainability and to provide sufficient funding to address the infrastructure backlog in a reasonable timeframe, while also ensuring that the community's service level expectations are met.

The intent in accordance with Council Resolution dated 25 November 2014 is to proceed with rating Option 3 (ie Council apply for a SRV of 8% per annum over five years). This is supported by the financial analysis within this LTFP document and also based on community consultation and Councillor support for rating option which achieves sustainability and funds delivery of the service levels and standard of infrastructure desired by the community.

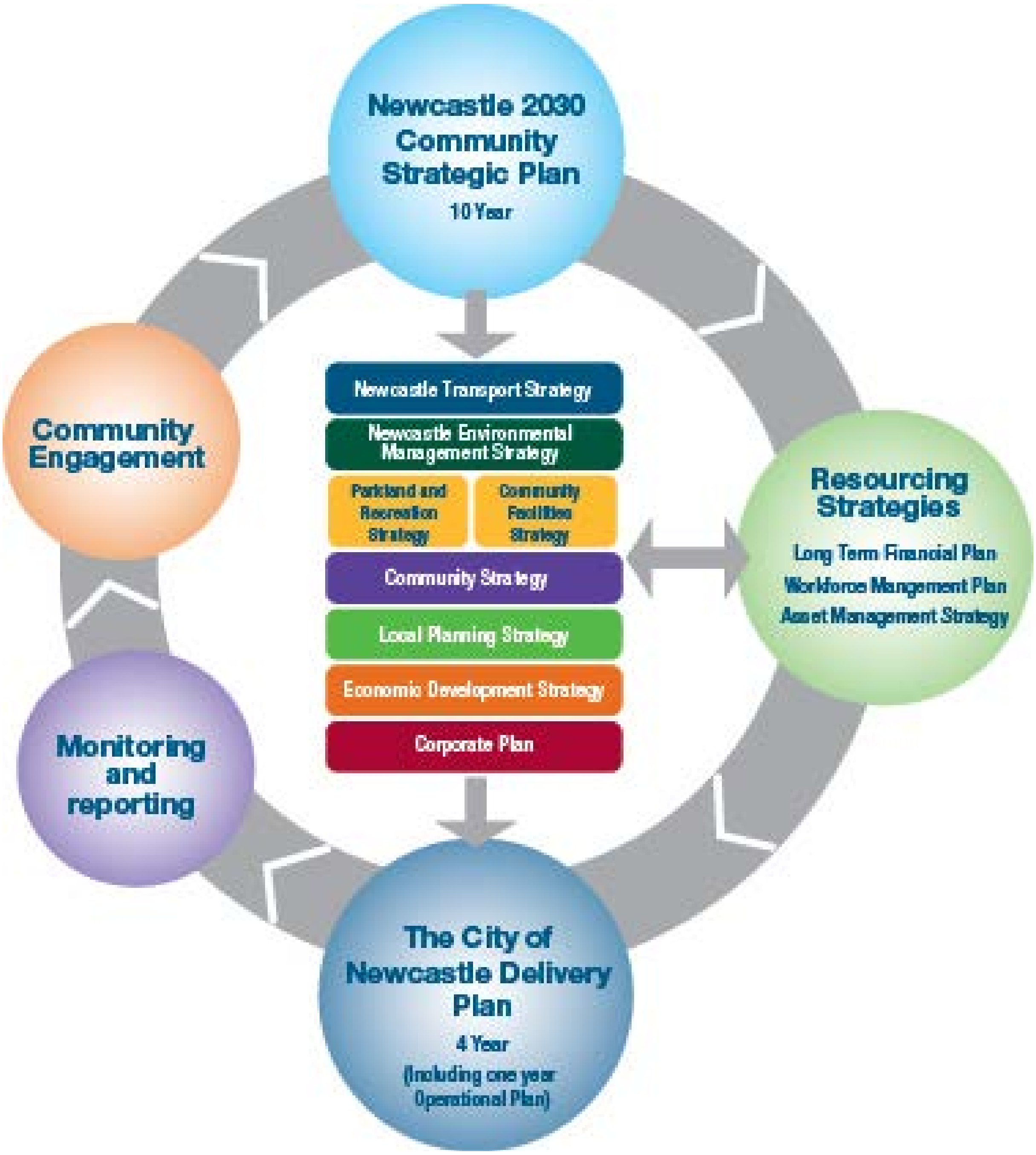
The reasons why a SRV is the most appropriate option are:

- The community strongly supports a SRV (72%- Micromex telephone survey) to fund sustainability.
- There is significant support for an SRV which enables services to be enhanced as well as addressing the infrastructure backlog (32%- Micromex telephone survey).
- 93% of respondents indicated it was important for Council to provide better services and facilities.
- Council has already undertaken a significant expense reduction exercise and whilst many of the efficiencies gained will remain some services will be reinstated and there is not an appetite amongst the community for further reductions in services. In fact there is increasing community support for expanding certain services.
- A number of other revenue improvement options have already been considered and successfully implemented. Revenues for Council's Summerhill Waste Management Centre (SWMC) have increased significantly and have contributed to improved Council finances. As covered in more detail below other revenue options are either not supported by the community, have incremental impact or are too uncertain to rely upon.
- Borrowing has been covered as a specific option in the LTFP and can be demonstrated to be sub-optimal to the base case due to borrowing placing Council in a more adverse financial position. In summary, Council does not have an immediate liquidity issue but rather a long term mismatch between (1) revenue generation and (2) funding required for operations and capital purposes, which will generate significant liquidity issues in the medium to long term, unless decisive action is taken now.

2. IP&R Framework

2.1 Framework

The Division of Local Government has introduced IP&R legislation and mandatory guidelines to improve Council's long term community, financial and asset planning as follows:



To comply with the requirements of the legislation and the *Planning and Reporting Guidelines for Local Government in NSW,* all councils are required to have the following planning processes in place:

- a Community Strategic Plan
- a Community Engagement Strategy that sets out how each council will engage its community in developing the Community Strategic Plan
- a Resourcing Strategy that includes the Long Term Financial Plan, a Workforce Management Strategy and a Strategic Asset Management Strategy
- a 4 year Delivery Program
- an annual Operational Plan.

The three resourcing strategies are outlined below:

10 Year Plan	Description
Strategic Asset Management Plan (SAMP)	The SAMP documents the objectives for asset management for The City of Newcastle and provides a summary by asset class for council managed assets.
Workforce Management Plan (WMP)	The WMP captures Council's workforce requirements for its foreseeable future to ensure the objectives of Newcastle 2030 CSP are met. The plan incorporates matching workforce requirements to organisational objectives in delivering the CSP as well as analysing and forecasting the human resource implications when undertaking particular operational and strategic activities.
Long Term Financial Plan (LTFP)	The LTFP ensures the Council's long term financial sustainability through providing planning and understanding of Council's long term financial requirements.

2.2 Purpose of the Long Term Financial Plan

The LTFP is a requirement under the Division of Local Government, Department of Premier and Cabinet's IP&R framework for NSW Local Government.

The LTFP is updated at least annually and is used as the basis to determine the financial budget reflected in the Operational Plan and ensure Council remains financially sustainable.

The purpose of the LTFP is to provide Council with a mechanism to meet the community's expectations and priorities for improving its economic, environmental and social outcomes within the context of finite economic and financial resources. The LTFP enables an increased ability to plan and manage the financial responsibilities of the Council by providing an understanding of the long term financial impact of operational and service level decisions. The LTFP addresses the desired objectives of financial sustainability, service levels, infrastructure renewals and replacement and considers the resource levels required to achieve those objectives.

This update of the LTFP 2015-2025 will be used on the basis for revising the Delivery Program for 2015-2020 and preparation of the Operating Plan.

3. Long Term Financial Plan Objectives

The objectives of the LTFP are to:

- Comply with the Division of Local Government's IP&R framework.
- Ensure Council's long term financial sustainability.
- Identify financial and strategic opportunities.
- Provide a sound basis for strategic decision making.
- Provide transparency in forecasting Council's financial position.
- Analyse the cumulative financial impacts of Council's current plans and policies including implementation of the Sustainability Review.
- Build on Council's current strategic direction as identified in the adopted annual Operational Plan and the 4 year Delivery Program.
- Maintain service levels to the community or provide a mechanism for choosing between alternate service delivery options in line with the CSP.
- Achieve and maintain a surplus annual Operational Plan.
- Maintain a strong cash and liquidity position.
- Ensure robustness of appropriate cost recovery strategies through full pricing and recognition of the true cost of provision of services when setting revenue targets.
- Maintain adequate cash reserves in accordance with legislation or policy requirements.
- Ensure asset renewal and maintenance is in line with the SAMP.
- Identify current asset holdings and opportunities for rationalisation to assist in addressing Council's maintenance backlog.

4. Historical Context

This section provides background on how Council's financial position has been assessed over many years. This includes both internal and independent assessments and recommendations.

4.1 Context for Developing Council's Long Term Financial Plan

For many years Council has recognised the challenge of meeting community needs in a financially sustainable manner. This challenge has been divided into two elements (1) assess the gap in financial sustainability assuming community needs correspond to the current scope of services and service levels (including current criteria for assessing whether assets are of a satisfactory standard) and (2) assess the impact of additional or enhanced services in line with changing or revised community needs. The first element has been a focus since 2007. The second has become a greater focus as Council has improved its financial position.

Numerous reviews (both independent and internal) have been undertaken regarding Council's financial sustainability. These reviews have universally highlighted the need for action to avoid the financial position deteriorating to the point where Council's solvency might be questioned. Whilst significant progress has been made based on the advice and recommendations received the magnitude of change required to address Council's finances necessitates a different revenue path.

Council's weak financial position was raised eight years ago. The Newcastle Report (February 2007) authored by Professor Percy Allan highlighted that the Council was on a trajectory that was not sustainable. Professor Allan highlighted that Council had a substantial infrastructure backlog and had insufficient revenue under even the restrained option to fund it. The report identified a backlog of $134m with infrastructure renewal of $630m required over the next 20 years. The report noted that infrastructure would need to increase to support a growing population. The need to address the underinvestment in infrastructure was identified and reflected as a priority in Council's Management Plans however the backlog has remained at unsustainable levels and therefore action plans to date have not been sufficient to satisfactorily address the infrastructure backlog.

As a consequence of the lack of substantive progress on the infrastructure backlog and the precarious financial position subsequent assessments of Council's finances have highlighted the same issues and generally the same remedies as the Allan Report. The first LTFP developed in 2011 under the newly implemented IP&R framework encapsulated these issues and projected ever widening annual operating deficits. The subsequent report prepared by NSW Treasury Corporation (TCorp) in 2012 largely confirmed the significant financial challenges facing the Council.

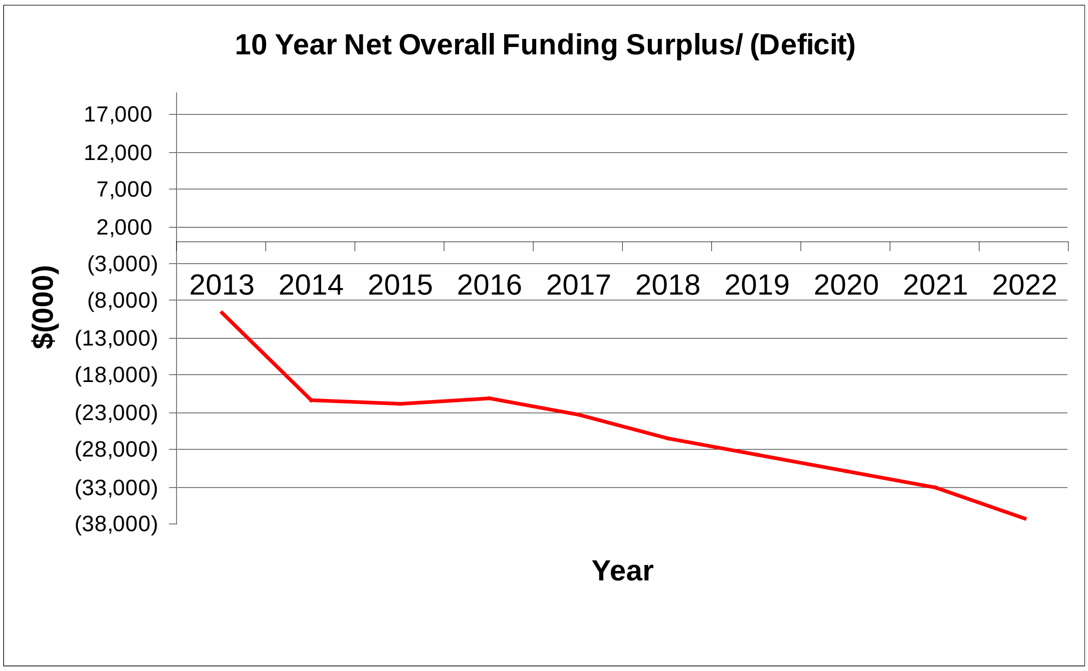
A LTFP for Council was initially developed in 2011 (2012 – 2022). TCorp reviewed Council's 2012 – 2022 LTFP and their key observations included:

- *The LTFP assumes the level of services and operations as 'business as usual' apart from the additional revenue and expenditure related to the seven priority projects identified as part of the successful 2012 s508 (2) SRV.*
- *Council are forecasting operating deficits each year when capital grants and contributions are excluded and these deficits are forecast to grow from $9.7m in 2012 to $67.0m in 2022. (Note this analysis was done prior to parking meter decision).*
- *The liquidity position will reduce over the period and will likely result in Council becoming illiquid if they continue with the scheduled capital expenditure program due to reducing current assets and increasing current liabilities.*

In addition, since the 2011 LTFP was put in place several material impacts were identified as part of the ISFA and associated assessments. These were as follows:

- The 2012-2022 LTFP had identified a three stage process to roll out a city wide on-street parking strategy. This strategy was overturned by Council resulting in a $45m reduction in anticipated revenue over the 10 year period.
- The State Waste Levy increased to $10.7m by 2011/12. In addition, the introduction of carbon tax (subsequently withdrawn) has impacted on waste related services resulting in significant declines in SWMC operating surplus.
- Cost shifting by both the State and Federal Governments has seen a further reduction in Council's available funding.

The graph below displays the trend of Council's net funding position deficit projected at the commencement of the 2012/13 to 2022/23 LTFP. Significant progress has been made and will be reflected later in the LTFP. This graph reflects a baseline of Council's position at the time the financial principle and initiatives were being established:



Council's financial position has been assessed in more detail and with greater sophistication and urgency since Council first implemented the IP&R framework. An Integrated Strategic Financial Analysis (ISFA) was completed that relied upon key inputs from multiple sources (Allan report, Asset Management Strategy and LTFP). The ISFA report recommended the pursuit of a number of initiatives including

- revenue enhancement options,
- budget cuts to reduce operational expenses and
- asset sales (to generate funds and reduce operational costs and the infrastructure backlog).

Council engaged a committee with both Local Government and business experience as an independent Financial Advisory Panel (FAP). The independent committee, the Financial Advisory Panel's role was to review Council's financial position and advise on an appropriate course of action. [Documented in the Delivery Program 2013-2017 pg 44].

The FAP reviewed the recommended in the ISFA document during 2013. They emphasised the need for immediate and urgent action. The key message was Council needed to apply user-pays funding, reduce operational expenses and moderate the capital works program. In addition Council should not borrow more funds whilst in a financially weak position unless the borrowed funds could be applied to generate sufficient revenue to repay the debt. A SRV was recognised as a legitimate avenue however this should be seen as a last resort. It was highlighted that inaction was likely to make the situation worse by requiring more extreme responses as the financial position worsened.

Council responded with the necessary urgency in light of these recent reviews. The 2013/14 operational planning process involved significant engagement with Councillors and the community on actions required. The need to address the sustainability gap was presented in Councillor Workshops and documented in the Delivery Program. The need for a SRV was reflected in the IP&R documents but was made contingent on Council first undertaking the identified revenue enhancement and expenditure reduction initiatives. Council accelerated the initiatives and in aggregate has achieved results which substantially improved Council's financial position. There was however (and still is) a sustainability gap. The progress made and the remaining sustainability gap was covered in the 2014/15 operational planning process. The IP&R documents (Delivery Program, Operational Plan) reflected the individual initiatives being undertaken along with the progress and results. The need for the SRV to be able to close this gap was articulated and percentage increase for each year and a comparison with other councils was reflected in the Delivery Program material. The actual rates and long term trends were presented during public exhibition and in a prominent newspaper article in the Newcastle Herald. Community feedback was sought on the Delivery Program, including the proposed SRV, between 7 May 2014 and 4 June 2014. The majority of feedback received focussed on Council services. There were no community submissions regarding the proposed SRV. The Road to Recovery community consultation (October 2014) has also provided strong support for an SRV.

The need to address financial sustainability has a long legacy with both persistent operating deficits and an enduring infrastructure backlog. The IP&R framework has also ensured there is a history of the level of services the community expects and values. The Newcastle CSP captures community priorities. There have also been numerous follow-up surveys of the community and monitoring of all ratepayer correspondence and an update of the CSP and can be found on our internet –
http://www.newcastle.nsw.gov.au/council/community_engagement/completed_consultations.

The CSP reflects which services are important to the community. Extensive community consultation has occurred throughout the entire process with regular revisions made to ensure key documents remain current, and reflect the evolving community sentiment as the City moves through a very dynamic period of renewal and revitalisation financial sustainability is a prerequisite for Council to have the capacity to deliver the CSP. In addition all the service delivery standards and service related infrastructure improvements reflected in the SRV consultation align to the CSP. This ongoing community consultation has ensured that service deliveries which are to be funded by the SRV are consistent with the priorities of the CSP.

The updated LTFP is now a fully integrated three-way financial model including Operating Statement, Balance Sheet and Cash Flow along with supporting assumption tables. This now more accurately reflects the General Fund revenue and expenditure forecasts and their impact on the Council's financial position.

A number of alternate funding scenarios, including a number which do not reflect rate increases (above the IPART peg) have also been reflected in the LTFP to ensure that the analysis was complete. All of the financial models already include the ongoing impact and projected impact of remedial actions which have already been implemented to improve Council finances. The financial analysis confirms that the SRV Option 3 is the best possible option for Council to ensure its future financial sustainability while meeting the service delivery expectations of the community. The other scenarios have assessed alternative funding and/or service delivery options including constraints on services and capital works. Both community expectations and the financial impact have been considered in assessing all options.

The sub-sections below will cover in more detail how Council has utilised both the IP&R framework and other mechanisms to understand and document community expectations, analyse Council's financial position and communicate this to both Councillors and the community, assess options, take action and propose a way forward. This has been an extensive process which has evolved over many years, to reflect the changing financial circumstances as well as the changing desires of the community, culminating in three alternate rating options being presented to the community for their consideration during the Road to Recovery engagement campaign.

4.2 External Assessment of Council's Financial Position

The assessment of current state along with LTFP projections remains consistent with independent reviews. The independent reviews have highlighted the same issues and recommendations are aligned. In summary:

- Operating position is weak, there is insufficient investment in both maintaining and renewing infrastructure, and projections indicate there are liquidity issues (in effect Council expenditure based on projected revenues was not sustainable.
- Recommendations have focus on Council identifying both options for additional revenue and reduction in expenditure.
- A number of recommendations (TCorp, Financial Advisory Group) recommended against undertaking additional borrowing whilst in a weak financial position as Council will not have the capacity to repay the debt.

The external assessments in more detail are presented in more detail below.

Treasury Corporations Assessment

Treasury Corporation NSW's (TCorp) Financial Assessment and Benchmarking Report dated 4 October 2012 provides an assessment of Newcastle City Council's (NCC) financial health. TCorp compared the Council's key ratios with other councils in DLG Group 5. The key observations were:

- Council's financial flexibility as indicated by the **Operating Ratio** and Own Source Operating Revenue Ratio is **generally below the group's average**
- Council's DSCR and **Interest Cover Ratio** are **below the group average** and in the medium term Council's forecast ratios fall marginally to be around benchmark
- Council was in a sound liquidity position which on average is above the group's average liquidity level
- Council's performance in terms of **its Building and Infrastructure Asset Renewal Ratio and Infrastructure Backlog** are **well below benchmarks and the group averages.**

TCorp noted that Council management were aware of the position at the time and the challenges that the Council faces in the medium to long term. TCorp made the following recommendations:

- The **current LTFP and capital expenditure program** is likely to lead to **Council becoming illiquid by 2019.**
- A **review of the LTFP** assumptions should be undertaken **to identify a sustainable way forward**, whether that be by identifying new revenue sources, revising service levels, or rescheduling capital expenditure and associated borrowings to ensure that all liabilities are able to be met as required.

- The **additional borrowings currently scheduled within the LTFP** of $92.2m from 2014to 2022**, contribute to Council's potential future liquidity issues**. If the liquidity issues scheduled in 2019 were addressed but the scheduled additional borrowings were still utilised then Council will not be in a position to meet the increasing repayments by 2022.

Financial Advisory Panel & Fiscal Star

Council's course of action following TCorp's review of the LTFP was to undertake a strategic review. The report produced was called the Integrated Strategic Financial Analysis (ISFA). Based on the ISFA strategies, advice was sought from the Financial Advisory Panel (FAP) and Fiscal Star (Professor Percy Allen) which confirmed the following:

- *Council is not financially sustainable in the medium to long term.*
- *Council will become insolvent as early as 2017 if no corrective action is taken.*
- *The infrastructure backlog is a serious issue to be addressed.*
- *Taking on extra debt is a high risk strategy and should be avoided.*
- *Taking on large scale capital projects should be avoided (until the solvency and deficit issues are addressed).*
- *Bringing budgets back into surplus is essential.*
- *No one single solution will work and all solutions will have an impact on the community and services to varying degrees.*
- *A number of strategic initiatives are required in order to adequately address the budget issues.*

Audit Committee

Advice from the independent members of the Audit Committee also stated:

- *Council's future financial position is deteriorating and unsustainable.*
- *This situation requires immediate and decisive action.*
- *Decisions must be made based on current, reliable, independently tested information and be free from political influence.*
- *Given the risks associated with the assumptions and achievement of proposed sustainability options, the current 'Recommended Option' may not be sufficient to avoid the projected ongoing future financial difficulties.*

Council's Auditor Assessment (Report to Council 2012/13)

In the Council workshop on 19 November 2013 PWC (Council's Auditor) noted the following regarding the 2012/13 Financial Results:

Operational Performance:

- *Council needed strategies to manage financial stability*

Asset Management:

- *Council required strategies and systems for managing the performance of its commercial and infrastructure asset base, including service levels, maintenance, renewal and replacement and future options.*
- *Required annual maintenance was significantly higher than current annual spend with Building maintenance contributing mostly to the shortfall*

Financial Advisory Feedback during Operational Plan 2014/15 Exhibition

In community sessions held during June 2014 as part of the consultation for the 2014/15 Operational Plan FAP Committee Members provided a progress update. The following feedback was provided:

- Right approach but there is more to be done
- To become sustainable and return an operating surplus an 8% turnaround is needed (in Council's operating position)

In the Council workshop on 21 October 2014 PWC (Council's Auditor) noted the following:

- *Sustainable Operating Position excluded revenue that could not be applied to Council's operating expenses was in a deficit position. (Sustainable operating position excludes revenue from associated with 2012 SRV and one-off gains).*

Fit for the Future & Comrie Review

Fit for the Future Guidelines and a review titled "Review of TCorp's Report 'Financial Sustainability of the NSW Government Sector' Final Report" dated 3 October 2014 undertaken by John Comrie recommended changes in the assessment of the Financial Health

Recommendations were:

- *Assess the operating ratio as sustainable above 0% rather than -4%.*
- *That councils ideally realise a modest surplus (up to 10%). Recent briefings on Fit for the Future organised by OLG have supported this view.*
- *The Operating Ratio have a weighting of at least 50% rather than the 17.5% weighting applied by TCorp in the overall assessment.*

IP&R documents have extensively referenced these external (and relevant internal) reports and assessments to highlight to the community the financial condition of the Council, what actions are or have been taken and what further action is required. This includes the following:

- **The Long Term Financial Plan (LTFP)**
  - Modelled financial projections - based on ISFA and economic assumptions.
  - Identified specific actions such as areas of cost reductions, asset sales (reducing backlog) and revenue actions (including multi-year SRV) to achieve a sustainable outcome.
- **The 2013-17 Delivery Plan and 2013-14 Operational Plan**
  - **D**ocumented a 4 year plan consistent with the LTFP.
  - Included goals that supported sustainability.
- **The Updated LTFP, 2013-17 Delivery Plan, 2014-15 Operational Plan**
  - Documented a 4 year plan consistent with the updated LTFP including a SRV over five years with per annum increases ranging between 6.5% and 6.8% (Option 2 in the community consultation).

- Included goals that supported sustainability.

4.3 Budget Principles

Based on initial internal and external assessments, and the recommendations provided, the following Budget Principles were established in consultation with FAP and endorsed by Council in order to realise the ISFA initiatives. The initial response is covered in Section 4.4 with an assessment of these initiatives and progress made covered in Section 5 along with current status. Eleven key Budget Principles were established. Council endorsed these 11 key Budget Principles on 18 April 2013 as follows:

1. Reduction in net operating expense of at least 10% over the next two years.
2. Achieve at least a 2.7% net overall funding surplus, in accordance with Fiscal Star recommendations to the Division of Local Government, by 2014/2015. This is a minimum of $8m (in 2012/13 dollars).
3. Maintain a minimum of 2.7% net overall funding surplus for each and every budget year from 2015/16 until 2021/22.
4. Identify redundant assets for disposal and for the proceeds to be placed in the Land and Property Reserve.
5. The Land and Property Reserve to be used as a funding source for
    a. Renewal of key assets identified and prioritised in the Infrastructure Backlog, and
    b. Reduce/replace debt as an infrastructure backlog funding source.
6. To reduce The City of Newcastle's Infrastructure Backlog Ratio to less than 2% over the next 10 years or $32m (in 2012/13 dollars). *Note 1.
7. To restrict debt levels so that the net financial liabilities ratio of 40% is not exceeded in any one year between 2013/14 and 2021/22.
8. That no project commences until funding for the full cost of the project is secured or has certainty.
9. The special projects capital to be prioritised in accordance with community ranking from the Micromex Research 2011 Report and timing for delivery matched to cash flow. These priorities are set according to the support as follows:
    Priority 1: Revitalising Hunter Street
    Priority 2: Revitalising our Coast
    Priority 3: Upgrading Blackbutt Reserve
    Priority 4: Providing new cycle ways
    Priority 5: Improving our swimming pools
    Priority 6: Modernising our libraries
    Priority 7: Expanding our Art Gallery.
10. The cash flow for special capital projects listed in (9) above be sourced from:
    a) The 5% capital restricted Special Rate Levy awarded to Council in 2011.
    b) Section 94 funds and
    c) Existing reserves.
11. A general purpose (S508A) rate variation is used only as a last resort to achieve financial sustainability and the associated targets above.

***Note 1**: The Infrastructure Backlog Ratio is calculated by dividing the value of the backlog by total infrastructure carrying value.

4.4 Council's Initiatives (Action Plan to Achieve Sustainability)

As a result of these reviews and to support the realisation of the Budget Principles Council developed a plan which included the following:

- Development of a recommended option to create long term sustainability;
- Endorsement of 11 key Budget Principles; and
- The formulation of a strategy to achieve financial sustainability.

The original initiatives included in the sustainability strategy have been regrouped to enable easier analysis. They were:

Operating Cost Reductions

- **Post ERP Savings** - These savings are $0.5m in financial year 2014/15. They will need to be achieved through efficiency and staff number reductions following the implementation of the new enterprise system in 2015. The total value over 10 years is $2m.
- **Energy Savings** - By setting a target each year for energy savings, including changing practices and implementing simple technology, a forecast annual $0.1m savings will occur by 2014. The total savings for the 10 year period is $6.4m.

Asset Rationalisation and Backlog Reduction

- **Achieve maintenance savings and raise capital from asset disposal** - Based on an asset disposal program there will be maintenance and operational savings. In addition there will be capital raised through asset sales. This capital should be put into a concerted effort to remove the asset backlog over the next five years. The total raised for the 10 year period is $5.3m.

Revenue Enhancement

- **City Hall** - The City Hall budget will need to break even by 2015. This will be achieved through higher levels of bookings, better utilisation of rooms including leasing out some rooms to commercial tenants. The total additional income raised over the 10 years will be $5m.
- **Civic Theatre** - Civic Theatre will provide improved financial performance by an additional $0.25m by 2015. This will result in $2.2m increased revenue over the 10 year period.
- **NAL (Newcastle Airport Limited) Dividends** - Newcastle Airport is currently being restructured. Once complete the Airport will pay both Port Stephens and Newcastle Councils a dividend on profits. This dividend will be up to 10% per annum. A conservative 8% has been forecast in this plan. This return will provide $23m over 10 years.
- **Fort Scratchley, Museum and Art Gallery** - Increased income opportunities will need to be applied to raise an additional $0.25m by 2015. This will achieve $2.5 million over the 10 years.
- **Summerhill Waste Management Centre** (SWMC) - An improved position of $0.5m per annum will be required by 2015. This will raise an additional $5.1m in 10 years.
- **Business Improvement Associations (BIAs) -** BIAs are rate funded. This service should be full cost recovery. This will cost recover $0.5m over 10 years (ie $50,000 per annum).

Original SRV Proposal

- **Special Rate Variation (SRV)** - A SRV will need to be applied for and granted by 2014/15. The proposed SRV is to increase general recurrent revenue (s508A) for a period of seven years. It should be noted that this is separate to the s508 (2) SRV approved 2012 which can only be used for the key civic projects and therefore does not assist Council to provide ongoing services.

One of the key strategies outlined was to achieve 5% budget savings annually for two years which has a cumulative impact of 10.25% and total savings of $189.7m over 10 years.

The budget savings were to be accomplished through:

- Service reductions
- Service level variations
- Market testing of contract arrangements
- Sustainability Review savings not yet achieved
- Service Audit savings not yet achieved
- Equivalent Full Time (EFT) position reductions
- Material costs reductions
- Revenue options.

"Budget Savings" reflect both expense reduction and revenue improvements. In effect all initiatives which result in a 10.25% aggregate turnaround of net operating position against the expense base. Additional revenue generation (less associated costs) has the same bottom line impact as expense reductions. Only a broad based approach can realistically achieve a turnaround of the scale proposed.

5. Council's Progress Against Initiatives Based on Endorsed Budget Principles

Council has made significant progress on the initiatives outlined in Section 4.4 above. On balance Council has exceeded the original goals in reducing operating expenses and enhancing revenues. The outperformance on some initiatives has more than compensated for other initiatives where targets have not been met. The 2013/14 Annual Report covers progress in more detail. The response, progress and impact of the initiatives are reflected against the Budget Principles below.

1. **Reduction in net operating expense of at least 10% over the next two years (revenue and expense savings as a percentage of total operating expenditure) , and**
2. **Achieve at least a 2.7% net overall funding surplus, in accordance with Fiscal Star recommendations to the Division of Local Government, by 2014/15. This is a minimum of $8m (in 2012/13 dollars), and**
3. **Maintain a minimum of 2.7% net overall funding surplus for each and every budget year from 2015/16 until 2021/22.**

Response:

Council will focus on both a funding surplus and operating surplus.

The plan is to implement the initiatives outlined under Section 4.4 of this plan. In addition as of September 2013 the implementation of staff reductions is running ahead of schedule having already met the $6.5m target for the 2013/14 financial year.

- **Revenue Enhancement**

  A focus on revenue enhancement as well as expenditure reduction has been essential to achieve to close the sustainability gap. Increased revenue and reduced expenditure both assist in improving Council's net operating position.

  There are some revenue sources which cannot be considered as viable options to reducing the sustainability gap. These are covered in Section 9: Council Options. The revenue initiatives which have been identified and pursued are as follows:

  - Approximately $33m in increased revenues were assumed in the original revenue enhancement objectives.
  - Council has made significant progress in this area however two areas are generating most of the revenue gains. These are:
    - **NAL (Newcastle Airport Limited) Dividends.** NAL is achieving revenues which largely correspond to the targeted revenue return of $23m and these are reflected via equity accounting in Council accounts. NAL however is retaining most of the profits to support its capital works program. The dividend for 2014/15 was $0.6m. Based on this) projected dividends over 10 years have been revised down by $16m to $7m.
    - **Summerhill Waste Management Centre (SWMC).** Business growth at SWMC has exceeded original projections. Based on 2013/14 performance a net benefit of $2m has been reflected for 2014/15. The waste facility operates in a competitive environment which makes 10 year projections difficult. Assuming similar net benefits over a 10 year period would result in cumulative revenue

        - enhancement of approximately $22m assuming nominal growth in revenues which is an increase of $17m on previous.
        - These two items alone account for **$29m** of the originally planned revenue enhancement of **$33m.** This is an important outcome as a number of other revenue enhancement initiatives will not achieve the original targets.
    - To achieve the $33m revenue target over 10 years will require an additional $4m or approximately $0.4m per annum.
        - This is a more realistic aggregate target for (1) the remaining revenue enhancement initiatives of City Hall, Civic Theatre, Fort Scratchley, the Museum and the Art Gallery and 2) cost recovery from the Business Industry Associations.

- **Operating Expense Reductions**
    - The appropriate approach for assessing savings in expenses is to assess current projected expenses against projected expenses if the savings initiatives did not proceed. On this basis the organisational restructuring has realised a 10.8% decrease in staff expenses. The expense savings from the organisational downsizing will alone contribute a cumulative saving of $116m over 10 years from the year of the organisational downsizing (to 2023).

      (Note: The 2013/14 Annual Report applied a different methodology to calculate the savings. Calculate the net difference between 2012/13 and 2013/14 staff costs without converting 2012/13 staff costs to 2013/14 dollars for a like to like comparison).
    - The ERP system is in the process of being implemented. It is anticipated that the ERP system will improve asset management and project productivity. It is too early to measure savings from ERP as key modules such as the Works and Assets Module will only be implemented later in 2015. Further productivity savings however have been built into the LTFP to reflect productivity gains. Cumulative savings built into the LTFP to 2022 are $5.8m.

      Considerable resources are applied to project and maintenance activities in Council due to the large asset base. Depending on the year under review the total project and maintenance related costs will range from $60m to $90m per annum (this includes capital projects). The savings reflected in the LTFP are to operational expenses. There will also be productivity savings in the capital work program (accounting for $45m to $70m of expenditure). These gains will however not reflect immediately in the operating statements and will be hard to quantify.
    - Council has reduced Annual energy consumption by 13.2% between 2102 and 2014. This constitutes an annual energy saving of $112,000 per annum. This will constitute almost $1.3m over 10 years (assuming electricity charges increase at the rate of inflation).

      Council has made significant progress in cost reductions and undertaken a scale of restructuring which would exceed that undertaken by the vast majority of other councils. Cumulative savings anticipated over 10 years will exceed $120m and this alone has assisted in stabilising Council finances.

- A number of 'additional strategies' were identified in 2013/14 Delivery Program to improve the financial position of Council. The most notable initiative in achieving this result is the organisational restructuring that has been completed. The 10 year savings projection from this initiative alone exceeds the projected financial benefit of all other initiatives combined (excluding the proposed SRV).

- The remaining initiatives have been adjusted in the updated of the LTFP to reflect the availability of more current information.

- Some initiatives might not realise savings in the immediate term but are being retained due to potential in the longer term to realise benefits. Council will seek to address any shortfall by looking to identify additional revenue sources where possible. This does constitute some risk to Council achieving its budgeted revenue.
- The benefits of some initiatives have been reduced in line with recent experience (for example the airport dividend is less than originally estimated) or removed if no longer viable.
- To counter these impacts the LTFP includes a 0.2% productivity adjustment each year (based on rating revenue in line with IPARTs productivity assumption when calculating the rate cap). The impact of this is approximately $8m in cumulative savings to 2023 and over $12m for the life of the LTFP (to 2025).

- In summary the financial improvement the Council has achieved to date has made a material difference to Council's financial position and compares favourably with what were very aggressive targets. Despite the progress made and the significant improvement in the financial performance of the organisation it is insufficient to ensure financial sustainability while addressing the substantial infrastructure backlog. The only major initiative outlined in the Delivery Program which has not yet been implemented is the SRV application. The updated financial modelling in the LTFP confirms the SRV initiative is a critical element in The City of Newcastle moving from ongoing operating deficits to a sustainable position of recurring operating surpluses providing sufficient funding to address the infrastructure backlog.

4. Identify redundant assets for disposal and for the proceeds to be placed in the Land and Property Reserve, and

5. The Land and Property Reserve to be used as a funding source for:

a) Renewal of key assets identified and prioritised in the Infrastructure Backlog, and

b) Reduce/replace debt as an infrastructure backlog funding source.

Response:

- **Asset Rationalisation and Backlog Reduction**

The asset sales program has been revised down from the last LTFP target of $62m over 10 years. Sales to the end of 2013/14 financial year (including two car parks) resulted in sale proceeds of approximately $16.5m. Projected proceeds from the sale of the assets listed are for a further $40m. The $56.5m is within approximately 10% of the original target, notwithstanding that a number of sales have not proceeded due to community pressure and the corresponding decision of Councillors to not proceed with certain asset sales. The new target already recognises that some asset sales will not proceed and also reflects a reassessment of the sale value based on (1) the condition of the asset, (2) likely market demand and (3) possible zoning considerations. All these adjustments are based on Council now having more accurate information with which to make an assessment.

The closure of redundant assets provides additional asset sale revenue however this is dependent on the level of interest among neighbouring landowners and consequently can be difficult to estimate.

The revised target as noted is now $56.5m (including the $16.5m of asset sales already concluded by the end of 2013/14. The numbers are reflected in the LTFP.

A revised ten year asset disposal plan has been established as follows. The estimated value of properties to be sold is excluded due to the commercially sensitive nature of that information:

	Number of Sites (Land & Building)	Total value of sites $'000's	Number of road Closures	Total value of road closures $'000's	Total projected asset sales $'000's
F14 & Prior	10	16,296	2	132	16,428
F15	10	12,404	4	208	12,612
F16	15	13,995	1	80	14,075
F17	3	6,380	2	480	6,860
F18	2	5,180	2	880	6,060
F19	0	0	1	80	80
F20	0	0	1	80	80
F21	0	0	1	80	80
F22	0	0	1	80	80
F23	0	0	1	80	80
Total	40	54,255	16	2,180	56,436

6. To reduce Council's Infrastructure Backlog Ratio to less than 2% over the next 10 years or $32m (in 2012/13 dollars).

Response:

The infrastructure backlog has been reduced from $117m (Special Schedule 7 of the 2011/12 Financial Statements) to $90.4m (Special Schedule 7 of the 2013/14 Financial Statements). This is a significant reduction in the asset backlog. The biggest component of this backlog still remains as Buildings and Structures. The backlog for this category has reduced from $89m to $44m. The priority has been to dispose of non-core assets which themselves contributed to the infrastructure backlog. This has largely been completed and has been the main contributor to the reduction in the backlog.

The key asset in the backlog remains the City Hall. This project is predicted to cost $21m to renew the sandstone cladding. The most urgent component in the project is the Clock Tower. Council obtained a LIRS loan for this $7.5m project. The contract has been awarded to the successful tenderer and work is progressing.

Merewether Baths was another significant asset on the backlog. A LIRS loan was also obtained for this work totalling $2.5m. That work was completed in November 2014, ahead of schedule and within budget.

Realistically with gross assets of $1.6 billion constituting predominantly roads, pathways and drainage assets there are limits to the scale of assets that can be sold and consequently there is limited opportunity to significantly reduce the backlog through further asset sales. It is insufficient maintenance on the core infrastructure assets (i.e. roads, pathways and drainage) which has been the main contributor to the backlog. As budgets became constrained Council reduced expenditure on infrastructure maintenance. (Scenario 1C reflects the impact of this practice continuing).

The future asset disposal plan will not result in significant reduction in the asset backlog (as these assets are generally in a satisfactory condition). The sale of the assets will however provide some proceeds which can fund work on asset renewal, however the sale funds will fall well short of the level required to fund the required reduction in the asset backlog.

All scenarios, except 1C (Lower Service and Capital Investment) incorporate the capital works necessary to reach (and exceed) the 2% target by 2022-2023 (the 10 year target). But only Options 2 and 3 will achieve this objective in a financially sustainable way.

The Asset Management Strategy (AMS) reflect important data that flows into the LTFP. This includes required levels of asset maintenance and renewal to stabilise the backlog and the methodology for assessing whether assets are in a satisfactory condition and a quantification of the asset backlog. Asset renewal projects have also been identified.

7. To restrict debt levels so that the net financial liabilities ratio of 40% is not exceeded in any one year between 2013/14 and 2021/22.

Response:

The net financial liabilities ratio was at 41% with the inclusion of LIRS for the City Hall and Merewether Baths asset renewal programs at the time this Budget Principle was established. Active management of this ratio has resulted in the ratio reducing to 35% in 2014/15 and will reduce further to 23% by 2022/23 for the base case. This ratio however increase in 2023/24 and 2024/25 to 34% and 45% respectively due to the borrowing required as a result of investment and cash reserves eroding to unsustainable levels. Council would therefore be in breach of this objective from 2023/24.

The 2013-2017 Delivery Program shows that 2013 is the last year that Council was planning to borrow funds over the next ten years. These borrowings were low interest LIRS loans of $7.5m for the City Clock Tower renewal and $2.5m for the Merewether Baths renewal. As noted the borrowing program however will need to be recommenced in 2022/23 due to Councils cash position not being sufficient to cover expenditure obligations, unless rate revenue is increased via an SRV.

Our analysis has confirmed that increasing debt levels to fund non-incoming producing capital works is not a financially prudent option until the underlying operational performance improves to a level where any increased debt can be adequately serviced.

8. That no project commences until funding for the full cost of the project is secured or has certainty, and

9. The special projects capital to be prioritised in accordance with community ranking from the Micromex Research 2011 Report and timing for delivery matched to cash flow. These priorities are set according to the support as follows:

Priority 1: Revitalising Hunter Street
Priority 2: Revitalising our Coast
Priority 3: Upgrading Blackbutt Reserve
Priority 4: Providing new cycle ways
Priority 5: Improving our swimming pools

Priority 6: Modernising our libraries

Priority 7: Expanding our Art Gallery, and

10. The cash flow for special capital projects listed in (9) above be sourced from:

a) The 5% capital restricted Special Rate Levy awarded to Council in 2011;

b) Section 94 funds; and

c) Existing reserves.

Response:

All projects require approval with identified funding. This has been built into the Council approval processes. However the projected program of capital works will erode current Council reserves as cash generated from Council operations (net cash from operating revenues less cash related expenses) and asset sales will be insufficient to cover anticipated capital works expenditure in the base case scenario (Option 1).

The 4 year Delivery Program, adopted by Council, includes the following Priority Projects:

Priority 1: Revitalising Hunter Street

Priority 2: Revitalising our Coast

Priority 3: Upgrading Blackbutt Reserve

Priority 4: Providing new cycle ways.

They will be funded by SRV revenues (ie previously approved 2012 s508 (2) application), Reserves and Section 94 funds as shown below:

	2013/14	**2014/15 Budget**			**2015/16 Forecast**	
Priority SR Projects	Actual	Working	SRV funding	Sec 94 and Grants & Contributions	SRV/ Working	Grants and Contributions
Revitalising Hunter Street	407,152		1,431,079		2,566,033	
Revitalising our Coast	2,970,154	6,289,579	3,275,101	1,680,000	7,637,000	1,843,000
Upgrading Blackbutt Reserve	385,433				1,740,000	
Providing new cycle ways	321,923				1,450,000	1,800,000

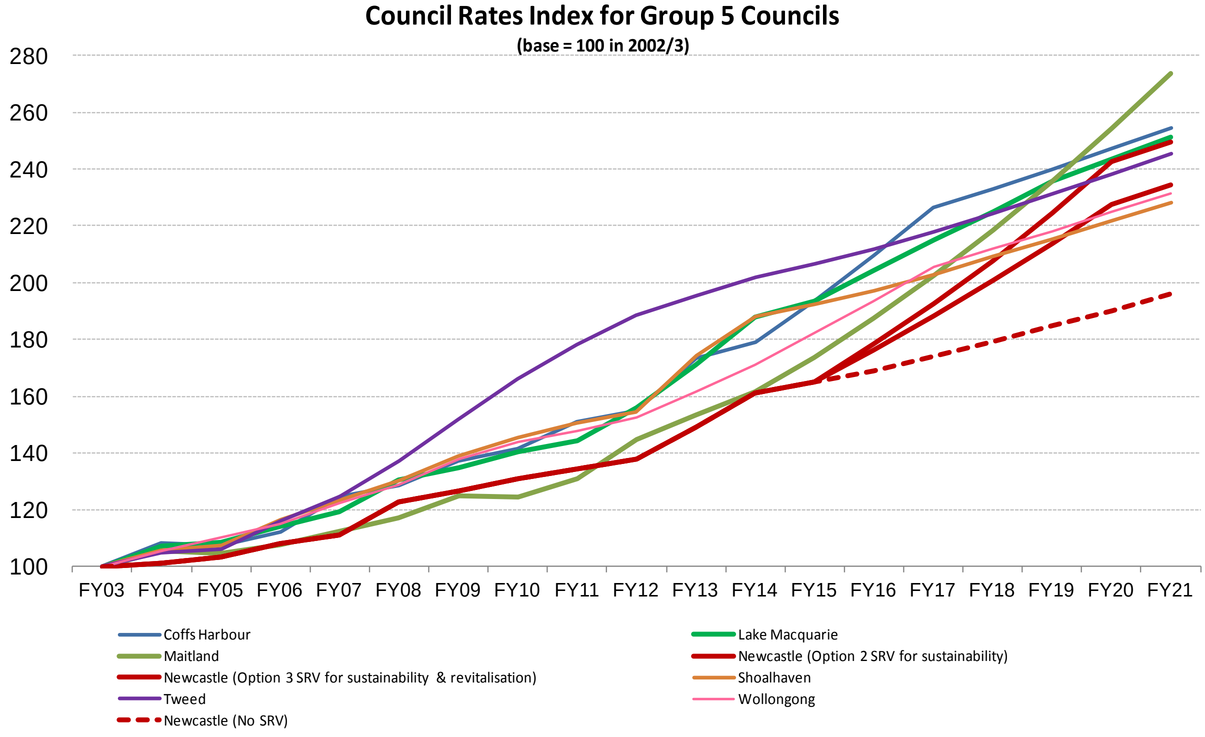
11. A general purpose (s508A) rate variation is used only as a last resort to achieve financial sustainability and the associated targets above.

Response:

Council has successfully implemented all of the initiatives identified under the previous ten Budget Principles. This hard work has delivered results. The underlying operating deficits of prior years have been significantly reduced. However our financial analysis shows that this is not enough. Council must significantly increase its revenue in order to deliver a net underlying surplus after funding the sustainable ongoing operating costs. Without this surplus the Council will be unable to address the infrastructure backlog and return to a financially sustainable position. An increase in the rate revenue, via an SRV, is the only viable course of action.

The Graph below outlines Council's rate history. For the majority of years from 2002 to 2012 the rate has followed the rate cap. A one-off increase to the base was achieved in 1996, 1997, 2002 and 2007. These were all approved by IPART as single year increases under section 508(2). The 2007 increases were made to achieve extra funding to address the infrastructure backlog. These funds are placed into a reserve and are used within the budget for these purposes.

The proposed SRV increases analysed in this plan are based on a s508 (A) increase applied over five years.



The graph above reflects a long term trend in Council rates and indicates that over a period of nearly 20 years the rates are below those for most other comparable councils. Specifically:

- Council has not sought significant increases, relative to other councils, over the last 11 years. Council has a history of being conservative in its SRV requests.
- The projections reflect all known increases in rates (based on IPART determinations) and the recommended 3% for any future year for those councils where there has not been a determination.
- Council rates also compare favourably with other councils in actual dollar terms. In fact Council's rates under a base case scenario (ie no SRV increase) would be well below those of comparable councils. After considering the impact of the proposed Option 3 SRV increase Council's forecast rates continue to compare very favourably with comparable councils.
- The long term trend indicates the following:

- Without the proposed SRV (Option 1 base case) Council will have a markedly smaller increment in rates over the period 2002/03 to 2020/21. This will result in rates significantly below those of comparable councils. This is not financially sustainable for Council.
- Although absolute metrics are also relevant, a long history of below trend increases (compared to benchmark councils) would indicate ratepayers have not had significant increases in the immediate past which is a significant factor when considering the reasonableness of any proposed increase. (Note: absolute metrics on rates are assessed later in this document and also indicate Council is favourably placed compared to benchmark councils particularly when factors, such as the relative capacity of ratepayers to pay, are considered).
- Option 2 (financial sustainability) would still place Council at the lower end of the indexed rates spectrum when compared to comparable councils
- Option 3 (financial sustainability and revitalisation) would result in Council being in the mid-range of the index closely aligned to Lake Macquarie Council and still below Maitland Council.

Consistent with the Budget Principles the SRV application has been considered as a last resort. The following actions and plans reflect this approach:

- Council has actively undertaken initiatives to address the first 10 endorsed Budget Principles as detailed above. The completion of some of the initiatives has in fact been accelerated and clear financial benefits have been achieved (and covered elsewhere in this LTFP).
- The LTFP forecasts include year-on-year inbuilt productivity improvements of 0.2% of rate revenue per annum. This rationale for this productivity improvement is that Council builds into its projections the IPART productivity assumption that has been built into previous rate caps
- The LTFP reflects prudent revenue projections and disciplined expenditure plans. These include:
  - Moderate and realistic revenue assumptions.
  - Expenditure plans which focus on keeping business-as-usual expenditure contained with the only additional expenditure identified as that relating to ensuring Council undertakes sustainable maintenance and to capture operating costs (non-capitalisable costs) associated with infrastructure renewal. The plan assumes that staffing levels and other expenditure associated with non-maintenance items increase in line with increases in costs for all options other than Scenario 1C (which assumes a drop in services) and Scenario 3 (which assumes the same level of expenditure constraint as other scenarios but with reasonable cost increases for the additional services identified.
  - Capital works programs focus on infrastructure renewal and special projects associated with the 2012 SRV. Expenditure on corporate projects actually decreases and then is contained in nominal terms (resulting in year on year reduction in expenditure in real terms).

6. Current Status

6.1 Council's Current Financial Status

Current Financial Position

Council has made significant progress in improving its financial position. This is reflected in the revised financial analysis undertaken in the updated model. On balance Council has exceeded the original goals in reducing operating expenses and enhancing revenues. The outperformance on some initiatives has more than compensated for other initiatives where targets have not been met.

The last audited financial statements (2013/14) provide details of Council's Financial Position. The Report to Ordinary Council Meeting on 28 October 2014 for the Adoption of Annual Financial Statements included an analysis of Councils Financial Position.

Current State of Financial Sustainability

Council's Operating Result (before Grants and Contributions for Capital Purposes) for 2013/14 was a surplus of $0.75m against a ($13.40m) deficit in 2012/13. This result was a significant improvement on prior years and reflected the cost savings associated with the organisational restructuring and additional revenue in certain areas such as for the SWMC.

This result however reflected the consolidated results including the airport (Net Profit of $2.2m). In addition operating revenue includes revenue associated with the 2012 SRV ($4.75m) which is restricted to specific capital works and cannot be utilised to cover operating expenses. If these items are excluded to reflect a sustainable underlying operating position Council incurred an operating deficit of $6.2m (this would equate to an operating ratio of approximately -2.8%).

Summary of Key Ratios** - **Council Report (CCL 28/10/14 – Adoption of Annual Financial Statements

Ratio	2013/14 Result	Benchmark
Operating Performance Ratio (ex Newcastle Airport)	-0.5%	Greater than 0% (Ideally modest surplus of up to 10%
Own Source Operating Revenue Ratio	86.54%	Greater than 60%
Unrestricted Current Ratio	3.22 : 1	Greater than 1.5:1.
Debt Service Cover Ratio	4.13	Greater than 2.
Cash expense cover ratio	8.70x	Greater than 3 months (ie 3x).
Building and Infrastructure Renewals Ratio	50%	greater than 100%.
Infrastructure Backlog Ratio	9%	less than 2%.
Asset Maintenance Ratio	85%	greater than 100%.
Capital expenditure Ratio	97%	greater than 110%.

Operating Performance Ratio: Council's performance falls below the benchmark ratio. This calculation is based on Council's unconsolidated position but still includes 2012SRV revenue, which is capital restricted. As noted above the ratio will be -2.8% if 2012 SRV revenue is excluded.

Own Source Operating Revenue Ratio: Council's position is strong with limited reliance on grants and other external sources of revenue.

Unrestricted Current Ratio: Liquidity position is strong. Current reserves result in a strong liquidity position. It should be noted that a key reason for the strong reserves position is that Council is underspending on infrastructure (covered in ratios below).

Debt Service Cover Ratio: The debt service cover ratio is strong and has decreased due to Newcastle Airport paying out all loans held by Council in November 2013 and Council's commitment in its Budget Principles to reduce debt and not borrow during 2013/14.

Cash expense cover ratio: As noted under the other liquidity ratio (unrestricted current ratio) Council has a strong liquidity position and according to this ratio has suffcient cash reserves to cover immediate payment obligations.

Building and Infrastructure Renewals Ratio: This ratio indicates that Council's expenditure on infrastructure asset renewals is insufficient when compared to the asset's condition as measured by its accounting depreciation.

Infrastructure Backlog Ratio: The cost to bring assets back to a satisfactory standard has reduced from $97.7m to $90.4m over the last financial year. The $7.3m reduction appears positive however a $21.6m reduction due to the sale of assets with associated backlog hides a net increase of assets added to the backlog. There is a limited pool of assets with backlog remaining that can be sold so this is not a sustainable method of reducing the backlog.

Asset Maintenance Ratio: Council is not spending sufficient funds on asset maintenance. A ratio of above 100% indicates that the Council is investing enough funds within the year to ensure assets are properly maintained and avoid those assets eventually becoming part of the infrastructure backlog**.**

Capital expenditure Ratio: Council is currently underspending on capital investment. This ratio reinforces the general theme of underinvestment in infrastructure renewal and indicates when new asset investment is also considered that investment is not sufficient.

In summary: Council has strong own source revenue, liquidity and limited debt. Other key metrics remain weak particulalrly when considered from a perspective of future financial sustainability . The operating position has improved but remains in deficit and if only revenue which can be applied to covering operating expenses is included the operating ratio is -2.8. Infrastructure ratios indicate that Council is underspending on infrastructure maintenance and building and infrastructure renewals. This is despite Council already having a backlog that is deemed unsustainable. If Council was undertaking the expenditure required for sustainable infrastructure maintenance and renewal the operating deficit would be significantly worse. On balance based on the key ratios above the Council's current financial position is unsustainable.

The Gap in Infrastructure Expenditure

The 2013/14 statements can be used as a basis for explaining the additional expenditure required for Council to invest in infrastructure to reach a sustainable position.

<u>Asset Maintenance</u>: The 2013/14 Financial Statements highlight that $12.5m was spent on asset maintenance against a required level of asset maintenance of $14.7m.

<u>Buildings and Infrastructure Renewals</u>: The gap in sustainable renewals was more substantial with actual renewals of $14.8m against depreciation, amortisation and impairment of $29.3m. All

capital works result in a portion of operating expenses (e.g. demolition work, write-off of demolished assets). Council's experience is that this equates to approximately 25% of the capital expenditure.

The expenditure Gap for sustainability: Based on these 2013/14 financials there has been a shortfall of $3.3m in maintenance and $12.9m in capitalised renewal projects. Based on Council experience the additional renewal work would result in an additional $3.3m in operating expenses. In summary the gap in 2013/14 was **$19.5m** ($6.6m direct operating expense impact and a further $12.9m in capital expenditure).

The Backlog: There is a backlog of $90.4m ($80.2 m excluding assets which require renewal but do not have book value in the accounts). To reach a sustainable level this backlog needs to be reduced by $72m to $18m in 2013/14 dollars. The Delivery Program targets 2022/23 (10 years from 2012/13) as the date to reach sustainability (2% of written down value of assets). This number is likely to be understated as the backlog is based on 2010 asset values. This number will be revised as part of the 2015 asset revaluation of roads, pathways, drainage and bridges.

Does the backlog need to be addressed? Council undertook a review of all assets listed in the backlog and identified candidates for sale. The sale or demolition in preparation for sale of these assets has reduced the backlog by $21.7m. The assets concerned were:

- Civic West - Parking Station
- Court House - Parking Station
- Civic Arcade (sale pending)
- Civic Hotel (sale pending)

The Asset Management Plans document the methodology for identifying assets which are not in satisfactory condition and quantifying the cost of remediation. In summary building are the only asset class which can be sold, significant sales have occurred (or are planned) and there are limited further opportunities. In summary some of the more significant items are:

- Newcastle - City Hall $24.3m
- Stormwater Drainage $17.3m
- Roads $17.1m
- Other Assets (creeks / trees) $10.2m
- The Mall - Parking Station $ 7.5m
- Newcastle Ocean Baths - Pools $ 4.0m
- Lambton Swim Centre - Olympic Pool $ 3.9m
- Merewether Ocean Baths - Pools $ 2.5m
- TPI House $ 1.8m
- Retaining Walls/ River Walls $ 1.8m
- Other buildings $ 0.9m

The building backlog has been broken into separate line items and all assets have been listed based on size. TPI house has been demolished and sold (conditional contracts exchanged awaiting settlement)

Council is undertaking an asset sale program of all other assets identified as non-core. This program is well advanced and is reflected in the LTFP (including TPI House). The LTFP therefore already recognises funds from these sales as part of Council reserves.

Implications for LTFP Projections: The significant increase required in expenditure of $19m per annum (in 2013/14 dollars) and the backlog of $90.4m place significant pressure on Council's financial projections. The 2013/14 financial statements operating position (excluding revenue that cannot be applied to operational expenditure) is a $6.2m deficit. If Council had undertaken sustainable maintenance and renewal on existing infrastructure assets the deficit would be approximately $13m. In addition work to address the backlog would have a further impact on operating expenses and require funding for the capital works. This is the starting position for the projections for the LTFP.

Long Term Projections of Financial Sustainability

Base case projections (based on the assumptions and analysis below) highlight that Council's operating position worsens, there is a funding deficit for capital projects and consequently Council's reserves will erode to unsustainable levels. In summary the key factors (which are modelled below) are:

- Council starts with a weak operating position (a deficit excluding share of Newcastle Airport profits), underinvestment in infrastructure and an infrastructure backlog approximately 3 times sustainable levels.
- Increasing expenditure on infrastructure to the levels required to reduce the backlog to a sustainable level (requiring higher expenditure on both infrastructure maintenance and infrastructure renewal) results in a worsening operating deficit and capital works expenditure in excess of available surplus funds generated from operations, asset sales and capital grants.
- The resulting erosion of reserves reduces investment income which accelerates the deterioration in the operating deficit.
- Reserves continue to diminish to ultimately unsustainable levels. A stage is reached where reserves are insufficient to cover externally restricted funds and future liabilities such as employee related provisions and funding for remediation of the SWMC.

The projections are covered in more detail below.

Impact of SRV and other Council's Strategies to 2025

Council continue to implement initiatives which support the strategies reflected in the 2030 Community Strategic Plan and also make significant progress on applying the Budget Principles and Corporate Objectives documented in the Delivery Program.

A number of 'additional strategies' were identified in 2013/14 Delivery Program to improve the financial position of Council. The ongoing impact of these will result in Council significantly exceeding original targets. The most notable initiative in achieving this result is the organisational restructuring that has been completed. The 10 year savings projection from this initiative alone covers the projected savings of all other initiatives combined (excluding the proposed SRV).

The remaining initiatives have been adjusted based on more information being available.

- For example the asset sales estimate has been increased for the 10 year period
- Some initiatives might not realize savings in the immediate term but are being retained due to potential in the longer term to realise benefits Council will seek to address any shortfall by looking to identify additional revenue sources where possible. This does constitute some risk to Council achieving its budgeted revenue).
- The benefits of some initiatives have been reduced in line with recent experience (for example the airport dividend is less than originally estimated) or removed no longer viable.

In summary Council is exceeding the original plans put in place to realise surplus. The only major initiative which is pending an outcome is the SRV application.

This LTFP covers a number of scenarios as detailed in Section 10. The SRV application as noted earlier (and covered in other IP&R documentation such as the Delivery Program document) is a critical element in The City of Newcastle moving from ongoing operating deficits to a sustainable position of recurring operating surpluses.

The “SRV as a last resort” will also be assessed, along with other options, later in the LTFP. The current financial position confirms that further action is required.

7. Inputs and Considerations for Long Term Financial Planning

The inputs and assumptions have a significant bearing on the outcomes projected in the financial model. Appendix A covers all major assumptions in more detail. The inputs and assumptions below need to be explained to provide the context necessary to understand the basis for the scenarios presented and enable comparison. Key inputs covered in this section are:

- Community Needs: Community needs must be understood and are a key input into the LTFP. This is crucial in determining what is included in the scope of the options presented. Community needs help establish the base case and enable Council to construct options for consideration. Scenario 1 (Base Case - Rating Option 1) has been developed to focus on addressing the Budget Principles (to the degree possible) with particular focus on sustainable maintenance and renewal of assets and addressing the infrastructure backlog. Scenario 2 (Financial Sustainability - Rating Option 2) has a similar scope to Scenario 1 but with the inclusion of a SRV for increased rates. Scenario 3 (Financial Sustainability and Revitalisation – Rating Option 3) includes a larger rate increase to fund the community expectations for additional services to support revitalisation in addition to financial sustainability. The section below covers relevant considerations regarding community needs for both financial sustainability (especially in relation to infrastructure) and enhanced services.
- Assessing the Revenue Gap: To accurately calculate financial sustainability Council needs to assess the following (1) the scope of services / service levels needed / expected by the community and (2) the capacity of Council to meet these community needs /expectations without including an SRV as part of the solution. The shortfall in the funding available to meet community needs after including all other revenue improving options will constitute the revenue gap. The assessment of the revenue gap will be made in 2 parts: (1) the revenue gap associated with maintaining the current level of services and (2) the additional revenue gap required to fund the community's expectations for revitalisation. The approach will be as follows:

    - The revenue gap based on current service levels: Scenario 1 provides the revenue gap based on current service levels. Scenario 2 (Financial Sustainability) establishes the estimated rate increase (SRV) required to cover the revenue gap. The shortfall in funding arising in Scenario 1 does not equate perfectly to the SRV required. The revenue gap will be partly funded via (1) a reduction in council reserves and (2) maintaining reserves at sufficient levels enables council to earn investment income. Scenario 1 and 2 assume the current scope of services continues and that current service levels are maintained. The exception to this assumption is that the community expects community assets to be of a satisfactory standard based on current criteria and therefore both these options increase expenditure on infrastructure maintenance and renewal to sustainable levels and they both reduce the infrastructure backlog below 2% by 2023 as per the Budget Principles. The revenue gap will therefore become evident in assessing Scenario 1 as the expenditure associated with meeting community needs is not met by Council revenues on a business-as-usual basis.
    - Revenue gap for revitalisation: Scenario 3 (Financial Sustainability and Revitalisation) determines the additional revenue required to fund both financial sustainability and to support additional services for revitalisation. The revenue gap of the revitalisation component can be assessed by identifying the different funding required between Scenario 2 and 3. The services associated with revitalisation have been clearly identified, costed and covered in the Road to Recovery community consultation to evaluate the degree of community support.

The sub-section below provides a list of the specific services that were included for public exhibition, how those services align to the CSP and community feedback and the cost estimates associated with each of these services.

- Other context relevant to assessing the scenarios: An understanding of the full significance and impact of data which is not captured in the baseline financial results but remains very relevant in developing realistic financial projections is important. Areas that will be covered in more detail in this section are:
  - **Asset Revaluation**: Asset revaluation and the impact on replacement cost (including impact on depreciation, sustainable capitalised and expensed costs associated with asset renewal, and sustainable maintenance.
  - **Reserve requirements:** Significant feedback (including independent assessments) have concluded Council's liquidity position will be seriously impacted in the future based on the current path with the question of Council's solvency being questioned. A key input is therefore projections of what the reserve requirements are for Council. This will help answer the question of whether the projected reserves are sufficient under each of the options considered.
  - **Population growth v increases in rates**: Newcastle council area has average population growth. Population growth is a driver for the need to expand services and invest in further infrastructure. As the annual growth rate is only approximately 0.7% per annum and some population growth does result in further rating income (based on certain development scenarios) this has not been factored into expenditure or revenue projections. Any gap in projections due to this not being included can be seen as associated with productivity gains as Council will need to cover these costs within the current projections.

7.1 Community Needs and the Implications for the LTFP

From as early as 2007 Council has been talking to the Newcastle community about our finances and how we can secure the long term financial sustainability of Council. This was reflected in Council documents preceding the establishment of the IP&R framework.

Council was a Group 2 Council in the rollout of the IP&R framework. This resulted in Council adopting the full range of IP&R documentation in June 2011, The Resourcing Strategy Newcastle 2030 incorporated Councils first ***Long Term Financial Plan 2011-2021***. In Section 8.2 of that document it was noted "The Long Term Financial Plan to 2021 in its current state shows shortfalls in funding and in certain years will not meet key financial management strategies". The ten year projections for the base case reflected operating deficits across all years ranging from $9.6m to $26.4m (operating ratio ranging between -5% and -9%) and funding deficits also across all years.

This section focuses on how council identified and considered the community needs and desires applying the IP&R framework and other relevant supporting materials (the process). This starts with the Newcastle Community Strategic Plan (CSP). Given the dynamic environment in which the Council is operating Community needs need to be continually reappraised to ensure Council is addressing current needs as the city undergoes urban renewal. This recalibration of community needs is captured in the revised CSP, community surveys of Council services and as part of the annual planning cycle (LTFP, Delivery Program and Annual Operating Plans).

Newcastle Community Strategic Plan (Newcastle CSP)

The Newcastle CSP is a high level community document and therefore there are no detailed impacts of the SRV to be found in this IP&R document. The initial Newcastle CSP involved over 1,500 people directly in the development of the Newcastle 2030 vision during 2009/11 and more than 1,100 people participated in the review for the 2013 revision (p10).

The CSP notes under challenges that the population of Newcastle is projected to grow by 16% from 2012 to 2036 and like many communities the largest percentage increase will be residents aged over 70 (p23). The CSP notes opportunities as urban renewal and a revitalised city centre (p23). Revitalisation remains a strong priority among the community.

The strategy reflects a strong focus on improving Newcastle. The strategy reflects renewal and improvement rather than maintaining the status quo. The strategies are documented from p33 to p76 of the CSP some examples are:

- Connected City: "we need to create an environment friendly to cyclists, pedestrians and public transport users" (p35),
- Vibrant and Activated Public Places: "Our public places must be accessible to all" (p47), "...improve and revitalise our beaches, coastal areas and foreshores for everyone to enjoy" (p50)
- Caring and Inclusive Community: "provide events to encourage use of open spaces and facilities" and "upgrade city library services" (p56)
- Open and Collaborative Leadership: "provide opportunities for genuine and representative community engagement in local decision making" (p74).

The themes reflected in the CSP are based on extensive consultation and support Newcastle improving services rather than keeping them at current levels. Council documents the strategies in the Delivery Program and references all corporate projects to these strategies in the Operational Plan and reports on progress in the Annual Report.

To ensure the financial sustainability of the Council Services and infrastructure works to support these services have, by necessity, been constrained in recent years due to funding constraints resulting from ongoing operating deficits. . This is not inconsistent with the CSP which includes an expectation that services are delivered in a sustainable manner. The CSP notes on p72 that what we want as a community includes "integrated, sustainable long-term planning". In support of this expectation p13 notes "resourcing strategy includes the Long Term Financial Plan to ensure sufficient funds are available to meet Council's contribution to achieving the initiatives identified". To be sustainable Council needs to maintain a robust operating position (general trend of moderate operating surpluses) whilst maintaining sustainable levels of infrastructure maintenance and renewal. Assets also need to be in a satisfactory condition.

Council recognises it needs to deliver on all elements of the strategy to meet community needs and desires as they are reflected in the CSP. This includes both services and asset maintenance and provision. The CSP has a requirement to meet these community needs and desires in a sustainable manner so that Council has the capacity to continue meeting these expectations in the longer term. The strategy has a long term focus (2030) which also requires a focus on ensuring a financially sustainability path is taken.

Does Community Consultation validate these Needs and how is Council meeting these Community Needs?

This section will focus primarily on how the community ranks the importance of different Council services and the level of satisfaction. This assists Council in determining whether community needs are being met. Criterion 2: Community awareness and engagement also provides some coverage. Only summary points will be made in this section where there is overlap.

Council has sought specific community feedback on its services, service levels, revenue raising opportunities and other efficiency measures, through a wide range of community engagement forums and consultation processes including:

- 2012 Community Satisfaction Survey: March 2012
- Community Strategic Plan Review Engagement : November 2013-June 2013
- Talking Numbers Engagement: 2 March – 20 March 2013
- Delivery Program and Operational Plan 2012-2013 Engagement: 29 April – 27 May 2013
- s508(2) Special Rate Variation Application 2014-2015 Communications and Engagement: 25 January – 12 February 2014
- Delivery Program 2013-2017 and Operation Plan 2014-2015 Engagement: 6 May 2014- 5 June 2014
- 2014 Community Satisfaction Survey: August 2014 (available on Council's website on the completed engagement page)
- Road to Recovery Engagement Strategy: 1 October 2014 - 30 October 2014.

Revisions have been undertaken of the Community Strategic Plan and Delivery Program to ensure they remain current and these revisions again involved extensive consultation. The relevant IP&R documents are covered below with commentary.

The most recent satisfaction survey (August 2014) indicates the community believes most services are important with high percentages indicating services are very important or important. The top 30 of the 33 services listed have over 70% of respondents classing services at important or very important. Even the remaining exceeds 60% of respondents.

The survey indicates the satisfaction scores track low compared to the importance placed on the services. For example only the top 3 services (Library, Garbage and Beaches) have 6% or more of respondents indicating they are very satisfied with the service. Only the 7 of the 33 ranked services have a majority of respondents indicating they are satisfied or very satisfied with the services.

There are a number of services which rank as highly important and ranked high in satisfaction. These include garbage collection & disposal, maintenance of beaches and beach facilities, and parks and recreational areas. With the exception of these specific services the ***primary message would appear to be that the community is expecting services to be largely improved across all other areas however based on the relative importance some services require a higher priority.***

The community had particularly low levels of satisfaction regarding levels of consultation (long term planning and community involvement in decision making), management of the CBD, and response to community needs. In the survey response to community needs was classified under General Services. This would indicate the community wants general services to be improved.

The Road to Recovery Engagement Strategy: 1 October 2014 - 30 October 2014 was undertaken to understand community preferences regarding a possible SRV application and to seek feedback from the community regarding Council's financial sustainability and the level of services required. The Micromex telephone survey (400 random selected ratepayers), a Newcastle Voice survey and feedback forms were collected as part of the community consultation captured the following:

- The community strongly supports an increase in rates via a SRV (72% of respondents elected an SRV option as their first preference) to ensure the Council's financial sustainability. Based on a review of other SRV applications submitted to IPART this level of support appears to be a particularly high. This is a strong indicator that the community is aware of the importance of the financial sustainability and wants Council to take some action.

- There is also significant support for an SRV which enables services to be enhanced as well as addressing financial sustainability (48% ranked 1st or 2nd preference). Other surveys during the consultation indicate similar levels of support. For example, 51% of respondents to Newcastle Voice were “somewhat supportive” or “very supportive” of Option 3 and 48% of email respondents supported Option 3 as their first preference. There is generally a reticence in such surveys for the community to indicate they are prepared to pay more for services however this does not appear to be the case based on the results above. This is therefore a strong indicator that the community believe they need or desire enhanced services and is prepared to pay more to receive them.

- In addition 93% of respondents indicated it was important for Council to provide better services and facilities. Again this supports the assessment of the CSP that the community is seeking improvement in services and wants Council to take some action to revitalise the City.

- Virtually all community feedback during the public exhibition of the 2014/15 Operational Plan and the updated 2013-2017 Delivery Program (undertaken in May/June 2014) focused on retaining or reinstating services or ensuring maximum community access by not imposing fees.

- Council maintains a list of community requests for road, footpath and other improvements. This list reflects a form of “backlog” of community requests (this is unrelated to the infrastructure backlog). This is prioritised but is extensive. Option 3 will provide the necessary revenue to address this problem. The community has actively opposed the reduction in services. This has been recognised by councillors and

- Counsellors have, in recognition of community desire for services to be retained, elected to have services reinstated.

Other Council IP&R documents (Delivery Program, Asset Management Strategy and this document - the LTFP) all reference the CSP objectives and other inputs on community needs. The key documents are listed below with relevant coverage of services, projects, financial and community impacts.

7.1.1 Delivery Program 2013-2017

The Delivery Program notes on page 12 “The key objective is to achieve financial sustainability in the medium term, whilst still achieving the Council’s strategic objectives and budget principles as specified in The City of Newcastle’s Delivery Program 2013 – 2017”.

The Delivery Program for 2013-2017 reflects the strategies noted in the CSP (pages 23 to 38) and identifies the need to achieve financial sustainability so that current service levels can be retained into the future (pages 14 to 18 cover the sustainability challenge, and pages 18 and 19 discuss the options to increase revenues / reduce costs without further impacting services). The initial version of the LTFP highlighted that Council was on a course which was not financially sustainable and was a key input in the Delivery Program. That version of the LTFP itself was subsequently adjusted to reflect the budget objectives included in the 2014/15 Operational Plan. The Delivery Program has documented the scale of the issue (pages 12 to 21, Budget Principles and corporate goals to be applied (pages 40 and p48), the plans developed and actions taken to improve Council finances (pages 44 to 48 cover the original ISFA recommendations and progress and plans on “savings” initiatives) and the shortfall that still remains in reaching a financially sustainable position. The Delivery Program clearly articulates the need to undertake an SRV and the quantum to achieve financial sustainability. Option 2 was represented in the 4 year Delivery Program with proposed rate increases between 6.5% and 6.8% per annum over five years (p20).

The Capital Works program is incorporated into the Operational Plan (pages 10 to 17 of the Operational Plan). The investment in these projects is reflected in the Capital Works schedule (pages 96 to110). The primary focus in the Operational Plan is closing the gap in financial sustainability to the greatest extent possible. This has included realising the revenue and expenditure outcomes that enable the operating deficit to be minimised and directing Council resources towards asset renewal and to strategic objectives such as special projects so that Council can maintain existing services and delivery on the priorities reflected in the CSP. Community consultation, including the public exhibition of the Delivery Program and Operational Plan, indicates that the community support the provision of more rather than less services.

7.1.2 Asset Management Strategy (AMS) & Asset Management Plans (AMPs)

The AMS and AMPs cover how Council meets the needs of the community by ensuring asset maintenance and provision is at a satisfactory standard. Customer satisfaction surveys indicate as noted that the community is generally satisfied with the quality of those categories of infrastructure surveyed however there is clear room for improvement. As can be seen in the survey asset intensive services are ranked around the middle of the list of satisfaction ratings. Examples are:

- Roads look good: 49% are satisfied or very satisfied
- Swimming Pools: 45% are satisfied or very satisfied
- Footpaths are in good condition: 44% are satisfied or very satisfied
- Providing cycleways: 31% are satisfied or very satisfied.

These ratings would indicate Council is applying appropriate standards in the determination of satisfactory condition however Council in all likelihood needs to be more responsive in addressing assets which have degraded beyond Council's standards, but may still appear to be providing satisfactory service at this point in time. These assets would be incorporated in the backlog.

The methodology for calculating the infrastructure backlog is explained in the AMPs (which rollup into the AMS). Council uses relatively conservative criteria for calculating the backlog (ie Council is unlikely to overstate the backlog as Council sets a relatively basic baseline condition for assets). It is only assets below this standard that will be included in the backlog.

The Road to Recovery community engagement in October 2014 indicates that overall customer satisfaction is significantly higher than customer satisfaction for specific services captured in the August Customer Satisfaction Survey. Understanding the reason for this difference would benefit from further community engagement and analysis however a reasonable assessment is that the community is generally satisfied with the level of services being provided but ratepayers have identified particular services where they would like to see some service level improvement.

It would appear that based on all the community feedback that there is overall disconnect with the services Council does provides but that some selective improvement of specific services or the provision of additional services is required. This can be divided into two areas:

- Service levels relating to existing assets: Provided Council adheres to sustainable levels of maintenance and renewal as reflected in the AMS and AMPs and reduces the backlog to sustainable levels (below 2% of net assets) Council believe community needs and desires for asset maintenance will be met.
- Building new infrastructure: Some community feedback was in response to questions which asked if Council provided sufficient infrastructure. The survey question of whether respondents are satisfied with Council "Providing cycleways" fits this category. The low satisfaction score in the August 2014 survey indicates the community expects Council to provide more cycleways in the future. Cycleways appears to be relatively low in the importance rankings however as noted this is deceptive as 72% of respondents indicated cycleways were important or very important. This would indicate Council needs to continue this program as a priority.

In conclusion the CSP and customer surveys reflect community expectations that there is a need to invest in new and additional infrastructure to support the provision of enhanced services to the community. Based on satisfaction ratings it appears that infrastructure does need to be improved but this would appear to be incremental rather than a step change in standards. Based on this, current standards for determining whether assets are of a satisfactory standard would appear adequate. Council however needs to address specific assets which are of an unsatisfactory condition to raise community satisfaction with asset based services. There is the possibility given low levels of infrastructure maintenance in recent years that some assets have deteriorated in condition beyond what the age of the asset would indicate but the assets are not yet of an unsatisfactory condition. All councils would have this risk however it is a greater risk where councils have persistently under invested in infrastructure maintenance as has been the past practice at Council

Relevant data on sustainable infrastructure maintenance and renewal and the value of the backlog has been determined based on community expectations within the AMS and AMP and reflected in calculating the financial health of Council in the LTFP.

7.1.3 10 Year Long Term Financial Plan 2013/14 to 2024/25

The LTFP captures the needs and desires of the community by reflecting inputs from IP&R documents. The LTFP is also based on service delivery and asset maintenance and provision required determines what the gap is in financial sustainability. As noted addressing Council sustainability is reflected in the CSP and other IP&R documents. The LTFP is the document which determines the sustainability gap and models options for closing the gap. Not taking any action to ensure a sustainable operating surplus will impact Council's capacity to meet community service and asset expectations. The community needs and desires are captured in the LTFP as follows:

- Sustainable Maintenance and Renewal: The LTFP captures community needs regarding assets by including key data such as what constitutes (1) sustainable infrastructure maintenance, (2) sustainable infrastructure renewal and (3) infrastructure backlog from the Asset Management Strategy. The LTFP has used the 10 year horizon to align to the time horizon of the LTFP projections. It should be noted that the annual costs are greater if a lifetime perspective is considered due to maintenance and renewal increasing as the average age of infrastructure increases. *(See Assumption section of LTFP).*
- Infrastructure Backlog: The LTFP also utilises the infrastructure backlog determined and documented in the AMS. This data has been used to determine the level of capital works required over future years reach a sustainable infrastructure backlog by 2022/23. These objectives need to be met to achieve the Corporate Goals listed in the Delivery

Program and the Budget Principles as documented in the Operating Plan *(see Assumption section of LTFP).*

- Capital Works Program: The capital works program reflected in the LTFP is focused predominantly on asset renewal and special projects associated with the 2012 SRV. Corporate projects include over $6m of fleet replacement and non-infrastructure projects. Corporate projects include grant and contribution funded capital works. As a consequence only limited funds are directed to new infrastructure from working funds. Projections follow this split except to increase asset renewal. This means the business-as-usual view provides limited funds to address CSP related initiatives outside of special projects. This constrained option assumes the same level of service delivery. *(see Assumption section of LTFP)*

- Service Levels: All other services are assumed to remain at current levels of service delivery for Scenario 1 (Base Case) and Scenario 2 (Financial Sustainability). As noted the CSP and community surveys indicate a higher level of service is expected. This is reflected in Scenario 3 (Financial Sustainability and Revitalisation).

In conclusion, the updated LTFP captures key inputs on community needs, current status and investment required in existing infrastructure, the current baseline of Council financials and various assumptions. These are all important inputs in generating a relevant and realistic LTFP.

7.2 Determining the Expenditure Inputs in the LTFP and Assessing the Revenue Gap that Need to be Addressed.

IPART guidelines require each council to assess the revenue gap that needs to be closed so that each council can meet community needs in a financially sustainable manner.

The LTFP focuses firstly the quantum of the revenue gap and secondly on what other options (other than a rate increase via a SRV) are available to close this gap:

- As discussed the LTFP has divided the revenue gap analysis into two parts (1) financial analysis to determine the level of funding required to close the gap in order to become financially sustainable and (2) financial analysis to determine the level of additional funding required to support the enhanced services desired by the community to support the revitalisation of the City.
- Other options have been examined to determine if there are viable alternatives to avoiding the need for higher rate revenue above the rate peg.

The relevant IP&R documents have been referenced throughout this assessment.

The Delivery Program notes “A general purpose (S508A) rate variation will be used only as a last resort to achieve financial sustainability and the associated targets above” (p49 item 11 under Budget Principles). The targets referenced in the Delivery Program (p48) include reaching a sustainable operating surplus of 2.7%, a backlog below 2% by 2022/23, special projects continue according to priorities utilising a mix of 2012 SRV, s94 and existing reserves.

Council has undertaken an extensive investigation of opportunities to generate other revenue and also reduce expenditure. These actions and the outcomes will be reviewed as part of explaining how the decision was reached to seek higher rate revenues via an SRV.

- ***How was the Gap in Financial Sustainability Determined?***

The LTFP has been reviewed and updated since the initial plan was developed and this has been a particular focus as part of the last iteration of the Delivery Program (and 2014/15 Operational Plan). The objective has been to make the model as realistic as is practical and is sophisticated to reflect enough of key assumptions and capture data at a level which enables effective analysis of key financials and important ratios.

LTFP review/update for 2014/15 Operational Planning Process

The LTFP was updated as part of the operational planning process for 2014/15. It was during this process that the 6.5% to 6.8% rate cap across five years was estimated as the scale of rate increase required to reach financial sustainability. Key inputs during that update were:

- Incorporation of current forecast for the 2013/14 financial year results. This reflected the accelerated timeframe in which some of the savings had been achieved. .
- Incorporated the budget from the 2014/15 Operational Plan.
- Updated savings projections based on actual experience at that time.
- Fine-tuned some assumptions including the new rate cap:
  - Reflected future rate cap as 3.2% (based on historical data).
  - Matched growth in user fees with growth in expenses.
  - Held grants and contributions flat.
  - Retained employee cost growth as unchanged at 3.25%.
  - Reflected Materials and contracts at 3.2%.
  - Applied CPI to other expenses.
- Included a 0.2% productivity factor to cover ongoing savings expected of Council.

LTFP review/update prior to the Road to Recovery community engagement regarding the prepared SRV.

An interim review of the LTFP was undertaken prior to undertaking the Road to Recovery community engagement in relation to the available funding options and proposed SRV application. This was undertaken to ensure that the information being represented to the community was still valid. In addition modelling was updated for Option 1 and undertaken for Option 3. This was done to provide the community with more choices and to assess the community's appetite for enhanced Council services given the urban renewal that the city was experiencing. As previously noted Council has made progress addressing its financial position at the same time however the community has focused increasingly on the revitalisation of the City and the improved services expected. The outcome of this interim review was very helpful as it confirmed that the original analysis was valid with most key variations being within reasonable bounds. The key updates were:

- Updated the LFTP with final 2013/14 financial results.
- Updated assumptions
  - Revised rate cap projections to 3% from 3.2% (IPART guidelines).
  - CPI revised based on Commonwealth Bank Australia (CBA) projections (four years). Subsequent years CPI at 2.5%.
  - Labour costs moderated to long term average of 3.1%.
  - Blended interest rate for investments based on CBA forecasts and then extrapolated beyond four years based on swap rates.
  - Borrowing rates (excluding LIRS) are fixed for current borrowings and average 6.5%. Additional borrowing has been reflected at 200 basis points above blended deposit rates.

- o Enhanced the model to provide more accurate data on changes to Council's reserves position. Captured the impact on these changes in reserves on investment income.
- o Captured more detail on assets, capital works and disposals.
- o Developed additional scenarios (borrowing, reduced services) to validate whether there were other viable options to present to the community as part of the public exhibition.

This review and update of the LTFP prior to public exhibition validated the analysis undertaken as part of the operational planning process for Option 2 and validated that the conclusions reached regarding financial sustainability and the size of the proposed rate increase for sustainability (6.5% to 6.8% per annum over five years) was correct (the increment to cover additional / enhanced services is covered in the next section).

Final LTFP review/update (prior for lodgement of SRV application)

A final review has been undertaken of the LTFP to ensure that it continues to accurately reflect the current financial position of the organisation as well as the future financial impact of meeting the service level expectations of the community. Additional data incorporated since the interim review prior to the Road to Recovery engagement is:

- o The rate peg for 2015/16 announced by IPART.
- o The revised budget for 2014/15 as adopted by Council (September Quarterly review).
- o Some projections were adjusted based on more current data. The most notable was the FAG has been frozen and actually decreased for Council due to funds being redistributed and a larger share being provided to rural councils.
- o Based on IPART discussions the LTFP projections were extended from 2022/23 to 2024/25 to reflect a full 10 years of projections.

These updates again have validated the need for a rate increase via an SRV to enable Council to reach a financially sustainable position.

LTFP - Infrastructure (Sustainable Maintenance / Renewal & Backlog)

The base case in the LTFP therefore reflects a sustainable level of infrastructure maintenance and renewal. The base case also reflects the level of capital works required to reach a sustainable infrastructure backlog by 2022/23. These objectives need to be met to achieve the Corporate Goals listed in the Delivery Program and the Budget Principles as documented in the Operational Plan.

LTFP – Approach for Comparing Other Scenarios against base case

To determine the level of increase required it is important to ensure that the scenario for comparison is identical to the base case scenario except for any changes being modelled. Each Scenario therefore references the same global assumptions and same baseline data. The only differences that impact a particular scenario are the scenario specific assumptions.

Scenario specific assumptions do have flow on affects. For example, increasing the revenue from rates and retaining all other revenue and expenses and capital works etc the same as the base case will result in reserves not being eroded and consequently higher investment income.

The approach taken has enabled Council to “isolate” each change and determine the impact. As a consequence an accurate assessment can be made of the special rate variation needs to be for Council to become financially sustainable.

LTFP - The Case a rate increase to fund Financial Sustainability

The base case (Option 1) reflects the expenditure required on infrastructure to reach a sustainable position. The base case also reflects all “savings” achieved via revenue enhancement and expenditure reduction and includes the IPART 0.2% productivity assumption in cost projections. The base case assumes the same level of services as is currently the case and reflects the 2012 s508 (2) SRV special projects and modest expenditure on new corporate projects and plant and equipment. The base case consequently provides a very transparent view of what the revenue/funding gap is to achieve:

- o a sustainable operating position,
- o maintain sustainable investment in infrastructure,
- o address the infrastructure backlog and
- o ensure Council remains solvent.

Option 2 addresses the financial sustainability gap and what the different “revenue path” needs to be for Council to achieve sustainability. This is the only difference from Option 1. Therefore the requirement to increase revenue to support financial sustainability is clear. An SRV of 6.5% to 6.8% over five years enables Council to address the revenue shortfall. Additional rate revenue results in Council’s reserves being maintained and these reserves are invested to generate investment income.

Reconciliation of Funding for Financial Sustainability

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Total to FY20	Total to FY25
	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's
Revenue												
Option 1	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231		
Option 2	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376		
Incremental Revenue (Option 2 over Option 1)	4,747	9,415	14,458	19,968	26,120	27,957	27,607	29,489	31,600	33,145	74,708	224,505
Reduction in Reserves (Option 1)	(15,181)	(20,010)	(21,058)	(28,861)	(30,414)	(33,366)	(34,602)	(10,169)	(8,184)	(5,163)	- 183,491	-207,008
Borrowing (Option 1)	0	0	0	0	0	0	0	20,000	25,000	30,000	-	75,000
Net Impact of reduction in reserves & borrowing	(15,181)	(20,010)	(21,058)	(28,861)	(30,414)	(33,366)	(34,602)	(30,169)	(33,184)	(35,163)	(183,491)	(282,008)

At the most fundamental level the additional revenue generated by Option 2 will result in Council stabilising reserves by 2024/25 (FY25). There is an interim period whilst Council is incurring significant costs in addressing the infrastructure backlog where reserves will decrease significantly however in the long run the rate increment proposed under this option enables Council to be sustainable.

- ***How the decision to seek funding (revenue) was made: LTFP analysis to determine funding for additional services for the community.***

  The list of services included under Option 3 of the Road to Recovery community consultation program is consistent with the priorities of Newcastle’s CSP. The relevant linkages to the CSP are provided below. All the services captured below are consistent with either community feedback or with financial sustainability objectives.

Service Improvement	Strategy	Linkage (alignment) to Strategy
Complete the restoration of the sandstone facade of City Hall.	Vibrant & Activated Public Places (& Financial Sustainability)	Objective 3.2 Culture, heritage and place are valued, shared and celebrated. Also aligned to CSP sustainability objective.
Replacement of bus shelters.	Connected City	Objective 1.1 Effective and Integrated public transport.
Improve our community facilities such as our swimming pools and libraries.	Caring & Inclusive Community	Objective 4.2 Active and healthy communities with physical, mental and spiritual wellbeing.
Longer opening hours and lower fees for Beresfield Pool.	Caring & Inclusive Community	Objective 4.2 Active and healthy communities with physical, mental and spiritual wellbeing.
Modernise our libraries.	Caring & Inclusive Community	Objective 4.2 Active and healthy communities with physical, mental and spiritual wellbeing.
Online DA tracking.	Open & Collaborative Leadership	Objective 7.2 Considered decision-making based on collaborative, transparent and accountable leadership.
Expanded community engagement program.	Open & Collaborative Leadership	Objective 7.3 Active citizen engagement in local planning and decision-making processes and a shared responsibility for achieving our goals.
Increase bush regeneration works.	Protected & Enhanced Environment	Objective 2.2 Our unique natural environment is maintained, enhanced and connected.
Complete maintenance work to eliminate the backlog.	Financial Sustainability	Covered in all scenarios - part of CSP sustainability objective.
Schedule more pedestrian and local traffic improvements. There are currently $53million of unfunded projects (PAMP and LATM's).	Connected City	Objective 1.2 Linked networks of cycle & pedestrian paths.
Accelerate delivery of the Hunter Street revitalisation project.	Vibrant & Activated Public Places,	Objective 3.3 Safe and activated places that are used by people day and night.
Accelerate delivery of Blackbutt Reserve improvements – Richley Reserve Playground.	Vibrant & Activated Public Places, and Caring & Inclusive Community	Objective 3.1 Public places that provide for diverse activity and strengthen our social connections and Objective 4.2 Active and healthy communities with physical, mental and spiritual wellbeing.
Accelerate delivery of the coastal revitalisation project.	Protected & Enhanced Environment	Objective 2.2 Our unique natural environment is maintained, enhanced and connected.

Service Improvement	Strategy	Linkage (alignment) to Strategy
Implement projects from the Cycling Strategy and Action Plan. Including inner city cycle lanes and the Richmond Vale Rail Trail.	Connected City	Objective 1.2 Linked networks of cycle & pedestrian paths.
Actively contribute to the revitalisation of Newcastle.	Smart & Innovative City	Objective 6.3 A thriving city that attracts people to live, work, invest and visit.
Boost Road Maintenance mowing and concrete footpath repair effort.	Connected City	Objective 1.2 Linked networks of cycle & pedestrian paths.
Weekend maintenance/clean up call-out service.	Vibrant & Activated Public Places	Objective 3.2 Culture, heritage and place are valued, shared and celebrated. Also aligned to CSP sustainability objective.
Support Economic Revival of Newcastle.	Smart & Innovative City	Objective 6.3 A thriving city that attracts people to live, work, invest and visit.

The CSP forms the basis for service priorities. The CSP is supported by recent customer satisfaction surveys. The need for additional services has been covered in Section 3.1. That section covered the CSP, community surveys with particular reference to the latest customer satisfaction survey and coverage of areas which needed attention including asset based services. There is a strong correlation between services which could benefit from greater focus (based on satisfaction ratings) and the listed items above. The customer satisfaction survey highlighted the following areas at the lower end of the satisfaction rankings and also being deemed as important. Targeted additional expenditure should assist in increasing levels of satisfaction. Services at the lower end of satisfaction ranking included:

- Stronger open and collaborative leadership.
- Focus on asset-based services such as footpaths, swimming pools and roads (swimming pools also have a pure service element).
- Facilities and services for the youth.
- A focus on revitalising Newcastle such as more cycleways.

As noted above as part of the financial sustainability discussion the modelling in the LTFP has been built in a modular manner. The recommended option (Option 3) is in effect Option 2 (financial sustainability) plus additional revenue to fund the additional expenditure associated with the provision of the enhanced services required by the community. For some services the improvement or enhancement is achieved through capital expenditure and improve infrastructure. The list of services presented to the community during the Road to Recovery for Option 3 is listed below with the expenditure associated with those services.

Reconciliation of Funding for revitalisation & expenditure on addtional services

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Total to FY20	Total to FY25
	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's
Revenue												
Option 2	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376		
Option 3	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544		
Incremental Revenue (Option 3 over Option 2)	1,295	2,761	4,708	7,043	9,694	9,965	10,286	10,574	10,879	11,167	25,501	78,373
Total Expenditure on Additional Servcies including capital works	2,050	2,773	5,146	7,422	9,448	9,476	10,005	10,035	10,568	12,601	26,838	79,524
Complete the restoration of the sandstone facade of City Hall							2,500	2,500	3,000	5,000	-	13,000
Replacement of bus shelters	200	200	200	200	200	200	200	200	200	200	1,000	2,000
Improve our community facilities such as our swimming pools and libraries	*This activity will be undertaken as part of special projects*											
Longer opening hours and lower fees for Beresfield Pool	150	158	165	174	182	191	201	211	222	233	829	1,887
Modernise our Libraries	*This activity will be undertaken as part of special projects*											
Online DA tracking	200	200	50	51	53	54	55	57	58	59	554	837
Expanded community engagement program	200	205	210	215	221	226	232	238	244	250	1,051	2,241
Increase bush regeneration works	250	250	500	500	500	500	500	500	501	502	2,000	4,503
Complete maintenance work to eliminate the backlog	*This activity in undertaken for all scenarios presented to the community*											
Schedule more pedestrian and local traffic improvements. There are currently $53million of unfunded projects (PAMP and LATM's)	500	500	1,000	1,000	2,000	2,000	2,000	2,000	2,000	2,000	5,000	15,000
Accelerate delivery of the Hunter Street revitalisation project				1,000	2,000	2,000					3,000	5,000
Accelerate delivery of Blackbutt Reserve improvements - RR Playground		500	1,500								2,000	2,000
Accelerate delivery of the coastal revitalisation project												
Implement projects from the Cycling Strategy and Action Plan. Including inner city cycle lanes and the Richmond Vale rail trail			500	3,000	3,000	3,000	3,000	3,000	3,000	3,000	6,500	21,500
Actively contribute to the revitalisation of Newcastle	100	103	105	108	110	113	116	119	122	125	526	1,120
Boost Road Maintenance mowing and concrete footpath repair effort	300	500	750	1,000	1,000	1,000	1,000	1,000	1,000	1,000	3,550	8,550
Weekend maintenance/clean up call-out service	150	158	165	174	182	191	201	211	222	233	829	1,887
Support Economic Revival of Newcastle											-	-
	2,050	2,773	5,146	7,422	9,448	9,476	10,005	10,035	10,568	12,601	26,838	79,524

A breakdown of the revenue is presented to assist in understanding what revenue is associated with the additional services being supported by Option 3. The services listed above were the services presented to the community during Roads to Recovery to support the revitalisation of Newcastle. Key elements are:

- The expenditure during the five years of the SRV is generally consistent with the increase in revenue generated to support revitalisation.

- There is approximately $53m of unfunded projects which will have clear service benefits for the community. These projects can be funded with the surplus revenue available.

- Option 3 includes the additional revenue over and above that required for Option 2. The proposed rate increase under this option is 8% over five years (or between 1.5% and 1.8% above the Option 2 rate increase).
- This additional percentage increment in rates will result in, a cumulative increase in revenue of $26m up to the end of the last year of the proposed SRV (2020) and $85m for the period of the LTFP (to 2025).
- Option 2 results in a marginal increase in reserves due to the revenue increase more than offsetting the projected decrease in reserves noted in Option 1. It should be noted however that reserves in Option 2 decrease in real terms and reserve requirements increase each year. Consequently Council believe this SRV option for financially sustainability whilst sufficient is moderate. It should also be noted that reserves diminish initially and only recover towards the end of the LTFP projection period.
- Option 3 expenditure on enhanced services marginally exceeds the incremental revenue sought via the rate increase, which would result in the reserves position under Option 3 being slightly lower than that projected for Option 2. However the reserves position remains adequate and sustainable under Option 3.

In conclusion, the decision to seek additional revenue has been based on identifying initiatives relating to services which align closely with CSP objectives and based on recent customer feedback. The list of services funded by rating Option 3 were clearly communicated to the community during Roads to Recovery and the incremental rate increase was also clearly highlighted with the proposed rate increase communicated and the difference between Options 2 and 3. The cost estimates for additional / enhanced services under Option 3 reconcile with the revenue increment and can be clearly quarantined from Option 2.

7.3 Other Context Relevant to Assessing the Scenarios

7.3.1 Asset Valuation, Depreciation, Infrastructure Backlog and Sustainable Maintenance and Asset Renewal

Asset Valuation and Depreciation

Council's infrastructure assets are re-valued every five years to ensure valuations are reflective of the likely replacement cost. This is important as councils have extensive useful lives (broadly how long the asset can be effectively utilised before it needs replacement). For example the road pavement has a useful life of many decades and drainage assets have a useful life of a hundred years or more. Without revaluation the value on the balance sheet and consequently the depreciation would not be representative of the replacement cost of the assets nor reflect the cost of utilising those assets (reflected as an expense). Not reflecting these values accurately would disguise likely future costs of replacement and also result in an understatement of the depreciation. This in turn could result in Council's operating results appearing strong due to a lower (and not representative) depreciation expense.

Council is currently undertaking an asset valuation exercise for roads, drainage, bridges and footpaths. This will be completed by June 2015 and the impact will be reflected in the 2015/16 financial year. Generally the replacement cost increases as the increase in the cost of labour and materials exceeds productivity gains. If the useful life remains unchanged depreciation expense will increase largely in line with the increase in asset value for a particular asset class (such as road pavement). This might result in an increase in depreciation. This impact is not reflected in Council's financials or forecasts as accounting guidelines and practices are followed.

Council will also be undertaking a review of other asset related considerations in conjunction with the asset revaluation exercise. These include:

- A review of the useful life of Council assets. It is likely that the useful life of some asset classes will be increased and this will moderate the increase in depreciation.
- An assessment of what replacement costs should be capitalised and expensed. It is possible that more costs will be expensed rather than capitalised as part of this review. The focus will be to ensure only "greenfield" associated costs are capitalised. If more costs are expensed the value of assets on the balance sheet (and associated depreciation) might decrease. This will not result in lower operating costs however as more of the project costs associated with renewal works will be expensed. This will increase the volatility of Council costs as operating expenditure will increase more than previously when more renewal work is undertaken. In summary the sum of the depreciation and renewal related expenditure will be higher under the new approach when expenditure exceeds the sustainability target and vice-versa when expenditure is less than the sustainability target. As council will be undertaking more renewal work to reduce the backlog an increase in the proportion of project costs expensed will have an adverse operating cost impact.

It is too early to determine the outcome of the asset revaluation review however the impact is too material to ignore. To indicate the size of the impact, the assets being re-valued (roads, pathways, drainage, bridges) have not been re-valued since 2010. The current fair value (2013/14 financial statements Note 9a) is over $1.3B of total Council assets of just over $2.2B. The unit replacement costs of a significant asset class (kerb and gutter) has already been revalued and the increase in replacement cost has been assessed as increasing by 18.5% over the five years (or just under 3.5% per annum). The increase in kerb and gutter is a reasonable proxy for the largest assets classes to be assessed. The reason is that the primary cost components for kerb and gutter are concrete and labour. Road pavement, drainage and pathways all have a similar mix of cost inputs. Therefore irrespective of the treatment of replacement costs (capitalised v expensed) there will be a significant impact on Council's finances which needs to be considered.

There are likely to be a number of factors moderating the financial impact of any future revaluation. These include:

- 2013/14 depreciation costs decreased due to a reclassification of certain buildings, out of specialised buildings (depreciable), to buildings held at market value (non-depreciable).
- As noted the useful life of some assets is being reviewed. One candidate for assessment (still under consideration but probable) is Drainage assets. An adjustment in the useful life would result in depreciation reducing by approximately $1.5m per annum for that asset class.

The assumptions section (Appendix A) described how the model has been adjusted to capture the impact of asset revaluation. The impact is wide ranging as changes in asset values impacts not just the value of the underlying assets but also depreciation, the level of required asset maintenance and asset renewal and the infrastructure backlog.

The revaluation assumptions impact all scenarios. To assess the impact of a possible change in the accounting for asset renewal expenses (i.e. increase the proportion of the costs that are expensed rather than capitalised) a sensitivity scenario has been built (Sensitivity Scenario 2).

To ensure that infrastructure asset valuations do not become distorted in future years (post the revaluation) the model adjusts future year infrastructure valuations based on an index every year and this flows through to depreciation and infrastructure the backlog. In addition the required levels of asset maintenance and asset renewal are also indexed to ensure they reflect values in the model. This approach has been taken to avoid distortions to trend analysis (a five year freeze on valuations with a significant revaluation would make it difficult to analyse Council's changed financial position over time).

Infrastructure Backlog, and Required Asset Maintenance and Renewal

The current infrastructure backlog has been detailed in Section 6: Current Status. As noted above some assets have not been re-valued since 2010. This also impacts the backlog as the cost of restoring those assets also has not been adjusted. The impact of the revaluation of replacement cost is that Council has a more accurate picture of the size of the backlog and the level of investment required to reduce the backlog to sustainable levels.

As noted in the Comrie Report there is significant variation in the methodology and criteria used in determining infrastructure backlog across councils. Council has used condition criteria that appear to be reasonably aligned to community expectations.

7.3.2 Reserve Requirements

None of the key ratios consider the degree of reserves required for Council to actually remain solvent. The LTFP has incorporated expectations of what the reserves need to be to ensure Council can meet its future obligations.

A brief analysis is provided in this section so that the solvency of Council can be more readily assessed when reviewing the options. In the base case the current minimum reserve requirement (excluding provision for the infrastructure backlog) is approximately $115m. If the backlog is included the reserve requirement is $210m. This would indicate that current reserves are just sufficient to cover our mandatory requirements (no discretion) and including the backlog.

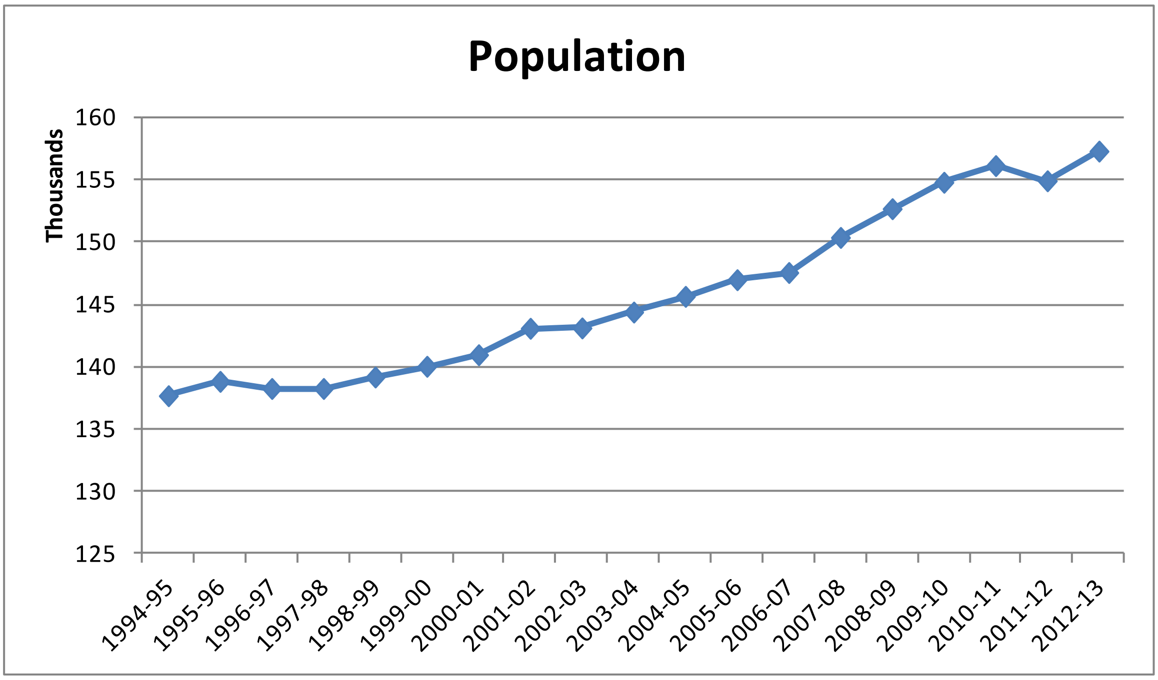
The reserves requirements however increase over the 10 year projection. For example the provision for SWMC remediation will increase from $21m to over $41m. It is essential that Council builds cash reserves to meet these future costs as the waste capacity of SWMC is estimated at approximately 25 million tonnes (including capacity used to date) which at a conservative remediation cost of $5 per tonne would equate to a total cost of $125m. It will be important to gradually provision for this liability rather than impose this burden on future generations.

Other reserves will need to increase at least in-line with inflation and might need to increase at higher rates. In summary the reserve requirement (excluding the backlog) will increase over time. Based on this the recommendation is to at least maintain current reserve levels whilst reducing the infrastructure backlog. The analysis undertaken in the LTFP shows that the base case results in the investment and cash position (which equates to Council reserves) being fully eroded.

The adequacy of the reserves position and Council commitments is therefore an important consideration and assessing liquidity based only on balance sheet current assets and current liabilities or other liquidity metrics does not reflect a full picture of Councils medium to long term liquidity position.

7.3.3 Population Growth v Rating Revenue

The graph below is based on Office of Local Government (OLG) data. Population growth is (typically less than 1% per annum). Over an extended period of time however the change in population is still significant and will require additional services and associated infrastructure.



The LTFP has not made any adjustments for population growth. Changes in population will impact both revenue and expenditure. The aggregate impact as will be represented below is hard to assess

Revenue growth however might not fully match the cost impact of population growth particularly where infrastructure needs to be built.

- Rate revenue can increase where sub divisions and rezoning occur (an application can be made for Council to receive more rating income based on changes in valuation during the year). This might not however be proportionate to the increase in the number of rateable properties.
- Fees and charges that are on a cost recovery basis should result in Council not being adversely impacted by population growth.
- Subsidised services could result in Council having a shortfall as the demands on those services increases. Some services such as swimming pools could benefit from more intensive use however if population growth results in the need for more or expanded facilities there will be additional cost that has been factored in to the LTFP.
- It is unlikely Council will benefit greatly from additional grants as Federal and State Governments have already determined that larger councils will receive proportionally less of a static pool of grants in the future
- Developer contributions are at best cost neutral as the contribution is merely recognition of costs required to be incurred.

A complication is that Newcastle is a regional centre and a significant amount of the growth in the region is actually occurring in neighbouring councils. Newcastle does not receive any contribution to assist with the provision of services to members of the public who are not rate payers in the Newcastle LGA. Effectively many of the services that are used are subsidised (either fully as in the case of lifeguards or partially such as the civic facilities).

Effectively the rate payers of the Newcastle LGA are subsidising the services provided to the public who live outside of the LGA. Although this is the case in many LGAs, it is a particular burden for Newcastle given its status as the regional capital for the Hunter.

Based on this high level assessment it would be quite difficult to derive a realistic model of the impact of population change. The model would need to be reasonably detailed and there are other parameters or considerations which benefit from greater attention.

In conclusion, population growth is likely to have a moderately adverse impact on Council financials however this impact is difficult to model and would require numerous assumptions. Planning beyond a 10 year timeframe however would warrant greater attention to the impact of population growth.

8. Risk Assessment & Mitigation

The Audit Committee Opinion on the ISFA and sustainability risks applicable to Council identified the following areas of risk which are significant to Council's long term sustainability:

- *Risks associated with the Assumptions Underpinning the ISFA, specifically employee costs and borrowings.*
- *Risks associated with Council's Sustainability Options, including feasibility of savings targets, debt and borrowings exposure and asset savings.*
- *Contingency Planning.*

Council has actively addressed these noted areas of risk within the LTFP by identified mitigation strategies lead by the Audit Committee Opinion.

<table>
<tr><th>Risk Factor</th><th>Mitigation Strategy</th></tr>
<tr><td>Level of Borrowings</td><td>Implementation of the Budget Principle of no new borrowings supported by asset rationalisation.

The Comrie Report notes the following:
"My preference would be for councils to base service level decisions on long-run affordability and generally borrow only when cash flow needs warrant and for borrowings to be structured in ways that allow repayment arrangements to minimise net interest costs and interest rate risk exposure."

Council is seeking to follow this approach based on the recommendations as follows:
Council will consider undertaking debt where Council has the capacity to repay – this will therefore be an option once Council has a sustainable underlying operating surplus and cash position that could support interest expenses and repayment of principal.
Council is applying a principle of gradually paying down principal of existing debt as required by existing loan terms.
Maintaining sufficient reserves to meet obligations provides capacity for Council to implement internal borrowing arrangements. This is already a practice for funding commercial operations such as SWMC. This approach is more beneficial to Council as Council avoids borrowing costs which in most instances (LIRS is an exception) are greater than the investment returns that can be realised. Council has undertaken LIRS loans to address major capital works required to reduce the backlog.</td></tr>
<tr><td>Feasibility of achieving targeted savings</td><td>Council has implemented numerous mitigation strategies as per advice from the Audit Committee. Inclusive in these strategies are a targeted headcount reduction, a review of services and cost containment.</td></tr>
<tr><td>Level of asset backlog</td><td>Council has included in the LTFP an extensive listing of assets proposed for sale. These assets have been deemed to not provide an ongoing justified core-business purpose for retention. The proceeds from the sale of the assets are also planned to be utilised in addressing the infrastructure backlog.</td></tr>
</table>

	Four of the five scenarios included in the LTFP incorporate he goal of reaching a sustainable infrastructure backlog (less than 2% of gross infrastructure assets).
Contingency Planning	Over the life of the LTFP Council's reserve balances are projected remain stable under the recommended options. Maintaining reserves will ensure there is sufficient contingency to manage unforeseen risks. As part of the LTFP an assessment has been made of the level of reserves required in the future to cover Council obligations. The recommended option (Option 3) provides sufficient reserves to cover these obligations. As noted under borrowing above the maintenance of sufficient reserves enables Council to have the flexibility to determine where "borrowed" funds should be sourced – internally or externally. Modelling indicates internal "borrowing" is usually more attractive as an option.
Long term projection of deficits	Multiple cost containment strategies have been incorporated into the LFTP including a target of reducing net operating expenses significantly over the first two years of the plan and to contain cost growth for the future. All cost reductions targeted have been identified have been selected.
Over extension of capital expenditure investment	To mitigate the risk of over extending Council's capital investment, no capital project can commence until full funding has been secured and identified for the project as per the financial principles adopted by Council. Capital expenditure however cannot be avoided. Capital expenditure will need to increase to address the asset backlog. As already noted there is only a limited number of assets for sale which themselves contribute to the backlog. The easy option of reducing the backlog via asset sales is therefore coming to an end and the only significant option is to undertake the capital works necessary to replace the assets not in a satisfactory condition.

In addition to the mitigation strategies listed above, Council has also been receiving monthly reporting detailing the financial performance against budget. The Audit Committee also regularly reviews Council's financial reporting and provides feedback and advice to Council.

9. Council Funding Options

This section covers the process of establishing the options for assessment. The options developed are based on the inputs and considerations covered in prior sections. As the Budget Principle requires an SRV to be sought as a last resort it is important to assess all possible alternatives and eliminate those that are not viable or would not meet the objectives.

In addition all viable funding alternatives which help Council achieve financial sustainability have also been assessed. Where these alternatives can be undertaken in conjunction with a SRV (such as revenue enhancement and expenditure reduction) they have been included in the base case and each of the other 4 scenarios so that the revenue gap is minimised. Where alternatives such as borrowing or a reduction in services have been considered they have been provided as alternative scenarios for assessment.

The assessment below includes a review of these options. This will include referencing initiatives (including the Budget Principles discussed at 4.4) already undertaken as this exercise of seeking alternatives to a SRV has been an active process within Council over the last three years with particular focus over the last 18 months.

IP&R Guidelines requires that Council develop, assess and compare at least two rating options along with sensitivity analysis based on a number of possible scenarios. The two rating options that must be covered are:

- A base case excluding the SRV.
- The proposed SRV case.

This document will however assess other funding options to ensure that all avenues have been reasonably considered. The outcome of this assessment (covered below) is that a number of scenarios are discussed and are either are reflected in the base case already or cannot contribute to strengthening Council finances in a material manner or have been identified as an option to model separately to assess them as alternatives to the recommended option.

Based on the above, five scenarios have been selected for financial:

1. **Base case:** Business-as-usual: maintain the status quo but continue program to address infrastructure backlog.

   1B **Borrowing:** Borrow funds to address the infrastructure renewal objectives rather than erode reserves.

   1C **Reduce service and capital projects**: Reduce both operating expenditure and capital works programs to avoid the erosion of Council reserves to unsustainable levels (in effect what has occurred in recent years with the lack of sustainable investment in infrastructure).

2. **SRV for financial sustainability**: Fund the additional expenditure required to reach a sustainable operating position and ensure sustainable investment and expenditure on infrastructure though a SRV

3. **SRV for financial sustainability and revitalisation:** Similar to Option 2 but with additional expenditure on selected services and additional SRV proposed to cover that additional expenditure.

These scenarios will be assessed against the following broad criteria:

1. Meet Budget Principle requirements in the Delivery Program and the sustainability metrics derived by TCorp and reflected in Fit for the Future, in particular given Council's current and projected position:
    a. Ensure Council's underlying operating position moves into a surplus position that can be sustained.
    b. Ensure sustainable expenditure is undertaken in infrastructure maintenance and renewal.
    c. Reach the sustainability target for the asset backlog without unduly weakening Council's financial position.
    d. Ensure Council's cash reserves remain adequate to ensure solvency with projections which reflect this position can be sustained.
    e. Council services meet community expectations (as per CSP, Delivery Program and community surveys). This includes investment in special projects.
    f. Assess an SRV as a last resort.

Sensitivity analysis has also been undertaken to ensure an appropriate degree of resilience in the options (ie ensure the scenarios are robust enough to not require significant change if there are moderate variations in the underlying assumptions).

The following conclusions have been reached based on the analysis. The detail to support the conclusion reached is reflected in Sections 10 and 11.

Scenario 1	**Base case** ***This was Option 1 in the Road to Recovery community consultation. This scenario reflects business-as-usual - no SRV but continue program to address infrastructure backlog*** Revenue generation under this option is not sufficient to cover the additional investment required to ensure (1) sustainable investment in infrastructure and (2) to reduce the infrastructure backlog within a reasonable timeframe. The result is that Council reserves are depleted to levels which impact Council's ability to meet future obligations. A constrained rate cap, flat or diminishing grants and other revenue opportunities being of limited scale or uncertain means revenue options are limited. This option covers all identified revenue enhancement and expense reduction opportunities. ***This option is not sustainable due to persistent and widening operating deficits and Council reserves eroding to such a degree that Council's solvency will be impacted.* It also does not meet the community's service delivery requirements.**
Scenario 1B	**Borrowing** ***This option was modelled in the LTFP but not included as an option in the Road to Recovery community consultation as it is inferior to the base case and provides no additional community benefit.*** This option addresses the erosion of reserves noted in the base case through borrowing. Council's primary issue however is a long term mismatch between the generation and use of funds rather than either (1) an immediate liquidity shortfall requiring borrowing

	or (2) a temporary excess use of funds that will reverse enabling Council to repay the debt. The consequence of borrowing funds is to increase the operating deficit due to interest expenses being higher than the investment returns that can be generated on equivalent balances of the retained reserves. Further borrowing would need to occur annually to cover the shortfall in funds. Over time borrowing would need to increase each year to cover the additional shortfall generated by the additional borrowing costs. ***This option is not sustainable due to operating deficits widening and Council not having the capacity to repay the debt. It also*** **does not meet the community's service delivery requirements.**
Scenario 1C	**Reduce services and capital projects** ***This option was modelled in the LTFP but not included as an option in the Road to Recovery community consultation as it does not support the Council's Community Strategic Plan (CSP), does not meet community expectations and does not adhere to Council's Budget Principles in the Delivery program.*** Expense reduction initiatives have already been pursued. The recently completed organisational restructure resulted in a reduction in the workforce of approximately 10% which has had a material impact on operating costs and only limited opportunities for further staff reductions now exist. Any further reduction in expenditure would require reduced service levels and reductions in expenditure on areas such as infrastructure maintenance. Whilst the reduction in maintenance might not have an immediate impact there would over time be an impact on the condition of these assets resulting ultimately in assets being classified as of unsatisfactory condition and added to the infrastructure backlog. The scale of expenditure reduction necessary to stabilise Council reserves would require capital works programs to also be cut as operations could not realise the full scale of expenditure reduction that would be necessary. New capital works are already largely restricted to plant and equipment replacement or externally funded projects and Council is committed to the delivery of special projects associated with the 2012 SRV. Any reduction in capital works will therefore impact the asset renewal program and result in Council not reaching a sustainable infrastructure backlog target of 2% by 2022/23. Council's infrastructure maintenance and renewal program has been insufficient in recent years. The scale of Council's infrastructure backlog is well documented. If Council does not increase expenditure (as per the base case) on this area the backlog is likely to increase and create a bigger issue in the longer term. There appears to be strong community support for Council to maintain services with an expectation of service improvement (as noted in the response to the Road to Recovery community engagement 93% of respondents indicated it was important for Council to provide better services and facilities). Not maintaining

	Council's infrastructure to a satisfactory standard, as well as being more expensive in the long run, will not meet community expectations. The expectation of improved services is supported by recent experience. There has been community opposition to further reduction in services and in some cases have strenuously lobbied against proposed service reductions. Councillors have responded to this feedback and resolved in some instances to restore some of these services and based on community feedback are unlikely to support further service reductions. The new Lord Mayor ran on a platform of restoring some services and not supporting further proposed service reductions. This included a commitment to maintain staffing for Council maintenance related activities. **This option is also not financially sustainable and does not meet the community's service delivery requirements.**
Scenario 2	**SRV for financial sustainability** ***This was Option 2 in Road to Recovery community consultation. This scenario covers the same level of services and capital works as the base case. The SRV however funds this expenditure rather than Council eroding reserves to unsustainable levels.*** This option requires rate increases of between 6.5% and 6.8% per annum over five years from 2015/16 to 2019/20. This option ensures the future financial sustainability of Council provided operational expenditure is contained by maintaining services at current service levels and operating efficiency improvements remain a focus. The quantum of this SRV funding option has been determined to enable Council to generate sufficient revenue to reach and maintain a moderate operating surplus position and stabilise reserves. As a consequence Council will achieve or exceed all sustainability metrics. The addition rate revenue will generate an operating surplus despite additional expenditure on infrastructure maintenance. The operating surplus will be sufficient to enable Council to undertake additional infrastructure renewal projects to (1) maintain sufficient capital works to meet a sustainable level of infrastructure renewal and (2) additional capital works to reduce the infrastructure backlog to sustainable levels by 2022/23. As this capital works are fully funded Council reserves are maintained in nominal terms. Although reserves will have reduced in real dollar terms the reserves will be sufficient to meet future obligations and is therefore seen as sustainable. As already covered recent feedback from the community reflects increasing community expectations that Council not only focus on financial sustainability but also reinstate and upgrade services as part of Newcastle's revitalisation. Option 2 does not provide sufficient additional revenue to fund the reinstatement of or improvement in service delivery levels. It also does not allow for the accelerated delivery of the priority projects or the other

	initiatives required to support the revitalisation of the City. Accordingly this funding option does not meet the community's current service delivery level expectations. **This option is sustainable but does not meet the community's service delivery expectations.**
Scenario 3	**SRV for sustainability and revitalisation** ***This was Option 3 in Road to Recovery community consultation and the option selected by Council for the Special Variation Application. This scenario meets the financial sustainability objective of Option 2 and also provides additional revenue to support the revitalisation of the City by delivering the improved services and infrastructure desired by the community.*** This funding option requires rate increases of 8% per annum over the five years from 2015/16 to 2019/20. This option will meet all of the financial sustainability objectives described in Option 2 and will also allow Council to meet the community's current service delivery level expectations. This option will help fund the reinstatement of some services that were removed or reduced as a result of the implementation of some of the initiatives outlined in the 2013-2017 Delivery Program. It will also provide some capacity to improve the delivery standard of some specific services. This funding option will also allow for the accelerated delivery of the priority projects and the other initiatives required to support the revitalisation of the City. The Road to Recovery community consultation included the areas of service improvement that will be supported by this option. This included: • Complete the restoration of the sandstone facade of City Hall. • Replacement of bus shelters. • Improve our community facilities such as our swimming pools and libraries. • Modernise our libraries. • Online DA tracking. • Expanded community engagement program. • Increase bush regeneration works. • Complete maintenance work to eliminate the backlog. • Schedule more pedestrian and local traffic improvements. There are currently $53m of unfunded projects. • Accelerate delivery of the Hunter Street Revitalisation project. • Accelerate delivery of Blackbutt Reserve improvements – Richley Reserve Playground. • Accelerate delivery of the Coastal Revitalisation project. • Implement projects from the Cycling Strategy and Action Plan, including inner city cycle lanes and the Richmond Vale Rail Trail. • Actively contribute to the revitalisation of Newcastle. • Support economic revival of Newcastle.

	The incremental rate increase over and above Option 2 varies from 1.2% to 1.5% over each of the five years. This results in additional rates revenue (cumulative) of $21.2m over the five years to 2019/20. Sensitivity analysis has also been undertaken in the LTFP. There are some potential risks to the model assumptions. Two primary risks are recognised. • The first and most probable risk is the impact of the pending asset revaluation. This will result in higher sustainable maintenance and renewal requirements, a recalibration of the cost of addressing the infrastructure backlog and higher depreciation associated with higher gross asset values. • The second risk is less certain but a possible medium term risk. Australia is currently experience a low inflation environment. The substantial devaluation in the Australian dollar might give risk to some inflationary pressures down the track. Council's modelling as expected indicates this option is more resilient to these risks. In fact Option 2 does not factor in sufficient contingency to address any significant divergence from the LTFP assumptions. **This option is the only option which is sustainable and meets the community's service delivery expectations and also has the resilience to withstand a material change in underlying assumptions.**

Other Revenue Options Considered

Revenue enhancement and expenditure reduction options have been assessed extensively as part of developing a plan to become financially sustainable. These initiatives have already been captured in Councils Delivery Program and progress against these initiatives tracked. A SRV was only ever going to be sought to address any remaining shortfall in reaching a financially sustainable outcome. In aggregate, Council has exceeded the original estimated benefits from these initiatives. If Council had not undertaken these initiatives the SRV would have need to be considerably larger.

To ensure the all other revenue enhancement avenues have been pursued an assessment has been provided below of all possible revenue sources.

- **User Charges and Fees**

  This is mainly made up of tipping fees and charges, DA and Building fees, museum admission, car parking charges and fines, revenue from civic facilities, sporting venues and airport related revenue. Some items such as domestic waste charges are constrained by legislation. SWMC has been a significant contributor to the financial turnaround achieved to date. It would not be prudent or realistic to assume similar levels of growth in waste fees in the future as Council is competing with other service providers in a very competitive and dynamic environment. Waste revenue growth has already begun to slow. There is not the community or Councillor support necessary to impose fees for the art gallery or museum and the quantum of net fee revenue is not sufficient to alleviate the requirement for an increase in rate revenue. Swimming pools have been largely outsourced and the associated financial benefits incorporated into the revised LTFP. The Newcastle/Port Stephens airport is generating profits however the airport is retaining the majority of these profits to finance the expansion of the airport facilities and there is little certainty that Council's share of airport profits will significantly increase. In summary, the efforts to date have already identified and captured the majority of any additional revenue opportunities. There are no significant further opportunities to pursue that would be certain to generate income and certainly not of the scale required to avoid a SRV.

- **Other Revenue**

  Other revenue includes revenue from investment property, parking and other fines, commissions and agency fees, insurance recoveries and bonuses and revenue from Summerhill waste management electricity generation.

  Council is actively seeking enhanced revenue options and has assumed a higher growth in other revenue. Council has assumed 5% increments in all other revenue over 2015/16 to 2017/18 and then above trend increments of 3.5% for the remaining years.

  There are only certain categories that are likely to contribute to the increase in revenue. The primary opportunity is in the increase of revenue from investment property. Council however only has limited investment property and current revenue constitutes on approximately a quarter of total other revenue.

  Parking and other fines is already a significant contributor and Council believes this can only increase in line with IPART increases in rates (i.e. marginally above inflation).

- **Developer Contributions - Section 94 Charges**

  Section 94 (Developers) Funding has diminished over recent years and this trend is likely to continue. Developers can elect to undertake the necessary common infrastructure required for their projects rather than make s94 contributions. Developers have been increasingly taking up the own development option.

  In addition there have been a number of state significant developments in which the State Government has elected to require only limited contribution relative to the scale of the potential development that will occur. This has resulted in a significant loss of potential revenue however Council has no control over State Government decisions.

  It can be argued that s94 contributions do not provide revenue opportunities except to address funding shortfalls in building the infrastructure required to support the community adequately when developer projects are undertaken. Council will continue to target contributions to cover the costs in developing the necessary infrastructure. Any increases (except for state significant developments where they arise) will not materially impact Council revenues.

- **Grants**

  The primary operational grant revenue for Council is the federal FAG. The Federal Government has frozen the level of this grant for the next three years and there is uncertainty as to what might transpire after the freeze. In addition, the government is seeking to redistribute more of the funds to rural or smaller councils which are deemed to have a greater need. Consequently Council's share of this grant has actually reduced and might reduce further in future years. The LTFP has assumed flat grant revenue in future years.

  The pool of other grants is highly uncertain and generally linked to specific program criteria. Accordingly it cannot be relied on as a sustainable and reliable source of revenue. Council has received significant funds from Resource for Regions however these funds are geared towards Council remediation of State Government road assets rather than addressing the infrastructure backlog.

- **Sale of Non-core assets**

  This initiative has already been pursued and a substantial portion of the sales program has been completed.

  All significant saleable non-core assets which are part of the backlog have been sold and this has resulted in a reduction in the infrastructure backlog. This avenue of backlog reduction has now been concluded and the only option going forward to reduce the backlog is to ensure there is a robust program of infrastructure maintenance and renewal in place.

  The infrastructure backlog has been reduced from $117m to $90m primarily due to this asset sales program. However if asset sales are excluded the backlog has actually increased indicating that current levels of maintenance and capital works are not sufficient to achieve. This is supported by Council's AMPs which have determined the level of both maintenance and infrastructure renewal required to be sustainable. All options except option 1C reflect the increased expenditure required to become sustainable (as per the Budget Principles captured in the relevant IP&R. The sale of non-core and redundant assets has proven to be a successful short term strategy and has made a significant contribution to the improved financial position of Council in recent years. This strategy is not sustainable and the available pool of saleable assets has almost been exhausted. Any further potential assets sales have been included in the financial modelling for all of the funding options.

In conclusion, Council has undertaken an ongoing process of review of revenue enhancement opportunities to minimise the need for a SRV. All other revenue sources have been assessed as part of this application process to identify whether other opportunities exist. There are no other revenue enhancement opportunities which would impact the quantum of SRV being sought. An SRV has always been treated as a last resort and the updated LTFP continues to reflect this.

10. Assessment of Scenarios

Basis of Assessment of the Scenarios

Council has placed heavy reliance on TCorp metrics. Council has also considered guidelines provided as part of the Fit for the Future assessment and the recent final report by John Comrie titled 'Financial Sustainability of the NSW Local Government Sector' Report 3, dated 3 October 2014 (Comrie Report).

Each scenario has been assessed against all the ratios documented. The benchmarks to apply have been revised based on more current information such as Fit for the Future. The Comrie Report has been used to assist in weighting the emphasis placed on relevant metrics.

To assist in providing a more complete picture of each scenario additional data has been provided. For example it is helpful to understand aggregate revenue and expense numbers and trends and also understand other key numbers such as the total infrastructure backlog, level of reserves and borrowings.

The Comrie Report has noted that key information such as the infrastructure backlog whilst important is hard to measure, is calculated differently across councils and to date has not been audited. As a consequence it is recommended by the report that the numbers be used with caution. Given resolving the backlog is a critical element to ensuring Council's financial sustainability, Council has placed particular emphasis on understanding assumptions used in the calculation in the Strategic Asset Management Plan one consistent in the LTFP. There has been a focus over the last financial year to ensure that the backlog is complete and includes all relevant asset classes. The rationale for the condition classifications is provided.

The Comrie Report also notes that depreciation is a very important element and needs to be included in determining sustainability (due to its size and its reflection in the operating statement of the asset intensive nature of council services). The Comrie Report places much greater emphasis than has been reflected in the past on councils maintaining an operating surplus to be sustainable (suggesting a weighting of a least 50% for the operating ratio in deriving an overall assessment of the financial health of a council).

The importance and impact of asset related metrics on the operating position, scale of capital works and the health of the balance sheet for Council require further background of the current state and considerations (covered in the next section).

In addition sensitivity scenarios have been developed to assess the impact of the following possibilities:

- Council receiving a smaller rate increment than applied for.
- Expensing rather than capitalising more of the asset renewal work.
- Higher cost growth.

These are covered in Section 12.

The five scenarios assessed below are:

10.1 Scenario 1: Business-as-Usual (the base case)
10.2 Scenario 1B: Borrowing
10.3 Scenario 1C: Lower services and Capital Works
10.4 Scenario 2: Financial Sustainability
10.5 Scenario 3: Financial Sustainability and Revitalisation.

10.1 Scenario 1: Business-as-Usual (the Base Case)

Description and Key Assumptions

The base case reflects business-as-usual. This scenario reflects Council addressing Strategic Objectives and agreed Corporate Objectives and Budget Principles to the greatest extent possible but within the constraints of the IPART rate peg.

The key assumptions and inputs are as follows:

Revenue

- Rate peg is 2.4% for 2015/16 and 3% for all subsequent years.

Expense

- CPI is assumed to be at the mid-point in the RBA target range (2.5% within the 2% to 3% band).
- The LTFP has relied on Strategic Asset Management inputs for sustainable asset maintenance (utilising a 10 year horizon – in line with the time horizon of the LTFP.

Asset related

- Data from the 2013/14 financial statements is used as a foundation on which projections are built. Asset related data has been converted to current dollars based on data available from the current asset revaluation exercise.
- Sufficient investment in asset renewal has been assumed to ensure the asset backlog be below the 2% target by 2023.Sustainable Asset Renewal is also sourced from the AMS and also is based on a 10 year horizon.

  Note: The lifetime rate of sustainable asset renewal is higher than the 10 year average due to an expectation that investment in renewal will need to increase. This long term requirement is not built into the LTFP.

This scenario can achieve all of the objectives captured however Council in most years utilises more funds than it generates and consequently reserves (reflected as investments and cash) reduce over the duration of the LTFP to unsustainable levels. In the latter years of the LTFP Council will need to undertake a borrowing program as Council's reserves will be completely exhausted.

Analysis

A summary of key financials along with TCorp sustainability metrics is provided below:

Option1 Basecase For the year ended 30 June	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
Operating Expenses	230,911	223,072	229,930	239,970	245,710	252,401	258,479	264,396	278,377	284,012	290,617	298,901	307,653
Operating Surplus (Deficit)	(13,405)	754	(7,585)	(13,750)	(14,124)	(14,743)	(15,294)	(15,791)	(23,997)	(21,733)	(22,096)	(24,205)	(26,422)
Total Assets	1,548,321	1,577,799	1,573,947	1,717,486	1,706,777	1,694,905	1,682,266	1,668,917	1,832,982	1,809,100	1,808,234	1,811,626	1,818,111
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	137,003	160,874	190,141
Equity	1,408,038	1,444,161	1,440,708	1,584,855	1,574,980	1,564,415	1,553,230	1,541,479	1,707,364	1,689,519	1,671,231	1,650,751	1,627,969
Borrowing	68,536	67,366	65,462	62,851	59,880	56,522	52,958	49,190	45,138	40,818	55,992	77,550	104,438
Closing Investments & Cash	222,747	242,304	232,858	217,677	197,667	176,608	147,747	117,334	83,968	49,366	39,197	31,013	25,850

	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(13,750)	(14,124)	(14,743)	(15,294)	(15,791)	(23,997)	(21,733)	(22,096)	(24,205)	(26,422)
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(21,429)	(22,036)	(22,889)	(23,679)	(24,420)	(32,879)	(30,878)	(31,512)	(33,900)	(36,404)
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-6.08%	-6.10%	-6.20%	-6.29%	-6.35%	-9.43%	-8.29%	-8.23%	-8.81%	-9.40%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	85.66%	86.21%	86.47%	86.94%	87.48%	87.97%	87.81%	88.28%	88.81%	89.28%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,766	13,219
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	9.20%	8.26%	6.85%	5.27%	3.68%	2.92%	2.31%	1.90%	1.44%	0.96%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	1.01	1.01	1.01	1.02	1.02	1.00	1.01	1.01	1.02	1.02
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.15	1.16	1.28	1.31	1.32	1.11	1.07	1.02	1.03	1.04
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.46	1.39	1.38	1.40	1.41	1.27	1.25	1.22	1.26	1.26
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	5.48	5.35	5.18	5.19	5.21	4.94	5.34	4.69	4.69	4.04
Interest Cover Ratio	> 4X	8.77	10.96	9.83	8.96	9.41	9.89	10.52	11.31	11.73	13.98	11.43	8.08	5.99
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.72	3.73	3.70	3.69	3.69	3.65	2.04	2.07	1.42	1.46
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.21	2.04	1.87	1.67	1.47	1.27	0.97	0.92	0.80	0.77
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	217,677	197,667	176,608	147,747	117,334	83,968	49,366	39,197	31,013	25,850
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(15,181)	(20,010)	(21,058)	(28,861)	(30,414)	(33,366)	(34,602)	(10,169)	(8,184)	(5,163)

The tables above reflect the following:

Operating Position

- A sustainable operating position should be at least breakeven but preferably a surplus position (Fit for the Future & Comrie Report guidelines). ***Scenario 1 (Base case)*** does not meet TCorp benchmarks.
- The base case scenario has the lowest revenue of all scenarios. This is due to lower investment income resulting from a reduction in reserves.
- The deficit will gradually worsen as reserves are depleted and interest income reduces.
- In addition if revenue received is less than expenses incurred then similar increases year on year will result in an increase in the deficit.

Equity

- Initial increase in equity is not due to financial strength but due to the following:
  - o Ongoing underinvestment in capital works results in lower operational costs (less asset write-offs of replaced assets and less non-capitalisable project costs.
  - o There was a significant donation of land under roads in 2013/14 as a result of a significant sub-division. This resulted in an increase in equity which was not associated with strong financial performance.
  - o Ongoing deficits (which exceed non-operation receipt of funds such as capital grants) will result in an erosion of equity.
  - o As noted previously asset revaluations are not included. Any revaluation would increase equity however this is merely an adjustment to reflect inflation in its various forms and on balance does not reflect an increase in community assets in real terms.
- Equity reduces in the latter half of the 10 year projection as the erosion of reserves impacts investment income and borrowing add costs resulting in ever increasing operating deficits.

Infrastructure

- **Asset Backlog & Building & Infra Backlog Ratio:** All scenarios except 1C have been built to ensure Council reaches a sustainable position as targeted by 2023.
- **Asset Maintenance:** In line with Benchmark of 1.0X or all scenarios. All scenarios reflect the level of maintenance being completed in line with required. This is a necessary requirement for Council to address the asset backlog and not have further issues arising due to assets not being maintained adequately.
- **Building & Infra Renewals Ratio:** Below benchmark of 1.0X for all scenarios. Depreciation is greater than expenditure on asset renewals for all scenarios. All scenarios (except S1C) will improve significantly reaching 0.9.
- **Capital Expenditure Ratio:** All scenarios are above benchmark of 1.1X. Aggregate capital expenditure is above depreciation. This is predominantly due to the focus on reducing the asset backlog to sustainable levels (ie below 2% of gross assets).

Borrowing

- Scenario 1 involves the gradual payback of principal in line with current practice and in line with the budget principles.

Borrowing is an option that can only be prudently considered when Council has a sustainable operating surplus available to service the debt. In the current context any significant increase in borrowing will increase the operating deficit due to interest payments. In effect without revenue increasing or expenses reducing Council will not have the capacity to pay interest or repay principal. A continual cycle of borrowing will not be sustainable.

- Council however will need to commence additional borrowing from 2022 due to Council's investment and cash (reserves) being fully depleted. Council will then need to continue borrowing to fund ongoing deficits. This is neither practical nor sustainable.
- **Interest Cover & Debt Service Ratio:** This ratio indicates Council has capacity to borrow. Analysis indicates however that other factors such as the operational ratio being sustainable are important. If Council has ongoing deficit and diminishing reserves then there will not be a capacity to repay the debt and retain sufficient cash reserves for future obligations. In effect borrowing could delay the need to address a revenue/expense imbalance and the depletion of reserves however the issue will be magnified in the future due to the adverse impact on Council's deficit due to borrowing costs likely to exceed equivalent investment returns. Consequently Council should be in a sound operating position before undertaking a borrowing program and Interest Rate Cover and Debt Service ratios cannot be assessed independently of other KPIs in making borrowing decisions.

Liquidity

- **Unrestricted Current Ratio:** The base case scenario breaches the Tcorp benchmark calculated - this is due to the significant reduction in reserves (which is invested in current and non-current investments). Due to the decrease there are fewer funds available to invest in current investments. Liquidity is therefore impacted.
- **Cash Expense Cover Ratio: Below benchmark of three months but improving to 2.7 months**. Council holds significant amounts of short term securities. Council holds securities to term but could on an exceptions basis liquidate some investments if required.

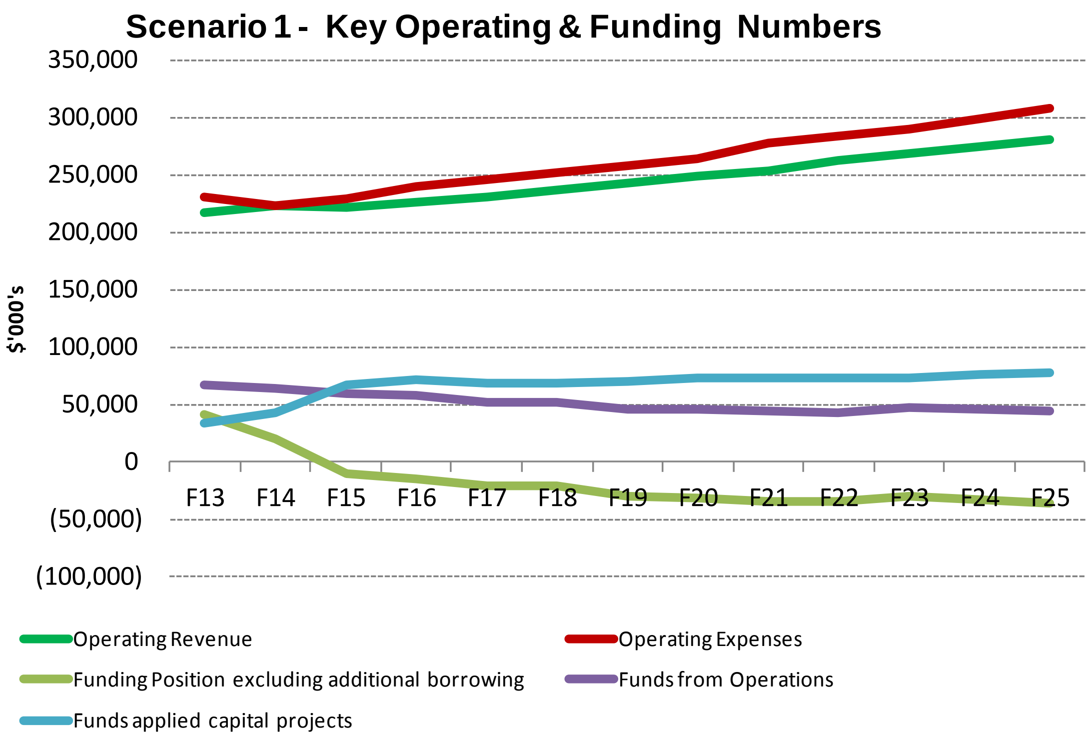
Funding Surplus & Reserves

- This scenario incurs an ongoing funding deficit due to cash generated from operations and other sources being insufficient to cover the capital works program each year.
- As a result Council reserves will continue to be eroded in an unsustainable manner. Towards the latter years of the LTFP the reserves position reaches a position where reserves will not be sufficient to cover externally restricted funding requirements and reserves associated with employee liabilities.
- Council will need to borrow funds from 2022 to enable council to retain a positive reserves (investments and cash) position.

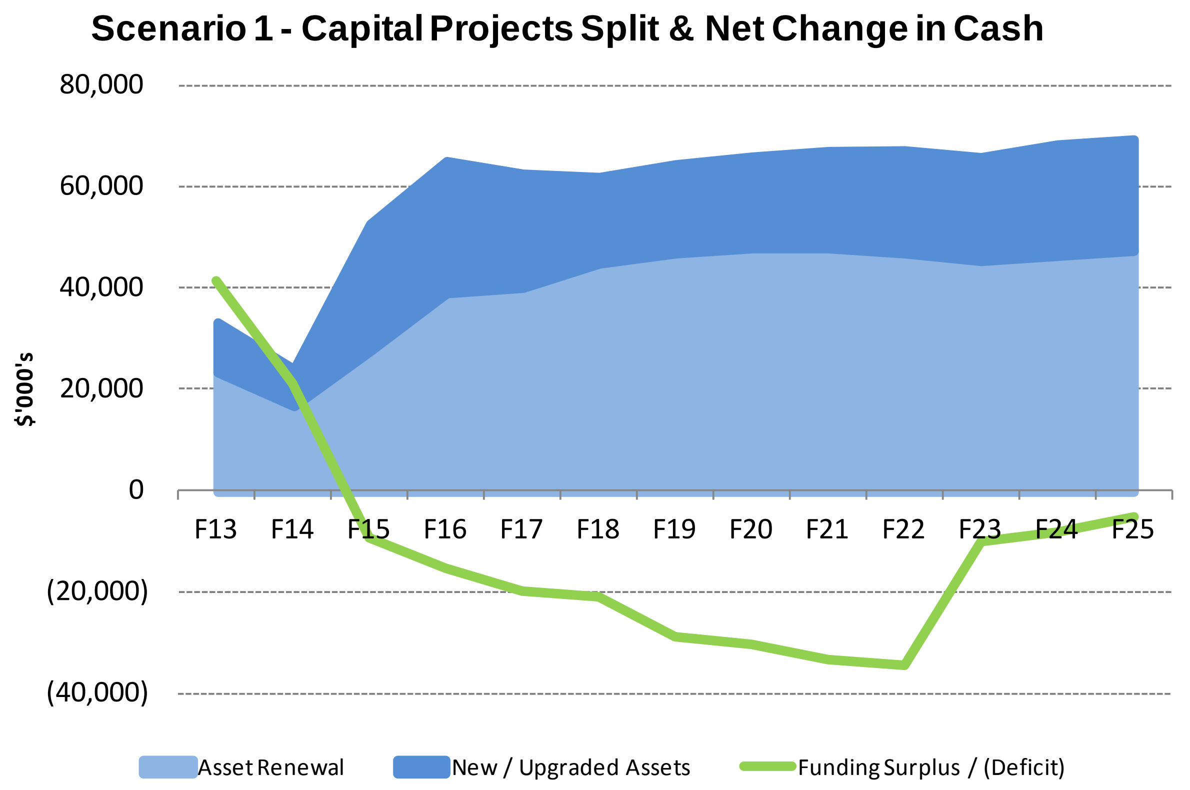
Gross Assets

- Base case results in the worst outcome in terms of gross assets. This due to a large ongoing operating deficit (due to services being maintained and expenses associated with capital works). Reserves are eroded due to insufficient funds for capital works being generated from operations.

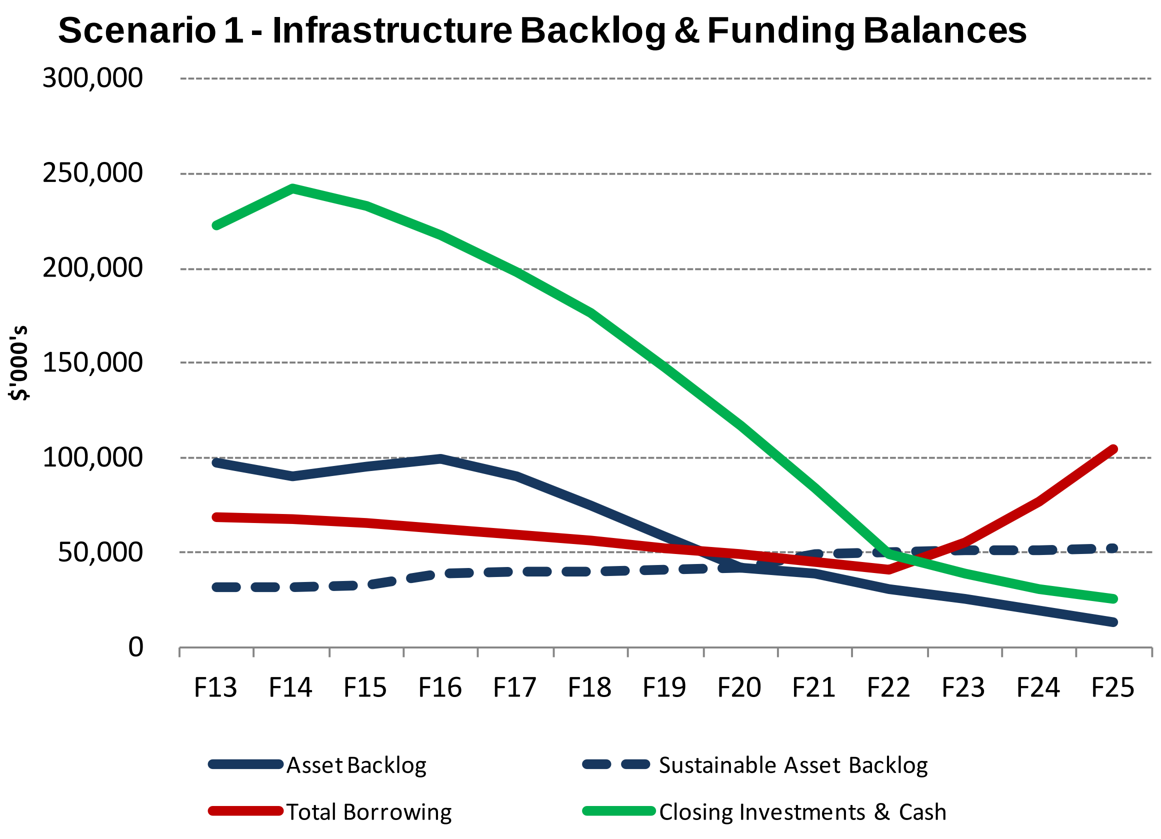
The graphs below present the trends in key metrics in a more transparent form and assist with the understanding of the analysis above.



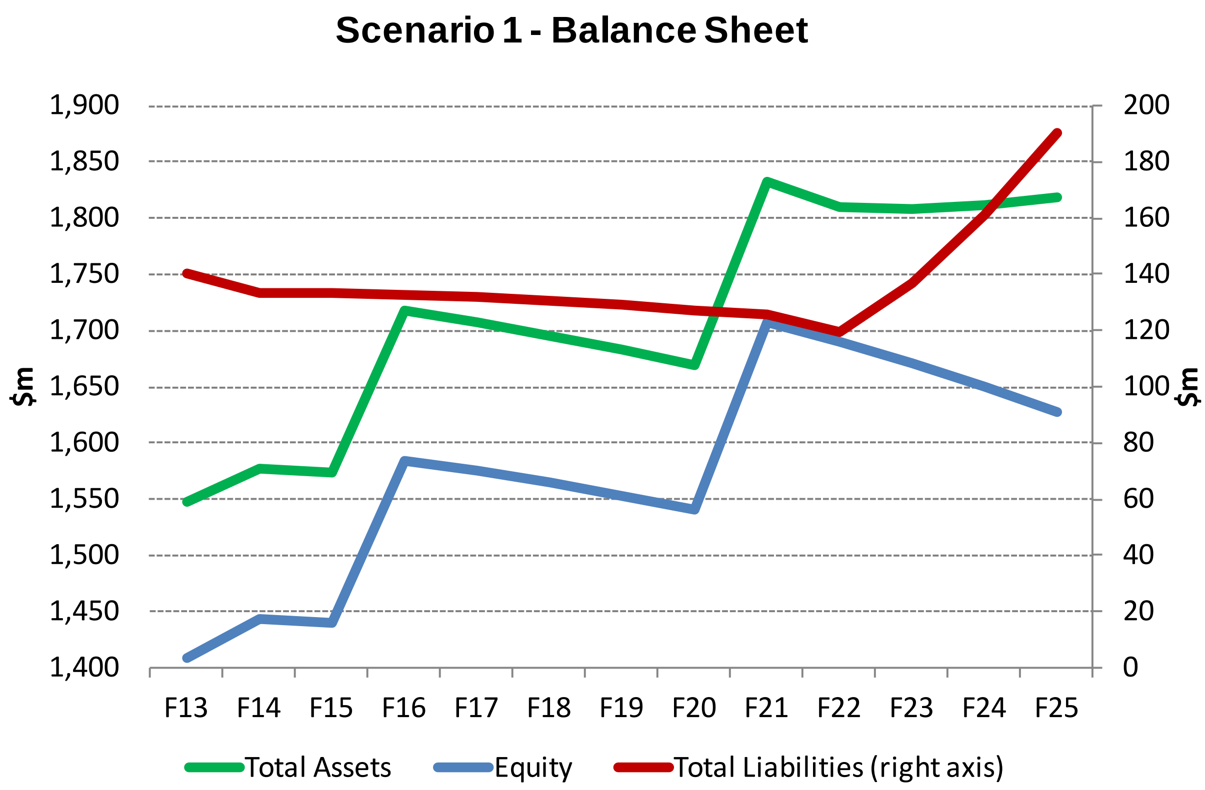
- Operating expenses (red) exceeding revenue (green) diminishes funds available to undertake necessary capital works.
- Funds applied to capital projects (blue) exceeds funds generated from operations (purple). Funds generated include operating surplus/deficit + depreciation.
- As a consequence there is a net funding deficit for most years (olive green).
- Funding position becomes more neutral towards the final years of the projection. This is due to Council having limited available funds so no capacity to continue incurring deficits. In effect the neutral funding position is being maintained by increasing borrowing.



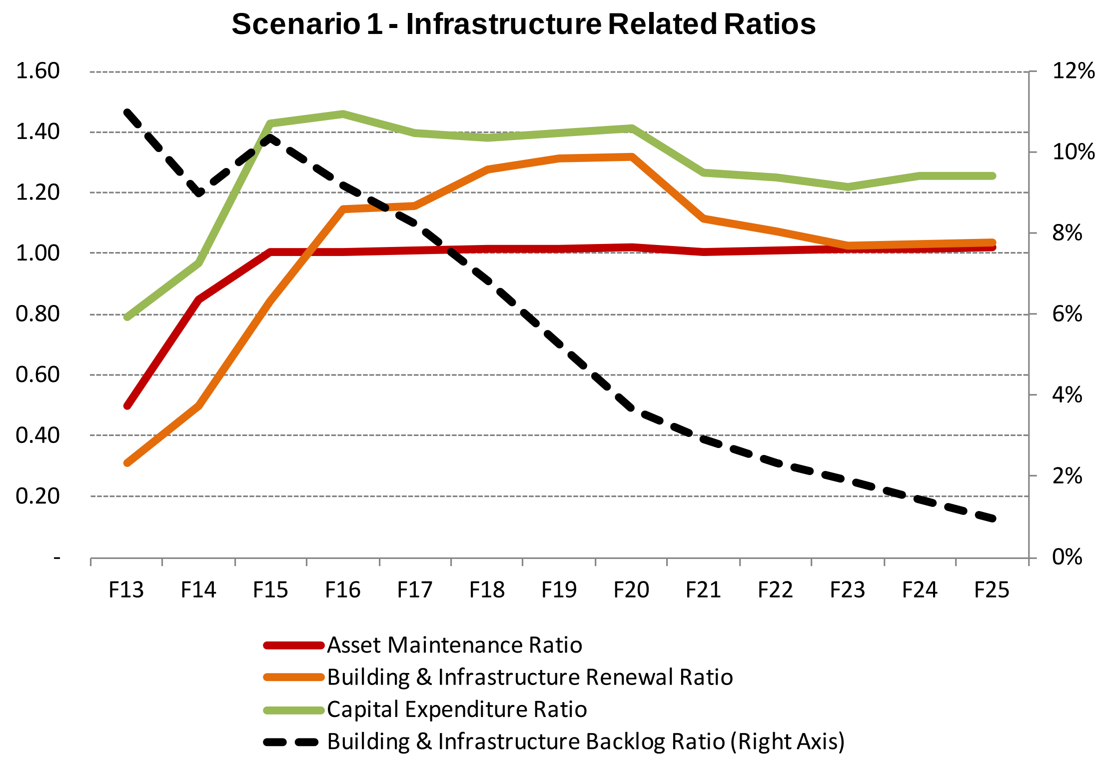
- The priority capital works objectives are to (1) undertake sufficient asset renewal (light blue) and undertake the special projects program (supporting the priority 2012 SRV projects) reflected in new / upgraded assets (dark blue).
- New assets also included infrastructure for SWMC to provide the necessary capacity to service ongoing waste disposal needs of residents and businesses (FY15 and FY16).
- As can be seen from the graph above the primary increase in investment in the long run is in asset renewal. This reflects the scale of investment needed to address the asset backlog.
- It is therefore primarily due to the increased capital works program for asset renewal to address the backlog (and a weak operating position) that there is an ongoing funding deficit once the capital works program is ramped up and the pipeline of assets for sale is completed.



- The ongoing funding deficits result in reserves (reflected as available investments and cash) being eroded.
- Whilst reserves are eroded the obligations or possible future liabilities of Council are increasing. This is due to:
  - o The need to provision for the ultimate site remediation of SWMC. It has been estimated that remediation costs will be approximately $5 per tonne. Based on total disposal to date 5 million and annual disposal of approximately 200,000 tonnes the reserve should amount to $25m with annual provisions of approximately $1m per annum. With indexing the amounts to approximately $35m by FY23.
  - o Maintain externally restricted funds – estimated to be approximately $42m by FY23.
  - o Ongoing employee related provisions of $15m by FY23.
  - o Reserves to support nine months cash capacity for future capital works to ensure cash availability to meet contractual commitments - $51m. Nine months provisioning is seen as prudent particularly given some projects involve contractual commitments beyond the immediate financial year.
  - o **In total identified reserve requirements amount to $143m against a net reserves position of $109m in FY23. In effect Council would have insufficient reserves to address known, reasonable and quantifiable future obligations.**
- Council is pursuing the agreed corporate goal and Budget Principle of not undertaking additional debt obligations and in addition is gradually paying down principal in accordance with existing loan agreements. Even if Council maintained current debt levels the reserves will still be insufficient. As noted previously this scenario would also not provide capacity to eventually pay down the debt.



- Council's asset balances are reducing in nominal terms (this erosion in asset balances would be even greater in real terms).
- The primary reason for the reduction in asset balances is the erosion in cash and investments.
- Due to asset balances reducing more than a reduction in liabilities there is an ongoing trend of a reduction in equity.
- The asset revaluation is reflected in 2015/16. This revaluation merely values assets in current dollars. After the revaluation equity diminishes every year in nominal terms. This is despite assets being revalued s have been reflected in the model. Any revaluations which increase asset values is merely ensuring asset values are reflective of current replacement cost and do not really reflect an increase in community assets in real terms (i.e. they are the same assets just valued differently with lower investment and cash reserves).



- A common issue in assessing the financial health of councils is gaining visibility of "hidden" issues relating to the condition of and sustainability of maintaining the condition of Council assets. It is possible for Council finances to appear sound as the real value (ie cost of rectifying) of the backlog cannot be reflected in the financial statements, due to the limitations imposed by accounting standards.
- This situation has applied to Council with Council's infrastructure backlog not meeting the TCorp sustainability benchmark and both infrastructure renewal and ongoing maintenance not meeting target benchmarks. This has resulted in the current backlog being substantially above the 2% target.
- The reduction in the infrastructure backlog in recent years has been primarily realised by selling assets which themselves are a significant contributor to the asset backlog and which are saleable. This has resulted in the buildings backlog reducing significantly. The same approach however cannot be applied to other asset classes such as roads and drainage and the asset backlog for these classes have increased. The primary method of reducing the backlog in future will need to be via an expanded capital works program.
- The LTFP has addressed these issues for future years. The Asset Maintenance Ratio, Building and Infrastructure Ratio and Capital Expenditure Ratios are all sustainable in future years to ensure progress is made on addressing the infrastructure backlog and that the assets are maintained in a manner that will avoid premature deterioration in the condition of other assets. Raising these ratios to sustainable levels incurs greater operating and capital costs which help explain why there is deterioration in the operating ratio and ongoing funding deficits.

Conclusion

The analysis undertaken in the scenarios indicates that it is not a viable option for Council.

The operating position will initially be close to breakeven due to sustainability initiatives already undertaken. The significant investment in asset renewal will however deplete reserves impacting investment income. This combined with a rate peg and grants trending flat of downwards will result in income growth being very limited. Other revenue options are limited (SWMC has already had a turnaround and future margins remain tight in a competitive environment with commercial operators) and from past experience, incur ratepayer resistance and some revenue options would require capital investment to enable revenue collection resulting in limited or no benefit.

Further opportunites to significantly reduce expenses are also limited. Productivity improvements have been assumed in the LTFP (and to be consistent in the Delivery Program). Revisions to the LTFP have increased the productivity gains assumptions to levels that are considered challenging but achievable.

10.2 Scenario 1B – Borrowing

Description & Assumptions

Scenario 1B reflects business-as-usual (Scenario 1) along with additional borrowing to stabilise reserve balances. This scenario reflects Council addressing Strategic Objectives and agreed Corporate Objectives and Budget Principles to the greatest extent possible except with regard to borrowing. This scenario has been analysed notwithstanding that the sustainability reviews undertaken regarding Council finances have recommended that Council constrain borrowing until its finances are in order.

The key assumptions and inputs are as follows:

- Same as Scenario 1
- Additional assumption of $20m borrowing per annum from FY18 to FY23.

This scenario can achieve all of the objectives captured however Council is borrowing funds to maintain its level of reserves. Council does not have the capacity to service and repay this debt due to a combination of ongoing operating deficits and insufficient reserves to pay back principal and interest and still have sufficient reserves to meet future obligations.

Analysis

Option 1B Borrowing *For the year ended 30 June*		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue		217,506	223,826	222,345	226,221	231,586	237,659	243,851	249,917	256,451	263,590	270,591	277,591	283,016
Operating Expenses		230,911	223,072	229,930	239,970	245,710	253,351	260,737	267,962	283,301	290,194	297,157	305,179	313,341
Operating Surplus (Deficit)		(13,405)	754	(7,585)	(13,750)	(14,124)	(15,693)	(16,886)	(18,046)	(26,851)	(26,604)	(26,566)	(27,588)	(30,325)
Total Assets		1,548,321	1,577,799	1,573,947	1,717,486	1,706,777	1,713,955	1,719,725	1,724,121	1,905,332	1,896,579	1,891,243	1,886,251	1,878,834
Total Liabilities		140,283	133,638	133,240	132,631	131,797	150,490	169,036	187,438	205,618	219,581	237,003	255,874	275,141
Equity		1,408,038	1,444,161	1,440,708	1,584,855	1,574,980	1,563,465	1,550,689	1,536,683	1,699,714	1,676,998	1,654,240	1,630,377	1,603,693
Borrowing		68,536	67,366	65,462	62,851	59,880	76,522	92,958	109,190	125,138	140,818	155,992	172,550	189,438
Closing Investments & Cash		222,747	242,304	232,858	217,677	197,667	195,658	185,206	172,538	156,319	136,847	122,209	105,643	86,578

	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(13,750)	(14,124)	(15,693)	(16,886)	(18,046)	(26,851)	(26,604)	(26,566)	(27,588)	(30,325)
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(21,429)	(22,036)	(23,839)	(25,270)	(26,675)	(35,733)	(35,749)	(35,982)	(37,283)	(40,307)
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-6.08%	-6.10%	-6.60%	-6.92%	-7.22%	-10.47%	-10.09%	-9.82%	-9.94%	-10.71%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	85.66%	86.21%	86.47%	86.70%	87.02%	87.26%	87.37%	87.60%	87.89%	88.72%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,765	13,219
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	9.20%	8.26%	6.85%	5.27%	3.68%	2.92%	2.31%	1.90%	1.44%	0.96%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	1.01	1.01	1.01	1.02	1.02	1.00	1.01	1.01	1.02	1.02
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.15	1.16	1.28	1.31	1.32	1.11	1.07	1.02	1.03	1.04
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.46	1.39	1.38	1.40	1.41	1.27	1.25	1.22	1.26	1.26
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	5.48	5.35	4.57	4.00	3.57	3.08	2.93	2.75	2.85	2.65
Interest Cover Ratio	> 4X	8.77	10.96	9.83	8.96	9.41	7.87	6.49	5.56	4.66	4.36	4.09	3.74	3.33
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.72	3.73	3.68	3.64	3.61	3.55	3.54	3.53	3.51	3.49
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.21	2.04	1.98	1.88	1.77	1.65	1.60	1.52	1.42	1.31
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	217,677	197,667	195,658	185,206	172,538	156,319	136,847	122,209	105,643	86,578
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(15,181)	(20,010)	(2,008)	(10,452)	(12,669)	(16,219)	(19,472)	(14,638)	(16,566)	(19,065)

Operating Position

- Scenario 1B (Borrowing) does not meet TCorp benchmarks.
- Scenario 1B (borrowing) has the highest operating costs due to the interest expense associated with borrowing. This increases as the loan balances increase (due to new loan funds exceeding principal repayments each year).

Equity

- Whilst 1B results in reserves (and consequently Gross Assets) being maintained, an increase in liabilities results in equity reducing (the decrease is greater than baseline due to interest charges resulting in larger operating deficits).

Infrastructure

- See Scenario 1 for comments on infrastructure related ratios - All scenarios except 1C generated infrastructure ratios above the sustainability benchmark. Ratios covered are:
  - **Asset Backlog & Building & Infra Backlog Ratio**
  - **Asset Maintenance**
  - **Building & Infra Renewals Ratio**
  - **Capital Expenditure Ratio.**

Borrowing

- Scenario 1B reflects additional borrowing.
- **Interest Cover & Debt Service Ratio** Scenario 1B (borrowing) is the only scenario which targets the interest cover benchmark.

Liquidity

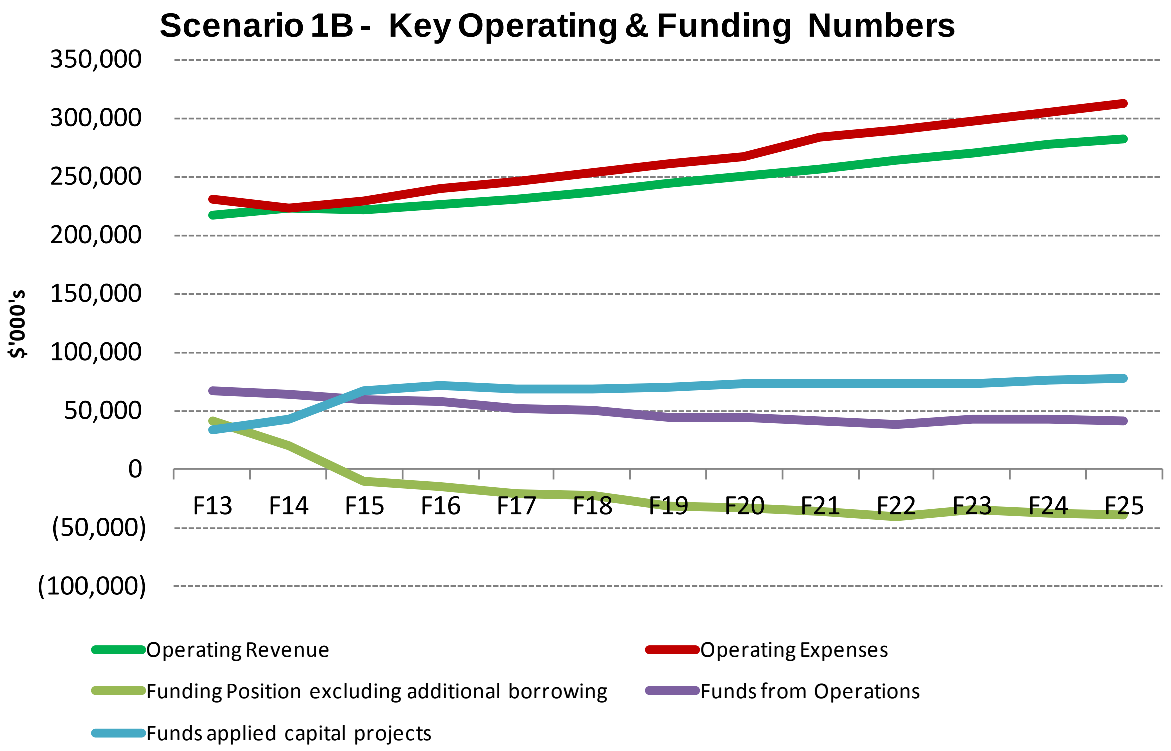
- **Unrestricted Current Ratio:** This scenario maintains liquidity by increasing borrowing. This is not a sustainable approach as operating performance is not strong enough to enable repayment of the debt and so principal repayment will be funded from reserves. Ultimately if Scenario 1 (base case) and 1B (borrowing) had the same borrowing level it would be likely that the borrowing scenario would have a more adverse liquidity position as borrowing has a more adverse impact on operating position (borrowing costs exceed investment returns). Therefore in the long run borrowing has an adverse impact on liquidity.
- **Cash Expense Cover Ratio:** Below benchmark of 3 months but improving to 3.5 months.

Reserves

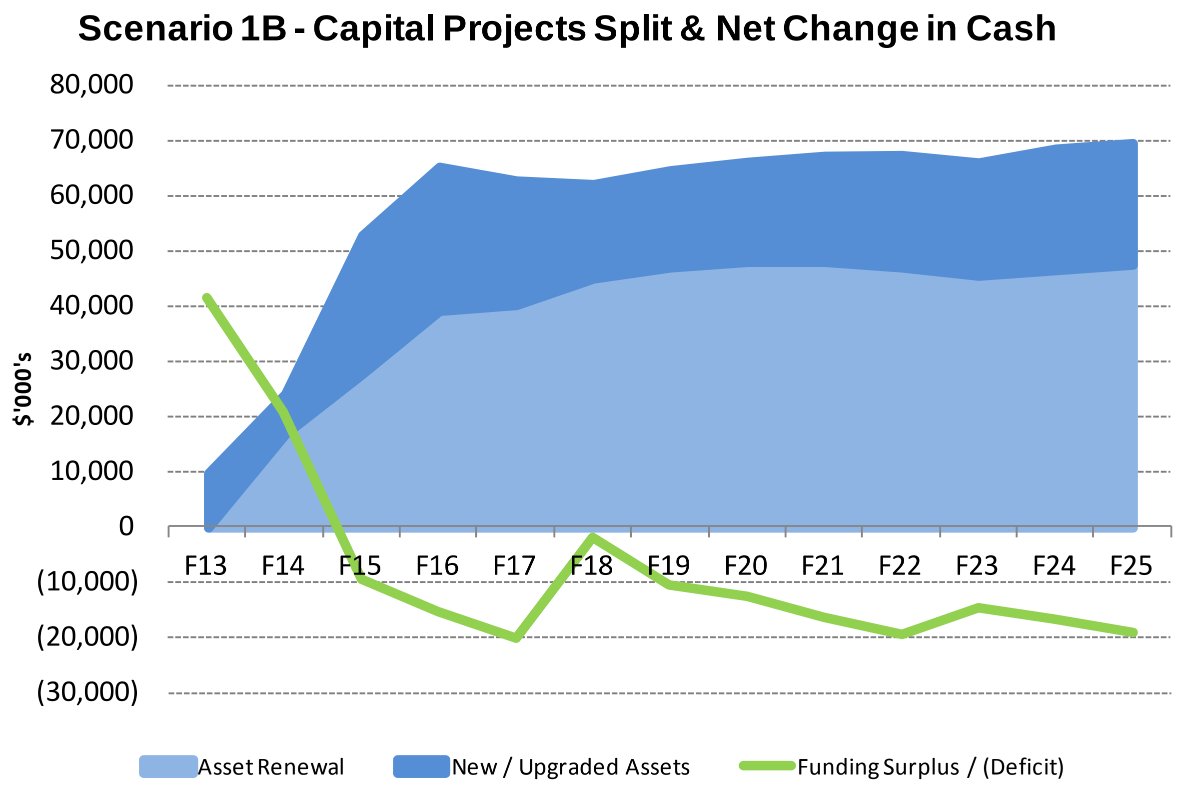
- **Funding Surplus (Deficit)**
- Borrowing would enable Council to maintain reserves however borrowing eventually needs to level out at sustainable levels. Borrowing would therefore be a temporary fix. In reality this scenario is not viable for the required debt cannot be serviced from operating cashflow.

Gross Assets

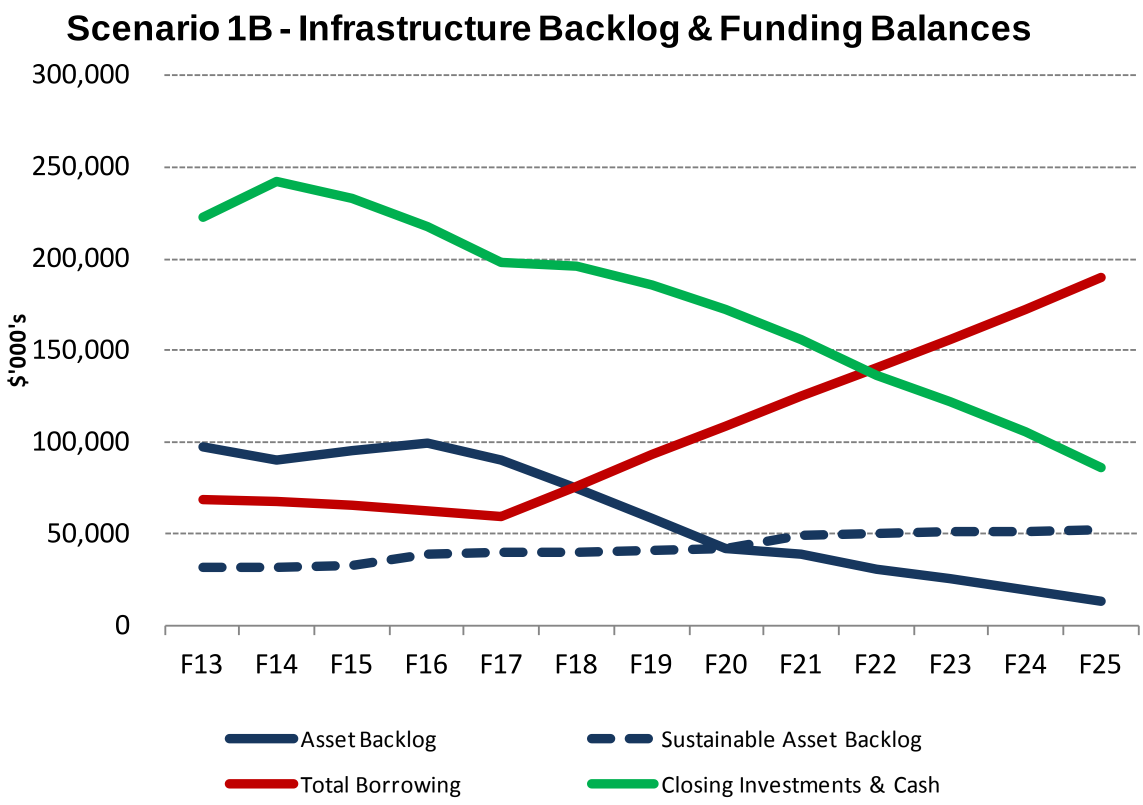
- Borrowing funds results in an increase in both assets (provided borrowed funds are not used for operations and liabilities). Due to Council being in deficit some borrowed funds in effect are applied to paying interest and principal repayments. This situation will accelerate as funds borrowed increases.



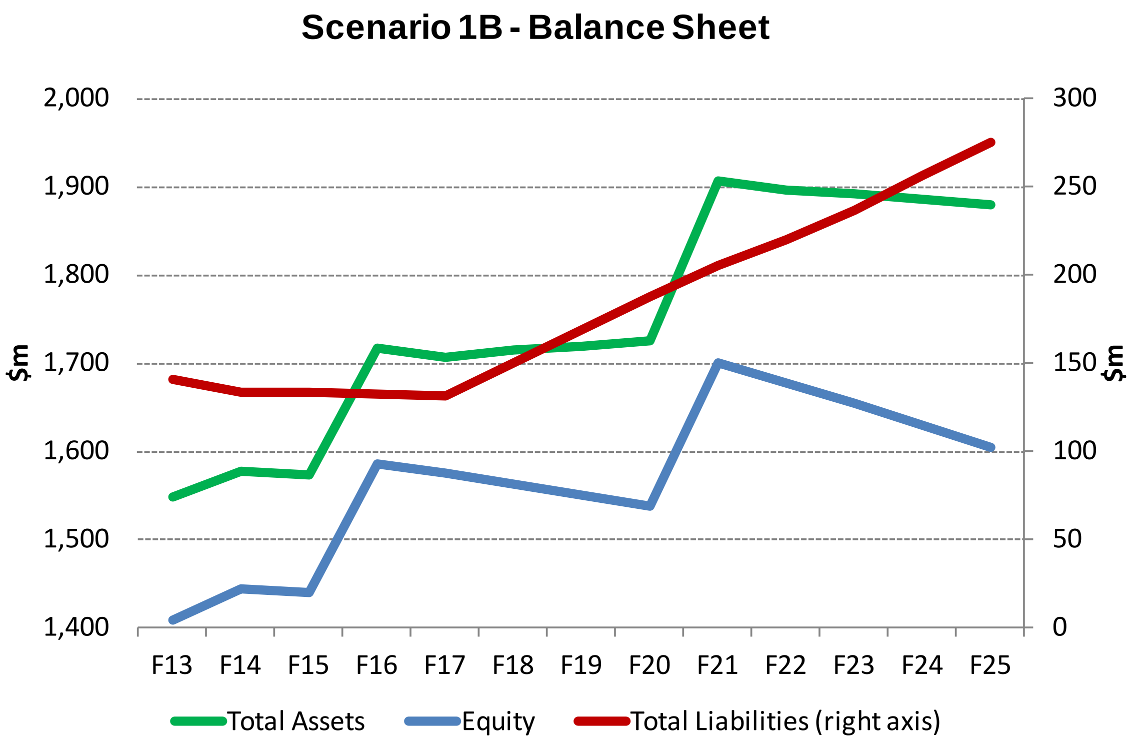
- Operating expenses (red) exceeding revenue (green) diminishes funds available to undertake necessary capital works. The operating deficit is greater under this scenario than Scenario 1 due to interest expense from borrowings exceeding interest income from investments (due to reserves being maintained via borrowing).
- Funds applied to capital projects (blue) exceeds funds generated from operations (purple). Funds generated include operating surplus/deficit + depreciation.
- Borrowing funds has stabilised the funding deficit and as a result reserves are not impacted adversely. In effect borrowing is being used to counter balance the adverse impact of the operating deficit and increased capital works program resulting in funding position being largely breakeven (olive green).



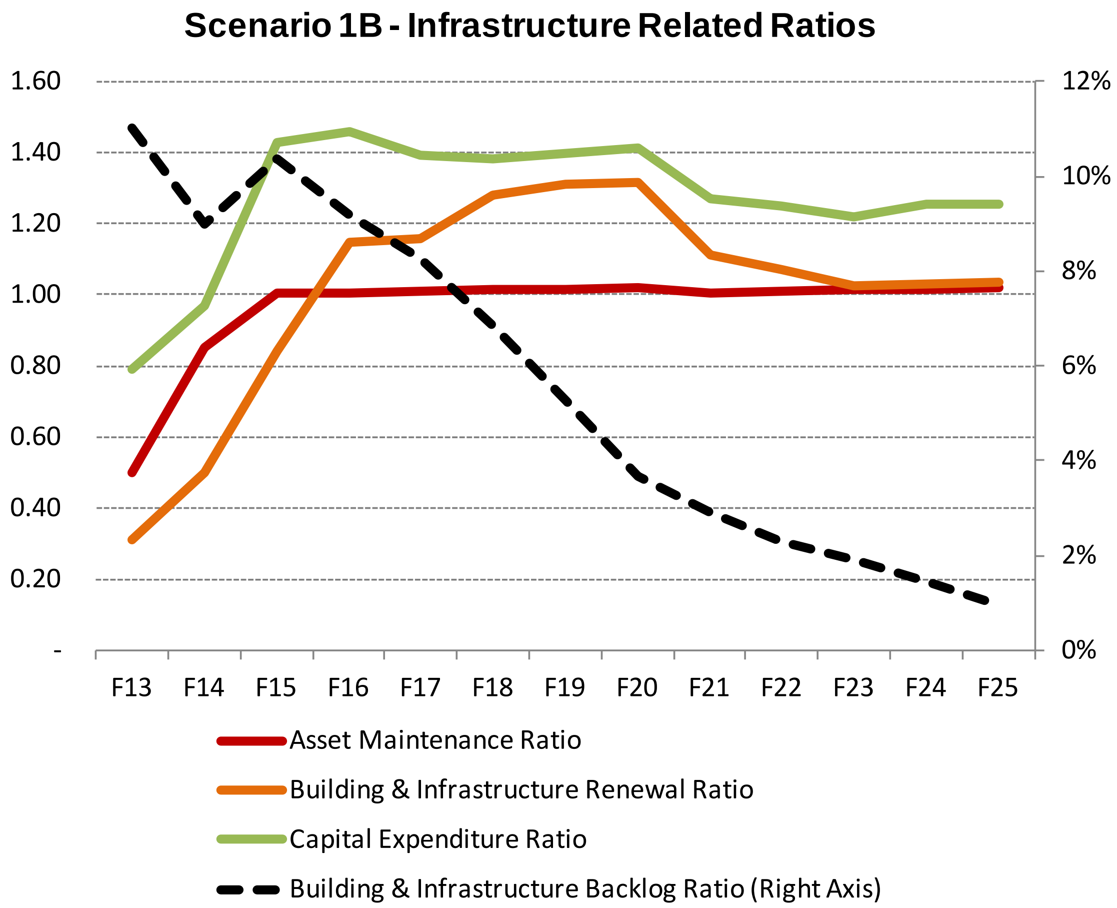
- The priority capital works objectives remain to (1) undertake sufficient asset renewal (light blue) and undertake the special projects program (supporting the priority 2012 SRV projects) reflected in new / upgraded assets (dark blue).
- New assets also included infrastructure for SWMC to provide the necessary capacity to service ongoing waste disposal needs of residents and businesses (FY15 and FY16).
- As can be seen from the graph above the primary increase in investment in the long run is in asset renewal. This reflects the scale of investment needed to address the asset backlog.
- As noted borrowing funds offsets the increase in capital works to accelerate asset renewal.



- Borrowing funds (red) moderates the reduction in investments and cash (green).
- Consequently Scenario 1B (Borrowing) in theory does not trigger the same liquidity issues as Scenario 1. Reserves however are still reducing moderately and as borrowing increases the interest costs also increase resulting in greater operating deficits. In the longer term borrowing will need to be increased at faster rate (rather than linearly) or the reduction in Council's investment and cash will accelerate as interest expense grows.
- Borrowing is not a viable scenario as borrowing is suited to a situation where (1) Council is cash constrained or (2) Council wishes to invest in significant new assets and the benefits should be shared across current and future generations of ratepayers. In both these situations Council will need to have the capacity to repay either now or in the future which in this scenario it does not have the ability to do. Capacity to repay is dependent on Council generating sufficient cash from operations to make repayments.
- Internal borrowing (given Council has sufficient current cash levels) would be preferred to external borrowing. Capacity to replenish those reserves via repayment would however still be difficult if Council is not capable of generating sufficient underlying operating surplus.
- This scenario is also based on taking action that is contrary to recommendations from a number of reviews and contrary to agreed Corporate Goal and Budget Principles which have been on exhibition and approved by Council (namely to not undertake additional debt obligations and gradually pay down principal in accordance with existing loan agreements).



- Council's asset balances increase due to reserves not being eroded under this scenario.
- As can be seen however the increase in liabilities (due to borrowing) is greater than the increase in assets.
- This results in a reduction in equity. This reduction is greater than it would be under Scenario 1 due to the higher operating deficit (explained earlier).
- As noted under Scenario 1 no asset revaluations have been reflected in the model. Any revaluations which increases asset values is merely ensuring asset values are reflective of current replacement cost and do not really reflect an increase in community assets in real terms (ie they are the same assets just valued differently with lower investment and cash reserves).



See Scenario 1 for commentary on Infrastructure Related Ratios.

Conclusion

The analysis completed in this scenario indicates that borrowing to fund an underlying operating deficit based on some key ratios, on face value, appears to be a potential option. The modelling however highlights the impact of borrowing from a fragile financial position. Borrowing will maintain reserves by providing additional funds however this will have an adverse impact on the operating position due to interest expenses being higher than investment returns being generated on equivalent balances. Ultimately borrowed funds need to be repaid and if Council's underlying operating position remains weak (which is the case without an SRV) there is not the capacity to repay the debt without depleting reserves.

In effect Borrowing is a variant of scenario 1 (BAU). The outcome is however worse due to the additional cost incurred due to borrowing costs being higher than the investment returns on the reserves that are maintained. Consequently this scenario is also not financially sustainable and was not included as an option in the Roads to Recovery engagement campaign.

Modelling indicates that to maintain reserves at sustainable levels borrowing would need to be continued indefinitely which is clearly not feasible. Ongoing operating deficits will result in there being insufficient internal cash generation. Continual borrowing will result in ever increasing interest expense and increasing debt levels and eventually additional borrowings are applied to paying back the increasing amounts of principal that become due. Ultimately Council would need to increase the rate of borrowing to address principal repayments resulting in ever increasing interest charges, a worsening operating deficit and worsening financial position.

Paying back the loans ahead of schedule would moderate the impact of borrowings but would still place Council in a worse position than Scenario 1 as reserves will be more depleted due to the additional costs incurred.

Borrowing is seen by Council as a viable option in a limited number of circumstances. The clearest of these is where the borrowing is for investments that generate sufficient additional net revenue to cover the full costs of repayment (this scenario places no stress on Council finances and indeed if the returns exceed the costs would strengthen Council's financial position) or Council is borrowing from a position of strength (for example has an operating surplus which can absorb interest payments and has cash requirements that can cope with principal repayments).

10.3 Scenario 1C – Lower Services and Capital Works

Description & Assumptions

Scenario 1C reflects business-as-usual (Scenario 1) however instead of addressing the reduction in reserves via borrowing Council instead reduces services and capital works. This scenario means that Council will not realise some Corporate Objectives and Budget Principles. The most important objective that will not be realised is a reduction of the Infrastructure Backlog Ratio to less than 2%.

The key assumptions and inputs are as follows:

- Same as Scenario 1 except for variations noted below.
- Scenario specific assumptions:
  - Less Services - Lower Employee Costs by 4%.
  - Less Services - Lower M&C Costs by 4%.
  - Infrastructure Maintenance reduced by 15% (in line with 2013/14 levels).
  - Less Capital Works - Asset Renewal – reduced by $5m pa for FY18, FY19 and $10m pa up to FY23.
  - Less Capital Works – Corporate – reduced by $2m pa from FY16 to FY23.

As can be seen by the assumptions there has been quite a substantial reduction assumed in operating expenditure and capital works. Council operating expenditure has already been reduced by approximately $10m in the past 18 months. This has involved the reduction of Council workforce by over 90 EFTs. This has reduced Council's staffing to 920 EFTs (Jan 15). It is unlikely Council will be able to achieve the scale of reduction reflected in this scenario without a significant reduction in services and cuts to the level of infrastructure maintenance. The capacity to reduce staffing further since the last reductions is limited and a further EFT reduction of approximately 45 EFTs would impact functions which cover maintenance activities as these are the functions with the largest headcount. Reductions in materials and contracts costs would also likely impact maintenance activities as again most of the investment in this cost category is for maintenance of community assets.

Council is already undertaking a program of asset sales with the purpose of both reducing the infrastructure backlog (by selling non-core assets which contributed to the backlog) and generating funds to undertake asset renewal / replacement on other assets which are part of the infrastructure backlog. This program has progressed significantly and is primarily responsible for recent reductions in the backlog. Future sales are already built into all options. Some of these assets sales are actually at risk due to community opposition.

It is unlikely that Council will identify other non-core assets (beyond those already identified) that could contribute significantly to a reduction in operating expenses. The reasons for this conclusion are as follows:

- Scenario 1C would only have minority support amongst the community. A minority of ratepayers surveyed support Scenario 1 (which involved no reduction is services) and there was strong support for Scenarios 2 (sustainability and maintaining services) and 3 (sustainability and increasing services). Scenario 1 (although not really viable) was presented to the community as the base case rather than Scenario 1C which does not align with the CSP. Scenarios 2 and 3 were strongly supported despite Scenario 1 not addressing a more active response (such as Scenario 1C) to address shortcomings of Scenario 1.

- Any expansion of asset sales would need to be selective and would require significant community consultation for individual assets. There could be a limited number of assets that could be considered suitable and likely to gain community and Councillor support. A broader program that has a bigger impact on services is unlikely to gain community support (as different members of the community value different services and facilities).
- The vast majority of Council assets are not suitable for sale as most of this asset value is in roads, drainage and pathways (over $900m of the $1,200m of depreciable assets). Most of the maintenance and depreciation is associated with these assets.
- The sale of additional assets is unlikely to make a substantial contribution to reducing operating expenses. It is likely any potential further sales will provide more cash reserves rather than a substantial reduction in operating expenses. The reason for this situation is that most Council assets have extensive useful lives and the depreciation and maintenance costs are therefore a small percentage of the overall asset value. Costs of providing a service are also relatively small in comparison to asset value. To illustrate this situation Council has $1.6 Billion in gross assets (before accumulated depreciation is deducted) of which approximately $1.2 Billion are depreciable assets (ie assets that need maintenance and at some point replacement) and just over $42m in depreciation (of which approximately $30m is associated with infrastructure assets). Sustainable asset maintenance is approximately $16m currently. The types of assets that would be considered suitable for sale would be building or land related. Unless a particular building is in poor condition its sale will have limited impact on operating expenses.
- The sale and leaseback of Council assets (to maintain services or necessary Council facilities for Council staff) would replenish cash reserves and could fund the existing backlog however such arrangements would increase Council's operating costs as the lease costs would exceed cost currently incurred for these assets. Council would continue to incur deficits and these deficits would potentially be larger. The funds generated would need to be applied to the backlog rather than invested to generate alternative revenue to assist with lease payments.

In conclusion, this Scenario would be unlikely to gain community support, would result in a significant impact on services, would not address the infrastructure backlog, and would in all likelihood result in reductions of expenditure on asset maintenance which would actually exacerbate the infrastructure backlog issue in the future. Accordingly this scenario is not considered viable and was not included in the Roads to Recovery engagement campaign.

Analysis

Option S1C Less Services & Capital Works														
For the year ended 30 June		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue		217,506	223,826	222,345	226,221	231,874	238,295	244,381	250,387	257,175	264,060	271,315	278,684	285,441
Operating Expenses		230,911	223,072	229,930	233,076	238,600	243,510	249,332	253,425	266,731	272,055	277,344	283,685	290,212
Operating Surplus (Deficit)		(13,405)	754	(7,585)	(6,856)	(6,726)	(5,215)	(4,952)	(3,038)	(9,556)	(7,994)	(6,028)	(5,001)	(4,771)
Total Assets		1,548,321	1,577,799	1,573,947	1,724,380	1,721,070	1,718,726	1,716,429	1,715,833	1,889,784	1,879,640	1,874,842	1,872,437	1,870,573
Total Liabilities		140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Equity		1,408,038	1,444,161	1,440,708	1,591,749	1,589,272	1,588,236	1,587,393	1,588,395	1,764,165	1,760,059	1,757,839	1,756,563	1,755,432
Borrowing		68,536	67,366	65,462	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438
Closing Investments & Cash		222,747	242,304	232,858	226,536	215,855	210,778	198,644	191,858	183,654	173,409	169,823	166,256	163,055

	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(6,856)	(6,726)	(5,215)	(4,952)	(3,038)	(9,556)	(7,994)	(6,028)	(5,001)	(4,771)
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(14,535)	(14,637)	(13,361)	(13,336)	(11,667)	(18,438)	(17,139)	(15,444)	(14,696)	(14,753)
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-3.03%	-2.90%	-2.19%	-2.03%	-1.21%	-3.72%	-3.03%	-2.22%	-1.79%	-1.67%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	85.66%	86.10%	86.24%	86.51%	86.86%	87.01%	87.22%	87.37%	87.54%	87.97%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	101,392	94,419	88,097	79,881	77,086	94,533	100,998	109,804	117,946	125,422
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	9.42%	8.70%	8.09%	7.26%	6.95%	7.32%	7.81%	8.49%	9.10%	9.66%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	0.86	0.86	0.87	0.87	0.88	0.86	0.87	0.88	0.88	0.89
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.15	1.16	1.14	1.18	1.05	0.89	0.86	0.81	0.82	0.83
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.42	1.36	1.24	1.27	1.19	1.07	1.06	1.03	1.07	1.08
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	6.50	6.41	6.51	6.63	6.99	6.94	7.22	7.35	9.73	10.89
Interest Cover Ratio	> 4X	8.77	10.96	9.83	10.63	11.28	12.43	13.45	15.18	16.47	18.91	22.41	25.46	28.50
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.90	3.91	3.92	3.91	3.95	3.91	3.93	3.94	3.94	3.93
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.26	2.14	2.07	1.96	1.88	1.80	1.79	1.78	1.74	1.70
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	226,536	215,855	210,778	198,644	191,858	183,654	173,409	169,823	166,256	163,055
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(6,322)	(10,681)	(5,077)	(12,133)	(6,787)	(8,204)	(10,245)	(3,585)	(3,567)	(3,201)

Operating Position

- **Scenario 1C** matches Operating Ratio benchmark recommended under Fit for the Future and the Comrie Report provided there is a 5% reduction in services (permanent) and a $66m reduction in capital works over to 2023.
- If Capital reserved funds from 2012 SRV were excluded 1C would breach the benchmark. The modelled scenario has been completed to demonstrate what would be required to avoid an SRV.
- This scenario is seen as unviable for Council. The proposed reductions would be on top of a 10% reduction in workforce (which has already been completed) and productivity assumptions built into all scenarios which involve cumulative savings of $66m ($15m pa by 2023). In addition Scenario 1C would result in other objectives not being met such as asset backlog reduction.
- Scenario 1C - lower costs are reflected in total operating expenses. This scenario however is likely to result in merely a delay in the inevitable as lower maintenance cost and less investment in asset renewal will result in the infrastructure backlog worsening with ultimately higher maintenance costs and asset renewal expenditure ultimately needing to increase to address asset renewal.

Equity

- Scenario 1C presents an overly optimistic view of equity as the infrastructure backlog will worsen under this scenario and that is not reflected on the balance sheet unless assets in unsatisfactory condition are written-off or re-valued.

Infrastructure

- **Asset Backlog & Building & Infra Backlog Ratio:** Scenario 1C reduces expenditure on services and capital works to both moderate impact on the operating deficit and keep Council's reserve position stable. The consequence of reducing capital works is to not address the asset backlog. The scenario has been structured to avoid deterioration in the asset backlog. As noted in comments on operating position 1C is not a viable option but has been modelled to demonstrate the scale of savings required.
- **Asset Maintenance:** It is likely that Council would need to reduce expenditure on maintenance to realise a sufficient reduction in expenses as many Council services will not have the capacity to be reduced by the scale necessary to achieve the targeted reduction. An alternative to reducing maintenance would be to sell what are currently deemed to be core assets.
- **Building & Infra Renewals Ratio:** Below benchmark of 1.0X for Scenario 1C.
- **Capital Expenditure Ratio:** Scenario 1C will not achieve the Capital Expenditure ratio due to lower capital works. Aggregate capital expenditure will not be above depreciation.
- In addition a reduction in capital works might impact special projects (capital works program associated with the 2012 SRV). There would be an obligation to direct 2012 SRV funds to these projects however internal funding might need to be deferred delaying works on this program.
- Community and Councillor feedback appears to favour retaining existing service levels in some instances reinstating some services to original levels where they have been reduced.

Borrowing

- This scenario (like most other scenarios) involves the gradual payback of principal in line with current loan arrangements.
- **Interest Cover & Debt Service Ratio:** Due to the gradual payment back of principal this scenario (along with most others) will have a strong ratio. This might infer Council should consider borrowing however as already covered this ratio should not be considered in isolation of other ratios which also represent Council's capacity to repay.

Liquidity

- **Unrestricted Current Ratio:** This scenario maintains appropriate levels of liquidity due to lower operating expenses (as a result of reducing services) ad lower capital works). As a consequence reserve levels are maintained.
- **Cash Expense Cover Ratio** as a result also remains strong.
- Below benchmark of 3 months but improving to 2.7 months.
- Council holds significant amount of securities at maturities which enables them to become available in line with the benchmark of 3 months.

Reserves

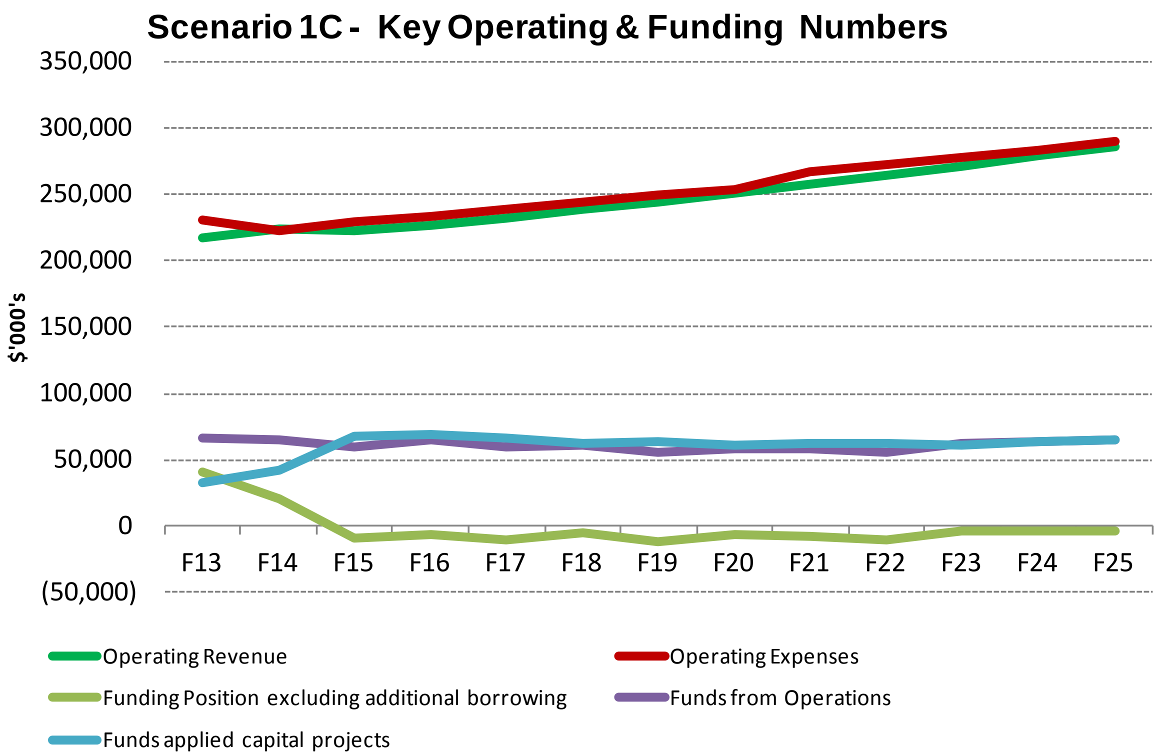
- Despite an aggressive program of reduction in services and capital works Council's reserves position still diminishes although funds are still sufficient to address future obligations. This position is however marginal based on projected requirements for reserves.

Funding Surplus (Deficit)

- Funding surpluses results in the increase in reserves.

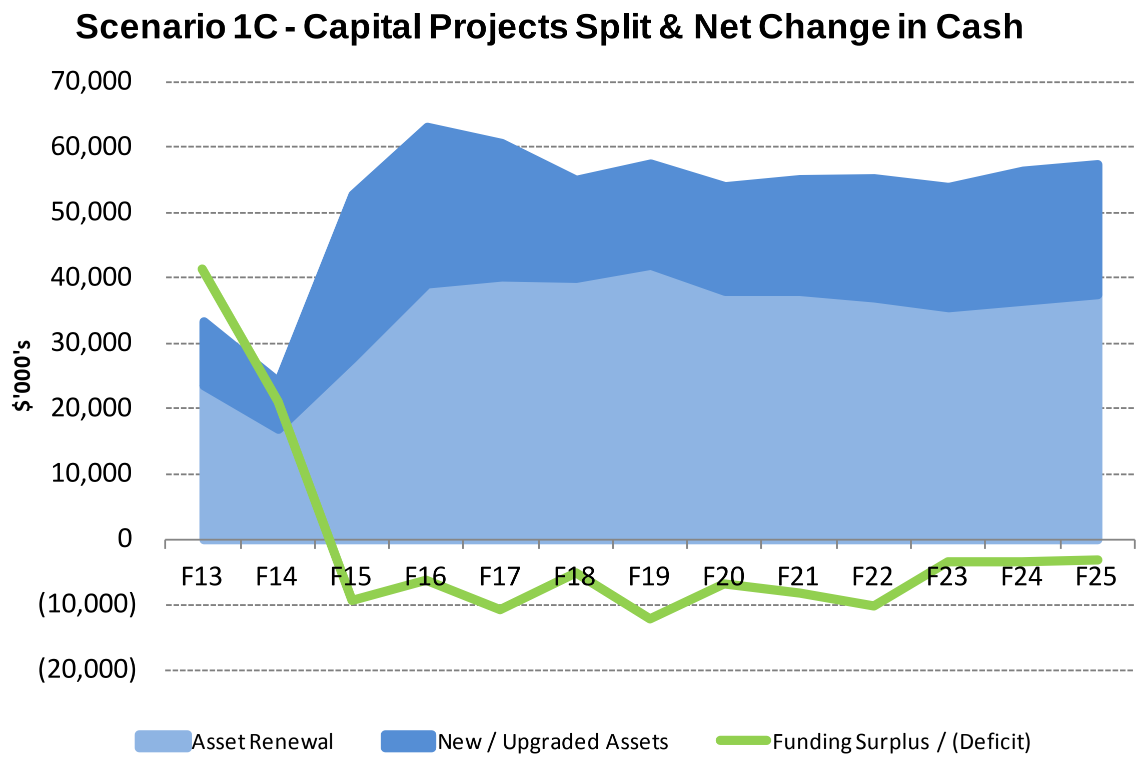
Gross Assets

- Lower services and capital works results in gross assets diminishing marginally. This is due to capital investment being limited and assets gradually reducing as a consequence of depreciation exceeding asset renewal. This is counteracted by an increase in investments and cash.

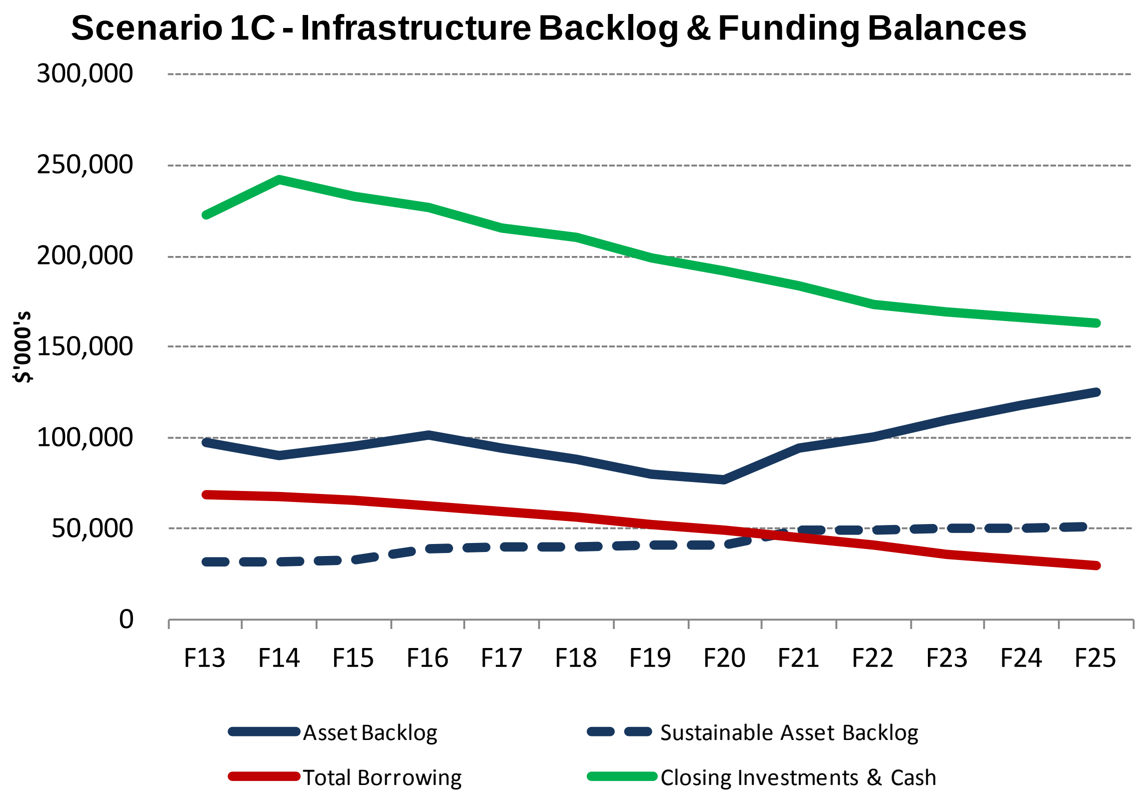


- Operating expenses (red) is largely in balance with revenue (green) due to constrained expenses.
- The sustainable operating position however is not breakeven. A material quantum of revenue cannot be used by Council to support (cover) operating expenses. These items include:
  - o The 2012 SRV is restricted for use on the designated capital projects (special projects). The top four programs receiving priority focus are the Hunter Street Revitalisation, Coastal Revitalisation, Blackbutt and Cycleways. The annual rate revenue reserved for these projects constitute **$4.8m pa currently**. This will rise to **approximately $6.5m by 2023**.
  - o Share of Newcastle Airport net income. Council only receives a dividend ($600k in 2013/14) constituting approximately a quarter of Council's share of net profit ($2.2m in 2013/14). It is unlikely given the airports expansion strategy that Council will receive dividends which distribute back to Council the full share of net income.
  - o Approximately $6m to $8m of revenue is therefore not available for operational purposes. Once this revenue is excluded there is a clear operational deficit.
- Diminishes funds available to undertake necessary capital works. The operating deficit is greater under this scenario than Scenario 1 due to interest expense from borrowings exceeding interest income from investments (due to reserves being maintained via borrowing).
- Funds applied to capital projects (blue) exceeds funds generated from operations (purple). Funds generated include operating surplus/deficit + depreciation.

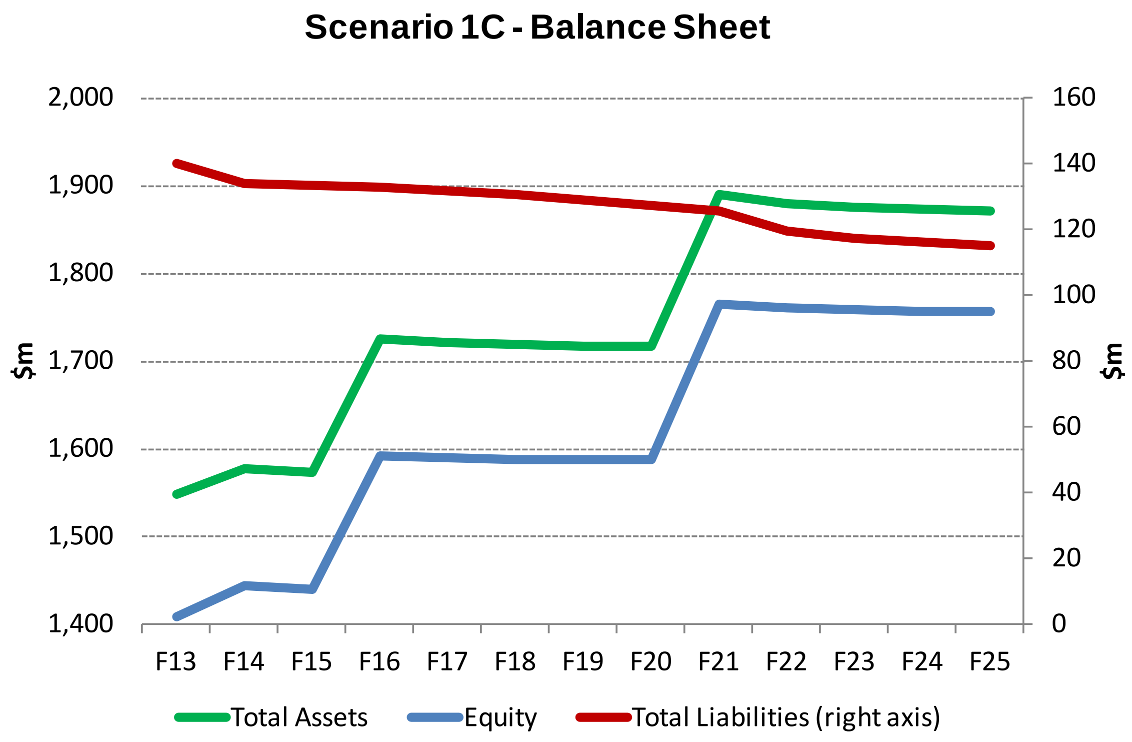
- Net change in funds is stabilised and as a result reserves are not impacted adversely. In effect borrowing is being used to counter balance the adverse impact of the operating deficit and increased capital works program resulting in funding position being largely breakeven (olive green).



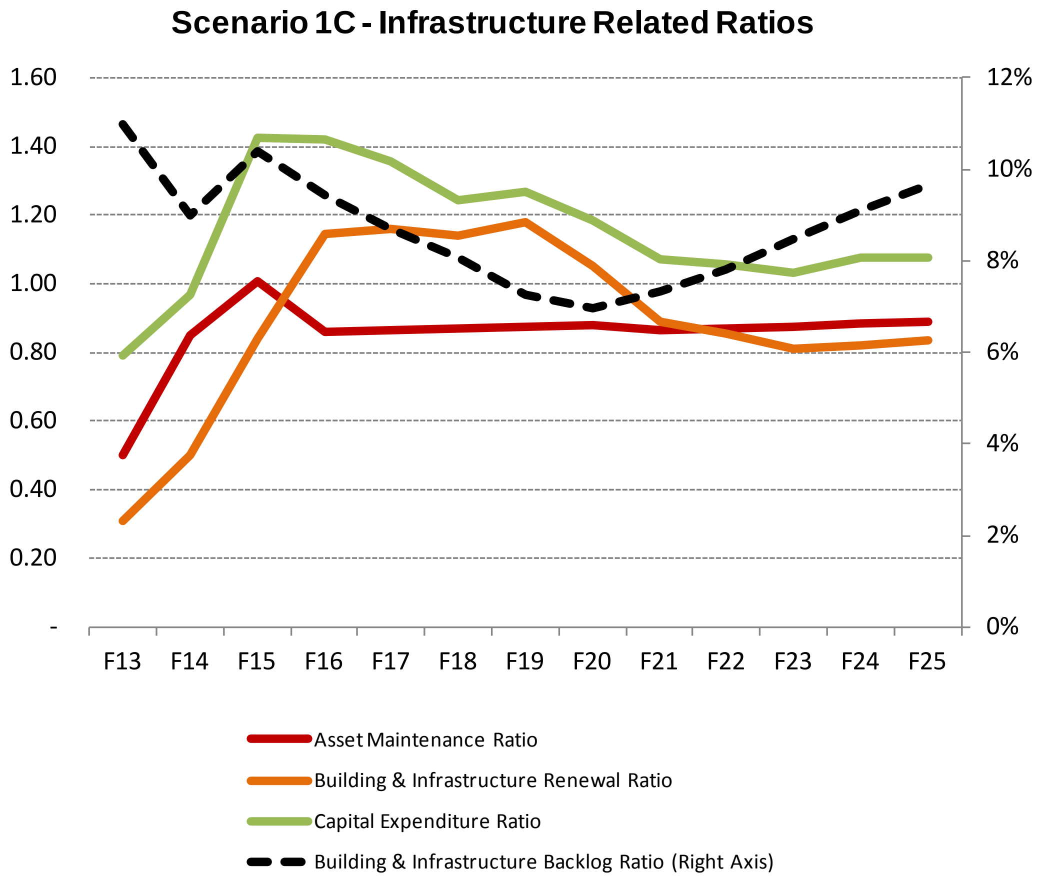
- The priority capital works objectives remain to undertake sufficient asset renewal (light blue) and undertake the special projects program (supporting the priority 2012 s508 (2) SRV projects) reflected in new / upgraded assets (dark blue).
- Asset renewal has been moderated in this scenario (averaging approximately $30m pa. This level of capital investment results in a sustainable level of capital works (ie maintain the current infrastructure backlog without it worsening).
- New assets also included infrastructure for SWMC cannot be cut as Council will need to provide the necessary capacity to service ongoing waste disposal needs of residents and businesses (FY15 and FY16).
- Despite Council containing capital works under this scenario the net funding reflects some years of surplus but latter years being only breakeven.



- Lower levels of services (less operating expense) and less capital works (less operating expenses and less capitalised costs requiring funding) result in investments and cash position remaining robust.
- In addition total borrowing gradually decreases as principal is repaid in line with current loan agreements.
- **The asset backlog deteriorates due to insufficient capital works to both reduce the existing backlog and counteract the ongoing addition of assets to the backlog. The capital works program under this scenario is only adequate to initially stabilise the backlog however in the latter years the deterioration will accelerate. In addition the investments and cash position is also deteriorating resulting in less capacity to be able to address the backlog in the future.**
- Under this scenario the backlog could actually increase. It is however difficult to model the impact of asset maintenance not being retained at sustainable levels. Any reduction in asset maintenance due to containment of operational expenses will not become apparent immediately as the assets concerned will only gradually degrade. A sustained period of suboptimal expenditure on asset maintenance will result in the condition if assets deteriorating and ultimately result in some assets reaching a condition deemed unsatisfactory and becoming an addition to the infrastructure backlog. “Saving” expenditure on asset maintenance is seen as false economy as the cost of remediation is likely to be greater than the cost of adequately maintaining the assets in the first place.



- Council's asset balances increase due to reserves not being eroded under this scenario. This is due to lower operating expenses resulting in a breakeven operating position. As a consequence any capital grants result in an increase in Council assets.
- In addition there is a moderate decrease in liabilities due to the gradual repayment of current debt.
- The increase in assets and decrease in liabilities are both contributing to an increase in Equity.
- This accounting view however is misleading as the asset backlog is not reflected as an impact on the balance sheet. In addition the infrastructure backlog is itself a relatively crude metric as other assets could be deteriorating due to insufficient asset maintenance. This general deterioration in asset condition will only become apparent when the assets reach an unsatisfactory condition and are then classified as part of the infrastructure backlog.
- As noted under Scenario 1 no asset revaluations have been reflected in the model.



This scenario will not meet key infrastructure ratios as maintenance and renewal expenditure has been reduced to enable Council to remain solvent. The backlog worsens and the asset maintenance ratio below sustainability levels.

Conclusion

This scenario is also not sustainable option due to the asset backlog remaining above target levels and is contrary to Councillor and ratepayer expectations and does not align with CSP accordingly it was not included as an option in the Roads to Recovery community engagement . Community engagement with ratepayers indicates that the community wants to maintain services as a minimum and that there is increasing levels of support for improved services to support the revitalisation of the City.

Due to significant reductions in staffing and associated costs from recent initiatives there is limited opportunity to further reduce service related costs without significantly reducing services. Based on community consultation there has already been some opposition to the reduction of services that has already occurred and considerable concern about reducing further services. Councillors have subsequently resolved in some instances to restore some of these services and are unlikely to support further service reductions. Even if supported any reductions would need to be modest if substantial service impacts are to be avoided.

The other area of reducing cash utilisation is by restricting the capital works program. In recent years this has already been restricted with works limited to works that must be undertaken to close the gap in financial sustainability (asset renewal, replacement of plant and equipment) and committed capital works (2012 SRV, grants for corporate projects). Current investments however do not reflect a sustainable level of investment.

This scenario analysis reduced expenditure across all major areas. Employee and Materials And Contracts have both been reduced by 4% for non-maintenance related services. This would correspond to a further 30 to 35 staff. This would be in addition to the recent reduction in EFTs that has already taken place. The base case already reflects heavily constrained expenditure on corporate projects. There is no significant capacity to reduce corporate projects much further. Corporate projects also include the budget for the replacement of plant and equipment and this item cannot be reduced significantly due to the optimal replacement cycle. In conclusion any reduction in projected capital works would impact the asset renewal program and the financial objective of reaching a 2% backlog target would not be achieved. This scenario is not a viable option.

10.4 Scenario 2 – Financial Sustainability

Description & Assumptions

The goal of Scenario 2 is for Council to meet all sustainability criteria by seeking a SRV sufficient to ensure long term financial sustainability. This would include key metrics trending in a direction which would provide confidence that Council would be able to maintain a strong financial position in the foreseeable future without the need for remedial action.

The key assumptions and inputs are as follows:

- Same as Scenario 1 except for variations noted below.
- Scenario specific assumptions:
  - SRV across five years with the following rate increases:

2015/16	6.8%
2016/17	6.8%
2017/18	6.6%
2018/19	6.5%
2019/20	6.5%.

In summary, the analysis below will highlight that this scenario meets all key sustainability measures. Sensitivity analysis (covered in detail later in the LTFP) indicates however that there is only limited financial capacity under this scenario to absorb the impact of any unforeseen adverse events.

Analysis

Option 2 SRV for financial sustainability For the year ended 30 June	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue	217,506	223,826	222,345	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376
Operating Expenses	230,911	223,072	229,930	239,970	245,701	252,375	258,426	264,307	278,241	283,828	289,384	295,997	302,799
Operating Surplus (Deficit)	(13,405)	754	(7,585)	(9,003)	(4,700)	(258)	4,727	10,418	4,096	6,058	8,625	10,300	11,577
Total Assets	1,548,321	1,577,799	1,573,947	1,722,233	1,720,948	1,723,561	1,730,943	1,743,804	1,935,962	1,939,870	1,949,725	1,962,621	1,977,105
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Equity	1,408,038	1,444,161	1,440,708	1,589,602	1,589,151	1,593,071	1,601,907	1,616,365	1,810,343	1,820,289	1,832,722	1,846,747	1,861,964
Borrowing	68,536	67,366	65,462	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438
Closing Investments & Cash	222,747	242,304	232,858	222,424	211,838	205,264	196,425	192,220	186,947	180,136	180,688	182,009	184,844

	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(9,003)	(4,700)	(258)	4,727	10,418	4,096	6,058	8,625	10,300	11,577
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(16,911)	(13,058)	(9,078)	(4,572)	612	(5,999)	(4,336)	(2,077)	(721)	230
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-3.90%	-1.95%	-0.10%	1.80%	3.79%	1.45%	2.09%	2.89%	3.36%	3.68%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	85.96%	86.68%	87.05%	87.55%	88.05%	88.17%	88.38%	88.49%	88.62%	88.87%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,766	13,219
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	9.20%	8.26%	6.85%	5.27%	3.68%	2.92%	2.31%	1.90%	1.44%	0.96%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	1.01	1.01	1.01	1.02	1.02	1.00	1.01	1.01	1.02	1.02
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.15	1.16	1.28	1.31	1.32	1.11	1.07	1.02	1.03	1.04
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.46	1.39	1.38	1.40	1.41	1.27	1.25	1.22	1.26	1.26
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	6.19	6.72	7.24	8.04	8.96	8.95	9.32	9.48	12.61	14.31
Interest Cover Ratio	> 4X	8.77	10.96	9.83	10.12	11.82	13.81	16.30	19.46	21.25	24.39	28.92	33.01	37.45
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.72	3.73	3.70	3.69	3.69	3.65	3.67	3.69	3.69	3.68
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.24	2.12	2.04	1.94	1.88	1.81	1.83	1.83	1.82	1.81
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	222,424	211,838	205,264	196,425	192,220	186,947	180,136	180,688	182,009	184,844
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(10,434)	(10,586)	(6,574)	(8,840)	(4,204)	(5,273)	(6,811)	552	1,320	2,836

Operating Position

- ***Scenario 2 (SRV for sustainability)*** meets and exceeds the operating ratio benchmark (Fit for the Future and Comrie Report both recommend at least breakeven with the Comrie report recommending a modest surplus would be desirable). More moderate rate increases would place other ratios at risk and could impact sustainability in the longer term. If reserves are run down over time investment income reduces impacting the surplus position.
- **Operating Revenue:** This scenario results in materially higher revenue (due to SRV increases).
- **Operating Expenses.** This scenario has similar expenses to Scenario 1 due to same service level and capital investment. The only change is Scenario 2 includes an SRV to enable Council to increase revenue to ensure all key metrics can be achieved on a sustainable basis.

Equity

- Equity increases primarily due to the combination of a sustainable operating surplus common to all scenarios.

Infrastructure

- See Scenario 1 for comments on infrastructure related ratios - All scenarios except 1C generated infrastructure ratios above the sustainable benchmark. Ratios covered are:
    - **Asset Backlog & Building & Infra Backlog Ratio**
    - **Asset Maintenance**
    - **Building & Infra Renewals Ratio**
    - **Capital Expenditure Ratio.**

Borrowing

- This scenario involves the gradual repayment of principal in line with current (like Scenarios 1,1C and 3).
- **Interest Cover & Debt Service Ratio** therefore remains strong (refer to Scenario 1 for other consideration before borrowing is considered a preferred option).

Liquidity

- **Unrestricted Current Ratio:** This scenario maintains liquidity by increasing revenue via a SRV.
- **Cash Expense Cover Ratio**: As a result of strong reserves (investments and cash) the cash expense cover ratio is also strong.

Reserves

- Scenario 2 maintains stable reserves. As a result this scenario will result in reserves which will be sufficient to cover externally restricted funding requirements and reserves associated with employee liabilities.

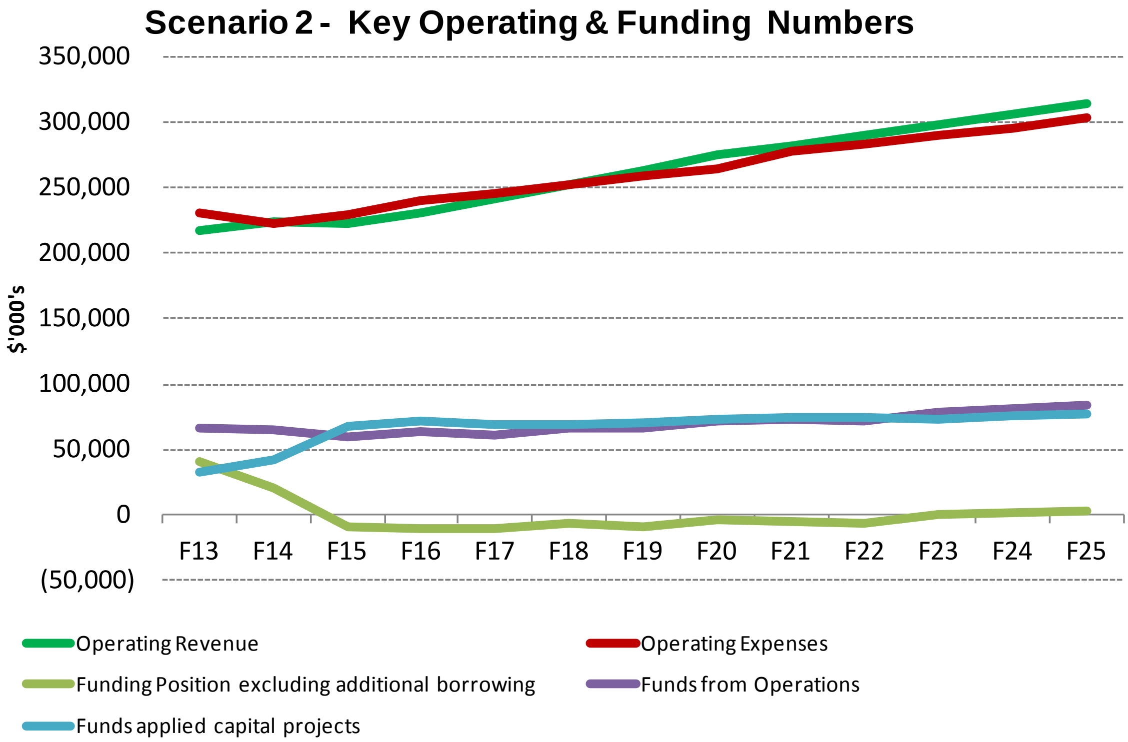
Funding Surplus (Deficit)

- Council incurs deficits whilst addressing the infrastructure backlog. The funds position stabilises after the backlog is at sustainable levels**.**

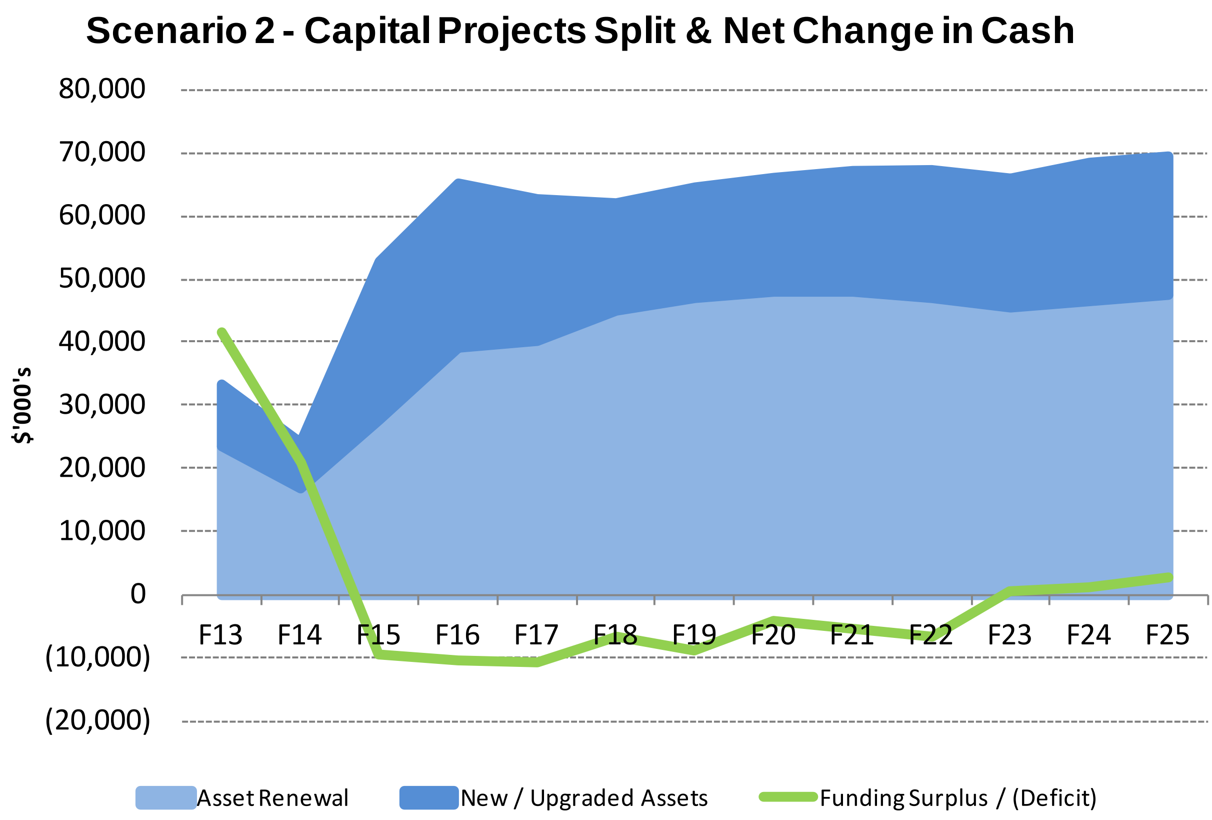
Gross Assets

- Gross Assets increase under Scenario 2 as higher revenue enables greater investment in capital assets and maintenance of reserves.

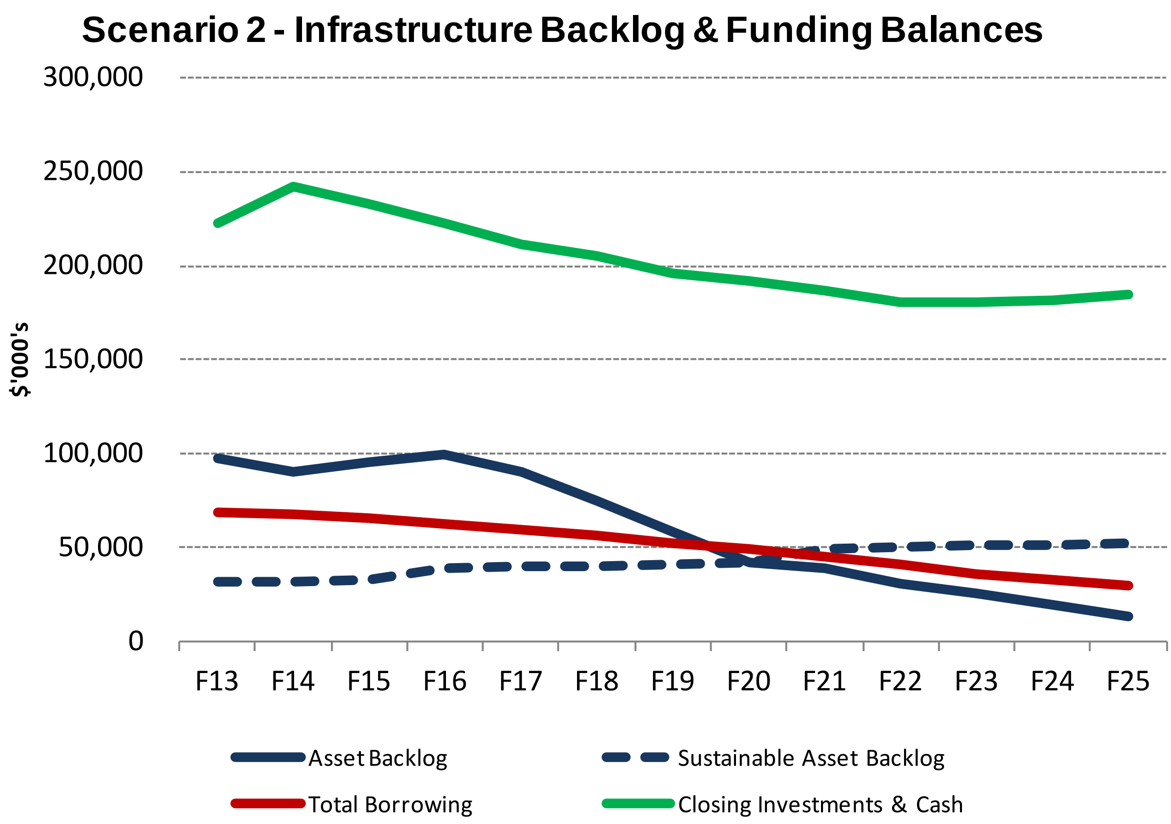
Detailed Analysis



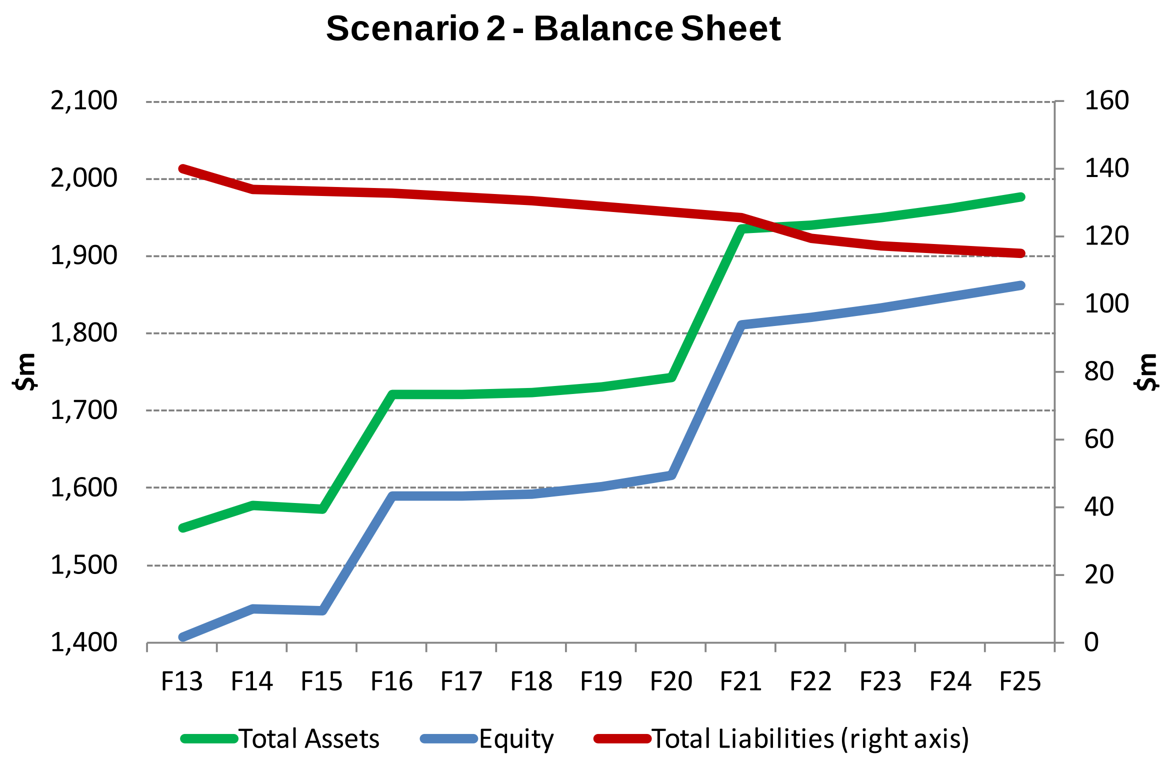
- The SRV ranging between 6.5% and 6.8% over five years results in the only scenario up to this point that will achieve a modest and sustained surplus in the operating position. Only Scenario 2 and the next scenario (Scenario 3) achieve the recommended benchmark for the Operating Ratio.
- The operating position required for sustainability however is not at a breakeven position. A number of revenue items cannot be applied to support (cover) operating expenses. These items include:
    - The 2012 s508 (2) SRV is restricted for use on the designated capital projects (special projects). The top four programs receiving priority focus are the Hunter Street Revitalisation, Coastal Revitalisation, Blackbutt and Cycleways. The annual rate revenue reserved for these projects is currently **$4.8m pa**. This will rise to **approximately $6.5m by 2023**.
    - Share of Newcastle Airport net income. Council only receives a dividend ($600k in 2013/14) constituting approximately a quarter of Council's share of net profit ($2.2m in 2013/14). It is unlikely given the airports expansion strategy that Council will receive dividends which distribute back to Council the full share of net income.
    - Approximately $6m to $8m of revenue per annum (from FY15 to FY23) therefore not available for operational purposes. Once this revenue is excluded operating position reflects breakeven rather than a surplus.
    - In effect Scenario 2 is sustainable but provides no contingency for any adverse unforeseen events that could impact Council's financial position. Sensitivity analysis has been undertaken to highlight possible risks. (The sensitivity analysis has however been undertaken against the recommended option – Scenario 3 – the impact measured will however be similar on all scenarios).
- The SRV results in greater level of funds generated from operations (purple), and available for capital works, and funds utilised (blue) is largely in balance.
- The additional revenue results in:
    - Current Council services being maintained (operational expenses have not been reduced).
    - The capital works necessary to support reduction in the infrastructure backlog.
    - Net funding position remains stable.



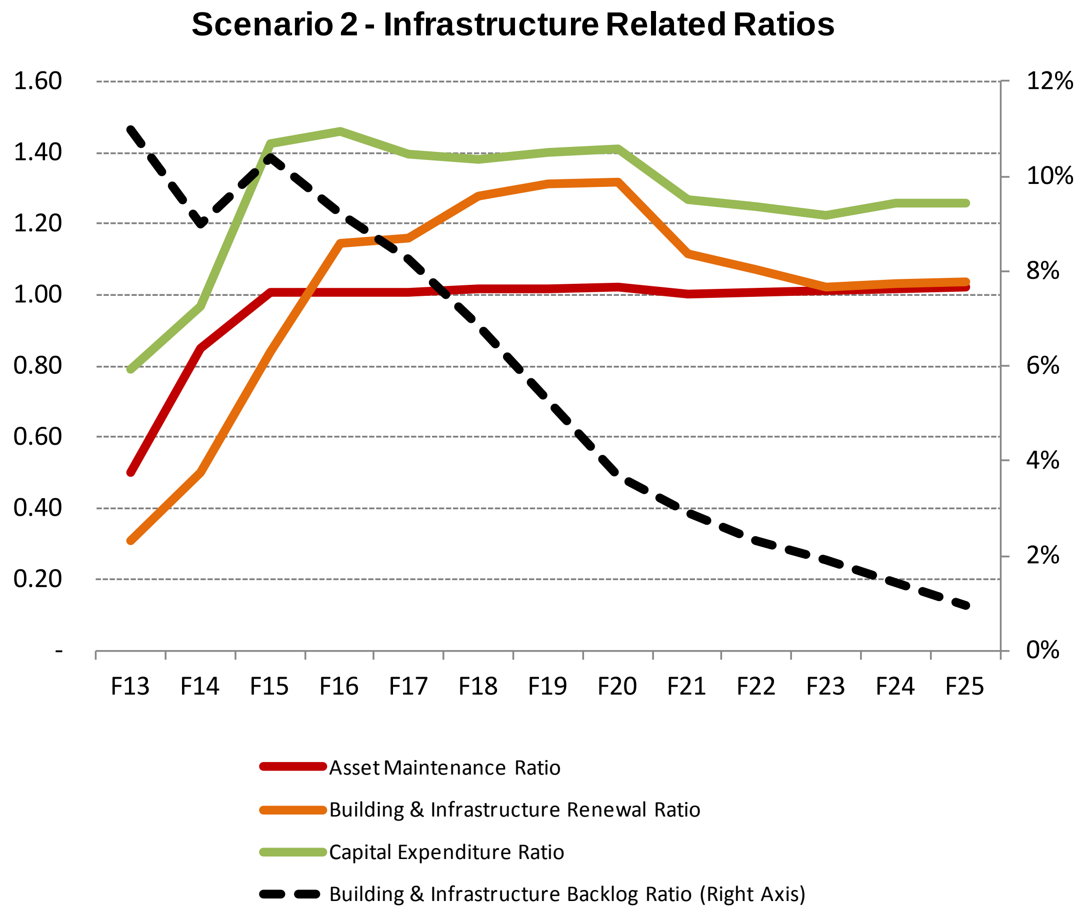
- The priority capital works objectives remain to (1) undertake sufficient asset renewal (light blue) and undertake the special projects program (supporting the priority 20112 SRV projects) reflected in new / upgraded assets (dark blue).
- New assets also included infrastructure for SWMC to provide the necessary capacity to service ongoing waste disposal needs of residents and businesses (FY15 and FY16).
- As can be seen from the graph above the primary increase in investment in the long run is in asset renewal. This reflects the scale of investment needed to address the asset backlog.



- Scenario 2 meets all of the following criteria:
  - Achieve an operating surplus (covered in earlier analysis).
  - Reduces the infrastructure backlog to sustainable levels.
  - Maintain sufficient reserves to cover obligations. Reserves stabilises after the backlog has been reduced below the target of 2%.
  - Moderate reduction in total borrowing (red) in line with recommendations (no new borrowing) and in accordance with current loan agreements. The Comrie report recommends councils have a scheduled repayment plan for debt to ensure that debt eventually is paid off.



- Council's asset balances increase due to reserves not being eroded under this scenario due to (1) higher revenue via the SRV generating an operating surplus and (2) capital grants.
    - The operating surplus and capital grants help ensure there are sufficient funds to undertake capital works, enabling Council to maintain rather than deplete reserves to unsustainable levels.
- In addition there is a moderate decrease in liabilities due to the gradual repayment of current debt.
- The increase in assets and decrease in liabilities are both contributing to an increase in Equity.
- As noted under Scenario 1 no asset revaluations have been reflected in the model.



See Scenario 1 for commentary on Infrastructure Related Ratios.

Conclusion

This scenario analysed requires rate increases of between 6.5% and 6.8% per annum over five years. This option is sustainable provided Council continues to tightly manage costs and Council maintains current services at current service levels. This scenario assumes the status quo is maintained in regard to services (ie they are neither reduced nor increased).

The rate increase has been sized to enable Council to reach and maintain a moderate operating surplus position. The additional revenue will result in Council generating enough cash to fund the accelerated capital works program necessary to address the backlog. Reserves will be maintained largely flat in nominal terms. This will result in reserves actually reducing in real terms. The modelling however indicates that the reserves will be sufficient to address known liabilities and therefore this option is considered sustainable. This scenario was included as Option 2 in the Road to Recovery community engagement campaign.

Scenario 2 enables the backlog to be addressed in line with Council's corporate goals however this does not consider any acceleration of other projects. Lower priority special projects will only be addressed in a dedicated form post 2022/23 (after the top four priority projects had been completed.

10.5 Scenario 3 – Financial Sustainability and Improved Services

Description & Assumptions

The objective of Scenario 3 is for Council to reach a fully sustainable financial position across all key metrics within the term of the LTFP and also enable Council to meet the community's service level expectations in order to support the revitalisation of the City. This means that Scenario 3 is similar to Scenario 2 (ie a rate increase via a SRV is required to ensure financial sustainability) but Scenario 3 requires a larger rate increase to fund improved services.

Scenario 3 received strong support during the Road to Recovery community consultation and is the funding option that has been endorsed by the Councillors. There has been strong support from the community to maintain services as a minimum requirement and significant feedback that certain services be reinstated. There has also been increasing community support for service levels to be improved to facilitate the revitalisation of the City.

This scenario involves an 8% per annum rate increase over five years (2015/16 to 2019/20). As detailed in the analysis below the scenario provides the capacity to fully address sustainability and also provide the capacity to enhance Council services in response to the community's desires.

This scenario is also the most resilient to potential adverse factors that have been modelled as part of the sensitivity analysis. The sensitivity scenario relating to asset revaluation and depreciation has particular relevance in assessing which options are best placed to cope with adverse events. The core scenarios (1, 1B, 1C, 2 and 3) do not include revisions to asset values to reflect adjustments that might eventuate as there is insufficient data to make any adjustments with the confidence necessary to support any valid conclusions. It is likely that asset values will increase for those assets being assessed currently as roads, drainage, pathways and bridges have not been re-valued since 2010. The revaluation in 2010 did result in a significant increase in both asset values and associated depreciation. Any such revaluation from the current exercise will be applied in the 2015/16 financial year.

The revaluation will be based upon determining the replacement value for all the assets within the scope of the review. Approximately $900m of assets (gross value) are being assessed. The cost of renewal / replacement is heavily dependent on the unit costs for key inputs, labour and materials with any adjustments for productivity. Based on historical data it would not be unreasonable to assume the replacement costs could increase by 10% to 15% over a five year period. Increases of this magnitude could result in asset values increasing between $90m and $135m. If the current useful life of these assets was deemed accurate with these new valuations depreciation would increase in proportion, by approximately $3m to $4.5m additional depreciation per annum. Council's preliminary view is that the useful life of some of these assets is understated however this is unlikely to fully offset increases due to revised asset values. The only scenarios that can manage such an increase in depreciation are Scenarios 2 and 3.

The key assumptions and inputs are as follows:

- Same as Scenario 1 except for variations noted below.
- Scenario specific assumptions:
  - SRV across five years with the following rate increases:

2015/16	8%
2016/17	8%
2017/18	8%
2018/19	8%

2019/20 8%.

- o Additional expenditure on services.

In summary, the analysis below will highlight that this scenario meets all key sustainability measures. Sensitivity analysis (covered in detail later in the LTFP) indicates however that Scenario 3 is the only scenario with the capacity to cope with any unforeseen adverse events. This is highly relevant given one sensitivity scenario in particular (Asset Revaluation) is likely to impact Council finances. The scale of impact however remains uncertain.

Analysis

S3 SRV for Financial Sustainability & Revitalisation														
For the year ended 30 June		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue		217,506	223,826	222,345	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544
Operating Expenses		230,911	223,072	229,930	240,740	246,519	253,526	259,698	266,731	280,873	286,617	292,330	299,111	306,117
Operating Surplus (Deficit)		(13,405)	754	(7,585)	(8,477)	(2,757)	3,299	10,498	17,689	11,429	13,555	16,253	18,065	19,427
Total Assets		1,548,321	1,577,799	1,573,947	1,722,759	1,723,416	1,729,586	1,742,739	1,762,870	1,965,718	1,977,124	1,994,607	2,015,268	2,037,602
Total Liabilities		140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Equity		1,408,038	1,444,161	1,440,708	1,590,128	1,591,619	1,599,096	1,613,703	1,635,432	1,840,099	1,857,543	1,877,604	1,899,394	1,922,461
Borrowing		68,536	67,366	65,462	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438
Closing Investments & Cash		222,747	242,304	232,858	221,868	211,473	204,670	195,668	190,940	185,404	178,142	178,520	179,460	180,190

	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(8,477)	(2,757)	3,299	10,498	17,689	11,429	13,555	16,253	18,065	19,427
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(16,448)	(11,249)	(5,749)	858	7,414	851	2,664	5,038	6,517	7,536
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-3.65%	-1.13%	1.28%	3.89%	6.22%	3.91%	4.52%	5.27%	5.70%	5.97%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	86.04%	86.84%	87.29%	87.88%	88.47%	88.59%	88.79%	88.90%	89.03%	89.29%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	99,172	90,034	75,584	59,455	41,943	39,032	31,260	26,151	20,712	14,990
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	9.19%	8.25%	6.83%	5.26%	3.63%	2.86%	2.25%	1.86%	1.45%	1.03%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	1.00	1.01	1.01	1.01	1.07	1.04	1.04	1.04	1.04	1.04
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.15	1.16	1.27	1.30	1.30	1.10	1.06	1.00	1.01	1.01
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.48	1.43	1.46	1.51	1.56	1.39	1.38	1.35	1.38	1.41
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	6.27	7.01	7.76	8.89	10.06	10.08	10.49	10.66	14.19	16.11
Interest Cover Ratio	> 4X	8.77	10.96	9.83	10.25	12.33	14.80	18.03	21.83	23.93	27.47	32.53	37.14	42.16
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.70	3.71	3.67	3.67	3.65	3.61	3.63	3.64	3.64	3.64
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.24	2.12	2.03	1.94	1.87	1.80	1.82	1.82	1.80	1.78
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	221,868	211,473	204,670	195,668	190,940	185,404	178,142	178,520	179,460	180,190
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(10,989)	(10,395)	(6,804)	(9,002)	(4,728)	(5,536)	(7,262)	379	939	730

Operating Position

- ***Scenario 3 (SRV for sustainability and revitalisation)*** meets and exceeds the operating ratio benchmark (Fit for the Future and Comrie Report both recommend at least breakeven with the Comrie report recommending a modest surplus would be desirable). More moderate SRVs would place other ratios at risk and could impact sustainability in the longer term. If reserves are run down over time investment income reduces impacting the surplus position (Scenario 3 excluding capital funds is in a modest surplus position (which would become a deficit - trending downwards - if reserves are reduced).

- **Operating Revenue:** This scenario results in materially higher revenue (due to SRV increases).

- **Operating Expenses.** This scenario has similar expenses to Scenario 1 due to same service level and capital investment. The only change is Scenario 3 includes a SRV to enable Council to be sustainable for all key metrics.

Equity

- Equity increases due to the combination of an operating surplus and capital grants.

Infrastructure

- See Scenario 1 for comments on infrastructure related ratios - All scenarios except 1C generated infrastructure ratios above the sustainable benchmark. Ratios covered are:
  - **Asset Backlog & Building & Infra Backlog Ratio**
  - **Asset Maintenance**
  - **Building & Infra Renewals Ratio**
  - **Capital Expenditure Ratio**.

Borrowing

- This scenario involves the gradual payback of principal in line with current (like Scenarios 1, 1C and 2).
- **Interest Cover & Debt Service Ratio** therefore remains strong (refer to Scenario 1 for other considerations before borrowing is considered a preferred option).

Liquidity

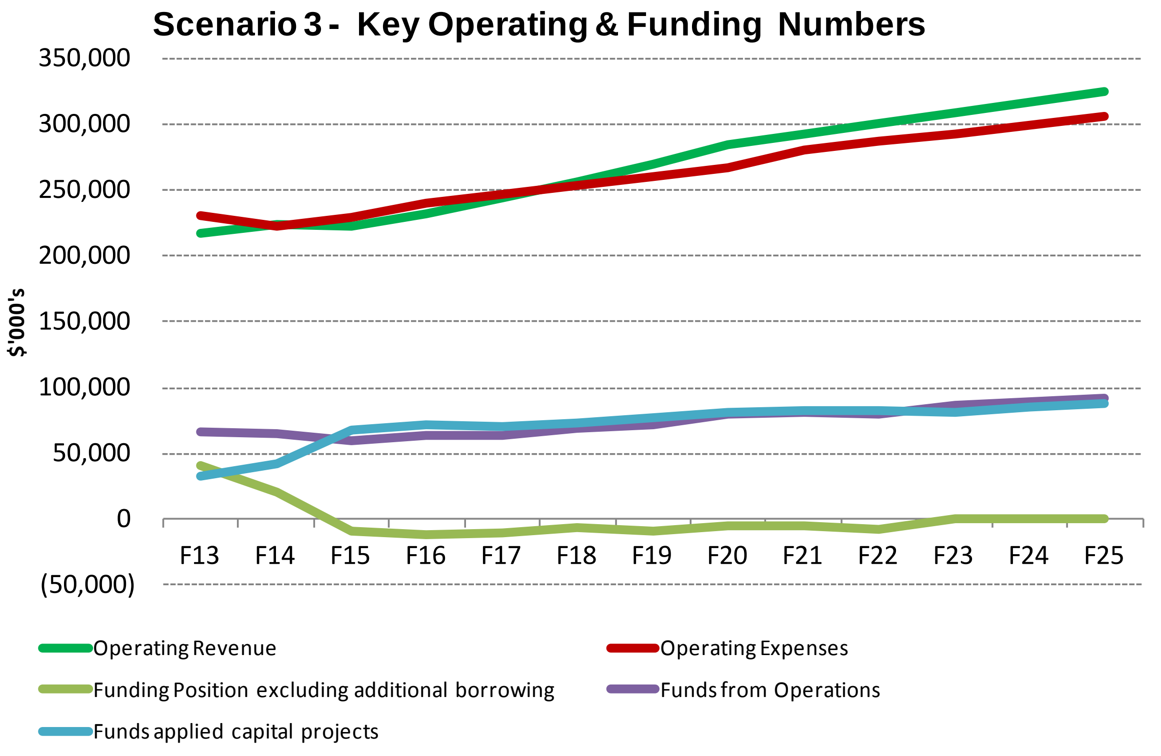
- **Unrestricted Current Ratio:** This scenario maintains liquidity by increasing revenue via a SRV.
- **Cash Expense Cover Ratio**: As a result of strong reserves (investments and cash) the cash expense cover ratio is also strong.

Reserves

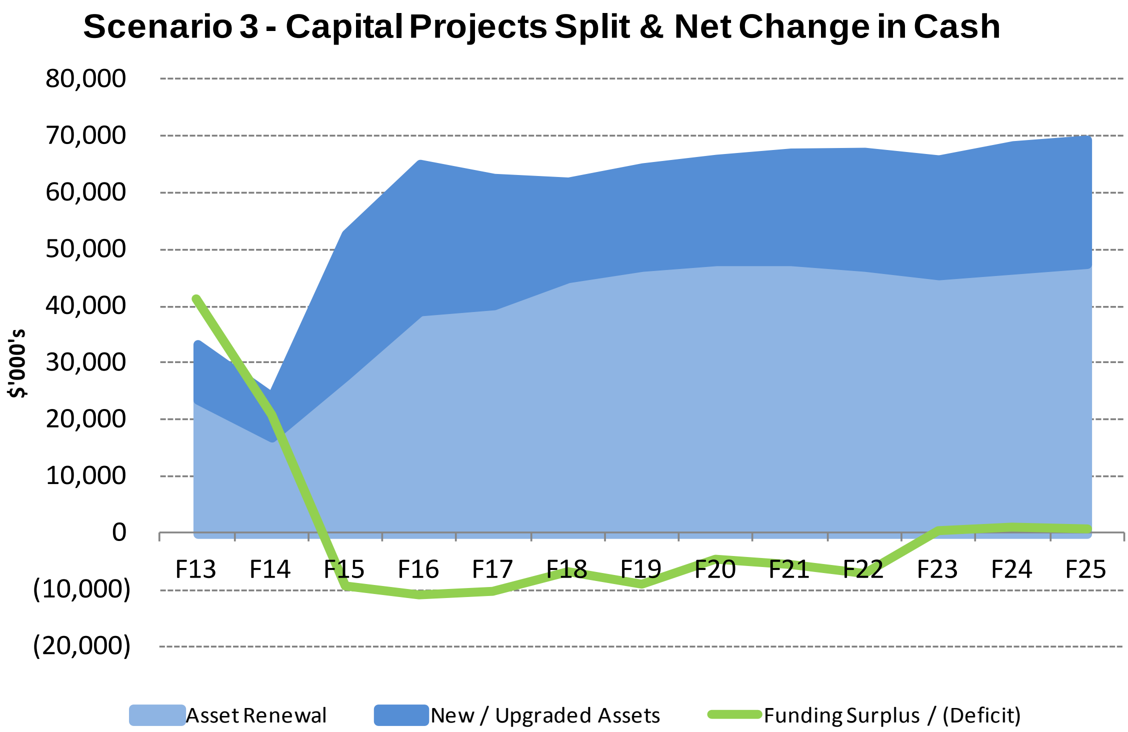
- Scenario 3 maintains stable reserves. As a result this scenario will result in reserves which will be sufficient to cover externally restricted funding requirements and reserves associated with employee liabilities.

Funding Surplus (Deficit)

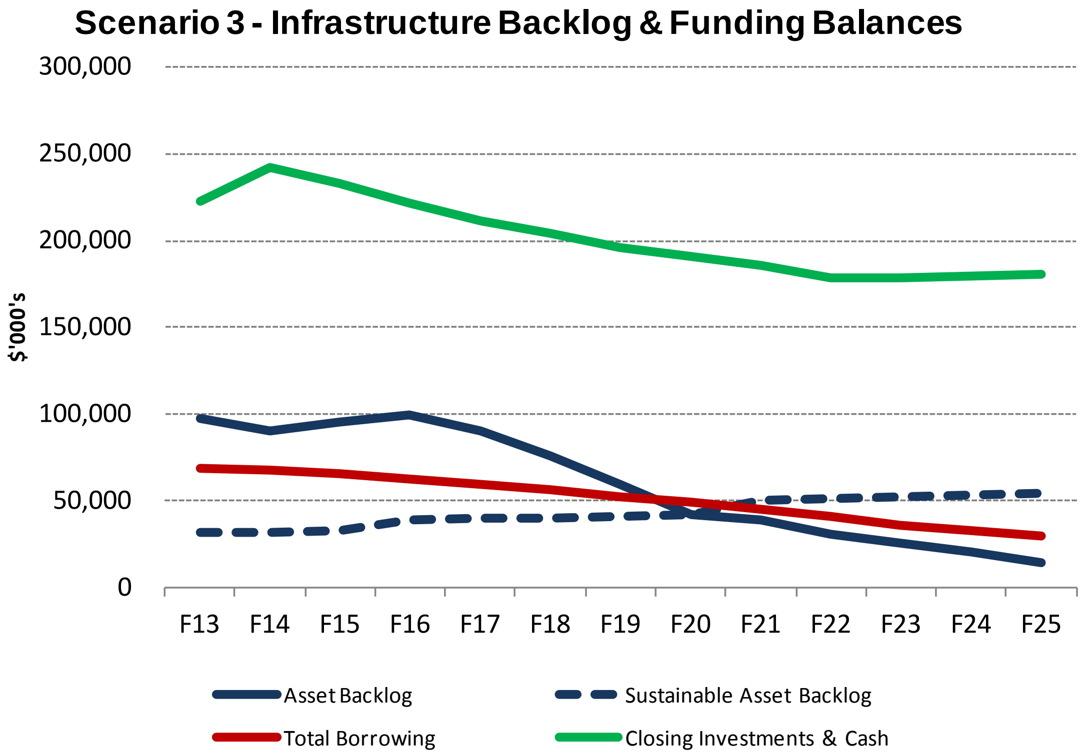
- Council incurs net fund overflows during the period of addressing the infrastructure backlog.



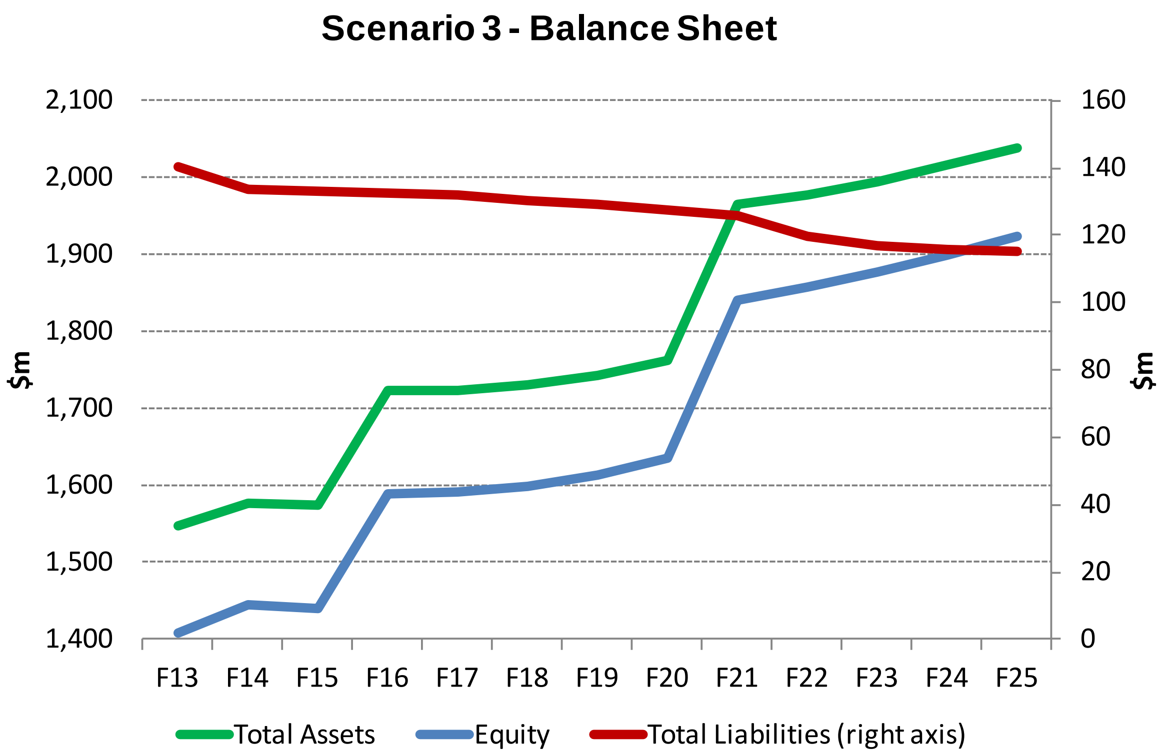
- This scenario achieves the recommended benchmark for the Operating Ratio.
- Unlike all other scenarios the operating position required for sustainability for Scenario 3 is in surplus in the latter years. A number of revenue items cannot be applied to support (cover) operating expenses. These items include:
  - The 2012 s508 (2) SRV is restricted for use on the designated capital projects (special projects). The top four programs receiving priority focus are the Hunter Street Revitalisation, Coastal Revitalisation, Blackbutt and Cycleways. The annual rate revenue reserved for these projects is currently **$4.8m pa**. This will rise to **approximately $6.5m by 2023**.
  - Share of Newcastle Airport net income. Council only receives a dividend ($600k in 2013/14) constituting approximately a quarter of Council's share of net profit ($2.2m in 2013/14). It is unlikely given the airports expansion strategy that Council will receive dividends which distribute back to Council the full share of net income.
  - Approximately $6m to $8m of revenue pa (from FY15 to FY23) is therefore not available for operational purposes. Once this revenue is excluded the operating position reflects breakeven rather than a surplus.
  - Scenario 3 is sustainable and provides some contingency for any adverse unforeseen events that could potentially impact Council's financial position. Sensitivity analysis has been undertaken to highlight possible risks.
- The rate rise in this scenario results in greater level of funds generated from operations (purple), and available for capital works, and funds utilised (blue) is largely in balance.
- The additional revenue results in:
  - Current Council services being increased to the level required by the community to support the revitalisation of the City.
  - The capital works necessary to support reduction in the infrastructure backlog.
  - Net funding position remains stable.



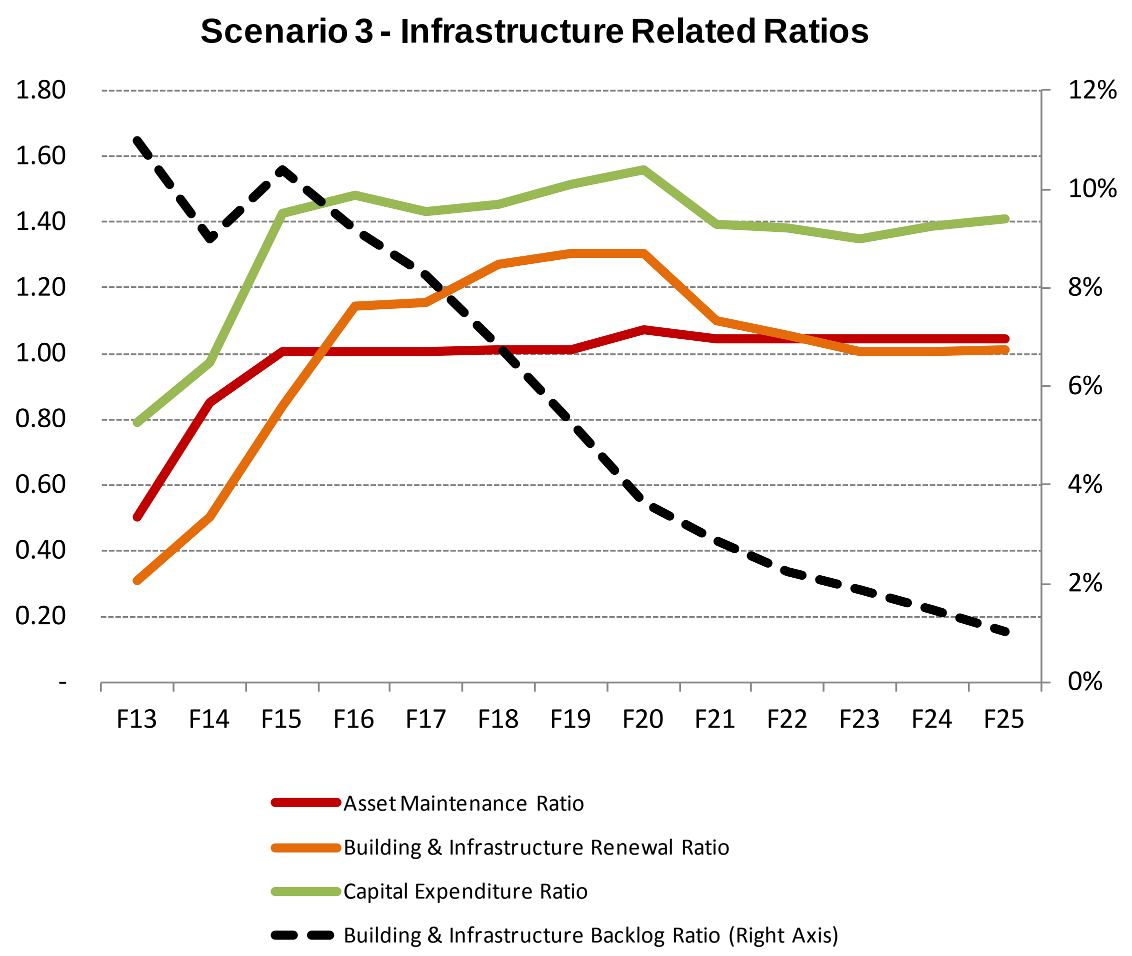
- The priority capital works objectives remain to (1) undertake sufficient asset renewal (light blue) and undertake the special projects program (supporting the priority 2012 s508 (2) SRV projects) reflected in new / upgraded assets (dark blue).
- New assets also included infrastructure for SWMC to provide the necessary capacity to service ongoing waste disposal needs of residents and businesses (FY15 and FY16).
- As can be seen from the graph above the primary increase in investment in the long run is in asset renewal. This reflects the scale of investment needed to address the asset backlog.



- Scenarios 2 and 3 are the only scenarios which meet all of the following criteria:
  - Achieve an operating surplus (covered in earlier analysis).
  - Reduces the infrastructure backlog to a sustainable level.
  - Maintain sufficient reserves to cover obligations. Reserves stabilises after the backlog has been reduced below the target of 2%.
  - Moderate reduction in total borrowing (red) in line with recommendations (no new borrowing) and in accordance with current loan agreements. The Comrie report recommends councils have a scheduled repayment plan for debt to ensure that debt eventually is paid off.



- Councils Asset Balances increase due to reserves not being eroded under this scenario due to (1) higher revenue via the SRV generating an operating surplus and (2) capital grants.
    - o The operating surplus and capital grants help ensures there are sufficient funds to undertake capital works, enabling Council to maintain rather than deplete reserves to unsustainable levels.
- In addition there is a moderate decrease in liabilities due to the gradual repayment of current debt.
- The increase in assets and decrease in liabilities are both contributing to an increase in Equity.
- As noted under Scenario 1 no asset revaluations have been reflected in the model.



See Scenario 1 for commentary on Infrastructure Related Ratios.

Conclusion

This scenario assumes rate increases of 8% pa over five years. This option will meet the financial sustainability objectives described in Scenario 2. This scenario will also provide capacity to reinstate most services which have been removed or decreased (such as increasing lifeguard services and cultural services). In some instances an increase in services might be realised by investing in community assets. This Scenario will result in Council operating costs increasing and is likely to require selective increases in Council staff in order to support the increased service delivery levels.

Both Scenarios 2 and 3 forecast a dip in reserves in the early years of the forecast period. This is due to a timing mismatch between rate revenue (which increases gradually) and the more aggressive timetable being assumed for addressing the infrastructure backlog.

This scenario confirms that a rate increase of 8% for five years will be sufficient to both ensure financial sustainability and to fund the services levels which the community has indicated they desire in order to ensure the revisitation of the City. The scenario was included as Option 3 in the Road to Recovery community engagement campaign and is the Option which the Council has endorsed.

11. Comparison of Options - Key Financial Indicators

Council has undertaken detailed financial analysis based on five different scenarios. From these three potential funding options were selected for inclusion in the Road to Recovery community consultation program. These options were:

- Option 1 (business-as-usual and base case). Reflected as Scenario 1 in the LTFP.
- Option 2 (financial sustainability). Reflected as Scenario 2 in the LTFP.
- Option 3 (financial sustainability and revitalisation). Reflected as Scenario 3 in the LTFP.

Other scenarios were assessed by Council and not presented to the community for consultation as they were sub-optimal to the other scenarios provided.

- Scenario 1B (borrowing).
- Scenario 1C (lower services and capital investment).

All scenarios are assessed below against TCorp sustainability benchmark ratios. The Broad Liability Ratio referenced in the IPART SRV Application template is also included and Council has included further analysis where this assists in the scenario assessment.

Further background on each scenario is provided below:

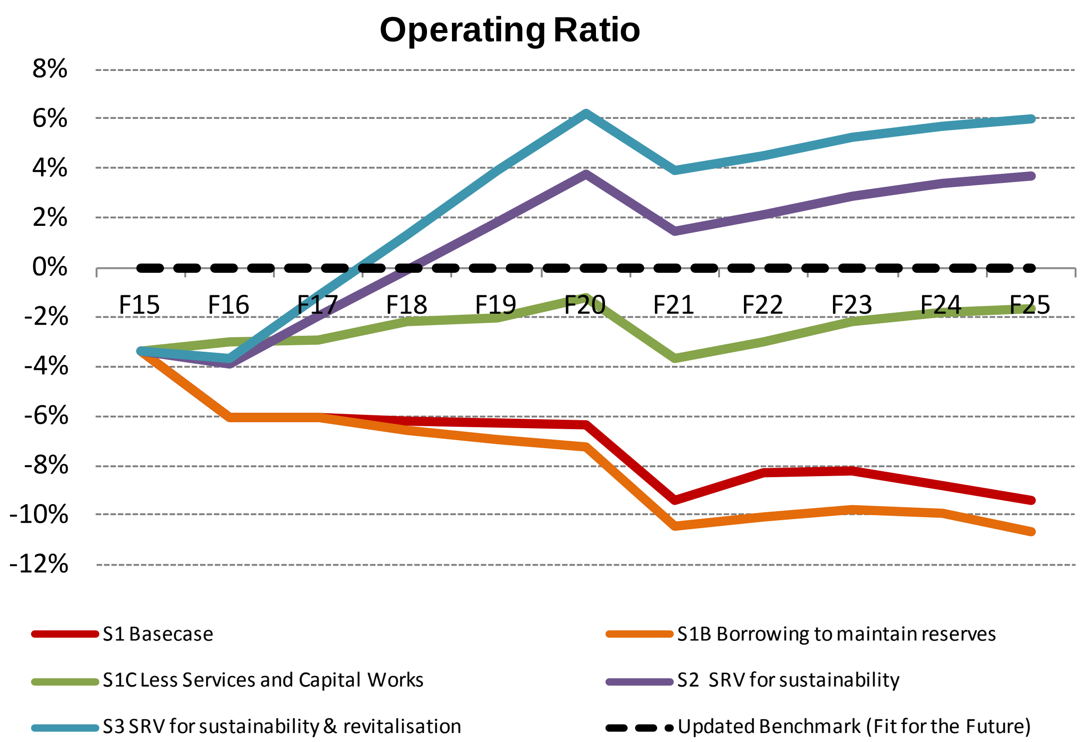
Scenario	Description	Inputs and Assumptions
Scenario 1 **Base case**	This scenario is business-as-usual. Maintaining current service levels and seeking to meet all goals reflected in the Delivery program and other IP&R documents.	• The following inputs and assumptions apply across all scenarios unless specifically varied. **Revenue** • Rate peg is 2.4% for 2015/16 and 3% for all subsequent years. **Expense** • CPI is assumed to be at the mid-point in the RBA target range (2.5% within the 2% to 3% band). • The LTFP has relied on Strategic Asset Management inputs for sustainable asset maintenance (utilising a 10 year horizon – in line with the time horizon of the LTFP. **Asset related** • Infrastructure Backlog is sourced from 2013/14 Financial Statements. • Sustainable Asset Renewal is also sourced from the SAMP and also is based on a 10 year horizon.
Scenario 1B **Borrowing**	This scenario is the same as Scenario 1 except borrowing will be utilised to address funding shortfalls.	• Additional **$20m borrowing** per annum from FY18 to FY23. Total borrowing of $120m.
Scenario 1C **Lower Service & Capital**	This scenario is the same as Scenario 1 except operating deficits and funding shortfall of that	• Less Services - Lower Employee Costs by **4%.** • Less Services - Lower M&C Costs by 4**%.** • Lower maintenance by 15% (similar to 2013/14 ratio).

Works	scenario are addressed by reducing services and capital works.	• Less Capital Works - Asset Renewal – reduced by **$5m pa** for FY18, FY19 and $10m pa up to FY23. • Less Capital Works – Corporate – reduced by **$2m pa** from FY16 to FY23.
Scenario 2 Financial Sustainability	Scenario 2 seeks to realise the objectives of the base case by seeking a SRV to address the operating deficit and funding shortfall.	• Proposed SRV across five years with the following rate increases: 2015/16 and 2016/17 of **6.8%,** 2017/18 of **6.6%** and 2018/19 and 2019/20 of **6.5%.**
Scenario 3 Financial Sustainability & revitalisation	Scenario 3 incorporates the objectives of scenario 2 however also seeks to improve or expand Council services in line with community expectations to support the revitalisation of the City.	• Proposed SRV across five years with the following rate increases from 2015/16 to 2019/20 of **8%.** • Additional expenditure on services.

11.1 Financial Indicators relating to Operating Position

Operating Ratio

This ratio measures a council's ability to contain operating expenditure within operating revenue. The benchmark has recently been reviewed (Fit for the Future and the Comrie Report) and the revised benchmark is minimum of 0% and ideally a modest surplus (up to 10%). The Comrie Report recommends this metric account for at least 50% weighting in assessing the financial health of councils.



A sustainable operating position can be breakeven or moderately in deficit (see Operating Ratio).

Scenarios 1 (Base case) & 1B (Borrowing) do not meet Tcorp benchmarks. Continuing as is (Scenario 1) or borrowing funds (Scenario 1B) will result in the deficit becoming worse.

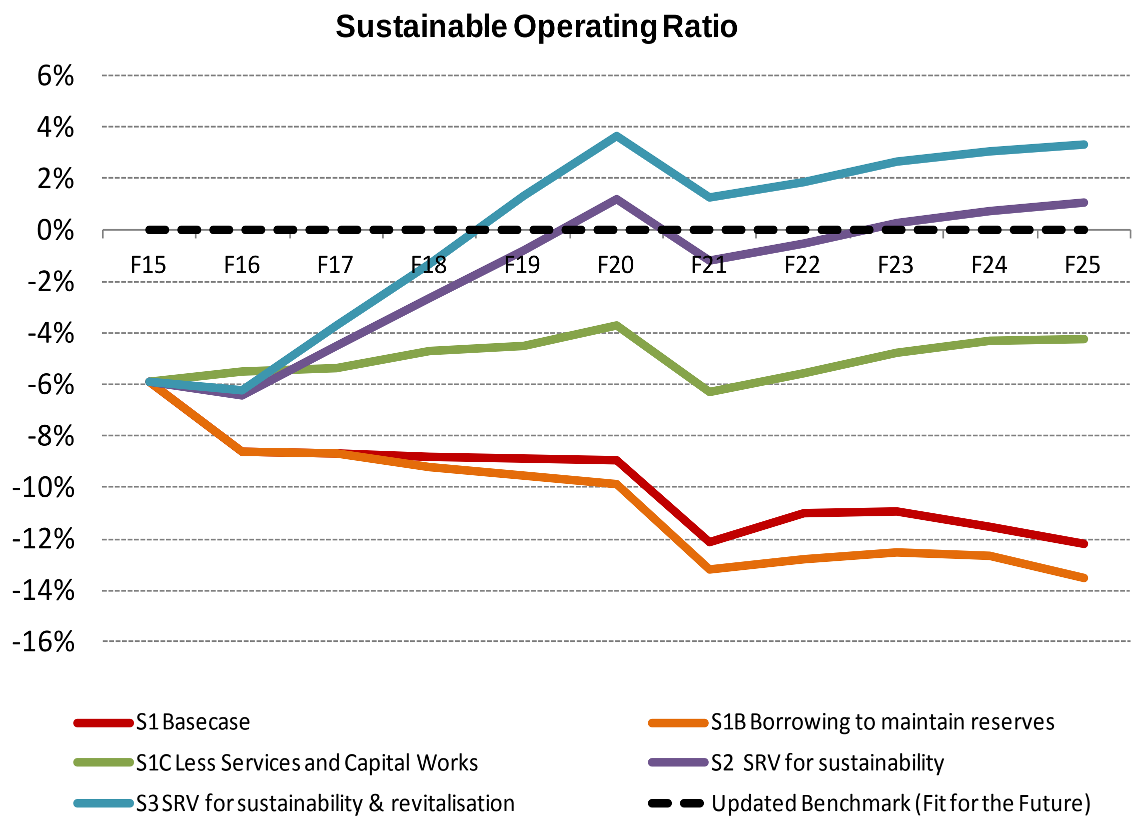
Scenario 1C matches benchmark if there is a 5% reduction in services (permanent) and a \$66m reduction in capital works over to 2023. If Capital reserved funds from 2012 s508 (2) SRV were excluded from operating revenue (as they can't be applied to operating expense) 1C would also breach the benchmark. The modelled scenario has been completed to demonstrate what would be required to avoid a SRV and is seen as unviable. The proposed reductions would be on top of a 10% reduction in workforce (which has already been completed) and productivity assumptions built into all scenarios which involve cumulative savings of \$66m (\$15m pa by 2023). In addition Scenario 1C would result in other objectives not being met such as asset backlog reduction.

Scenarios 2 (SRV for sustainability) & 3 (Larger SRV to fund revitalisation) both meet the operating ratio benchmark. More moderate SRVs would place other ratios at risk and could impact sustainability in the longer term. If reserves are run down over time investment income reduces impacting the surplus position (Scenario 2 excluding capital funds is in a modest surplus position (which would become a deficit - trending downwards - if reserves are reduced).

- The key reasons for the variances in operating ratio across scenarios are: The base case scenario has the lowest revenue (due to lower investment income resulting from a reduction in reserves). Scenario 1B (borrowing) has the highest operating costs due to the interest expense associated with borrowing. This increases as the loan balances increase (due to new loan funds exceeding principal repayments each year). Scenario 1C has lower costs due to cuts in services and capital works and maintains reserves (interest income). Scenarios 2 and 3 have higher revenue (SRV rate increases and also higher interest income than the base case due to reserves being stable).

Sustainable Operating Ratio

The Comrie Report also highlights the ratio should be net of capital revenue (ie revenue required to be spent on capital acquisition). On this basis a "Sustainable Operating Ratio" has been calculated that excludes 2012 SRV revenue (which is restricted to the sole use of special projects identified in that SRV application).



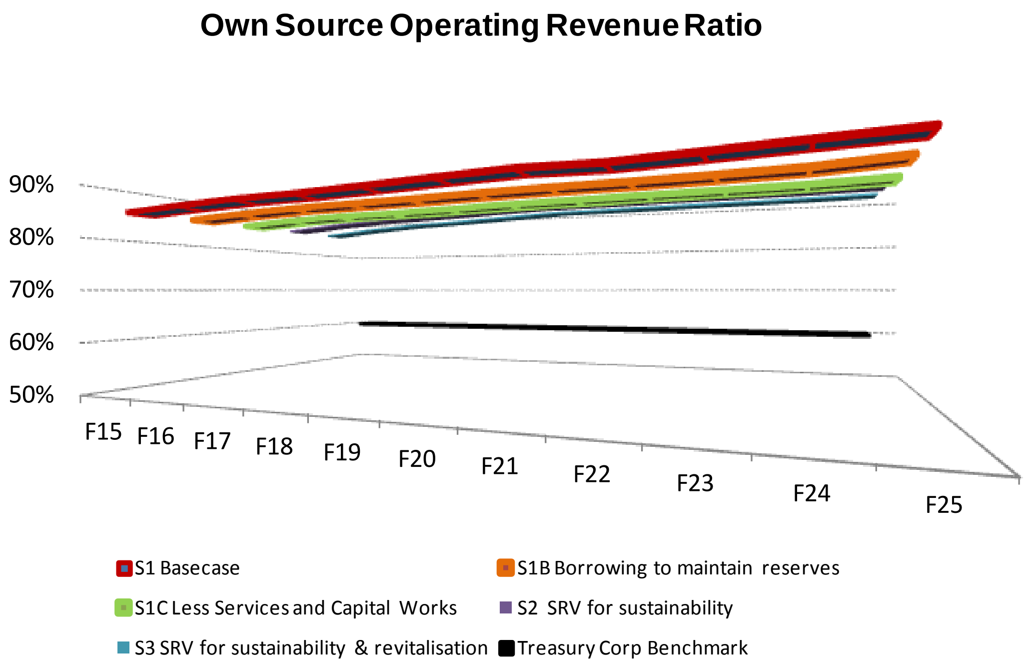
Note: share of profits of airport partnership has been excluded

The exclusion of the 2012 s508 (2) SRV from sustainable operating revenue to build a "sustainable view" of the operating ratio impacts all scenarios in a similar manner. The result however is that Scenario 1C (lower services and capital works) has a more significant operating deficit and would definitely be considered as breaching the target of at least a breakeven operating position.

The sustainable view also positions Scenarios 2 and 3 as having more modest underlying operating surpluses. Closer to breakeven than the upper range of 10% surplus noted as the upper limit of the benchmark in the Comrie Report.

Rates and Annual Charges Ratio (Own Source Operating Revenue Ratio)

This ratio measures the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue. Benchmark = Greater than 60%.

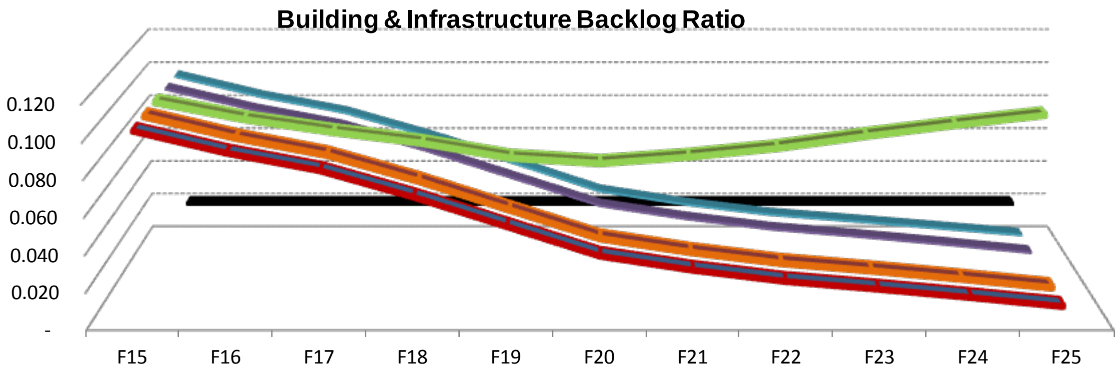


All scenarios reflect strong own-sourced revenue.

11.2 Financial Indicators Relating to Infrastructure

Building and Infrastructure Backlog Ratio

This ratio shows what proportion the backlog is against total value of a council's infrastructure. Benchmark = Less than 0.02x.



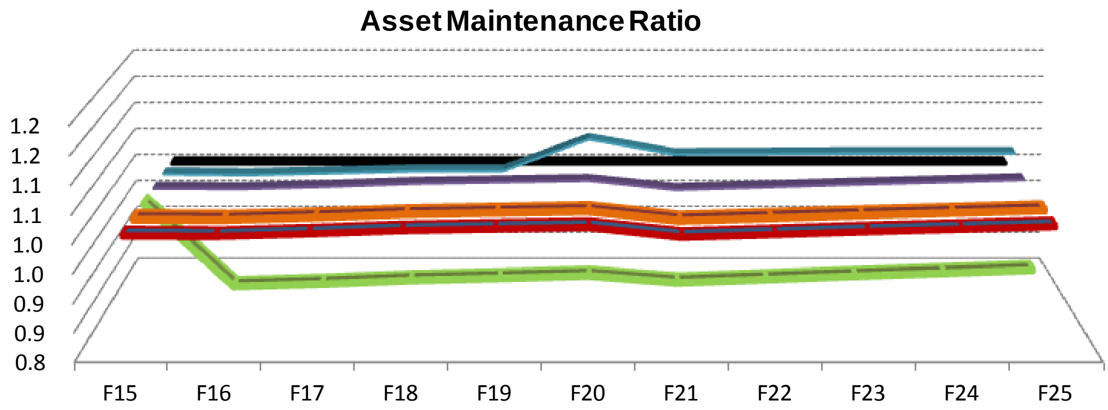
	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
S1 Basecase	0.104	0.092	0.083	0.068	0.053	0.037	0.029	0.023	0.019	0.014	0.010
S1B Borrowing to maintain reserves	0.104	0.092	0.083	0.068	0.053	0.037	0.029	0.023	0.019	0.014	0.010
S1C Less Services and Capital Works	0.104	0.094	0.087	0.081	0.073	0.070	0.073	0.078	0.085	0.091	0.097
S2 SRV for sustainability	0.104	0.092	0.083	0.068	0.053	0.037	0.029	0.023	0.019	0.014	0.010
S3 SRV for sustainability & revitalisation	0.104	0.092	0.082	0.068	0.053	0.036	0.029	0.023	0.019	0.015	0.010
Treasury Corp Benchmark	0.020	0.020	0.020	0.020	0.020	0.020	0.020	0.020	0.020	0.020	0.020

Note: data table included for clarity

All Scenarios except 1C will result in Council reaching a sustainable position as targeted by 2023. Scenario 1C reduces expenditure on services and capital works to both moderate impact on the operating deficit and keep Council's reserve position stable. The consequence of reducing capital works is to not address the asset backlog. The scenario has been structured to avoid deterioration in the asset backlog. As noted in comments on operating position 1C is not a viable option but has been modelled to demonstrate the scale of savings which would be required under this scenario.

Asset Maintenance Ratio

This ratio compares actual versus required annual asset maintenance, as detailed in Special Schedule 7. A ratio of above 1.0x indicates that the council is investing enough funds within the year to stop the infrastructure backlog from growing. Benchmark = Greater than 1.0x.



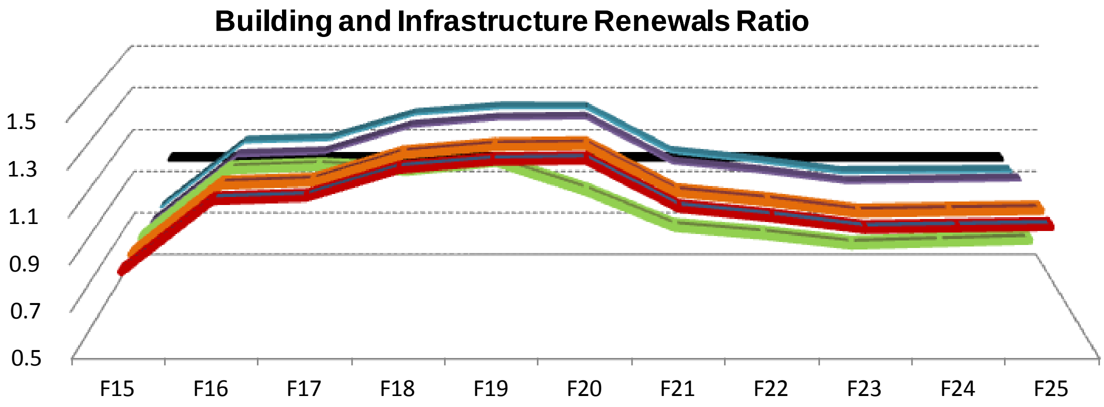
	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
S1 Basecase	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
S1B Borrowing to maintain reserves	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
S1C Less Services and Capital Works	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
S2 SRV for sustainability	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
S3 SRV for sustainability & revitalisation	1.0	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0
Treasury Corp Benchmark	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

All scenarios reflect the level of maintenance being completed in line with the required maintenance as per the Asset Management Strategy (AMS) except for Scenario 1C. Scenario 1C has reduced expenditure to avoid the solvency issues that arise in the base case.

Meeting the benchmark for this ratio is an important element in Council addressing the Asset Backlog. Not meeting this ratio would mean than certain assets are not being sufficiently maintained which will result in assets deteriorating faster than predicted based on their useful life and not have further issues arising due to assets not being maintained adequately.

Building and Infrastructure Renewals Ratio

This ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation. Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. Benchmark = Greater than 1.0x.

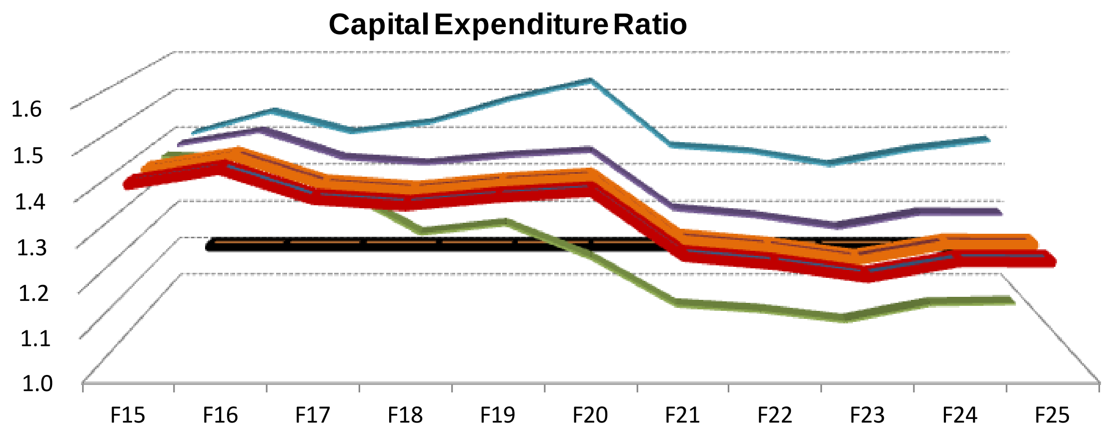


	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
S1 Basecase	0.8	1.1	1.2	1.3	1.3	1.3	1.1	1.1	1.0	1.0	1.0
S1B Borrowing to maintain reserves	0.8	1.1	1.2	1.3	1.3	1.3	1.1	1.1	1.0	1.0	1.0
S1C Less Services and Capital Works	0.8	1.1	1.2	1.1	1.2	1.1	0.9	0.9	0.8	0.8	0.8
S2 SRV for sustainability	0.8	1.1	1.2	1.3	1.3	1.3	1.1	1.1	1.0	1.0	1.0
S3 SRV for sustainability & revitalisation	0.8	1.1	1.2	1.3	1.3	1.3	1.1	1.1	1.0	1.0	1.0
Treasury Corp Benchmark	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Depreciation is greater than expenditure on asset renewals for all scenarios initially however expanded capital works programs for all scenarios except 1C will result in these scenarios meeting the TCorp benchmark.

Capital Expenditure Ratio

This indicates the extent to which a council is forecasting to expand its asset base with capital expenditure spent on both new assets and replacement / renewal of existing assets. TCorp benchmark is 1.1X.



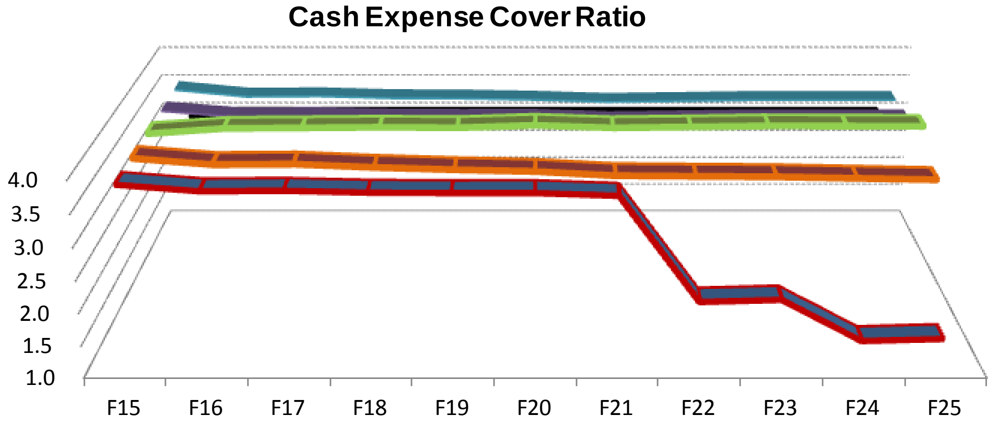
	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
S1 Basecase	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.3	1.3
S1B Borrowing to maintain reserves	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.3	1.3
S1C Less Services and Capital Works	1.4	1.4	1.4	1.2	1.3	1.2	1.1	1.1	1.0	1.1	1.1
S2 SRV for sustainability	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.3	1.3
S3 SRV for sustainability & revitalisation	1.4	1.5	1.4	1.5	1.5	1.6	1.4	1.4	1.3	1.4	1.4
Treasury Corp Benchmark	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1

All scenarios except Scenario 1C will reach the benchmark.

11.3 Financial Indicators Relating to Liquidity Position

Cash Expense Cover Ratio

This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow. Benchmark = Greater than 3.0 months.



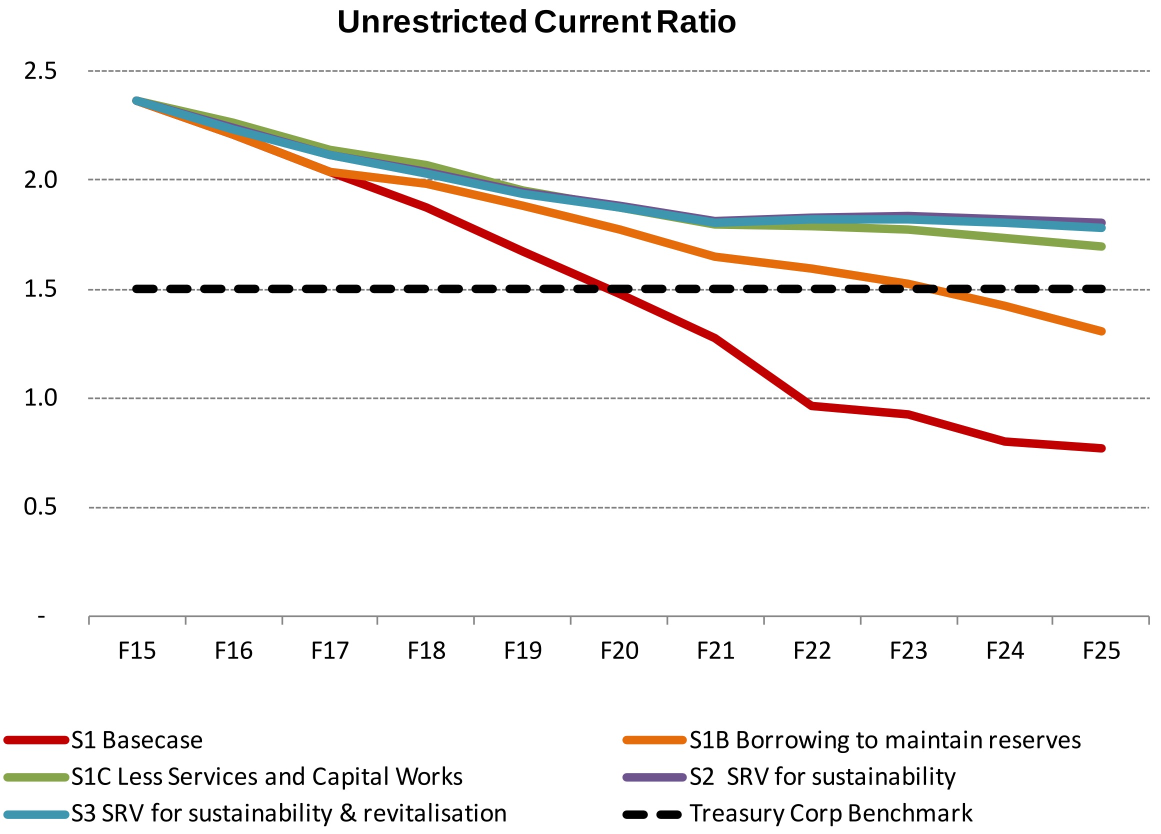
	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
S1 Basecase	3.8	3.7	3.7	3.7	3.7	3.7	3.7	2.0	2.1	1.4	1.5
S1B Borrowing to maintain reserves	3.8	3.7	3.7	3.7	3.6	3.6	3.5	3.5	3.5	3.5	3.5
S1C Less Services and Capital Works	3.8	3.9	3.9	3.9	3.9	4.0	3.9	3.9	3.9	3.9	3.9
S2 SRV for sustainability	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
S3 SRV for sustainability & revitalisation	3.8	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.6
Treasury Corp Benchmark	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Council holds a significant amount of securities at shorter term maturities. This enables funds to become available in line with the benchmark of 3 months.

The base case scenario reflects a gradual erosion of reserves which would ultimately result in liquidity issues. It could be possible that this ratio does not adequately cover liquidity as reserves erode as Council could hold funds in liquid assets but be precluded from using those funds because they are restricted to particular purposes. Therefore Council could encounter issues prior to what is reflected in the above graph.

Unrestricted Current Ratio

Restrictions placed on various funding sources (eg Section 94 developer contributions, RMS contributions) complicate the traditional current ratio because cash allocated to specific projects are restricted and cannot be used to meet a council's other operating and borrowing costs. The Unrestricted Current Ratio is specific to Local Government and is designed to represent a council's ability to meet debt payments as they fall due. Benchmark = 1.5x (taken from the IPART December 2009 Revenue Framework for Local Government report).



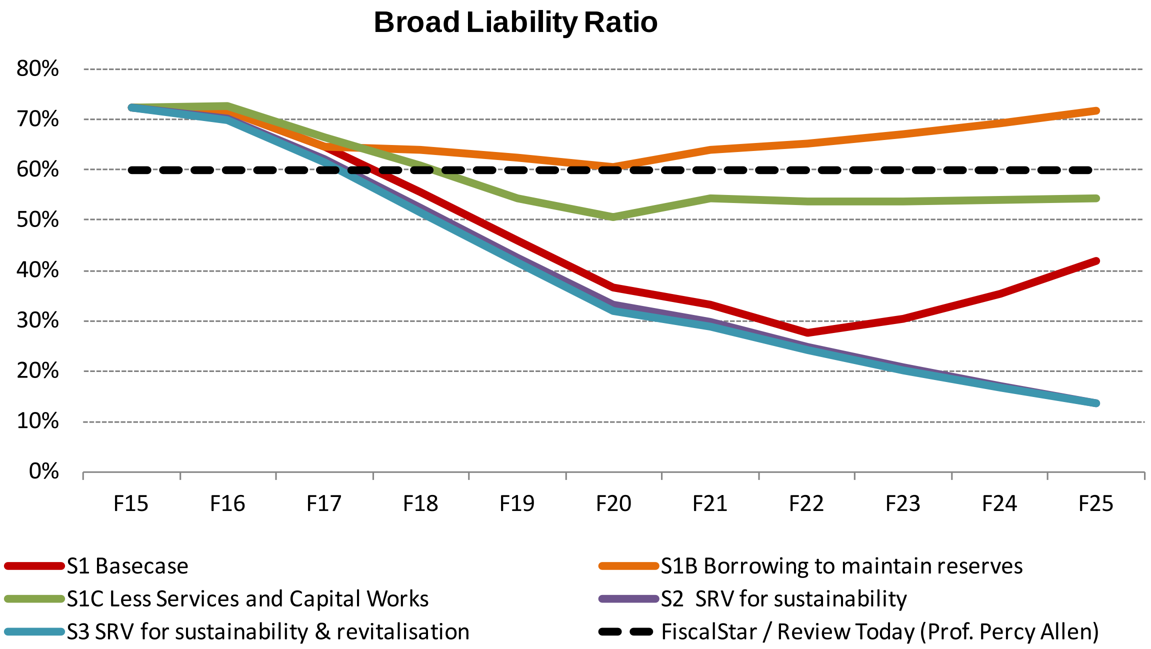
The base case scenario breaches the TCorp benchmark calculated - this is due to the significant reduction in reserves (which is invested in current and non-current investments). Due to the decrease there are fewer funds available to invest in current investments. Liquidity is therefore impacted.

Scenario 1B also breaches this ratio. Borrowing more funds (as with the base case) would help address this breach however as noted borrowing from a weak financial position will not place Council on a sustainable course.

11.4 Financial Indicators relating to Debt / Borrowing

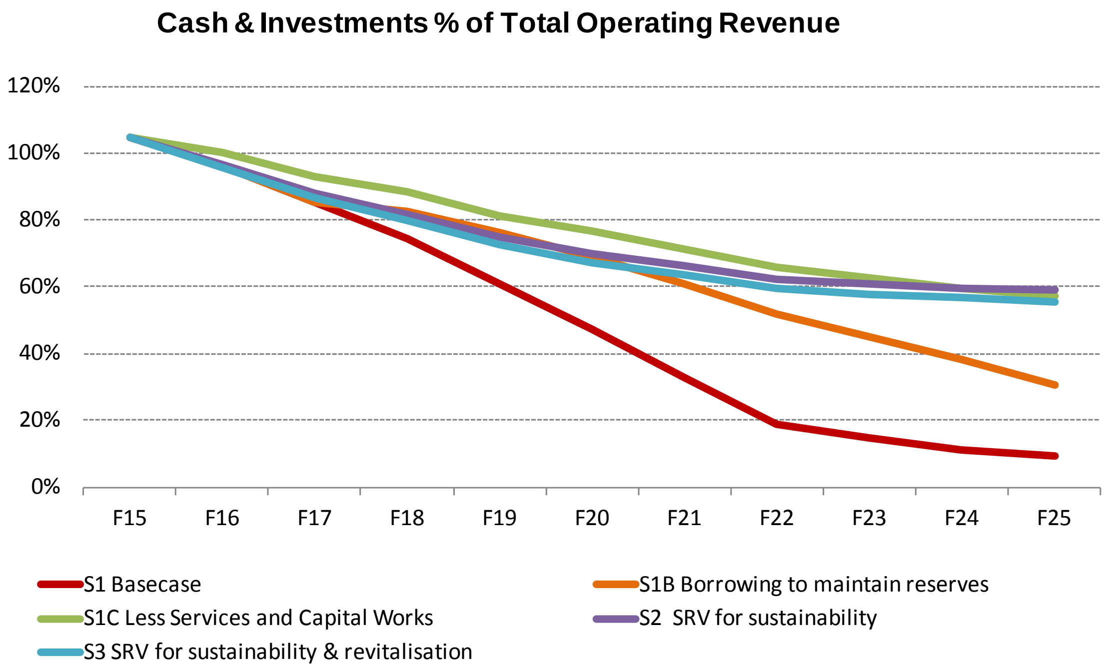
Broad Liabilities Ratio

This ratio assesses combined debt and backlog as a percentage of total operating revenue. Professor Percy has recommended that to be sustainable a council's Broad Liabilities Ratio should not exceed 60%. According to Professor Percy even 'sustainable' councils need to be vigilant if their ratio is 55% suggesting that many are living on the edge of sustainability.

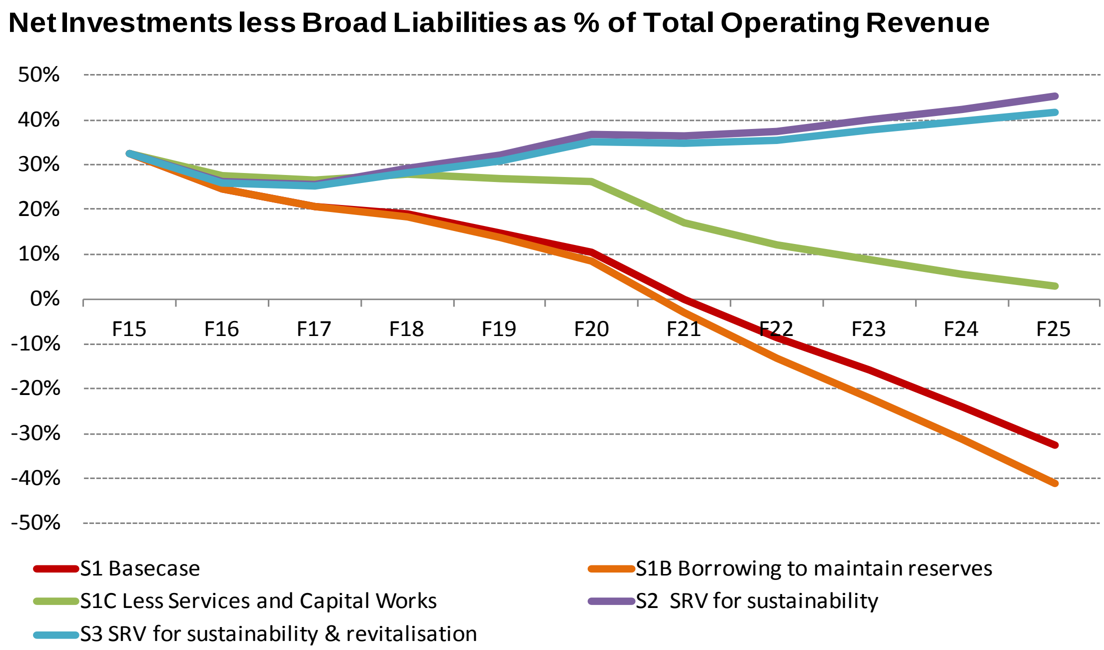


NCC currently has a non-sustainable Broad Liability Ratio. All scenarios except Scenario 1B will become sustainable. Scenario 1B remains unsustainable as the decrease in the infrastructure backlog is offset by the increase in borrowing.

This ratio however does not present the full story as it is possible for Council to reduce the backlog without increasing borrowing and still have a deteriorating financial position. The graph below reflects the change in cash and investments as a percentage of operating revenue. As can be seen Scenario 1 has a significant decrease in cash and investments (in effect a reduction in reserves).



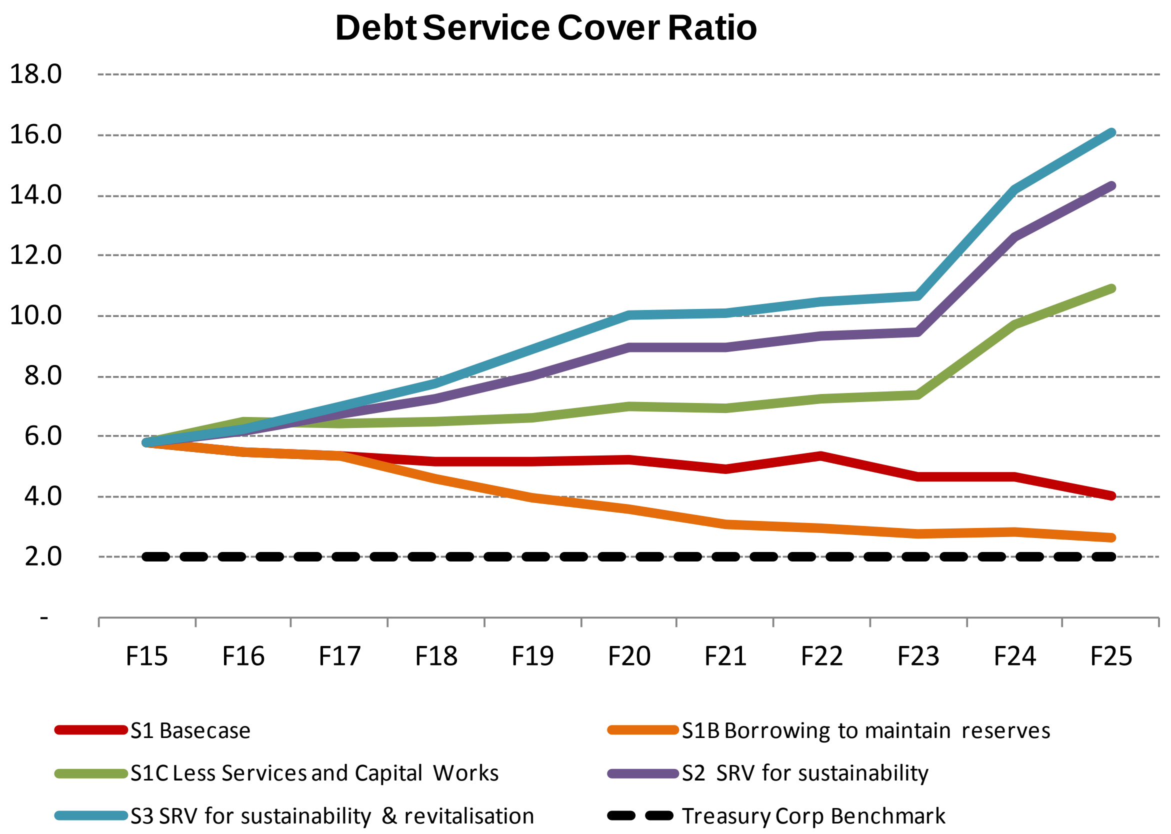
If both the broad liability and cash and investments are considered Scenarios1 and 1B both reflect deterioration in Council's liquidity position based on this metric. This emphasises that borrowing is in effect a variant of Scenario 1 and once the debt is paid off Council's position would in fact be worse due to additional costs incurred.



Analysis not completed but relevant to the assessment of capacity to meet obligations would be to also recognise other future liabilities such as externally restricted funds, employee liabilities and obligations likely to arise such as remediation of the SWMC. These obligations will increase over the duration of the LTFP and have been a consideration in assessment of the scenarios. The impact is largely equivalent for all scenarios however in all instances the liquidity position is impacted adversely. These future obligations become a particular issue for Scenario 1 due to the reduction in cash and investments.

Debt Service Cover Ratio (DSCR)

This ratio measures the availability of cash to service debt including interest, principal and lease payments. Benchmark = Greater than 2.0x.

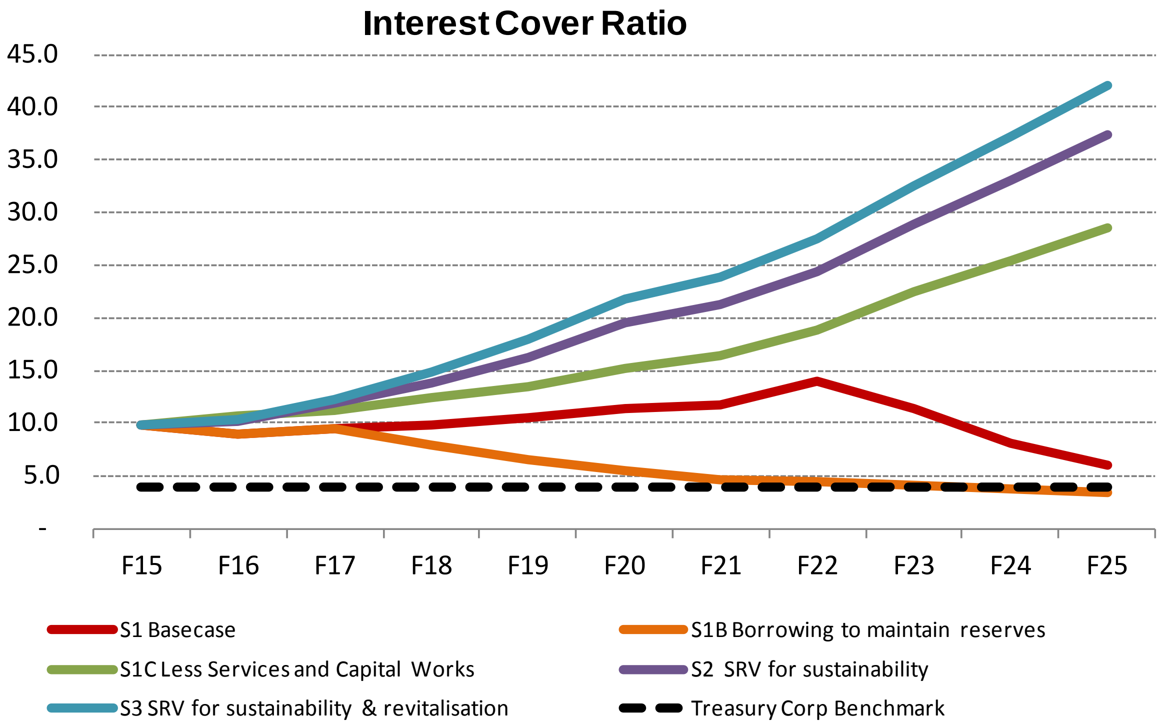


Interest Cover & Debt Service Ratio

Scenario 1B (borrowing) is the only scenario which targets the interest cover benchmark. All other scenarios do not include borrowing. Analysis indicates that Council should be in a reasonable operating position before undertaking a borrowing program to ensure capacity to pay principal and interest without a cycle of eroding reserves. Interest Rate Cover and Debt Service ratios cannot be assessed independently of other KPIs in making borrowing decisions.

Interest Cover Ratio

This ratio indicates the extent to which a council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a council's operating cash. Benchmark = Greater than 4.0x.

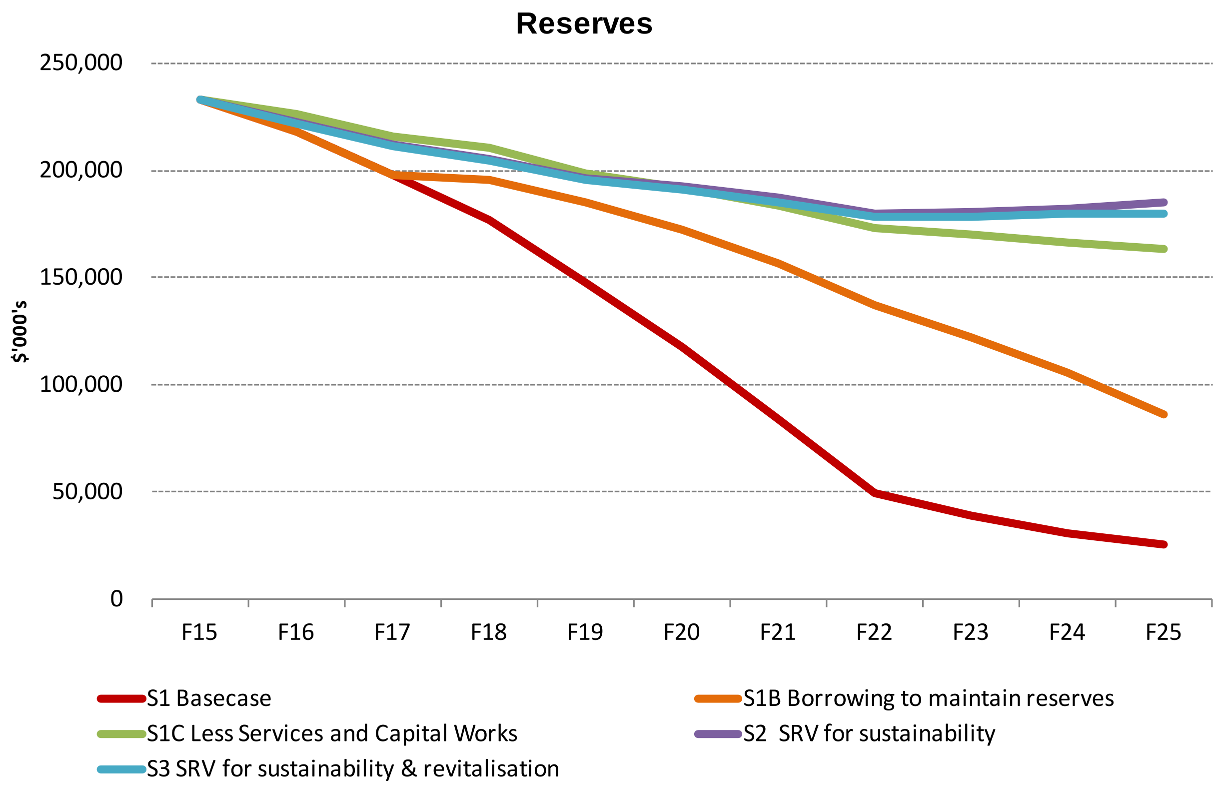


The base case scenario will eventually breach the minimum benchmark with a clear downwards trend in the ratio. This is the result of ongoing funding deficits which ultimately fully erode reserves and would require a borrowing program to provide ongoing operating cash. This ongoing borrowing program would need to continue indefinitely which is clearly not viable.

The borrowing scenario (1B) will breach the benchmark sooner and whilst the trend appears flatter than the base case the trend will steepen as cash reserves deplete to such a level that borrowing needs to be increased.

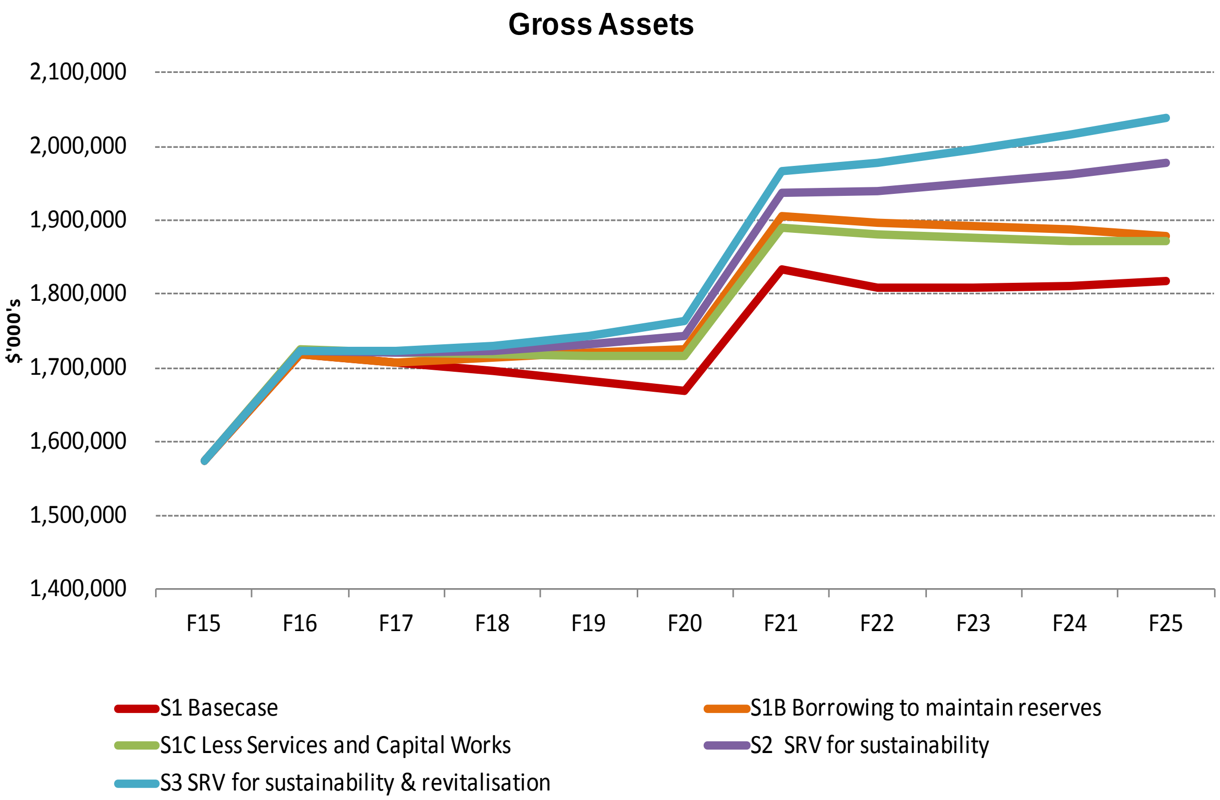
11.5 Balance Sheet Metrics

Reserves



The base case scenario will result in a substantial reduction in reserves due to year on year operating deficits. Reserves will not be sufficient to cover externally restricted funding requirements and reserves associated with employee liabilities. Borrowing would enable Council to maintain reserves however borrowing eventually needs to level out at sustainable levels. Borrowing would at best therefore be a temporary fix, and as previously indicated is not a viable long term option

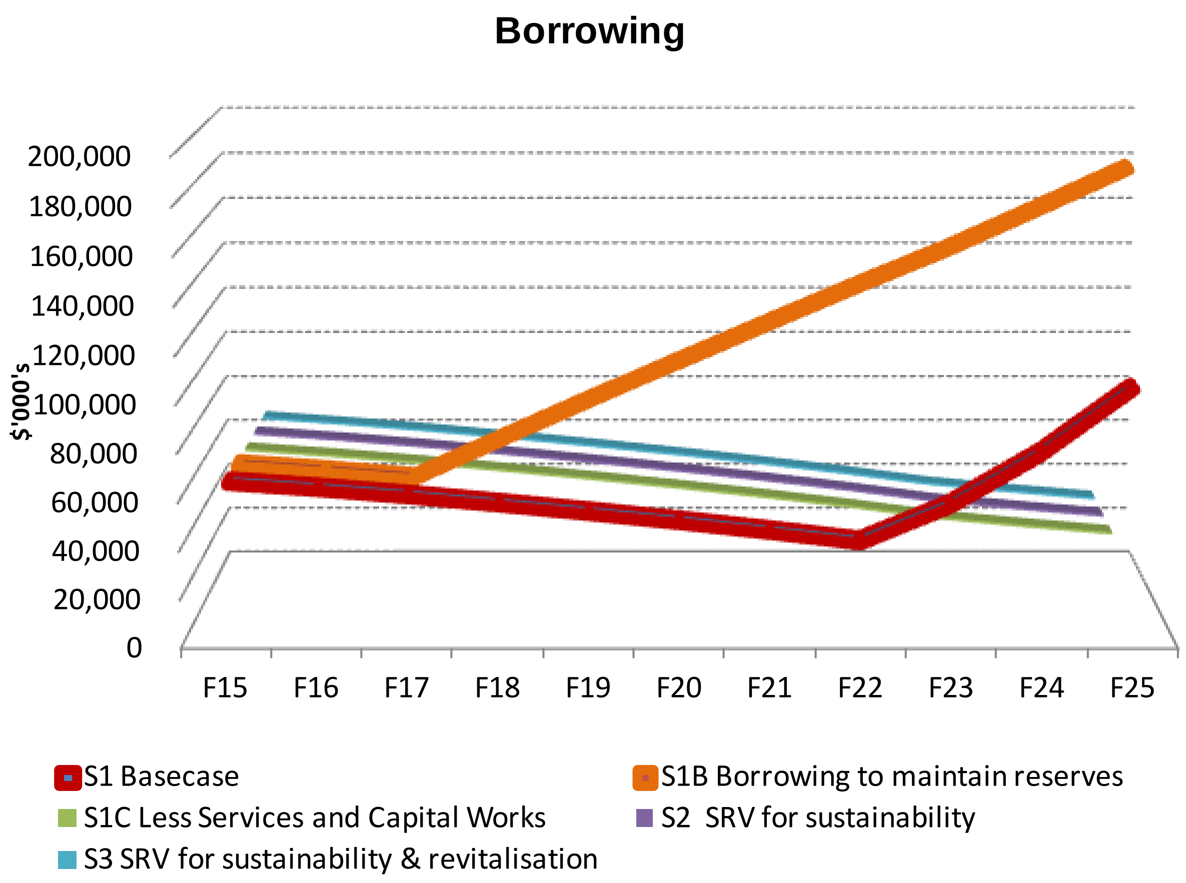
Gross Assets



The base case scenario has the weakest gross asset position due to the depletion of investments and cash. Scenario 1B appears in a stronger position however this is solely due to a higher level of borrowing (and the associated liabilities) resulting in a more cash being held in reserves. Scenario 1C appears reasonable however the gross assets position does not reflect the impact of not addressing the infrastructure backlog, as the backlog is not reflected on the balance sheet.

Only scenarios 2 and 3 will result in gross assets increasing in real terms. If the five yearly revaluation cycle is excluded gross asset values decrease over the ten year period for all other scenarios.

Borrowing

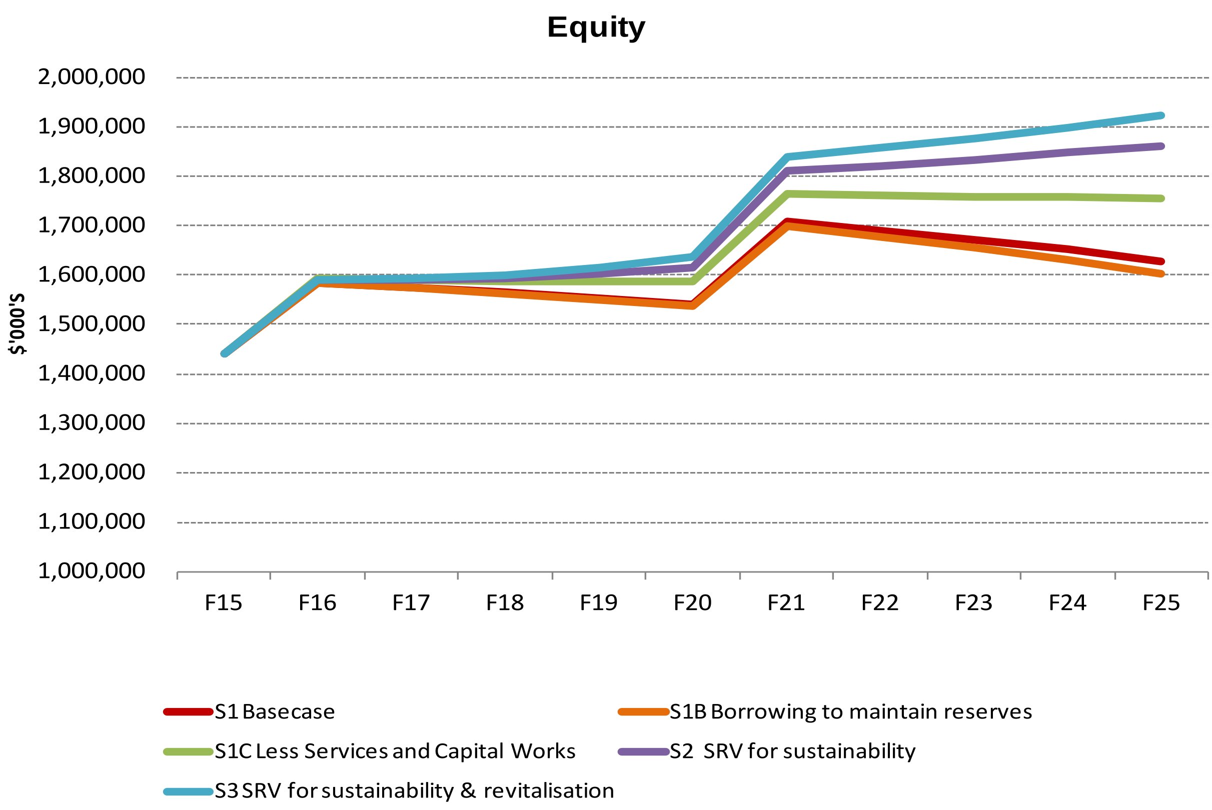


Scenario 1B reflects additional borrowing.

All other scenarios involve the gradual repayment of principal in line with current Budget Principles. Scenario 1 (base case) however results in cash reserves being exhausted which would require additional borrowing in order to provide ongoing cash for operations. This is not a viable strategy. Council would not have the capacity to repay the debt unless there was a significant reduction in expenditure (and Council service levels) or other sources of funds (additional revenue).

Borrowing is an option that can only be prudently considered when Council has sufficient underlying operating surplus to service increased debt. In the current context any significant increase in borrowing will increase the operating deficit due to interest payments. In effect without revenue increasing or expenses reducing Council will not have the capacity to pay interest or repay principal. A continual cycle of borrowing will not be sustainable.

Equity



Scenarios 1 (base case) and 1B (Borrowing) will result in a substantial reduction in equity (note comment for gross assets re asset revaluation). Whilst 1B results in reserves (and consequently gross assets) being maintained an increase in liabilities results in equity reducing (the decrease is greater than base case due to interest charges resulting in larger operating deficits).

Summary

An analysis of these comparative graphs which cover all of the TCorp ratios and some additional data reinforces the key conclusions reached.

Scenario 1 (base case) is not sustainable due to expenditure exceeding funds generated, which erodes reserves to unsustainable levels requiring a borrowing program which will eventually not be able to be continued due to breaches of key ratios.

Scenarios 1B and 1C do not provide viable alternatives. Scenario 1B (Borrowing) merely results in delaying the date tough decisions which would need to be made regarding seeking additional revenue or reducing services. When those decisions are finally made the action will need to be more significant to repair Council's Balance Sheet. Scenario 1C reflects service reductions which are not aligned to community needs and expectations and also do not result in Council meeting key sustainability targets.

Scenarios 2 and 3 are sustainable. There is an initial decrease in reserves due to the extensive investment required in addressing the infrastructure backlog. Once the backlog ratio is below the target benchmark of 2% and asset renewal works reduces to be in line with sustainable levels both scenarios generate moderate funding surpluses. These funding surpluses will be largely in line with inflation thereby maintaining the reserves position in real terms.

12. Sensitivity Analysis

The LTFP contains a number of assumptions based on various sources such as legislation, inflation, current service provisions and wage markets. Variations in such assumptions during the life of the plan may have significant impacts on the forecast results of the plan and forecast position of Council.

Sensitivity scenarios selected below have been applied to Scenario 3 only. Scenarios undertaken are all adverse in order to assess the resilience of the recommended option in circumstances where the underlying assumptions are less favourable and determine the risk of the required outcomes not being achieved.

The following scenarios have been identified for sensitivity analysis:

Sensitivity Scenario	Description	Rationale for Inclusion
Sensitivity 1 - Lower than anticipated Rate increase	IPART might determine that Council should not receive the full rate increase this scenario will indicate the impact of a rate decision of 7% rather than 8% per annum over the five years.	IPART has full discretion to provide a rate or duration of rate increases that differs from the rate and duration in the application.
Sensitivity 2 – Change in accounting treatment of asset renewal	Council's current asset revaluation exercise includes the assessment of what is the appropriate mix of capitalisation and expensing of asset renewal costs. An increase in the proportion expensed is a possible outcome.	Due to the change in accounting treatment being a possible outcome and the movements in asset values, depreciation etc would be significant it is prudent to model the impact of such a change.
Sensitivity 3 - Increase M&C & Labour costs	The current inflation environment is benign however the recent significant devaluation in the $A and expansionary interest rate settings could result in inflationary pressures arising at some stage within the 10 year projection of the LTFP.	An SRV over 2015/16 to 2019/20 will result in council being at some financial risk if inflationary pressures do surface as the SRV will not be adjusted for a different inflationary outcome. This scenario assesses the impact of inflation exceeding model assumptions.

12.1 Sensitivity Scenario 1 – Lower Revenue

Description & Assumptions

Description & Assumptions

This sensitivity scenario assesses the impact of an IPART determination that provides a lower rate than that applied for.

The key assumption in this scenario is that IPART limited Council to a 7% increase in rates rather than 8% for each of the five years from 2015/16 to 2019/20.

Analysis

Sensitivity 1 - Lower SRV than applied for														
For the year ended 30 June		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue		217,506	223,826	222,345	231,184	241,409	252,969	264,585	276,772	284,119	292,087	299,949	307,925	315,003
Operating Expenses		230,911	223,072	229,930	240,740	246,521	253,533	259,711	266,754	280,911	286,669	292,396	299,192	306,213
Operating Surplus (Deficit)		(13,405)	754	(7,585)	(9,556)	(5,112)	(564)	4,874	10,018	3,208	5,418	7,552	8,733	8,790
Total Assets		1,548,321	1,577,799	1,573,947	1,721,680	1,719,983	1,722,289	1,729,818	1,742,278	1,936,905	1,940,174	1,948,956	1,960,285	1,971,982
Total Liabilities		140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Equity		1,408,038	1,444,161	1,440,708	1,589,049	1,588,185	1,591,799	1,600,782	1,614,840	1,811,286	1,820,593	1,831,953	1,844,410	1,856,840
Borrowing		68,536	67,366	65,462	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438
Closing Investments & Cash		222,747	242,304	232,858	220,789	208,040	197,373	182,747	170,348	156,591	141,191	132,869	124,476	114,569

	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(9,556)	(5,112)	(564)	4,874	10,018	3,208	5,418	7,552	8,733	8,790
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(17,475)	(13,493)	(9,432)	(4,508)	90	(7,013)	(5,105)	(3,283)	(2,425)	(2,699)
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-4.13%	-2.12%	-0.22%	1.84%	3.62%	1.13%	1.85%	2.52%	2.84%	2.79%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	85.97%	86.73%	87.15%	87.72%	88.31%	88.53%	88.63%	88.84%	89.08%	89.63%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	99,172	90,034	75,584	59,455	41,943	39,032	31,260	26,151	20,712	14,990
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	9.19%	8.25%	6.83%	5.26%	3.63%	2.86%	2.25%	1.86%	1.45%	1.03%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	1.00	1.01	1.01	1.01	1.07	1.04	1.04	1.04	1.04	1.04
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.15	1.16	1.27	1.30	1.30	1.10	1.06	1.00	1.01	1.01
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.48	1.43	1.46	1.51	1.56	1.39	1.38	1.35	1.38	1.41
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	6.11	6.67	7.21	8.09	8.96	8.91	9.33	9.45	12.52	14.00
Interest Cover Ratio	> 4X	8.77	10.96	9.83	9.99	11.73	13.76	16.41	19.45	21.14	24.42	28.83	32.76	36.64
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.70	3.71	3.67	3.67	3.65	3.61	3.62	3.64	3.64	3.64
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.23	2.10	1.99	1.87	1.76	1.65	1.62	1.58	1.52	1.45
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	220,789	208,040	197,373	182,747	170,348	156,591	141,191	132,869	124,476	114,569
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(12,068)	(12,750)	(10,667)	(14,626)	(12,399)	(13,757)	(15,400)	(8,322)	(8,393)	(9,907)

Operating Position

- The lower rate would result in Council having an underlying operating deficit after excluding revenue items that cannot be applied to operating expenses (ie operating position less 2012 SRV and share of profits from Newcastle Airport.
- Lower net operating result with expenditure remaining the same results in a significantly worse funding position.

Equity

- Marginally impacted due to lower revenue.

Infrastructure

- No impact on key infrastructure ratios as Council continues to make key investments in infrastructure.

Borrowing

- No initial borrowing impact however Council would need to consider borrowing based on adverse trend in Investments and Cash position (or Council would need to moderate expenditure on revitalisation services.)

Liquidity

- Liquidity ratios deteriorate as Investment and Cash position deteriorates.

Reserves

- Reserves position (Investments and Cash) deteriorates over the projected period and based on ongoing funding deficits this would appear to be unsustainable.
- **Funding Surplus (Deficit)** is the primary area of concern as unlike Scenario 3 the funding deficits do not flatten out to a sustainable position.

Conclusion

This sensitivity analysis indicates that Council would not be able to support the expenditure levels proposed to revitalise the City with a 7% rather than 8% increment in rates. The most likely solution would be for Council to prioritise and reduce the revitalisation initiatives to fit the available revenue. This most likely would involve deferring rather than not undertaking some initiatives.

12.2 Change in Accounting Treatment for Asset Renewal

Description & Assumptions

This sensitivity scenario assesses the impact of a possible change in the accounting treatment arising from the asset revaluation exercise. Currently Council is undertaking a review of replacement costs of a large portion of Council's infrastructure assets (roads, pathways, drainage and bridges). These assets constitute over 65% of Council's gross assets.

As part of this review Council is assessing the best accounting treatment and might determine that a larger portion of the replacement cost ("brownfield" ie replacing existing infrastructure) is expensed due to a portion of the works being associated with demolishing and rebuilding ancillary infrastructure (for example, a road or pathway might need to be dug up to repair a drain, replacing a kerb and gutter results in some impact on the neighbouring road and pathway).

The assumption in this scenario is that the proportion of asset renewal costs expensed increases from the current level of 22% to 50%.

Analysis

Sensitivity 2 - Change in mix of replacement cost														
For the year ended 30 June		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue		217,506	223,826	222,345	232,262	243,762	256,826	270,196	284,421	292,304	300,173	308,585	317,178	325,547
Operating Expenses		230,911	223,072	229,930	244,337	250,393	258,988	265,748	273,011	285,243	290,508	295,567	302,582	309,819
Operating Surplus (Deficit)		(13,405)	754	(7,585)	(12,075)	(6,631)	(2,162)	4,448	11,410	7,060	9,666	13,018	14,596	15,728
Total Assets		1,548,321	1,577,799	1,573,947	1,408,373	1,405,157	1,405,866	1,412,970	1,426,822	1,569,844	1,577,361	1,591,609	1,608,801	1,627,436
Total Liabilities		140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Equity		1,408,038	1,444,161	1,440,708	1,275,742	1,273,360	1,275,376	1,283,934	1,299,383	1,444,226	1,457,780	1,474,606	1,492,927	1,512,294
Borrowing		68,536	67,366	65,462	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438
Closing Investments & Cash		222,747	242,304	232,858	221,875	211,487	204,692	195,699	190,980	185,454	178,201	178,589	179,539	180,280
	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(12,075)	(6,631)	(2,162)	4,448	11,410	7,060	9,666	13,018	14,596	15,728
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(20,045)	(15,123)	(11,209)	(5,191)	1,135	(3,517)	(1,225)	1,803	3,048	3,837
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-5.20%	-2.72%	-0.84%	1.65%	4.01%	2.42%	3.22%	4.22%	4.60%	4.83%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	86.04%	86.84%	87.29%	87.88%	88.47%	88.59%	88.79%	88.90%	89.03%	89.29%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	98,006	87,794	72,336	55,338	37,113	32,482	23,967	18,303	12,518	6,676
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	12.82%	11.35%	9.24%	6.92%	4.52%	3.35%	2.43%	1.83%	1.23%	0.64%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	1.03	1.03	1.03	1.03	1.08	1.06	1.06	1.05	1.05	1.05
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.01	1.01	1.11	1.13	1.13	0.95	0.91	0.86	0.86	0.86
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.49	1.41	1.40	1.46	1.52	1.38	1.37	1.34	1.39	1.41
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	4.19	4.93	5.49	6.51	7.61	7.64	8.10	8.41	11.22	12.76
Interest Cover Ratio	> 4X	8.77	10.96	9.83	6.86	8.67	10.47	13.20	16.52	18.13	21.20	25.65	29.36	33.38
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.38	3.39	3.33	3.32	3.31	3.28	3.31	3.34	3.34	3.34
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.24	2.12	2.03	1.94	1.87	1.80	1.82	1.82	1.80	1.78
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	221,875	211,487	204,692	195,699	190,980	185,454	178,201	178,589	179,539	180,280
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(10,983)	(10,388)	(6,795)	(8,993)	(4,719)	(5,526)	(7,253)	388	950	741

Operating Position

- Expensing more of the capital works for asset renewal will result in more volatile picture of the impact of capital works on Income and Expenditure Statement. When Council is undertaking a higher level of asset renewal work the operating position will be adversely affected by the additional expensed costs. If Council spends less than the sustainable rate then (given depreciation is less due to lower asset values) the operating position will look more favourable than if a higher portion of capital works are capitalised.

- This scenario reflects the adverse impact on Council's operating position due to the above change in accounting policy resulting in an increased level of operating cost associated with above trend expenditure on capital projects.
- Note that funding position is not impacted due to the capital works requiring the same investment (only the mix of what is capitalised and expensed has changed).

Equity

- Equity is significantly lower due to both a revaluation of infrastructure assets and a lower capitalisation rate for new assets arising from asset renewal.

Infrastructure

- An impact from changing the accounting treatment is that the denominator for the backlog ratio has changed (lower net infrastructure assets) resulting in Council needing to reach a lower dollar target to achieve the 2% benchmark.
- The total backlog amount stays the same as the backlog reflects the total cost required (both capitalised and expensed) to bring the assets back to a satisfactory standard.

Borrowing

- No borrowing impact.

Liquidity

- Liquidity ratios remain robust.

Reserves

- Reserves position remains the same due to funding surpluses / deficits remaining largely unchanged.

Conclusion

This sensitivity analysis indicates that Council will remain sustainable with this possible change in accounting treatment and that the funding position does not change. Council would need to increase expenditure on the backlog to meet the 2% target for the infrastructure backlog ration. This would remain within Council's capacity.

12.3 Sensitivity Scenario 3 – Increase in Labour & Materials and Contract Costs

Description & Assumptions

This sensitivity scenario assesses the impact of higher inflationary pressures than expected. This is unlikely to be an issue in the short term due to the benign inflationary environment and employment data reflecting a weakening labour market. However the significant drop in the Australian dollar is likely to create some inflationary pressures and the intent of recent reduction in interest rates (and the anticipation there will be further cuts) is to stimulate the economy, which could lead to some further inflationary pressure.

Any SRV approved by IPART establishes the maximum rate increase allowed and there is no mechanism to further increase rates above the approved variation level in response to any future inflationary pressures on operating costs.

Council has assumed that IPART would respond to inflationary pressures as part of their rate peg calculation and therefore the years after the SRV period (2015/16 to 2019/20) will reflect a higher rate peg consistent with higher levels of inflation.

This sensitivity scenario assumes that labour and materials and contracts costs increase by a further 1% above the original assumptions. Labour currently reflects an index of 3.1% (for all labour costs) and other costs reflect either CPI (assumed to be 2.5%) or a blend of labour and CPI. As noted the rate peg is also increased by 1% to 4% from 2020/21.

Analysis

Sensitivity 3 - Increase M&C and Labour Costs														
For the year ended 30 June		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenue		217,506	223,826	222,345	232,262	243,720	256,685	269,905	283,920	293,054	302,949	312,839	322,969	332,328
Operating Expenses		230,911	223,072	229,930	242,033	249,193	257,670	265,405	274,101	290,122	297,764	305,489	314,398	323,657
Operating Surplus (Deficit)		(13,405)	754	(7,585)	(9,770)	(5,473)	(985)	4,500	9,818	2,932	5,184	7,350	8,571	8,672
Total Assets		1,548,321	1,577,799	1,573,947	1,721,466	1,719,408	1,721,294	1,728,449	1,740,709	1,935,060	1,938,095	1,946,675	1,957,843	1,969,421
Total Liabilities		140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Equity		1,408,038	1,444,161	1,440,708	1,588,835	1,587,610	1,590,804	1,599,413	1,613,271	1,809,442	1,818,514	1,829,672	1,841,968	1,854,280
Borrowing		68,536	67,366	65,462	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438
Closing Investments & Cash		222,747	242,304	232,858	220,575	207,465	196,378	181,378	168,779	154,746	139,113	130,589	122,034	112,009

	Benchmark	F13	F14	F15	F16	F17	F18	F19	F20	F21	F22	F23	F24	F25
Operating Position														
Operating Surplus (Deficit)	Breakeven	(13,405)	754	(7,585)	(9,770)	(5,473)	(985)	4,500	9,818	2,932	5,184	7,350	8,571	8,672
Operating Surplus (Deficit) ex SRV & Airport	Breakeven	(21,678)	(6,186)	(15,063)	(17,741)	(13,965)	(10,032)	(5,140)	(457)	(7,722)	(5,865)	(4,110)	(3,316)	(3,657)
Operating Ratio	0% or greater	-6.16%	0.34%	-3.41%	-4.21%	-2.25%	-0.38%	1.67%	3.46%	1.00%	1.71%	2.35%	2.65%	2.61%
Own Source Operating Revenue Ratio	> 60%	79.16%	83.86%	84.94%	86.04%	86.86%	87.34%	87.97%	88.62%	88.90%	89.06%	89.32%	89.61%	90.20%
Infrastructure														
Asset Backlog		97,680	90,438	95,181	99,019	89,567	74,634	57,847	40,492	37,195	29,049	23,330	17,032	10,194
Building & Infrastructure Backlog Ratio	< 2%	11.00%	9.00%	10.38%	9.18%	8.20%	6.75%	5.12%	3.50%	2.72%	2.10%	1.66%	1.19%	0.70%
Asset Maintenance Ratio	> 1X	0.50	0.85	1.01	1.01	1.03	1.04	1.05	1.06	1.05	1.06	1.07	1.08	1.09
Building & Infrastructure Renewal Ratio	> 1X	0.31	0.50	0.84	1.15	1.16	1.27	1.30	1.30	1.10	1.06	1.00	1.01	1.01
Capital Expenditure Ratio	> 1.1X	0.79	0.97	1.43	1.48	1.43	1.46	1.51	1.56	1.39	1.38	1.35	1.38	1.41
Borrowing														
Debt Service Cover Ratio	> 2X	5.17	4.23	5.83	6.08	6.61	7.15	8.04	8.93	8.87	9.29	9.42	12.49	13.98
Interest Cover Ratio	> 4X	8.77	10.96	9.83	9.94	11.63	13.65	16.30	19.39	21.05	24.33	28.75	32.68	36.58
Liquidity														
Cash Expense Cover Ratio	> 3 months	1.63	3.96	3.82	3.67	3.64	3.58	3.54	3.49	3.42	3.41	3.39	3.36	3.33
Unrestricted Current Ratio	> 1.5X	1.97	2.24	2.36	2.23	2.09	1.99	1.86	1.75	1.64	1.61	1.57	1.51	1.44
Reserves														
Closing Investments & Cash		222,747	242,304	232,858	220,575	207,465	196,378	181,378	168,779	154,746	139,113	130,589	122,034	112,009
Funding Surplus / (Deficit)	Surplus	41,438	20,990	(9,446)	(12,283)	(13,110)	(11,087)	(15,000)	(12,599)	(14,033)	(15,633)	(8,524)	(8,555)	(10,025)

Operating Position

- This sensitivity scenario has the biggest impact on Scenario 3. The net operating position is trending towards a breakeven position and the sustainable net operating position (excluding revenue which cannot be applied to cover operating expenditure such as the 2012 SRV and Newcastle Airport profit that is included for accounting purposes but is not distributed to Council) is significantly in deficit.

- The additional costs result in lower reserves which impacts Council revenues further weakening Council's financial position.

Equity

- Equity is impacted by the operating deficit.

Infrastructure

- No impact on key infrastructure ratios has been identified however higher costs would result in higher replacement costs which has not been built into the model.

Borrowing

- No borrowing impact.

Liquidity

- Liquidity ratios are impacted due to a reduction in reserves.

Reserves

- Reserves reduce significantly and ongoing reductions are not sustainable.

Conclusion

This sensitivity analysis indicates that Council would not be able to support the level of services assumed under Scenario 3 if costs increased by a further 1% more than the original assumptions. Like sensitivity Scenario 1 the most likely solution would be for Council to prioritise and reduce the revitalisation initiatives to match the available funds generated by the reduced underlying operating surplus. This most likely would involve deferring rather than not undertaking some initiatives.

Appendices

Appendix A

General assumptions

The adopted 2014/15 Operational Plan is the Base Model budget for the first year of the Long Term Financial Plan. The plan also incorporates the 4 year Delivery Program. These documents were adopted by Council on 18 June 2013. The revised budget from the September Quarterly Review has been used to ensure the most current baseline is utilised (the December Quarterly Review has not yet been adopted by Council).

The following assumptions have been used as the basis for the 10 year the Long Term Financial Plan:

Population

As noted in the document. The model does not reflect growth in costs as a result of population growth.

The most comprehensive population count available in Australia is derived from the Census of Population and Housing conducted by the Australian Bureau of Statistics (ABS) every five years. The 2011 Census statistics estimate the number of households within Newcastle to be 68,733 with a population of 155,737.

It is predicted The City of Newcastle will have a population of 166,233 by 2023.

Revenue and funding assumptions and forecasts

Assumption	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Income Assumptions											
R&C - Rates	0.0%	2.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Rates Adjustments	-	(175)	-	-	-	-	-	-	-	-	-
R&C - Charges under S611	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
R&C -Pensioner R&C Subsidy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R&C - Stormwater Charges	0.0%	-2.5%	2.8%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
R&C -Waste Management	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
R&C - Annual Charges	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
User Fees & Charges - Waste	0.0%	3.4%	3.1%	2.9%	2.7%	2.7%	2.8%	2.9%	2.9%	2.9%	2.9%
User Fees & Charges - Other	0.0%	3.4%	3.1%	2.9%	2.7%	2.7%	2.8%	2.9%	2.9%	2.9%	2.9%
Investment interest rate	0.0%	3.5%	3.3%	3.5%	3.5%	3.5%	3.8%	4.0%	4.0%	4.0%	4.0%
Grants & Contributions - Operating	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Operating Revenues	0.0%	5.0%	5.0%	5.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Grants & contributions - Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Rates and annual charges

Currently, councils are subject to the NSW State Government's allowable maximum annual increase in rates (rate pegging) with allowances made for the addition or reclassification of properties.

Baseline rates are reflected at 2.4% for 2015/16 (already communicated by IPART) with remaining years reflecting 3% (as recommended by IPART). SRV options have rates as described in the document.

Review of 10 years average CPI, wage increase and LGCI returned an average of 3.6%. The five year average peg was 2.9%. The 3% recommended by IPART is of a similar scale to the average for the last five years.

The Pensioner subsidy has remained constant and therefore an assumption that the subsidy does not increase would be prudent. The State Act provides a minimum rebate of $250 and Council follows this practice. The subsidy has remained at 55% of the total rebate.

Annual Charges

Waste Management Service Charges (WMSC) – assumed to increase at the IPART rate including the 0.2% productivity factor. The charges should be based on full cost recovery but charges should not deviate materially from the cost of providing the service. The IPART rate peg calculates a blended cost index for councils so this is applied in determining the increase in revenue. Included in the service charge is the NSW State Government Waste Levy as set by the Department of Environment, Climate Change and Water. There is no indication on how the waste levy will increase beyond 2015/16 so it is assumed in the expenditure assumptions that the levy will increase in line with inflation.

Stormwater Management Service Charges (SWMSC) - the stormwater management service charge funds enhanced stormwater related works and services program. This is assumed to increase in line with CPI. This charge is tightly controlled with a maximum cap and constraints on how these funds can be used.

Fees, charges and other income

The Revenue Policy requires all non-statutory fees and charges to be reviewed annually and on a full cost recovery basis. It is assumed that price increases will continue on this basis. Fluctuations in the amount of revenue raised from user fees, charges and other income is predominantly driven by the number of services available and the utilisation rate expected in line with corporate strategies.

Additional revenue targets have been identified in key areas such City Hall, Civic Theatre, Fort Scratchley, Museum, Art Gallery and the SWMC. These are already embedded into the 2014/15 numbers and so projecting revenue reflects these expectations. Dividends receivable from Newcastle Airport Limited have also been identified within the Plan. A more moderate assumption has been used in the revenue growth due to greater uncertainty of these income streams.

Interest on investments

Investments are placed and managed in accordance with the standards set by the Division of Local Government Minister's Investment Order, Council's Investment Policy and Strategy which underpin the requirements of the *Local Government Act 1993* and the *Local Government (General) Regulations 2005* Investment returns have been based on current portfolio returns with due consideration of Westpac's long term projection of interest rates. The projections are based on WBC 90 day BBSW rates plus an investment margin of 75 pts. The margin reflects Council's investment targeted return.

Grants and contributions

Grants include tied and special purpose grants. The major component of grants is the Federal Government FAG. Contributions consist of operating and capital components. Capital grants and contributions vary from year to year subject to applications for grants and the level of contributions from subdivision developers. There is significant uncertainty regarding the amount Council is likely to receive in the future. The FAG, which is the largest of the operational grants), has reduced materially in 2014/15 due to a combination of (1) the freeze in total funds and (2) a reallocation to rural councils away from metropolitan councils such as Newcastle.

Due to the significant degree of uncertainty and recent experience (Council has received a lower grant allotment from the FAG) income from grants is assumed to remain flat year on year.

Expenditure assumptions and forecasts

Assumption	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Expenditure Assumptions											
Employee Costs (Labour Index)	2.5%	3.1%	3.2%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
CPI	1.9%	2.7%	2.8%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Blended Labour & CPI rate	2.2%	2.9%	3.0%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Materials & Contracts	2.7%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Productivity Gains in M&C arrangements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction Increments	2.3%	3.0%	3.1%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
Construction Index	1.023	1.054	1.087	1.119	1.151	1.185	1.219	1.255	1.291	1.329	1.368
Asset Maintenance Required	0.84%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%
Asset AssetRenewal Required	2.1%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Asset Maintenance & AssetRenewal Applied	23.0%	1.9%	1.9%	1.9%	1.9%	1.9%	15.0%	1.9%	1.9%	1.9%	1.9%
Borrowings (Fixed Interest rate)	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Borrowings (Variable Interest rate)	0.00%	4.25%	4.25%	4.75%	4.75%	4.75%	5.00%	5.25%	5.25%	5.25%	5.25%
Borrowings (Interest rate)	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Depreciation & Amortisation	0.0%	2.7%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Other Operating Expenses - Residual charges	0.0%	2.7%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Productivity Factor (General)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Growth in Cash Reverves		2.7%	2.8%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Employee costs and benefits

Salaries and Wages

Wages and salaries costs consist of two components:

- Award increases under The City of Newcastle Enterprise Agreement and the Local Government (State) Award (this needs to consider superannuation changes where they have an impact).
- Salary review process increases, including; position and job re-evaluations.

Staffing levels decreased from 1017 EFT to 927 as a result of the organisation restructuring that has taken place. This is reflected in the Workforce Management Strategy, The Delivery Program and the base line for the LTFP.

The salary increment needs to reflect increments due to the Enterprise Agreement, salary review increases. Prior years have seen increases of approximately 3.2%. The most recent agreement has resulted in a lower increment of 2.5%. As a consequence the increments have been moderated to 3.1% (this needs to include the impact of superannuation changes and increases arising from staff reviews). CBA forecasts until 2017/18 have also been considered. The 3.1% is comparative to the CBA rate plus 0.25% increment for super legislative superannuation increases. 2015 does not have a super increase applicable.

The base case assumes that staffing is kept constant over the life of the LTFP except for two factors (1) the additional staffing required to ensure sustainable asset maintenance and to undertake the additional capital works required for infrastructure renewal and (2) the counteracting driver which is the inbuilt productivity factor (0.2% of rate revenue that will be applied every year resulting in a compounding productivity impact over time).

Retirement benefit obligations

The Council contributes, on behalf of its employees, to the following superannuation funds:

- Statutory superannuation guarantee contribution (various funds).
- Defined Benefits Local Government Superannuation Scheme.

For the Defined Benefits Fund, rates of increase have been based on an actuarial assessment by the Fund Managers for the year ended 30 June 2012. The deficit that arose as a result of the global financial crisis is gradually being addressed. This is not seen as having a material impact on LTFP projections.

Inflation

The CPI is a measure of the price movements of a standard basket of consumer goods. In the Local Government environment, however, CPI alone is not a sufficient measure of the rise in costs. The LTFP includes other assumptions to provide a more accurate reflection of the estimated rise in costs. Where these have been used they have been detailed accordingly.

Unless otherwise indicated, the CPI index forecasts have been used as the basis of preparation of the LTFP. These index values are:

Borrowing Costs & Borrowings

Borrowing costs are based on an approximate 200 basis points above the RBA investment return rate to compensate for commercial risk and are forecast at 8%.

In line with the ISFA and Section 5.3 of the LTFP, no new borrowings have been included in the LTFP.

Materials, contracts and other Operating Costs

Increases for materials, contracts and other operating costs are generally based on CPI movements, except for local government election costs which occur every four years.

Street lighting and electricity costs are forecast to rise in line with increases approved by IPART. The NSW State Government Waste Levy has increased as set by the Department of Environment, Climate Change and Water.

CBA CPI projection provided to 2017/18 has been used with the final CPI rate projected for the latter five years of the model.

Asset Values, Depreciation and Impairment, Required Maintenance and Renewal, and Infrastructure Backlog

Depreciation and impairment is based on the SAMP and includes consideration of future asset acquisitions, disposals and potential revaluations as required by Australian Accounting Standards and the Division of Local Government's Code of Accounting Practice and Financial Reporting.

The depreciation has been projected for future years based on 2014/15 depreciation. The model has been developed in accordance with accounting practices. This includes the process of five yearly revaluations for infrastructure assets. It is important to ensure the base line is not distorted by out of date asset values. The model therefore includes the revaluation being currently undertaken and which will impact 2015/16. As the revaluation exercise is still in progress data is incomplete however there is sufficient data to build reasonable assumptions. In addition a second revaluation would occur in a 10 year projection. Therefore a second revaluation has been built into the model for 2020/21. The depreciation is calculated based on maintaining the same useful life.

The approach being taken seeks to mirror the revaluation process that takes place on a five yearly cycle. To simplify this within the model and make it easier to understand the impact of each revaluation the revaluation of all infrastructure assets have been aligned to two revaluation cycles in the LTFP (undertaken in 2014/15 and 2019/20 and applied in 2015/16 and 2020/21). The asset classes that are not revalued at these times have had a pro-rata adjustment to align to the 2015/16 adjustment. For example, assets revalued in 2011 rather than 2010 have a four year rather than five year adjustment.

Section 7.3.1 provides some further context that has not been repeated in this section to avoid duplication).

The approach taken in the model can be summarised as follows:

Year	Asset Valuation & Depreciation	Required Maintenance & Renewal	Backlog
2013/14	The model uses 2013/14 data as the baseline to build projections (these are the most recent audited accounts).	2013/14 maintenance and renewal numbers are accounting based and apply rates based on prior revaluation exercises.	2013/14 backlog is noted in Schedule 7 of the financial statements. The model reflects this number.
2014/15	Reflect the September revised budget (the most recent budget revision adopted by Council). However projected depreciation including revaluation is close to the current revised budget.	Required Maintenance and Renewal is calculated as a percentage of gross asset value. The required maintenance and renewal in the AMS has been updated to 2014/15 dollars to enable the percentage to be accurately calculated.	The current 2013/14 backlog number is reflected as the opening position. Any under expenditure in maintenance and renewal reflects in the backlog.
2015/16	Reflects the full impact of the asset revaluation across infrastructure assets and depreciation (Note: to simplify the revaluations buildings have also been re-valued but only adjusted based on number of years since the last revaluation. Data on kerb and gutter replacement costs for 2010 and 2015 has been used to calculate increases in asset values.)	The percentage rate which corresponds to the AMS required maintenance and renewal rates have been applied.	Backlog is adjusted to revise the cost of bring assets to a satisfactory standard based on 2015/16 dollars.
2020/21	This revaluation calculates the full five year impact of a revaluation across infrastructure assets impacted by the revaluation process. A blended labour / CPI rate has been used.	The percentage rate is retained as a result the revaluation in assets results in the required expenditure and renewal to increase in proportion.	Backlog is adjusted to revise the cost of restoring assets to a satisfactory standard based on 2020/21 dollars.

Capital Expenditure

Planned capital expenditures are based on corporate capital projects, major asset preservation program renewals (infrastructure renewal) and special projects.

The base case reflects:

- The level of infrastructure renewal required for Council to become sustainable by 2022/23 (in line with the budget principles).
- Expenditure on corporate projects is reduced significantly to retain the funding necessary to fund asset renewal as a priority. Corporate projects are then increased moderately. The expenditure on corporate projects is less in nominal terms than for the

current. This equates to a significant reduction in real terms in the expenditure on corporate projects.

- Special projects are focusing on the top four community priorities. Progress is being made on other priorities within budgetary constraints and will continue to will continue to be progressed. Projected expenditure through to 2022/23 is $69m (in line with previous communication). Approximately $50m of this expenditure is covered by the 2012 SRV. Council will continue work on the priorities post 2022/23 utilising funds generated as a result of the 2012 SRV.

Productivity Improvements and Cost Containment

Integral to Council's financial sustainability is the identification and implementation of productivity improvements.

Significant savings have already been realised and documented earlier in the LTFP document.

Strategies identified in the ISFA remain in place and are built into the adopted budget for 2014/15. This includes the implementation of an Enterprise Resource Platform IT system, making changes to energy practices and employing a full cost recovery strategy (direct costs) on BIAs which have historically been rates funded.

To ensure productivity remains an ongoing focus the LTFP includes a 0.2% productivity factor based on IPARTs methodology of having factored a productivity factor into calculating the rate cap. This productivity factor over and above what has already been achieved and in addition to "savings" from specific ongoing initiatives which are built into other revenue and expense lines.

Cash reserves

Reserve funding is made in accordance with Council's Reserves Policy and accompanying plans.

The cash reserves consist of a combination of statutory reserves underpinned by legislation and non-statutory reserves. The Policy position on the non-statutory reserves are supported by Council's adopted Reserves Policy as well as existing and future resolutions made by Council on funding restrictions.

Asset Sales

Asset rationalisation has been incorporated into the LTFP with asset sales of $62m proposed over the 10 year forecast. All proposed asset sales will need to be approved by Council's Asset Advisory Board prior to being recommended to Council for their approval to sell the asset.

All asset sales, including where applicable, asset rationalisation, are detailed in the AMPs with monies received used for capital asset replacement or renewal in accordance with adopted Reserves and Restricted Assets Policy and adopted financial principles.

Appendix B

This appendix provides more detailed financial statements for the three options presented to the community, namely:

1. Option 1 - Base case: Business-as-usual (maintain the status quo but continue program works to address infrastructure backlog).
2. Option 2 - SRV to achieve financial sustainability (ensure Council meets key sustainability metrics).
3. Option 3 - SRV at a level which achieves financial sustainability with revitalisation (Option 2 with enhanced or additional services to meet community expectations).

In addition the financial statements associated with the sensitivity analysis have also been included so that the impact of the sensitivity scenarios can be better understood.

1. Sensitivity Scenario 1: Lower than anticipated Rate increase.
2. Sensitivity Scenario 2: Change in accounting treatment of asset renewal.
3. Sensitivity Scenario 3: Increase M&C & Labour costs.

The financial statements reflected are at a more detailed level than is typically reported so that the individual cost lines can be better understood and the key drivers of how key decisions or assumptions impact Council's financials. The schedules included are:

- Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement (includes further analysis of (1) Investments and Cash and (2) Reserves)
- Key Ratios.

Appendix B

SCENARIO 1 - BASE MODEL

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	125,764	129,538	133,350	137,273	141,312	145,468	149,747	154,150	158,683	163,348
Rates	-	-	102,688	104,977	108,126	111,370	114,711	118,153	121,697	125,348	129,109	132,982	136,971
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,605	5,291	4,513	3,461	2,522	3,461	2,522	1,306	230
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
Operating Expenses													
Employee costs	94,688	87,229	90,902	94,337	97,242	100,356	103,366	106,394	110,547	113,642	116,797	120,217	123,738
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,423	9,687	9,871	10,058	10,249	10,444
Capital Works (expensed)	-	-	1,869	2,635	2,708	3,030	3,165	3,232	3,232	3,165	3,064	3,131	3,198
Other BAU	94,688	87,229	81,367	83,889	86,574	89,214	91,935	94,739	97,629	100,606	103,675	106,837	110,095
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	3,354	4,749	6,443
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	2,563	2,298	2,016	1,700	1,475	2,579	4,030
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New			-	-	-	-	-	-	-	-	1,000	1,313	1,575
Materials & contracts	40,653	42,051	44,640	47,431	48,618	50,414	51,799	53,053	55,281	56,297	57,264	58,653	60,074
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,423	9,687	9,871	10,058	10,249	10,444
Capital Works (expensed)	-	-	4,360	6,149	6,318	7,070	7,384	7,541	7,541	7,384	7,149	7,306	7,463
Other BAU	40,653	42,051	32,613	33,469	34,340	35,232	36,148	37,088	38,053	39,042	40,057	41,099	42,167
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	34,152	34,695	35,201	35,821	36,456	43,124	43,783	44,440	45,139	45,841
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Productivity Factor	-	-		(205)	(415)	(632)	(854)	(1,084)	(1,320)	(1,563)	(1,814)	(2,072)	(2,338)
Total Operating Expenses	230,911	223,072	229,930	239,970	245,710	252,401	258,479	264,396	278,377	284,012	290,617	298,901	307,653
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(7,585)	(13,750)	(14,124)	(14,743)	(15,294)	(15,791)	(23,997)	(21,733)	(22,096)	(24,205)	(26,422)
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(16,108)	(16,556)	(17,245)	(17,865)	(18,431)	(26,711)	(24,525)	(24,969)	(27,159)	(29,462)
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,321)	(5,480)	(5,645)	(5,814)	(5,988)	(6,168)	(6,353)	(6,544)	(6,740)	(6,942)
Sustainable surplus/deficit excluding capital funding	(21,678)	(6,186)	(15,063)	(21,429)	(22,036)	(22,889)	(23,679)	(24,420)	(32,879)	(30,878)	(31,512)	(33,900)	(36,404)

Appendix B

SCENARIO 1 - BASE MODEL

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	114,203	106,966	99,240	88,410	76,978	64,382	39,312	36,033	27,568	26,332
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	32,609	33,924	25,272	26,654
Current Investments	86,439	65,591	75,530	68,982	60,467	51,579	39,558	26,904	13,057	6,703	2,109	2,296	(322)
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	144,521	137,760	130,469	120,084	109,108	96,980	72,388	69,601	61,640	60,919
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	103,473	90,701	77,369	59,337	40,356	19,585	10,054	3,164	3,445	- 482
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,466,685	1,475,429	1,484,110	1,499,812	1,516,345	1,713,231	1,723,392	1,732,122	1,743,110	1,754,157
Building & Infrastructure	-	-	873,810	1,041,140	1,058,949	1,076,638	1,101,293	1,126,719	1,332,438	1,351,371	1,368,809	1,388,440	1,408,062
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furntiure & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage Collections etc	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,572,966	1,569,017	1,564,437	1,562,182	1,559,810	1,736,002	1,736,712	1,738,633	1,749,986	1,757,191
Total Assets	1,548,321	1,577,799	1,573,947	1,717,486	1,706,777	1,694,905	1,682,266	1,668,917	1,832,982	1,809,100	1,808,234	1,811,626	1,818,111
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	52,550	74,438	101,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	39,190	35,138	30,818	25,992	22,550	39,438	61,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Additional Borrowing	-	-	0	0	0	0	0	0	0	0	20,000	25,000	30,000
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	60,787	57,258	53,451	49,385	44,820	61,648	83,813	111,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	137,003	160,874	190,141
Net Assets	1,408,038	1,444,161	1,440,708	1,584,855	1,574,980	1,564,415	1,553,230	1,541,479	1,707,364	1,689,519	1,671,231	1,650,751	1,627,969
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,431,279	1,574,980	1,564,415	1,553,230	1,541,479	1,521,448	1,689,519	1,671,231	1,650,751	1,627,969
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,584,855	1,574,980	1,564,415	1,553,230	1,541,479	1,707,364	1,689,519	1,671,231	1,650,751
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(16,108)	(16,556)	(17,245)	(17,865)	(18,431)	(26,711)	(24,525)	(24,969)	(27,159)	(29,462)
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	0	0	0	0	(0)	0	0	0	(0)
Revaluation Reserve (Closing)	277,363	293,234	0	153,576	0	-	-	-	185,916	-	-	-	-
Asset Revaluation (Infrastructure)			0	280,487	0	-	-	-	345,094	-	-	-	-
Asset Revaluation (Infrastructure) Accum Depn			0	(126,911)	0	-	-	-	- 159,178	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,584,855	1,574,980	1,564,415	1,553,230	1,541,479	1,707,364	1,689,519	1,671,231	1,650,751	1,627,969

SCENARIO 1 - BASE MODEL

Cash Flow Statement

Cashflow, Investments & Reserves *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Proceeds from the sale of Assets	17,408	8,275	14,761	17,848	10,779	10,388	4,591	4,692	4,712	4,652	4,551	4,654	4,758
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Total Capital Raising revenue	75,055	72,046	68,914	73,371	66,953	67,180	62,117	62,972	69,783	70,506	71,192	72,127	73,070
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(9,867)	(16,108)	(16,556)	(17,245)	(17,865)	(18,431)	(26,711)	(24,525)	(24,969)	(27,159)	(29,462)
Net Funds available after capital revenue	61,650	72,800	59,047	57,262	50,398	49,936	44,252	44,541	43,072	45,981	46,223	44,968	43,609
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	58,747	51,979	51,480	45,843	46,179	44,759	43,705	47,899	46,694	45,386
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	13	14	15	16	17
Asset renewals	-	-	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
New / upgrade	-	-	25,024	26,000	22,450	17,011	17,517	18,034	19,123	20,263	20,420	21,920	21,920
New/upgrade - Infrastructure	-	-	19,024	19,820	16,078	10,453	10,768	11,089	11,976	12,907	12,850	14,130	13,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	6,171	6,344	7,158	6,611	6,779	6,936	6,710	7,307	8,000	8,000
Funding on investments (capital works)	33,334	42,466	67,743	71,317	69,018	69,181	71,140	72,825	74,072	73,987	73,242	76,436	77,437
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	0	0	0	0	0	20,000	25,000	30,000
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	15,174	21,558	26,887
	-	-											
Net Overall Funding Surplus/(Deficit) ex Investments	41,438	20,990	(9,446)	(15,181)	(20,010)	(21,058)	(28,861)	(30,414)	(33,366)	(34,602)	(10,169)	(8,184)	(5,163)
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	217,677	197,667	176,608	147,747	117,334	83,968	49,366	39,197	31,013
Net Change in Investments	-	-	(9,446)	(15,181)	(20,010)	(21,058)	(28,861)	(30,414)	(33,366)	(34,602)	(10,169)	(8,184)	(5,163)
Closing Investments & Cash	222,747	242,304	232,858	217,677	197,667	176,608	147,747	117,334	83,968	49,366	39,197	31,013	25,850
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	32,609	33,924	25,272	26,654
Remaining funds for investment	-	-	188,826	172,456	151,168	128,948	98,895	67,260	32,642	16,757	5,273	5,741 -	804
Current Investments	-	-	75,530	68,982	60,467	51,579	39,558	26,904	13,057	6,703	2,109	2,296 -	322
Non-Current Investments	-	-	113,295	103,473	90,701	77,369	59,337	40,356	19,585	10,054	3,164	3,445 -	482

Appendix B

SCENARIO 1 - BASE MODEL

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Asset Maintenance Ratio	0%	0%	101%	101%	101%	101%	102%	102%	100%	101%	101%	102%	102%
Actual Asset maintenance	-	-	15,333	15,625	15,921	16,224	16,532	16,846	19,373	19,741	20,116	20,499	20,888
Required Asset Maintenance	17,253	12,466	15,241	15,545	15,773	15,985	16,244	16,510	19,303	19,579	19,854	20,147	20,441
Building and Infrastructure Renewals Ratio	0%	0%	84%	115%	116%	128%	131%	132%	111%	107%	102%	103%	104%
Asset Renewals	9,681	14,827	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
Depn of building and infrastructure assets	-	-	33,010	34,152	34,695	35,201	35,821	36,456	43,124	43,783	44,440	45,139	45,841
Cash Expense Cover Ratio	1.6	4.0	3.8	3.7	3.7	3.7	3.7	3.7	3.7	2.0	2.1	1.4	1.5
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	32,609	33,924	25,272	26,654
Total Expenses	230,911	223,072	229,930	239,970	245,710	252,401	258,479	264,396	278,377	284,012	290,617	298,901	307,653
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	32,609	33,924	25,272	26,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.3	1.3
Annual Capital Expenditure	-	-	67,743	71,317	69,018	69,181	71,140	72,825	74,072	73,987	73,242	76,436	77,437
Annual Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Cash & Investments as % of Total Operating Revenue	102%	108%	105%	96%	85%	74%	61%	47%	33%	19%	15%	11%	9%
Current Investments & Cash	108,267	109,623	119,562	114,203	106,966	99,240	88,410	76,978	64,382	39,312	36,033	27,568	26,332
Non-current Investments	114,480	132,948	113,295	103,473	90,701	77,369	59,337	40,356	19,585	10,054	3,164	3,445	(482)
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
Broad Liabilities Ratio	76%	71%	72%	72%	65%	55%	46%	37%	33%	27%	30%	35%	42%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	52,550	74,438	101,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,766	13,219
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
Net Financial Liabilities Ratio	32%	38%	35%	33%	31%	29%	27%	25%	23%	21%	26%	34%	43%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	52,550	74,438	101,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Employee Leave Entitlements	-	18,360	11,400	11,753	12,130	12,499	12,881	13,274	13,678	14,096	14,526	14,969	15,425
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
Debt Service Cover Ratio	5.2	4.2	5.8	5.5	5.4	5.2	5.2	5.2	4.9	5.3	4.7	4.7	4.0
EBITA	36,283	48,782	41,863	36,844	36,855	36,564	36,445	36,386	34,631	37,319	38,347	38,383	38,613
Operating Income	(15,780)	(1,439)	(9,867)	(16,108)	(16,556)	(17,245)	(17,865)	(18,431)	(26,711)	(24,525)	(24,969)	(27,159)	(29,462)
Interest	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	3,354	4,749	6,443
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	3,354	4,749	6,443
Building and Infrastructure Backlog Ratio	#DIV/0!	#DIV/0!	0.104	0.092	0.083	0.068	0.053	0.037	0.029	0.023	0.019	0.014	0.010
Asset Backlog	97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,766	13,219
Total Infrastructure & Depreciable land improvements	-	-	917,333	1,077,828	1,088,802	1,099,656	1,117,477	1,136,068	1,334,953	1,347,051	1,357,654	1,370,451	1,383,238
Interest Cover ratio	8.8	11.0	9.8	9.0	9.4	9.9	10.5	11.3	11.7	14.0	11.4	8.1	6.0
EBITA	36,283	48,782	41,863	36,844	36,855	36,564	36,445	36,386	34,631	37,319	38,347	38,383	38,613
Interest Expense	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	3,354	4,749	6,443
Sustainable Operating Ratio	-9%	-2%	-6%	-9%	-9%	-9%	-9%	-9%	-12%	-11%	-11%	-12%	-12%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	220,900	226,106	232,014	237,370	242,617	248,212	255,926	261,977	267,956	274,289
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
2012 SRV	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
Operating Expenses	230,911	223,072	229,930	239,970	245,710	252,401	258,479	264,396	278,377	284,012	290,617	298,901	307,653
Operating Ratio	-6%	0%	-3%	-6%	-6%	-6%	-6%	-6%	-9%	-8%	-8%	-9%	-9%
Operating Revenue excl Capital Grants & Contributions		-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
Capital Grants & Contributuions	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	239,970	245,710	252,401	258,479	264,396	278,377	284,012	290,617	298,901	307,653
Own Source Operating Revenue Ratio	79%	84%	85%	86%	86%	86%	87%	87%	88%	88%	88%	89%	89%
Rates & Annual Charges	112,058	120,034	122,995	125,764	129,538	133,350	137,273	141,312	145,468	149,747	154,150	158,683	163,348
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,185	248,606	254,380	262,279	268,521	274,697	281,231
Unrestricted Current Ratio	2.0	2.2	2.4	2.2	2.0	1.9	1.7	1.5	1.3	1.0	0.9	0.8	0.8
Current Assets less external restrictions	135,639	139,194	149,436	144,521	137,760	130,469	120,084	109,108	96,980	72,388	69,601	61,640	60,919
Current Assets	135,639	139,194	149,436	144,521	137,760	130,469	120,084	109,108	96,980	72,388	69,601	61,640	60,919
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix B

SCENARIO 1B - BORROWING

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	125,764	129,538	133,350	137,273	141,312	145,468	149,747	154,150	158,683	163,348
Rates	-	-	102,688	104,977	108,126	111,370	114,711	118,153	121,697	125,348	129,109	132,982	136,971
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,605	5,291	5,180	4,772	4,592	4,772	4,592	4,200	2,015
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,851	249,917	256,451	263,590	270,591	277,591	283,016
Operating Expenses													
Employee costs	94,688	87,229	90,902	94,337	97,242	100,356	103,366	106,394	110,547	113,642	116,797	120,217	123,738
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,423	9,687	9,871	10,058	10,249	10,444
Capital Works (expensed)	-	-	1,869	2,635	2,708	3,030	3,165	3,232	3,232	3,165	3,064	3,131	3,198
Other BAU	94,688	87,229	81,367	83,889	86,574	89,214	91,935	94,739	97,629	100,606	103,675	106,837	110,095
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	4,647	5,721	6,783	7,876	8,852	9,894	11,027	12,131
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	3,871	4,914	5,940	6,932	8,015	9,119	10,243
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New			-	-	-	950	950	950	1,000	950	1,000	1,050	1,050
Materials & contracts	40,653	42,051	44,640	47,431	48,618	50,414	51,799	53,053	55,281	56,297	57,264	58,653	60,074
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,423	9,687	9,871	10,058	10,249	10,444
Capital Works (expensed)	-	-	4,360	6,149	6,318	7,070	7,384	7,541	7,541	7,384	7,149	7,306	7,463
Other BAU	40,653	42,051	32,613	33,469	34,340	35,232	36,148	37,088	38,053	39,042	40,057	41,099	42,167
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	34,152	34,695	35,201	35,821	36,456	43,124	43,783	44,440	45,139	45,841
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Productivity Factor	-	-		(205)	(415)	(632)	(854)	(1,084)	(1,320)	(1,563)	(1,814)	(2,072)	(2,338)
Total Operating Expenses	230,911	223,072	229,930	239,970	245,710	253,351	260,737	267,962	283,301	290,194	297,157	305,179	313,341
Total Operating Revenue Less Operating Expe	(13,405)	754	(7,585)	(13,750)	(14,124)	(15,693)	(16,886)	(18,046)	(26,851)	(26,604)	(26,566)	(27,588)	(30,325)
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(16,108)	(16,556)	(18,195)	(19,456)	(20,686)	(29,565)	(29,396)	(29,438)	(30,543)	(33,365)
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,321)	(5,480)	(5,645)	(5,814)	(5,988)	(6,168)	(6,353)	(6,544)	(6,740)	(6,942)
Sustainable surplus/deficit excluding capital f	(21,678)	(6,186)	(15,063)	(21,429)	(22,036)	(23,839)	(25,270)	(26,675)	(35,733)	(35,749)	(35,982)	(37,283)	(40,307)

Appendix B

SCENARIO 1B - BORROWING

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	114,203	106,966	106,860	103,394	99,059	93,323	86,304	81,238	75,420	68,623
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Current Investments	86,439	65,591	75,530	68,982	60,467	59,199	54,542	48,986	41,997	33,695	27,314	20,148	11,970
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	144,521	137,760	138,089	135,068	131,189	125,920	119,381	114,806	109,491	103,211
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	103,473	90,701	88,799	81,812	73,478	62,996	50,543	40,971	30,222	17,954
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,466,685	1,475,429	1,484,110	1,499,812	1,516,345	1,713,230	1,723,390	1,732,119	1,743,107	1,754,152
Building & Infrastructure	-	-	873,810	1,041,140	1,058,949	1,076,638	1,101,293	1,126,719	1,332,437	1,351,369	1,368,806	1,388,437	1,408,057
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furniture & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,572,966	1,569,017	1,575,867	1,584,657	1,592,932	1,779,412	1,777,199	1,776,437	1,776,760	1,775,623
Total Assets	1,548,321	1,577,799	1,573,947	1,717,486	1,706,777	1,713,955	1,719,725	1,724,121	1,905,332	1,896,579	1,891,243	1,886,251	1,878,834
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	72,958	89,190	105,138	120,818	135,992	152,550	169,438	186,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	59,190	75,138	90,818	105,992	122,550	139,438	156,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
New Borrowings	-	-	0	0	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	80,787	97,258	113,451	129,385	144,820	161,648	178,813	196,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	150,490	169,036	187,438	205,618	219,581	237,003	255,874	275,141
Net Assets	1,408,038	1,444,161	1,440,708	1,584,855	1,574,980	1,563,465	1,550,689	1,536,683	1,699,714	1,676,998	1,654,240	1,630,377	1,603,693
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,431,279	1,574,980	1,563,465	1,550,689	1,536,683	1,513,798	1,676,998	1,654,240	1,630,377	1,603,693
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,584,855	1,574,980	1,563,465	1,550,689	1,536,683	1,699,714	1,676,998	1,654,240	1,630,377
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(16,108)	(16,556)	(18,195)	(19,456)	(20,686)	(29,565)	(29,396)	(29,438)	(30,543)	(33,365)
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	0	0	0	0	(0)	0	(0)	0	(0)
Revaluation Reserve	277,363	293,234	0	153,576	0	-	-	-	185,916	-	-	-	-
Asset Revaluation (Infrastructure)			0	280,487	0	-	-	-	345,094	-	-	-	-
Asset Revaluation (Infrastructure) Accum Depn			0	(126,911)	0	-	-	-	- 159,178	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,584,855	1,574,980	1,563,465	1,550,689	1,536,683	1,699,714	1,676,998	1,654,240	1,630,377	1,603,693

Appendix B

SCENARIO 1B - BORROWING

Cash Flow Statement

Cashflow, Investments & Reserves													
For the year ended 30 June	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Proceeds from the sale of Assets	17,408	8,275	14,761	17,848	10,779	10,388	4,591	4,692	4,712	4,652	4,551	4,654	4,758
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Total Capital Raising revenue	75,055	72,046	68,914	73,371	66,953	67,180	62,117	62,972	69,783	70,506	71,192	72,127	73,070
Total Operating Revenue Less Operating Expendit	(13,405)	754	(9,867)	(16,108)	(16,556)	(18,195)	(19,456)	(20,686)	(29,565)	(29,396)	(29,438)	(30,543)	(33,365)
Net Funds available after capital revenue	61,650	72,800	59,047	57,262	50,398	48,986	42,661	42,286	40,218	41,110	41,753	41,585	39,706
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	58,747	51,979	50,530	44,252	43,924	41,905	38,834	43,429	43,310	41,484
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	12	13	14	15	16
Asset renewals	-	-	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
New / upgrade	-	-	25,024	26,000	22,450	17,011	17,517	18,034	19,123	20,263	20,420	21,920	21,920
New/upgrade - Infrastructure	-	-	19,024	19,820	16,078	10,453	10,768	11,089	11,976	12,907	12,850	14,130	13,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	6,171	6,344	7,158	6,611	6,779	6,936	6,710	7,307	8,000	8,000
Funding on investments (capital works)	33,334	42,466	67,743	71,317	69,018	69,181	71,140	72,825	74,071	73,986	73,241	76,435	77,436
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	16,642	16,436	16,232	15,947	15,680	15,174	16,558	16,887
	-	-											
Net Overall Funding Surplus/(Deficit) ex Inves	41,438	20,990	(9,446)	(15,181)	(20,010)	(2,008)	(10,452)	(12,669)	(16,219)	(19,472)	(14,638)	(16,566)	(19,065)
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	217,677	197,667	195,658	185,206	172,538	156,319	136,847	122,209	105,643
Net Change in Investments	-	-	(9,446)	(15,181)	(20,010)	(2,008)	(10,452)	(12,669)	(16,219)	(19,472)	(14,638)	(16,566)	(19,065)
Closing Investments & Cash	222,747	242,304	232,858	217,677	197,667	195,658	185,206	172,538	156,319	136,847	122,209	105,643	86,578
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Remaining funds for investment	-	-	188,826	172,456	151,168	147,998	136,354	122,464	104,993	84,238	68,285	50,371	29,924
Current Investments	-	-	75,530	68,982	60,467	59,199	54,542	48,986	41,997	33,695	27,314	20,148	11,970
Non-Current Investments	-	-	113,295	103,473	90,701	88,799	81,812	73,478	62,996	50,543	40,971	30,222	17,954

SCENARIO 1B - BORROWING

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Productivity Ratio	-	-	-	(205)	(415)	(632)	(854)	(1,084)	(1,320)	(1,563)	(1,814)	(2,072)	(2,338)
Productivity Improvement - Employee	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - M&C	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - IPART assumption	-	-	-	(205)	(415)	(632)	(854)	(1,084)	(1,320)	(1,563)	(1,814)	(2,072)	(2,338)
Asset Maintenance Ratio	0%	0%	101%	101%	101%	101%	102%	102%	100%	101%	101%	102%	102%
Actual Asset maintenance	-	-	15,333	15,625	15,921	16,224	16,532	16,846	19,373	19,741	20,116	20,499	20,888
Required Asset Maintenance	17,253	12,466	15,241	15,545	15,773	15,985	16,244	16,510	19,303	19,579	19,854	20,147	20,441
Building and Infrastructure Renewals Ratio	0%	0%	84%	115%	116%	128%	131%	132%	111%	107%	102%	103%	104%
Asset Renewals	9,681	14,827	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
Depn of building and infrastructure assets	-	-	33,010	34,152	34,695	35,201	35,821	36,456	43,124	43,783	44,440	45,139	45,841
Cash Expense Cover Ratio	1.6	4.0	3.8	3.7	3.7	3.7	3.6	3.6	3.5	3.5	3.5	3.5	3.5
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Total Expenses	230,911	223,072	229,930	239,970	245,710	253,351	260,737	267,962	283,301	290,194	297,157	305,179	313,341
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.3	1.3
Annual Capital Expenditure	-	-	67,743	71,317	69,018	69,181	71,140	72,825	74,071	73,986	73,241	76,435	77,436
Annual Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Cash & Investments as % of Total Operating R	102%	108%	105%	96%	85%	82%	76%	69%	61%	52%	45%	38%	31%
Current Investments & Cash	108,267	109,623	119,562	114,203	106,966	106,860	103,394	99,059	93,323	86,304	81,238	75,420	68,623
Non-current Investments	114,480	132,948	113,295	103,473	90,701	88,799	81,812	73,478	62,996	50,543	40,971	30,222	17,954
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,851	249,917	256,451	263,590	270,591	277,591	283,016
Broad Liabilities Ratio	76%	71%	72%	72%	65%	64%	62%	60%	64%	65%	67%	69%	72%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	72,958	89,190	105,138	120,818	135,992	152,550	169,438	186,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,765	13,219
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,851	249,917	256,451	263,590	270,591	277,591	283,016
Debt Service Cover Ratio	5.2	4.2	5.8	5.5	5.4	4.6	4.0	3.6	3.1	2.9	2.7	2.9	2.7
EBITA	36,283	48,782	41,863	36,844	36,855	36,564	37,112	37,697	36,702	38,630	40,417	41,277	40,399
Operating Income	(15,780)	(1,439)	(9,867)	(16,108)	(16,556)	(18,195)	(19,456)	(20,686)	(29,565)	(29,396)	(29,438)	(30,543)	(33,365)
Interest	4,137	4,450	4,257	4,110	3,916	4,647	5,721	6,783	7,876	8,852	9,894	11,027	12,131
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	4,647	5,721	6,783	7,876	8,852	9,894	11,027	12,131
Building and Infrastructure Backlog Ratio	#DIV/0!	#DIV/0!	0.104	0.092	0.083	0.068	0.053	0.037	0.029	0.023	0.019	0.014	0.010
Asset Backlog	97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,765	13,219
Total Infrastructure & Depreciable land improven	-	-	917,333	1,077,828	1,088,802	1,099,656	1,117,477	1,136,068	1,334,952	1,347,049	1,357,652	1,370,447	1,383,233
Interest Cover ratio	8.8	11.0	9.8	9.0	9.4	7.9	6.5	5.6	4.7	4.4	4.1	3.7	3.3
EBITA	36,283	48,782	41,863	36,844	36,855	36,564	37,112	37,697	36,702	38,630	40,417	41,277	40,399
Interest Expense	4,137	4,450	4,257	4,110	3,916	4,647	5,721	6,783	7,876	8,852	9,894	11,027	12,131
Sustainable Operating Ratio	-9%	-2%	-6%	-9%	-9%	-9%	-10%	-10%	-13%	-13%	-13%	-13%	-13%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	220,900	226,106	232,014	238,037	243,928	250,282	257,237	264,047	270,851	276,074
Operating Revenue (excluding Capital Gran	217,506	223,826	222,345	226,221	231,586	237,659	243,851	249,917	256,451	263,590	270,591	277,591	283,016
2012 SRV	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
Operating Expenses	230,911	223,072	229,930	239,970	245,710	253,351	260,737	267,962	283,301	290,194	297,157	305,179	313,341
Operating Ratio	-6%	0%	-3%	-6%	-6%	-7%	-7%	-7%	-10%	-10%	-10%	-10%	-11%
Operating Revenue excl Capital Grants & Contributions		-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Gran	217,506	223,826	222,345	226,221	231,586	237,659	243,851	249,917	256,451	263,590	270,591	277,591	283,016
Capital Grants & Contributuions	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	239,970	245,710	253,351	260,737	267,962	283,301	290,194	297,157	305,179	313,341
Own Source Operating Revenue Ratio	79%	84%	85%	86%	86%	86%	87%	87%	87%	87%	88%	88%	89%
Rates & Annual Charges	112,058	120,034	122,995	125,764	129,538	133,350	137,273	141,312	145,468	149,747	154,150	158,683	163,348
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	226,221	231,586	237,659	243,851	249,917	256,451	263,590	270,591	277,591	283,016
Unrestricted Current Ratio	2.0	2.2	2.4	2.2	2.0	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.3
Current Assets less external restrictions	135,639	139,194	149,436	144,521	137,760	138,089	135,068	131,189	125,920	119,381	114,806	109,491	103,211
Current Assets	135,639	139,194	149,436	144,521	137,760	138,089	135,068	131,189	125,920	119,381	114,806	109,491	103,211
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix B **SCENARIO 1C – LESS SERVICES & CAPITAL WORKS**

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	125,764	129,538	133,350	137,273	141,312	145,468	149,747	154,150	158,683	163,348
Rates	-	-	102,688	104,977	108,126	111,370	114,711	118,153	121,697	125,348	129,109	132,982	136,971
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,893	5,927	5,709	5,243	5,317	5,243	5,317	5,293	4,439
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	226,221	231,874	238,295	244,381	250,387	257,175	264,060	271,315	278,684	285,441
Operating Expenses													
Employee costs	94,688	87,229	90,902	89,932	92,711	95,364	98,246	100,805	104,660	107,612	110,620	113,890	117,256
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	6,662	6,789	6,918	7,049	7,183	8,261	8,418	8,578	8,741	8,907
Capital Works (expensed)	-	-	1,869	2,635	2,708	2,693	2,828	2,559	2,559	2,491	2,390	2,458	2,525
Other BAU	94,688	87,229	81,367	80,634	83,215	85,753	88,368	91,064	93,841	96,703	99,653	102,692	105,824
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	2,563	2,298	2,016	1,700	1,475	1,271	1,087
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New			-	-	-	-	-	-	-	-	-	-	-
Materials & contracts	40,653	42,051	44,640	44,976	46,108	47,061	48,387	48,796	50,800	51,751	52,651	53,972	55,322
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	6,662	6,789	6,918	7,049	7,183	8,261	8,418	8,578	8,741	8,907
Capital Works (expensed)	-	-	4,360	6,149	6,318	6,284	6,599	5,970	5,970	5,813	5,577	5,735	5,892
Other BAU	40,653	42,051	32,613	32,165	33,001	33,859	34,739	35,643	36,569	37,520	38,496	39,497	40,524
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	48,807	49,424	49,973	50,639	51,290	57,927	58,609	59,293	60,023	60,759
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	34,117	34,626	35,063	35,614	36,146	42,661	43,217	43,772	44,369	44,968
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	2,228	2,326	2,281	2,416	2,060	2,029	1,916	1,762	1,810	1,858
Productivity Factor	-	-		(205)	(415)	(632)	(854)	(1,084)	(1,320)	(1,563)	(1,814)	(2,072)	(2,338)
Total Operating Expenses	230,911	223,072	229,930	233,076	238,600	243,510	249,332	253,425	266,731	272,055	277,344	283,685	290,212
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(7,585)	(6,856)	(6,726)	(5,215)	(4,952)	(3,038)	(9,556)	(7,994)	(6,028)	(5,001)	(4,771)
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(9,214)	(9,157)	(7,717)	(7,522)	(5,679)	(12,270)	(10,786)	(8,900)	(7,956)	(7,811)
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,321)	(5,480)	(5,645)	(5,814)	(5,988)	(6,168)	(6,353)	(6,544)	(6,740)	(6,942)
Sustainable surplus/deficit excluding capital funding	(21,678)	(6,186)	(15,063)	(14,535)	(14,637)	(13,361)	(13,336)	(11,667)	(18,438)	(17,139)	(15,444)	(14,696)	(14,753)

Appendix B SCENARIO 1C – LESS SERVICES & CAPITAL WORKS

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	117,747	114,241	112,908	108,769	106,787	104,257	100,929	100,284	99,666	99,214
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Current Investments	86,439	65,591	75,530	72,526	67,743	65,247	59,917	56,714	52,931	48,320	46,360	44,394	42,560
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	148,064	145,036	144,136	140,443	138,917	136,854	134,005	133,851	133,737	133,801
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	108,789	101,614	97,870	89,875	85,070	79,397	72,480	69,540	66,590	63,841
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,464,720	1,471,534	1,473,761	1,483,079	1,488,737	1,670,347	1,669,889	1,668,103	1,668,679	1,669,414
Building & Infrastructure	-	-	873,810	1,039,175	1,055,053	1,066,289	1,084,559	1,099,111	1,289,554	1,297,869	1,304,791	1,314,009	1,323,320
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furntiure & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage Collections etc)	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,576,316	1,576,034	1,574,590	1,575,986	1,576,916	1,752,930	1,745,635	1,740,990	1,738,700	1,736,772
Total Assets	1,548,321	1,577,799	1,573,947	1,724,380	1,721,070	1,718,726	1,716,429	1,715,833	1,889,784	1,879,640	1,874,842	1,872,437	1,870,573
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	39,190	35,138	30,818	25,992	22,550	19,438	16,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Additional Borrowing	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	60,787	57,258	53,451	49,385	44,820	41,648	38,813	36,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Net Assets	1,408,038	1,444,161	1,440,708	1,591,749	1,589,272	1,588,236	1,587,393	1,588,395	1,764,165	1,760,059	1,757,839	1,756,563	1,755,432
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,438,173	1,589,272	1,588,236	1,587,393	1,588,395	1,582,805	1,760,059	1,757,839	1,756,563	1,755,432
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,591,749	1,589,272	1,588,236	1,587,393	1,588,395	1,764,165	1,760,059	1,757,839	1,756,563
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(9,214)	(9,157)	(7,717)	(7,522)	(5,679)	(12,270)	(10,786)	(8,900)	(7,956)	(7,811)
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	0	0	(0)	0	(0)	0	0	0	(0)
Revaluation Reserve (Closing)	277,363	293,234	0	153,576	0	-	-	-	181,360	-	-	-	-
Asset Revaluation (Infrastructure)			0	280,487	0	-	-	-	342,164	-	-	-	-
Asset Revaluation (Infrastructure)			0	(126,911)	0	-	-	-	- 160,803	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,591,749	1,589,272	1,588,236	1,587,393	1,588,395	1,764,165	1,760,059	1,757,839	1,756,563	1,755,432

Appendix B SCENARIO 1C – LESS SERVICES & CAPITAL WORKS

Cash Flow Statement

Cashflow, Investments & Reserves *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	48,807	49,424	49,973	50,639	51,290	57,927	58,609	59,293	60,023	60,759
Proceeds from the sale of Assets	17,408	8,275	14,761	17,848	10,779	9,980	4,183	3,876	3,896	3,835	3,734	3,838	3,942
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	2,228	2,326	2,281	2,416	2,060	2,029	1,916	1,762	1,810	1,858
Total Capital Raising revenue	75,055	72,046	68,914	73,336	66,883	66,634	61,502	61,846	68,503	69,124	69,708	70,541	71,381
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(9,867)	(9,214)	(9,157)	(7,717)	(7,522)	(5,679)	(12,270)	(10,786)	(8,900)	(7,956)	(7,811)
Net Funds available after capital revenue	61,650	72,800	59,047	64,121	57,726	58,917	53,980	56,168	56,233	58,338	60,807	62,585	63,571
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	65,606	59,308	60,461	55,570	57,806	57,921	56,061	62,483	64,311	65,348
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	13	14	15	16	17
Asset renewals	-	-	27,752	39,140	40,211	40,000	42,000	38,000	38,000	37,000	35,500	36,500	37,500
New / upgrade	-	-	25,024	24,000	20,450	15,011	15,517	16,034	17,123	18,263	18,420	19,920	19,920
New/upgrade - Infrastructure	-	-	19,024	17,820	14,078	8,453	8,768	9,089	9,976	10,907	10,850	12,130	11,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	6,171	6,344	7,158	6,611	6,779	6,936	6,710	7,307	8,000	8,000
Funding on investments (capital works)	33,334	42,466	67,743	69,317	67,018	62,181	64,140	60,825	62,072	61,987	61,242	64,436	65,437
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	0	0	0	0	0	0	0	0
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
	-	-											
Net Overall Funding Surplus/(Deficit) ex Investments	41,438	20,990	(9,446)	(6,322)	(10,681)	(5,077)	(12,133)	(6,787)	(8,204)	(10,245)	(3,585)	(3,567)	(3,201)
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	226,536	215,855	210,778	198,644	191,858	183,654	173,409	169,823	166,256
Net Change in Investments	-	-	(9,446)	(6,322)	(10,681)	(5,077)	(12,133)	(6,787)	(8,204)	(10,245)	(3,585)	(3,567)	(3,201)
Closing Investments & Cash	222,747	242,304	232,858	226,536	215,855	210,778	198,644	191,858	183,654	173,409	169,823	166,256	163,055
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Remaining funds for investment	-	-	188,826	181,315	169,357	163,117	149,792	141,784	132,328	120,800	115,899	110,984	106,401
Current Investments	-	-	75,530	72,526	67,743	65,247	59,917	56,714	52,931	48,320	46,360	44,394	42,560
Non-Current Investments	-	-	113,295	108,789	101,614	97,870	89,875	85,070	79,397	72,480	69,540	66,590	63,841

Appendix B SCENARIO 1C – LESS SERVICES & CAPITAL WORKS

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Productivity Ratio	-	-	-	(205)	(415)	(632)	(854)	(1,084)	(1,320)	(1,563)	(1,814)	(2,072)	(2,338)
Productivity Improvement - Employee	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - M&C	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - IPART assumption	-	-	-	(205)	(415)	(632)	(854)	(1,084)	(1,320)	(1,563)	(1,814)	(2,072)	(2,338)
Asset Maintenance Ratio	0%	0%	101%	86%	86%	87%	87%	88%	86%	87%	88%	88%	89%
Actual Asset maintenance	-	-	15,333	13,325	13,578	13,836	14,099	14,366	16,521	16,835	17,155	17,481	17,813
Required Asset Maintenance	17,253	12,466	15,241	15,531	15,744	15,927	16,158	16,380	19,109	19,342	19,575	19,824	20,075
Building and Infrastructure Renewals Ratio	0%	0%	84%	115%	116%	114%	118%	105%	89%	86%	81%	82%	83%
Asset Renewals	9,681	14,827	27,752	39,140	40,211	40,000	42,000	38,000	38,000	37,000	35,500	36,500	37,500
Depn of building and infrastructure assets	-	-	33,010	34,117	34,626	35,063	35,614	36,146	42,661	43,217	43,772	44,369	44,968
Cash Expense Cover Ratio	1.6	4.0	3.8	3.9	3.9	3.9	3.9	4.0	3.9	3.9	3.9	3.9	3.9
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Total Expenses	230,911	223,072	229,930	233,076	238,600	243,510	249,332	253,425	266,731	272,055	277,344	283,685	290,212
Depreciation	47,926	45,771	47,473	48,807	49,424	49,973	50,639	51,290	57,927	58,609	59,293	60,023	60,759
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.4	1.4	1.2	1.3	1.2	1.1	1.1	1.0	1.1	1.1
Annual Capital Expenditure	-	-	67,743	69,317	67,018	62,181	64,140	60,825	62,072	61,987	61,242	64,436	65,437
Annual Depreciation	47,926	45,771	47,473	48,807	49,424	49,973	50,639	51,290	57,927	58,609	59,293	60,023	60,759
Cash & Investments as % of Total Operating Revenue	102%	108%	105%	100%	93%	88%	81%	77%	71%	66%	63%	60%	57%
Current Investments & Cash	108,267	109,623	119,562	117,747	114,241	112,908	108,769	106,787	104,257	100,929	100,284	99,666	99,214
Non-current Investments	114,480	132,948	113,295	108,789	101,614	97,870	89,875	85,070	79,397	72,480	69,540	66,590	63,841
Total Operating Revenue	217,506	223,826	222,345	226,221	231,874	238,295	244,381	250,387	257,175	264,060	271,315	278,684	285,441
Broad Liabilities Ratio	76%	71%	72%	73%	67%	61%	54%	50%	54%	54%	54%	54%	54%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	101,392	94,419	88,097	79,881	77,086	94,533	100,998	109,804	117,946	125,422
Total Operating Revenue	217,506	223,826	222,345	226,221	231,874	238,295	244,381	250,387	257,175	264,060	271,315	278,684	285,441
Debt Service Cover Ratio	5.2	4.2	5.8	6.5	6.4	6.5	6.6	7.0	6.9	7.2	7.3	9.7	10.9
EBITA	36,283	48,782	41,863	43,703	44,183	45,953	46,581	48,829	48,609	50,492	52,747	54,195	54,873
Operating Income	(15,780)	(1,439)	(9,867)	(9,214)	(9,157)	(7,717)	(7,522)	(5,679)	(12,270)	(10,786)	(8,900)	(7,956)	(7,811)
Interest	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Depreciation	47,926	45,771	47,473	48,807	49,424	49,973	50,639	51,290	57,927	58,609	59,293	60,023	60,759
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Building and Infrastructure Backlog Ratio			0.104	0.094	0.087	0.081	0.073	0.070	0.073	0.078	0.085	0.091	0.097
Asset Backlog	97,680	90,438	95,181	101,392	94,419	88,097	79,881	77,086	94,533	100,998	109,804	117,946	125,422
Total Infrastructure & Depreciable land improvements	-	-	917,333	1,075,863	1,084,907	1,089,307	1,100,743	1,108,460	1,292,069	1,293,548	1,293,636	1,296,019	1,298,495
Interest Cover ratio	8.8	11.0	9.8	10.6	11.3	12.4	13.4	15.2	16.5	18.9	22.4	25.5	28.5
EBITA	36,283	48,782	41,863	43,703	44,183	45,953	46,581	48,829	48,609	50,492	52,747	54,195	54,873
Interest Expense	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Sustainable Operating Ratio	-9%	-2%	-6%	-6%	-5%	-5%	-5%	-4%	-6%	-6%	-5%	-4%	-4%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	220,900	226,394	232,651	238,566	244,398	251,007	257,707	264,771	271,944	278,499
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	226,221	231,874	238,295	244,381	250,387	257,175	264,060	271,315	278,684	285,441
2012 SRV	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
Operating Expenses	230,911	223,072	229,930	233,076	238,600	243,510	249,332	253,425	266,731	272,055	277,344	283,685	290,212
Operating Ratio	-6%	0%	-3%	-3%	-3%	-2%	-2%	-1%	-4%	-3%	-2%	-2%	-2%
Operating Revenue excl Capital Grants & Contributions		-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	226,221	231,874	238,295	244,381	250,387	257,175	264,060	271,315	278,684	285,441
Capital Grants & Contribuions	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	233,076	238,600	243,510	249,332	253,425	266,731	272,055	277,344	283,685	290,212
Own Source Operating Revenue Ratio	79%	84%	85%	86%	86%	86%	87%	87%	87%	87%	87%	88%	88%
Rates & Annual Charges	112,058	120,034	122,995	125,764	129,538	133,350	137,273	141,312	145,468	149,747	154,150	158,683	163,348
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,321	5,480	5,645	5,814	5,988	6,168	6,353	6,544	6,740	6,942
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	226,221	231,874	238,295	244,381	250,387	257,175	264,060	271,315	278,684	285,441
Unrestricted Current Ratio	2.0	2.2	2.4	2.3	2.1	2.1	2.0	1.9	1.8	1.8	1.8	1.7	1.7
Current Assets less external restrictions	135,639	139,194	149,436	148,064	145,036	144,136	140,443	138,917	136,854	134,005	133,851	133,737	133,801
Current Assets	135,639	139,194	149,436	148,064	145,036	144,136	140,443	138,917	136,854	134,005	133,851	133,737	133,801
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix B **SCENARIO 2 – FINANCIAL SUSTAINABILITY**

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	130,282	138,352	146,639	155,324	164,551	169,405	174,401	179,544	184,838	190,288
Rates	-	-	102,688	109,495	116,941	124,659	132,762	141,392	145,633	150,002	154,502	159,138	163,912
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,549	5,927	6,318	6,729	7,166	7,381	7,602	7,830	8,065	8,307
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,759	5,787	5,516	5,165	5,330	5,165	5,330	5,425	5,069
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376
Operating Expenses													
Employee costs	94,688	87,229	90,902	94,337	97,242	100,356	103,366	106,394	110,547	113,642	116,797	120,217	123,738
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,423	9,687	9,871	10,058	10,249	10,444
Capital Works (expensed)	-	-	1,869	2,635	2,708	3,030	3,165	3,232	3,232	3,165	3,064	3,131	3,198
Other BAU	94,688	87,229	81,367	83,889	86,574	89,214	91,935	94,739	97,629	100,606	103,675	106,837	110,095
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	2,563	2,298	2,016	1,700	1,475	1,271	1,087
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New			-	-	-	-	-	-	-	-	-	-	-
Materials & contracts	40,653	42,051	44,640	47,431	48,618	50,414	51,799	53,053	55,281	56,297	57,264	58,653	60,074
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,423	9,687	9,871	10,058	10,249	10,444
Capital Works (expensed)	-	-	4,360	6,149	6,318	7,070	7,384	7,541	7,541	7,384	7,149	7,306	7,463
Other BAU	40,653	42,051	32,613	33,469	34,340	35,232	36,148	37,088	38,053	39,042	40,057	41,099	42,167
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	34,152	34,695	35,201	35,821	36,456	43,124	43,783	44,440	45,139	45,841
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Productivity Factor	-	-		(205)	(424)	(658)	(908)	(1,173)	(1,456)	(1,747)	(2,047)	(2,356)	(2,674)
Total Operating Expenses	230,911	223,072	229,930	239,970	245,701	252,375	258,426	264,307	278,241	283,828	289,384	295,997	302,799
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(7,585)	(9,003)	(4,700)	(258)	4,727	10,418	4,096	6,058	8,625	10,300	11,577
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(11,362)	(7,131)	(2,760)	2,156	7,778	1,382	3,266	5,753	7,345	8,537
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,549)	(5,927)	(6,318)	(6,729)	(7,166)	(7,381)	(7,602)	(7,830)	(8,065)	(8,307)
Sustainable surplus/deficit excluding capital funding	(21,678)	(6,186)	(15,063)	(16,911)	(13,058)	(9,078)	(4,572)	612	(5,999)	(4,336)	(2,077)	(721)	230

Appendix B **SCENARIO 2 – FINANCIAL SUSTAINABILITY**

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	116,102	112,634	110,702	107,881	106,932	105,574	103,620	104,630	105,967	107,930
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Current Investments	86,439	65,591	75,530	70,881	66,136	63,041	59,029	56,859	54,249	51,011	50,706	50,695	51,276
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	146,420	143,429	141,931	139,555	139,062	138,172	136,696	138,197	140,038	142,517
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	106,322	99,204	94,562	88,543	85,288	81,373	76,516	76,059	76,042	76,914
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,466,685	1,475,429	1,484,110	1,499,812	1,516,345	1,713,231	1,723,392	1,732,122	1,743,110	1,754,157
Building & Infrastructure	-	-	873,810	1,041,140	1,058,949	1,076,638	1,101,293	1,126,719	1,332,438	1,351,371	1,368,809	1,388,440	1,408,062
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furntiure & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage Collections etc)	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,575,814	1,577,520	1,581,630	1,591,388	1,604,742	1,797,790	1,803,174	1,811,528	1,822,583	1,834,588
Total Assets	1,548,321	1,577,799	1,573,947	1,722,233	1,720,948	1,723,561	1,730,943	1,743,804	1,935,962	1,939,870	1,949,725	1,962,621	1,977,105
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	39,190	35,138	30,818	25,992	22,550	19,438	16,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Additional Borrowing	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	60,787	57,258	53,451	49,385	44,820	41,648	38,813	36,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Net Assets	1,408,038	1,444,161	1,440,708	1,589,602	1,589,151	1,593,071	1,601,907	1,616,365	1,810,343	1,820,289	1,832,722	1,846,747	1,861,964
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,436,026	1,589,151	1,593,071	1,601,907	1,616,365	1,624,427	1,820,289	1,832,722	1,846,747	1,861,964
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,589,602	1,589,151	1,593,071	1,601,907	1,616,365	1,810,343	1,820,289	1,832,722	1,846,747
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(11,362)	(7,131)	(2,760)	2,156	7,778	1,382	3,266	5,753	7,345	8,537
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	0	0	0	0	(0)	0	0	0	0
Revaluation Reserve (Closing)	277,363	293,234	0	153,576	0	-	-	-	185,916	-	-	-	-
Asset Revaluation (Infrastructure)			0	280,487	0	-	-	-	345,094	-	-	-	-
Asset Revaluation (Infrastructure)			0	(126,911)	0	-	-	-	- 159,178	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,589,602	1,589,151	1,593,071	1,601,907	1,616,365	1,810,343	1,820,289	1,832,722	1,846,747	1,861,964

Appendix B

SCENARIO 2 – FINANCIAL SUSTAINABILITY

Cash Flow Statement

Cashflow, Investments & Reserves *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Proceeds from the sale of Assets	17,408	8,275	14,761	17,848	10,779	10,388	4,591	4,692	4,712	4,652	4,551	4,654	4,758
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Total Capital Raising revenue	75,055	72,046	68,914	73,371	66,953	67,180	62,117	62,972	69,783	70,506	71,192	72,127	73,070
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(9,867)	(11,362)	(7,131)	(2,760)	2,156	7,778	1,382	3,266	5,753	7,345	8,537
Net Funds available after capital revenue	61,650	72,800	59,047	62,009	59,822	64,420	64,274	70,750	71,164	73,772	76,945	79,472	81,608
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	63,494	61,404	65,965	65,864	72,388	72,852	71,495	78,620	81,198	83,386
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	13	14	15	16	17
Asset renewals	-	-	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
New / upgrade	-	-	25,024	26,000	22,450	17,011	17,517	18,034	19,123	20,263	20,420	21,920	21,920
New/upgrade - Infrastructure	-	-	19,024	19,820	16,078	10,453	10,768	11,089	11,976	12,907	12,850	14,130	13,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	6,171	6,344	7,158	6,611	6,779	6,936	6,710	7,307	8,000	8,000
Funding on investments (capital works)	33,334	42,466	67,743	71,317	69,018	69,181	71,140	72,825	74,072	73,987	73,242	76,436	77,437
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	0	0	0	0	0	0	0	0
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
	-	-											
Net Overall Funding Surplus/(Deficit) ex Investments	41,438	20,990	(9,446)	(10,434)	(10,586)	(6,574)	(8,840)	(4,204)	(5,273)	(6,811)	552	1,320	2,836
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	222,424	211,838	205,264	196,425	192,220	186,947	180,136	180,688	182,009
Net Change in Investments	-	-	(9,446)	(10,434)	(10,586)	(6,574)	(8,840)	(4,204)	(5,273)	(6,811)	552	1,320	2,836
Closing Investments & Cash	222,747	242,304	232,858	222,424	211,838	205,264	196,425	192,220	186,947	180,136	180,688	182,009	184,844
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Remaining funds for investment	-	-	188,826	177,203	165,340	157,603	147,572	142,147	135,622	127,527	126,764	126,737	128,191
Current Investments	-	-	75,530	70,881	66,136	63,041	59,029	56,859	54,249	51,011	50,706	50,695	51,276
Non-Current Investments	-	-	113,295	106,322	99,204	94,562	88,543	85,288	81,373	76,516	76,059	76,042	76,914

Appendix B SCENARIO 2 – FINANCIAL SUSTAINABILITY

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Productivity Ratio	-	-	-	(205)	(424)	(658)	(908)	(1,173)	(1,456)	(1,747)	(2,047)	(2,356)	(2,674)
Productivity Improvement - Employee	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - M&C	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - IPART assumption	-	-	-	(205)	(424)	(658)	(908)	(1,173)	(1,456)	(1,747)	(2,047)	(2,356)	(2,674)
Asset Maintenance Ratio	0%	0%	101%	101%	101%	101%	102%	102%	100%	101%	101%	102%	102%
Actual Asset maintenance	-	-	15,333	15,625	15,921	16,224	16,532	16,846	19,373	19,741	20,116	20,499	20,888
Required Asset Maintenance	17,253	12,466	15,241	15,545	15,773	15,985	16,244	16,510	19,303	19,579	19,854	20,147	20,441
Building and Infrastructure Renewals Ratio	0%	0%	84%	115%	116%	128%	131%	132%	111%	107%	102%	103%	104%
Asset Renewals	9,681	14,827	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
Depn of building and infrastructure assets	-	-	33,010	34,152	34,695	35,201	35,821	36,456	43,124	43,783	44,440	45,139	45,841
Cash Expense Cover Ratio	1.6	4.0	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Total Expenses	230,911	223,072	229,930	239,970	245,701	252,375	258,426	264,307	278,241	283,828	289,384	295,997	302,799
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.3	1.3
Annual Capital Expenditure	-	-	67,743	71,317	69,018	69,181	71,140	72,825	74,072	73,987	73,242	76,436	77,437
Annual Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Cash & Investments as % of Total Operating Revenue	102%	108%	105%	96%	88%	81%	75%	70%	66%	62%	61%	59%	59%
Current Investments & Cash	108,267	109,623	119,562	116,102	112,634	110,702	107,881	106,932	105,574	103,620	104,630	105,967	107,930
Non-current Investments	114,480	132,948	113,295	106,322	99,204	94,562	88,543	85,288	81,373	76,516	76,059	76,042	76,914
Total Operating Revenue	217,506	223,826	222,345	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376
Broad Liabilities Ratio	76%	71%	72%	70%	62%	52%	42%	33%	30%	25%	21%	17%	14%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,766	13,219
Total Operating Revenue	217,506	223,826	222,345	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376
Debt Service Cover Ratio	5.2	4.2	5.8	6.2	6.7	7.2	8.0	9.0	9.0	9.3	9.5	12.6	14.3
EBITA	36,283	48,782	41,863	41,591	46,279	51,048	56,466	62,595	62,724	65,110	68,068	70,267	72,094
Operating Income	(15,780)	(1,439)	(9,867)	(11,362)	(7,131)	(2,760)	2,156	7,778	1,382	3,266	5,753	7,345	8,537
Interest	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Depreciation	47,926	45,771	47,473	48,842	49,494	50,112	50,847	51,600	58,390	59,174	59,961	60,793	61,632
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Building and Infrastructure Backlog Ratio	#DIV/0!	#DIV/0!	0.104	0.092	0.083	0.068	0.053	0.037	0.029	0.023	0.019	0.014	0.010
Asset Backlog	97,680	90,438	95,181	99,144	89,931	75,304	58,840	41,780	38,994	31,148	25,741	19,766	13,219
Total Infrastructure & Depreciable land improvements	-	-	917,333	1,077,828	1,088,802	1,099,656	1,117,477	1,136,068	1,334,953	1,347,051	1,357,654	1,370,451	1,383,238
Interest Cover ratio	8.8	11.0	9.8	10.1	11.8	13.8	16.3	19.5	21.2	24.4	28.9	33.0	37.4
EBITA	36,283	48,782	41,863	41,591	46,279	51,048	56,466	62,595	62,724	65,110	68,068	70,267	72,094
Interest Expense	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Sustainable Operating Ratio	-9%	-2%	-6%	-6%	-5%	-3%	-1%	1%	-1%	-1%	0%	1%	1%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	225,418	235,075	245,799	256,424	267,560	274,957	282,284	290,179	298,231	306,069
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376
2012 SRV	5,898	4,747	5,196	5,549	5,927	6,318	6,729	7,166	7,381	7,602	7,830	8,065	8,307
Operating Expenses	230,911	223,072	229,930	239,970	245,701	252,375	258,426	264,307	278,241	283,828	289,384	295,997	302,799
Operating Ratio	-6%	0%	-3%	-4%	-2%	0%	2%	4%	1%	2%	3%	3%	4%
Operating Revenue excl Capital Grants & Contributions		-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376
Capital Grants & Contribuitions	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	239,970	245,701	252,375	258,426	264,307	278,241	283,828	289,384	295,997	302,799
Own Source Operating Revenue Ratio	79%	84%	85%	86%	87%	87%	88%	88%	88%	88%	88%	89%	89%
Rates & Annual Charges	112,058	120,034	122,995	130,282	138,352	146,639	155,324	164,551	169,405	174,401	179,544	184,838	190,288
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,549	5,927	6,318	6,729	7,166	7,381	7,602	7,830	8,065	8,307
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	230,968	241,001	252,117	263,153	274,725	282,337	289,886	298,009	306,296	314,376
Unrestricted Current Ratio	2.0	2.2	2.4	2.2	2.1	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Current Assets less external restrictions	135,639	139,194	149,436	146,420	143,429	141,931	139,555	139,062	138,172	136,696	138,197	140,038	142,517
Current Assets	135,639	139,194	149,436	146,420	143,429	141,931	139,555	139,062	138,172	136,696	138,197	140,038	142,517
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix B

SCENARIO 3 – FINANCIAL SUSTAINABILITY & REVITALISATION

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	131,514	140,997	151,132	162,047	173,803	178,934	184,217	189,654	195,252	201,014
Rates	-	-	102,688	110,728	119,586	129,153	139,485	150,644	155,163	159,818	164,613	169,551	174,637
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,864	8,100	8,343	8,593	8,851
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,741	5,774	5,495	5,139	5,282	5,139	5,282	5,363	4,968
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544
Operating Expenses													
Employee costs	94,688	87,229	90,902	94,712	97,627	100,876	103,897	107,437	111,602	114,709	117,877	121,311	124,846
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,923	10,187	10,371	10,558	10,749	10,944
Capital Works (expensed)	-	-	1,869	2,635	2,708	3,030	3,165	3,232	3,232	3,165	3,064	3,131	3,198
Other BAU	94,688	87,229	81,367	84,264	86,959	89,735	92,466	95,282	98,183	101,173	104,255	107,431	110,704
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	2,563	2,298	2,016	1,700	1,475	1,271	1,087
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New			-	-	-	-	-	-	-	-	-	-	-
Materials & contracts	40,653	42,051	44,640	47,806	49,003	50,935	52,330	54,095	56,335	57,364	58,344	59,747	61,182
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,923	10,187	10,371	10,558	10,749	10,944
Capital Works (expensed)	-	-	4,360	6,149	6,318	7,070	7,384	7,541	7,541	7,384	7,149	7,306	7,463
Other BAU	40,653	42,051	32,613	33,844	34,725	35,753	36,680	37,631	38,607	39,609	40,637	41,693	42,776
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	34,171	34,746	35,320	36,047	36,824	43,695	44,505	45,314	46,173	47,070
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Productivity Factor	-	-		(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,815)	(2,135)	(2,464)	(2,803)
Total Operating Expenses	230,911	223,072	229,930	240,740	246,519	253,526	259,698	266,731	280,873	286,617	292,330	299,111	306,117
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(7,585)	(8,477)	(2,757)	3,299	10,498	17,689	11,429	13,555	16,253	18,065	19,427
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(10,836)	(5,189)	797	7,927	15,049	8,715	10,764	13,381	15,110	16,387
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,612)	(6,061)	(6,545)	(7,069)	(7,635)	(7,864)	(8,100)	(8,343)	(8,593)	(8,851)
Sustainable surplus/deficit excluding capital funding	(21,678)	(6,186)	(15,063)	(16,448)	(11,249)	(5,749)	858	7,414	851	2,664	5,038	6,517	7,536

Appendix B

SCENARIO 3 – FINANCIAL SUSTAINABILITY & REVITALISATION

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	115,880	112,488	110,464	107,579	106,420	104,957	102,822	103,762	104,947	106,068
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Current Investments	86,439	65,591	75,530	70,659	65,990	62,804	58,726	56,346	53,631	50,213	49,839	49,675	49,415
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	146,197	143,283	141,693	139,252	138,550	137,554	135,898	137,330	139,018	140,655
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	105,988	98,985	94,205	88,089	84,520	80,447	75,320	74,758	74,513	74,122
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,467,766	1,478,262	1,490,729	1,512,364	1,536,692	1,744,530	1,762,640	1,779,172	1,798,306	1,819,308
Building & Infrastructure	-	-	873,810	1,042,221	1,061,781	1,083,257	1,113,845	1,147,066	1,363,738	1,390,619	1,415,859	1,443,636	1,473,213
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furntiure & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage Collections etc)	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,576,561	1,580,133	1,587,893	1,603,486	1,624,320	1,828,164	1,841,226	1,857,277	1,876,250	1,896,947
Total Assets	1,548,321	1,577,799	1,573,947	1,722,759	1,723,416	1,729,586	1,742,739	1,762,870	1,965,718	1,977,124	1,994,607	2,015,268	2,037,602
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	39,190	35,138	30,818	25,992	22,550	19,438	16,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Additional Borrowing	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	60,787	57,258	53,451	49,385	44,820	41,648	38,813	36,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Net Assets	1,408,038	1,444,161	1,440,708	1,590,128	1,591,619	1,599,096	1,613,703	1,635,432	1,840,099	1,857,543	1,877,604	1,899,394	1,922,461
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,436,551	1,591,619	1,599,096	1,613,703	1,635,432	1,650,826	1,857,543	1,877,604	1,899,394	1,922,461
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,590,128	1,591,619	1,599,096	1,613,703	1,635,432	1,840,099	1,857,543	1,877,604	1,899,394
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(10,836)	(5,189)	797	7,927	15,049	8,715	10,764	13,381	15,110	16,387
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	0	0	0	(0)	(0)	0	0	0	(0)
Revaluation Reserve (Closing)	277,363	293,234	0	153,576	0	-	-	-	189,273	-	-	-	-
Asset Revaluation (Infrastructure)			0	280,487	0	-	-	-	348,580	-	-	-	-
Asset Revaluation (Infrastructure)			0	(126,911)	0	-	-	-	- 159,307	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,590,128	1,591,619	1,599,096	1,613,703	1,635,432	1,840,099	1,857,543	1,877,604	1,899,394	1,922,461

Appendix B

SCENARIO 3 – FINANCIAL SUSTAINABILITY & REVITALISATION

Cash Flow Statement

Cashflow, Investments & Reserves													
For the year ended 30 June	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Proceeds from the sale of Assets	17,408	8,275	14,761	17,848	10,779	10,388	4,591	4,692	4,712	4,652	4,551	4,654	4,758
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Total Capital Raising revenue	75,055	72,046	68,914	73,390	67,004	67,299	62,343	63,340	70,354	71,228	72,066	73,161	74,299
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(9,867)	(10,836)	(5,189)	797	7,927	15,049	8,715	10,764	13,381	15,110	16,387
Net Funds available after capital revenue	61,650	72,800	59,047	62,554	61,815	68,096	70,270	78,389	79,069	81,992	85,447	88,271	90,686
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	64,039	63,397	69,640	71,861	80,027	80,756	79,715	87,122	89,997	92,464
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	13	14	15	16	17
Asset renewals	-	-	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
New / upgrade	-	-	25,024	26,000	22,450	17,011	17,517	18,034	19,123	20,263	20,420	21,920	21,920
New/upgrade - Infrastructure	-	-	19,024	19,820	16,078	10,453	10,768	11,089	11,976	12,907	12,850	14,130	13,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	7,271	8,147	11,063	12,770	14,942	15,103	15,381	15,982	17,180	19,184
Funding on investments (capital works)	33,334	42,466	67,743	72,417	70,820	73,086	77,299	80,988	82,239	82,658	81,917	85,616	88,621
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	0	0	0	0	0	0	0	0
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
	-	-											
Net Overall Funding Surplus/(Deficit) ex Investments	41,438	20,990	(9,446)	(10,989)	(10,395)	(6,804)	(9,002)	(4,728)	(5,536)	(7,262)	379	939	730
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	221,868	211,473	204,670	195,668	190,940	185,404	178,142	178,520	179,460
Net Change in Investments	-	-	(9,446)	(10,989)	(10,395)	(6,804)	(9,002)	(4,728)	(5,536)	(7,262)	379	939	730
Closing Investments & Cash	222,747	242,304	232,858	221,868	211,473	204,670	195,668	190,940	185,404	178,142	178,520	179,460	180,190
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Remaining funds for investment	-	-	188,826	176,647	164,975	157,009	146,816	140,866	134,078	125,533	124,597	124,188	123,536
Current Investments	-	-	75,530	70,659	65,990	62,804	58,726	56,346	53,631	50,213	49,839	49,675	49,415
Non-Current Investments	-	-	113,295	105,988	98,985	94,205	88,089	84,520	80,447	75,320	74,758	74,513	74,122

Appendix B

SCENARIO 3 – FINANCIAL SUSTAINABILITY & REVITALISATION

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Productivity Ratio	-	-	-	(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,815)	(2,135)	(2,464)	(2,803)
Productivity Improvement - Employee	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - M&C	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - IPART assumption	-	-	-	(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,815)	(2,135)	(2,464)	(2,803)
Asset Maintenance Ratio	0%	0%	101%	100%	101%	101%	101%	107%	104%	104%	104%	104%	104%
Actual Asset maintenance	-	-	15,333	15,625	15,921	16,224	16,532	17,846	20,373	20,741	21,116	21,499	21,888
Required Asset Maintenance	17,253	12,466	15,241	15,553	15,794	16,034	16,339	16,664	19,542	19,881	20,220	20,580	20,956
Building and Infrastructure Renewals Ratio	0%	0%	84%	115%	116%	127%	130%	130%	110%	106%	100%	101%	101%
Asset Renewals	9,681	14,827	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
Depn of building and infrastructure assets	-	-	33,010	34,171	34,746	35,320	36,047	36,824	43,695	44,505	45,314	46,173	47,070
Cash Expense Cover Ratio	1.6	4.0	3.8	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.6
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Total Expenses	230,911	223,072	229,930	240,740	246,519	253,526	259,698	266,731	280,873	286,617	292,330	299,111	306,117
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.5	1.4	1.5	1.5	1.6	1.4	1.4	1.3	1.4	1.4
Annual Capital Expenditure	-	-	67,743	72,417	70,820	73,086	77,299	80,988	82,239	82,658	81,917	85,616	88,621
Annual Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Cash & Investments as % of Total Operating Revenue	102%	108%	105%	96%	87%	80%	72%	67%	63%	59%	58%	57%	55%
Current Investments & Cash	108,267	109,623	119,562	115,880	112,488	110,464	107,579	106,420	104,957	102,822	103,762	104,947	106,068
Non-current Investments	114,480	132,948	113,295	105,988	98,985	94,205	88,089	84,520	80,447	75,320	74,758	74,513	74,122
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544
Broad Liabilities Ratio	76%	71%	72%	70%	62%	51%	42%	32%	29%	24%	20%	17%	14%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	99,172	90,034	75,584	59,455	41,943	39,032	31,260	26,151	20,712	14,990
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544
Debt Service Cover Ratio	5.2	4.2	5.8	6.3	7.0	7.8	8.9	10.1	10.1	10.5	10.7	14.2	16.1
EBITA	36,283	48,782	41,863	42,136	48,272	54,724	62,463	70,234	70,628	73,330	76,570	79,066	81,173
Operating Income	(15,780)	(1,439)	(9,867)	(10,836)	(5,189)	797	7,927	15,049	8,715	10,764	13,381	15,110	16,387
Interest	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Building and Infrastructure Backlog Ratio	#DIV/0!	#DIV/0!	0.104	0.092	0.082	0.068	0.053	0.036	0.029	0.023	0.019	0.015	0.010
Asset Backlog	97,680	90,438	95,181	99,172	90,034	75,584	59,455	41,943	39,032	31,260	26,151	20,712	14,990
Total Infrastructure & Depreciable land improvements	-	-	917,333	1,078,909	1,091,635	1,106,276	1,130,029	1,156,415	1,366,252	1,386,299	1,404,704	1,425,647	1,448,389
Interest Cover ratio	8.8	11.0	9.8	10.3	12.3	14.8	18.0	21.8	23.9	27.5	32.5	37.1	42.2
EBITA	36,283	48,782	41,863	42,136	48,272	54,724	62,463	70,234	70,628	73,330	76,570	79,066	81,173
Interest Expense	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Sustainable Operating Ratio	-9%	-2%	-6%	-6%	-4%	-1%	1%	4%	1%	2%	3%	3%	3%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	226,651	237,701	250,280	263,126	276,785	284,438	292,073	300,241	308,583	316,693
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544
2012 SRV	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,864	8,100	8,343	8,593	8,851
Operating Expenses	230,911	223,072	229,930	240,740	246,519	253,526	259,698	266,731	280,873	286,617	292,330	299,111	306,117
Operating Ratio	-6%	0%	-3%	-4%	-1%	1%	4%	6%	4%	5%	5%	6%	6%
Operating Revenue excl Capital Grants & Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544
Capital Grants & Contribuitions	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	240,740	246,519	253,526	259,698	266,731	280,873	286,617	292,330	299,111	306,117
Own Source Operating Revenue Ratio	79%	84%	85%	86%	87%	87%	88%	88%	89%	89%	89%	89%	89%
Rates & Annual Charges	112,058	120,034	122,995	131,514	140,997	151,132	162,047	173,803	178,934	184,217	189,654	195,252	201,014
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,864	8,100	8,343	8,593	8,851
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,825	270,195	284,420	292,302	300,172	308,583	317,176	325,544
Unrestricted Current Ratio	2.0	2.2	2.4	2.2	2.1	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Current Assets less external restrictions	135,639	139,194	149,436	146,197	143,283	141,693	139,252	138,550	137,554	135,898	137,330	139,018	140,655
Current Assets	135,639	139,194	149,436	146,197	143,283	141,693	139,252	138,550	137,554	135,898	137,330	139,018	140,655
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix B

SENSITIVITY 1 – LOWER THAN ANTICIPATED RATE INCREASE

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	130,488	138,791	147,576	156,950	166,954	171,880	176,951	182,171	187,544	193,075
Rates	-	-	102,688	109,701	117,380	125,596	134,388	143,795	148,109	152,553	157,129	161,843	166,698
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,560	5,949	6,365	6,811	7,288	7,506	7,731	7,963	8,202	8,448
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,706	5,654	5,240	4,686	4,510	4,686	4,510	4,211	2,768
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	231,184	241,409	252,969	264,585	276,772	284,119	292,087	299,949	307,925	315,003
Operating Expenses													
Employee costs	94,688	87,229	90,902	94,712	97,627	100,876	103,897	107,437	111,602	114,709	117,877	121,311	124,846
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,923	10,187	10,371	10,558	10,749	10,944
Capital Works (expensed)	-	-	1,869	2,635	2,708	3,030	3,165	3,232	3,232	3,165	3,064	3,131	3,198
Other BAU	94,688	87,229	81,367	84,264	86,959	89,735	92,466	95,282	98,183	101,173	104,255	107,431	110,704
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	2,563	2,298	2,016	1,700	1,475	1,271	1,087
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New			-	-	-	-	-	-	-	-	-	-	-
Materials & contracts	40,653	42,051	44,640	47,806	49,003	50,935	52,330	54,095	56,335	57,364	58,344	59,747	61,182
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,923	10,187	10,371	10,558	10,749	10,944
Capital Works (expensed)	-	-	4,360	6,149	6,318	7,070	7,384	7,541	7,541	7,384	7,149	7,306	7,463
Other BAU	40,653	42,051	32,613	33,844	34,725	35,753	36,680	37,631	38,607	39,609	40,637	41,693	42,776
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	34,171	34,746	35,320	36,047	36,824	43,695	44,505	45,314	46,173	47,070
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Productivity Factor	-	-		(205)	(425)	(660)	(911)	(1,180)	(1,467)	(1,763)	(2,068)	(2,383)	(2,706)
Total Operating Expenses	230,911	223,072	229,930	240,740	246,521	253,533	259,711	266,754	280,911	286,669	292,396	299,192	306,213
Total Operating Revenue Less Operating Expendit	(13,405)	754	(7,585)	(9,556)	(5,112)	(564)	4,874	10,018	3,208	5,418	7,552	8,733	8,790
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(11,915)	(7,544)	(3,066)	2,303	7,378	494	2,626	4,680	5,778	5,750
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,560)	(5,949)	(6,365)	(6,811)	(7,288)	(7,506)	(7,731)	(7,963)	(8,202)	(8,448)
Sustainable surplus/deficit excluding capital fund	(21,678)	(6,186)	(15,063)	(17,475)	(13,493)	(9,432)	(4,508)	90	(7,013)	(5,105)	(3,283)	(2,425)	(2,699)

Appendix B

SENSITIVITY 1 – LOWER THAN ANTICIPATED RATE INCREASE

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	115,448	111,115	107,546	102,410	98,183	93,432	88,042	85,502	82,954	79,820
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Current Investments	86,439	65,591	75,530	70,227	64,616	59,885	53,558	48,110	42,106	35,433	31,578	27,682	23,166
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	145,766	141,910	138,774	134,084	130,313	126,029	121,118	119,070	117,025	114,407
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	105,341	96,925	89,827	80,337	72,164	63,159	53,150	47,367	41,523	34,749
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,467,766	1,478,262	1,490,729	1,512,364	1,536,692	1,744,530	1,762,640	1,779,172	1,798,306	1,819,308
Building & Infrastructure	-	-	873,810	1,042,221	1,061,781	1,083,257	1,113,845	1,147,066	1,363,738	1,390,619	1,415,859	1,443,636	1,473,213
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furntiure & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage Collect	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,575,914	1,578,073	1,583,515	1,595,734	1,611,965	1,810,876	1,819,055	1,829,886	1,843,260	1,857,574
Total Assets	1,548,321	1,577,799	1,573,947	1,721,680	1,719,983	1,722,289	1,729,818	1,742,278	1,936,905	1,940,174	1,948,956	1,960,285	1,971,982
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	39,190	35,138	30,818	25,992	22,550	19,438	16,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	60,787	57,258	53,451	49,385	44,820	41,648	38,813	36,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Net Assets	1,408,038	1,444,161	1,440,708	1,589,049	1,588,185	1,591,799	1,600,782	1,614,840	1,811,286	1,820,593	1,831,953	1,844,410	1,856,840
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,435,473	1,588,185	1,591,799	1,600,782	1,614,840	1,622,013	1,820,593	1,831,953	1,844,410	1,856,840
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,589,049	1,588,185	1,591,799	1,600,782	1,614,840	1,811,286	1,820,593	1,831,953	1,844,410
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(11,915)	(7,544)	(3,066)	2,303	7,378	494	2,626	4,680	5,778	5,750
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	0	0	0	(0)	(0)	0	0	0	(0)
Revaluation Reserve (Closing)	277,363	293,234	0	153,576	0	-	-	-	189,273	-	-	-	-
Asset Revaluation (Infrastructure)			0	280,487	0	-	-	-	348,580	-	-	-	-
Asset Revaluation (Infrastructure) Accum Depn			0	(126,911)	0	-	-	-	- 159,307	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,589,049	1,588,185	1,591,799	1,600,782	1,614,840	1,811,286	1,820,593	1,831,953	1,844,410	1,856,840

Appendix B

SENSITIVITY 1 – LOWER THAN ANTICIPATED RATE INCREASE

Cash Flow Statement

Cashflow, Investments & Reserves													
For the year ended 30 June	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Proceeds from the sale of Assets	17,408	8,275	14,761	17,848	10,779	10,388	4,591	4,692	4,712	4,652	4,551	4,654	4,758
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Total Capital Raising revenue	75,055	72,046	68,914	73,390	67,004	67,299	62,343	63,340	70,354	71,228	72,066	73,161	74,299
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(9,867)	(11,915)	(7,544)	(3,066)	2,303	7,378	494	2,626	4,680	5,778	5,750
Net Funds available after capital revenue	61,650	72,800	59,047	61,475	59,460	64,233	64,646	70,718	70,848	73,855	76,746	78,939	80,049
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	62,960	61,042	65,777	66,237	72,356	72,535	71,578	78,421	80,665	81,827
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	13	14	15	16	17
Asset renewals	-	-	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
New / upgrade	-	-	25,024	26,000	22,450	17,011	17,517	18,034	19,123	20,263	20,420	21,920	21,920
New/upgrade - Infrastructure	-	-	19,024	19,820	16,078	10,453	10,768	11,089	11,976	12,907	12,850	14,130	13,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	7,271	8,147	11,063	12,770	14,942	15,103	15,381	15,982	17,180	19,184
Funding on investments (capital works)	33,334	42,466	67,743	72,417	70,820	73,086	77,299	80,988	82,239	82,658	81,917	85,616	88,621
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	0	0	0	0	0	0	0	0
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
	-	-											
Net Overall Funding Surplus/(Deficit) ex Investmer	41,438	20,990	(9,446)	(12,068)	(12,750)	(10,667)	(14,626)	(12,399)	(13,757)	(15,400)	(8,322)	(8,393)	(9,907)
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	220,789	208,040	197,373	182,747	170,348	156,591	141,191	132,869	124,476
Net Change in Investments	-	-	(9,446)	(12,068)	(12,750)	(10,667)	(14,626)	(12,399)	(13,757)	(15,400)	(8,322)	(8,393)	(9,907)
Closing Investments & Cash	222,747	242,304	232,858	220,789	208,040	197,373	182,747	170,348	156,591	141,191	132,869	124,476	114,569
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Remaining funds for investment	-	-	188,826	175,568	161,541	149,712	133,895	120,274	105,265	88,583	78,945	69,205	57,916
Current Investments	-	-	75,530	70,227	64,616	59,885	53,558	48,110	42,106	35,433	31,578	27,682	23,166
Non-Current Investments	-	-	113,295	105,341	96,925	89,827	80,337	72,164	63,159	53,150	47,367	41,523	34,749

Appendix B

SENSITIVITY 1 – LOWER THAN ANTICIPATED RATE INCREASE

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Productivity Ratio	-	-	-	(205)	(425)	(660)	(911)	(1,180)	(1,467)	(1,763)	(2,068)	(2,383)	(2,706)
Productivity Improvement - Employee	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - M&C	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - IPART assumption	-	-	-	(205)	(425)	(660)	(911)	(1,180)	(1,467)	(1,763)	(2,068)	(2,383)	(2,706)
Asset Maintenance Ratio	0%	0%	101%	100%	101%	101%	101%	107%	104%	104%	104%	104%	104%
Actual Asset maintenance	-	-	15,333	15,625	15,921	16,224	16,532	17,846	20,373	20,741	21,116	21,499	21,888
Required Asset Maintenance	17,253	12,466	15,241	15,553	15,794	16,034	16,339	16,664	19,542	19,881	20,220	20,580	20,956
Building and Infrastructure Renewals Ratio	0%	0%	84%	115%	116%	127%	130%	130%	110%	106%	100%	101%	101%
Asset Renewals	9,681	14,827	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
Depn of building and infrastructure assets	-	-	33,010	34,171	34,746	35,320	36,047	36,824	43,695	44,505	45,314	46,173	47,070
Cash Expense Cover Ratio	1.6	4.0	3.8	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.6
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Total Expenses	230,911	223,072	229,930	240,740	246,521	253,533	259,711	266,754	280,911	286,669	292,396	299,192	306,213
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.5	1.4	1.5	1.5	1.6	1.4	1.4	1.3	1.4	1.4
Annual Capital Expenditure	-	-	67,743	72,417	70,820	73,086	77,299	80,988	82,239	82,658	81,917	85,616	88,621
Annual Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Cash & Investments as % of Total Operating Rever	102%	108%	105%	96%	86%	78%	69%	62%	55%	48%	44%	40%	36%
Current Investments & Cash	108,267	109,623	119,562	115,448	111,115	107,546	102,410	98,183	93,432	88,042	85,502	82,954	79,820
Non-current Investments	114,480	132,948	113,295	105,341	96,925	89,827	80,337	72,164	63,159	53,150	47,367	41,523	34,749
Total Operating Revenue	217,506	223,826	222,345	231,184	241,409	252,969	264,585	276,772	284,119	292,087	299,949	307,925	315,003
Broad Liabilities Ratio	76%	71%	72%	70%	62%	52%	42%	33%	30%	25%	21%	17%	14%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	99,172	90,034	75,584	59,455	41,943	39,032	31,260	26,151	20,712	14,990
Total Operating Revenue	217,506	223,826	222,345	231,184	241,409	252,969	264,585	276,772	284,119	292,087	299,949	307,925	315,003
Debt Service Cover Ratio	5.2	4.2	5.8	6.1	6.7	7.2	8.1	9.0	8.9	9.3	9.5	12.5	14.0
EBITA	36,283	48,782	41,863	41,057	45,917	50,861	56,839	62,563	62,407	65,193	67,869	69,734	70,536
Operating Income	(15,780)	(1,439)	(9,867)	(11,915)	(7,544)	(3,066)	2,303	7,378	494	2,626	4,680	5,778	5,750
Interest	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Building and Infrastructure Backlog Ratio	#DIV/0!	#DIV/0!	0.104	0.092	0.082	0.068	0.053	0.036	0.029	0.023	0.019	0.015	0.010
Asset Backlog	97,680	90,438	95,181	99,172	90,034	75,584	59,455	41,943	39,032	31,260	26,151	20,712	14,990
Total Infrastructure & Depreciable land improvements	-	-	917,333	1,078,909	1,091,635	1,106,276	1,130,029	1,156,415	1,366,252	1,386,299	1,404,704	1,425,647	1,448,389
Interest Cover ratio	8.8	11.0	9.8	10.0	11.7	13.8	16.4	19.4	21.1	24.4	28.8	32.8	36.6
EBITA	36,283	48,782	41,863	41,057	45,917	50,861	56,839	62,563	62,407	65,193	67,869	69,734	70,536
Interest Expense	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Sustainable Operating Ratio	-9%	-2%	-6%	-7%	-5%	-3%	-1%	1%	-2%	-1%	0%	0%	0%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	225,624	235,460	246,603	257,774	269,485	276,612	284,355	291,985	299,722	306,554
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	231,184	241,409	252,969	264,585	276,772	284,119	292,087	299,949	307,925	315,003
2012 SRV	5,898	4,747	5,196	5,560	5,949	6,365	6,811	7,288	7,506	7,731	7,963	8,202	8,448
Operating Expenses	230,911	223,072	229,930	240,740	246,521	253,533	259,711	266,754	280,911	286,669	292,396	299,192	306,213
Operating Ratio	-6%	0%	-3%	-4%	-2%	0%	2%	4%	1%	2%	3%	3%	3%
Operating Revenue excl Capital Grants & Contributions		-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	231,184	241,409	252,969	264,585	276,772	284,119	292,087	299,949	307,925	315,003
Capital Grants & Contribuitions	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	240,740	246,521	253,533	259,711	266,754	280,911	286,669	292,396	299,192	306,213
Own Source Operating Revenue Ratio	79%	84%	85%	86%	87%	87%	88%	88%	89%	89%	89%	89%	90%
Rates & Annual Charges	112,058	120,034	122,995	130,488	138,791	147,576	156,950	166,954	171,880	176,951	182,171	187,544	193,075
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,560	5,949	6,365	6,811	7,288	7,506	7,731	7,963	8,202	8,448
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	231,184	241,409	252,969	264,585	276,772	284,119	292,087	299,949	307,925	315,003
Unrestricted Current Ratio	2.0	2.2	2.4	2.2	2.1	2.0	1.9	1.8	1.7	1.6	1.6	1.5	1.5
Current Assets less external restrictions	135,639	139,194	149,436	145,766	141,910	138,774	134,084	130,313	126,029	121,118	119,070	117,025	114,407
Current Assets	135,639	139,194	149,436	145,766	141,910	138,774	134,084	130,313	126,029	121,118	119,070	117,025	114,407
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix B

SENSITIVITY 2 – ACCOUNTING FOR ASSET RENEWAL

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	131,514	140,997	151,132	162,047	173,803	178,934	184,217	189,654	195,252	201,014
Rates	-	-	102,688	110,728	119,586	129,153	139,485	150,644	155,163	159,818	164,613	169,551	174,637
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,864	8,100	8,343	8,593	8,851
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,741	5,775	5,496	5,140	5,284	5,140	5,284	5,365	4,971
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,826	270,196	284,421	292,304	300,173	308,585	317,178	325,547
Operating Expenses													
Employee costs	94,688	87,229	90,902	99,266	102,305	106,112	109,366	113,022	117,187	120,177	123,170	126,721	130,373
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,923	10,187	10,371	10,558	10,749	10,944
Capital Works (expensed)	-	-	1,869	7,189	7,386	8,266	8,633	8,817	8,817	8,633	8,358	8,541	8,725
Other BAU	94,688	87,229	81,367	84,264	86,959	89,735	92,466	95,282	98,183	101,173	104,255	107,431	110,704
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	2,563	2,298	2,016	1,700	1,475	1,271	1,087
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New			-	-	-	-	-	-	-	-	-	-	-
Materials & contracts	40,653	42,051	44,640	58,432	59,919	63,151	65,090	67,126	69,366	70,123	70,696	72,371	74,078
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,812	7,961	8,112	8,266	8,923	10,187	10,371	10,558	10,749	10,944
Capital Works (expensed)	-	-	4,360	16,775	17,234	19,287	20,144	20,572	20,572	20,144	19,501	19,929	20,358
Other BAU	40,653	42,051	32,613	33,844	34,725	35,753	36,680	37,631	38,607	39,609	40,637	41,693	42,776
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	38,519	39,097	39,664	40,383	41,153	46,236	47,048	47,867	48,737	49,646
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	23,829	24,298	24,754	25,357	26,009	30,970	31,656	32,346	33,083	33,855
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	989	1,053	1,264	1,335	1,356	1,325	1,244	1,137	1,154	1,170
Productivity Factor	-	-		(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,815)	(2,135)	(2,464)	(2,803)
Total Operating Expenses	230,911	223,072	229,930	244,337	250,393	258,988	265,748	273,011	285,243	290,508	295,567	302,582	309,819
Total Operating Revenue Less Operating Expendit	(13,405)	754	(7,585)	(12,075)	(6,631)	(2,162)	4,448	11,410	7,060	9,666	13,018	14,596	15,728
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(14,434)	(9,062)	(4,664)	1,878	8,770	4,346	6,874	10,146	11,641	12,688
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,612)	(6,061)	(6,545)	(7,069)	(7,635)	(7,864)	(8,100)	(8,343)	(8,593)	(8,851)
Sustainable surplus/deficit excluding capital fund	(21,678)	(6,186)	(15,063)	(20,045)	(15,123)	(11,209)	(5,191)	1,135	(3,517)	(1,225)	1,803	3,048	3,837

Appendix B

SENSITIVITY 2 – ACCOUNTING FOR ASSET RENEWAL

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	115,882	112,494	110,473	107,591	106,436	104,977	102,846	103,790	104,979	106,104
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Current Investments	86,439	65,591	75,530	70,662	65,996	62,812	58,739	56,363	53,651	50,237	49,866	49,707	49,451
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	146,200	143,289	141,702	139,265	138,566	137,574	135,922	137,358	139,050	140,691
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	105,992	98,993	94,219	88,108	84,544	80,477	75,355	74,799	74,560	74,176
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,153,373	1,159,989	1,166,987	1,182,564	1,200,603	1,348,607	1,362,818	1,376,105	1,391,760	1,409,052
Building & Infrastructure	-	-	873,810	727,829	743,508	759,515	784,044	810,977	967,814	990,797	1,012,792	1,037,090	1,062,957
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furniture & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage Collect	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,262,173	1,261,869	1,264,164	1,273,705	1,288,256	1,432,270	1,441,439	1,454,251	1,469,751	1,486,744
Total Assets	1,548,321	1,577,799	1,573,947	1,408,373	1,405,157	1,405,866	1,412,970	1,426,822	1,569,844	1,577,361	1,591,609	1,608,801	1,627,436
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	39,190	35,138	30,818	25,992	22,550	19,438	16,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	60,787	57,258	53,451	49,385	44,820	41,648	38,813	36,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Net Assets	1,408,038	1,444,161	1,440,708	1,275,742	1,273,360	1,275,376	1,283,934	1,299,383	1,444,226	1,457,780	1,474,606	1,492,927	1,512,294
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,432,954	1,273,360	1,275,376	1,283,934	1,299,383	1,310,409	1,457,780	1,474,606	1,492,927	1,512,294
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,275,742	1,273,360	1,275,376	1,283,934	1,299,383	1,444,226	1,457,780	1,474,606	1,492,927
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(14,434)	(9,062)	(4,664)	1,878	8,770	4,346	6,874	10,146	11,641	12,688
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	(0)	0	0	(0)	0	0	(0)	0	(0)
Revaluation Reserve (Closing)	277,363	293,234	0	(157,212)	0	-	-	-	133,816	-	-	-	-
Asset Revaluation (Infrastructure)			0	(306,958)	0	-	-	-	246,201	-	-	-	-
Asset Revaluation (Infrastructure) Accum Depn			0	149,746	0	-	-	- -	112,384	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,275,742	1,273,360	1,275,376	1,283,934	1,299,383	1,444,226	1,457,780	1,474,606	1,492,927	1,512,294

Appendix B

SENSITIVITY 2 – ACCOUNTING FOR ASSET RENEWAL

Cash Flow Statement

Cashflow, Investments & Reserves *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	38,519	39,097	39,664	40,383	41,153	46,236	47,048	47,867	48,737	49,646
Proceeds from the sale of Assets	17,408	8,275	14,761	16,609	9,506	8,963	3,102	3,172	3,192	3,163	3,110	3,182	3,254
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	989	1,053	1,264	1,335	1,356	1,325	1,244	1,137	1,154	1,170
Total Capital Raising revenue	75,055	72,046	68,914	61,808	55,282	55,308	50,166	51,005	56,108	56,891	57,656	58,598	59,580
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(9,867)	(14,434)	(9,062)	(4,664)	1,878	8,770	4,346	6,874	10,146	11,641	12,688
Net Funds available after capital revenue	61,650	72,800	59,047	47,374	46,220	50,644	52,043	59,775	60,454	63,765	67,802	70,239	72,268
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	48,859	47,802	52,188	53,634	61,413	62,142	61,489	69,477	71,965	74,045
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	13	14	15	16	17
Asset renewals	-	-	27,752	23,954	24,609	27,540	28,764	29,376	29,376	28,764	27,846	28,458	29,070
New / upgrade	-	-	25,024	26,000	22,450	17,011	17,517	18,034	19,123	20,263	20,420	21,920	21,920
New/upgrade - Infrastructure	-	-	19,024	19,820	16,078	10,453	10,768	11,089	11,976	12,907	12,850	14,130	13,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	7,271	8,147	11,063	12,770	14,942	15,103	15,381	15,982	17,180	19,184
Funding on investments (capital works)	33,334	42,466	67,743	57,230	55,218	55,626	59,063	62,364	63,615	64,422	64,263	67,574	70,191
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	0	0	0	0	0	0	0	0
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
	-	-											
Net Overall Funding Surplus/(Deficit) ex Investmen	41,438	20,990	(9,446)	(10,983)	(10,388)	(6,795)	(8,993)	(4,719)	(5,526)	(7,253)	388	950	741
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	221,875	211,487	204,692	195,699	190,980	185,454	178,201	178,589	179,539
Net Change in Investments	-	-	(9,446)	(10,983)	(10,388)	(6,795)	(8,993)	(4,719)	(5,526)	(7,253)	388	950	741
Closing Investments & Cash	222,747	242,304	232,858	221,875	211,487	204,692	195,699	190,980	185,454	178,201	178,589	179,539	180,280
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Remaining funds for investment	-	-	188,826	176,654	164,989	157,031	146,847	140,907	134,129	125,592	124,665	124,267	123,626
Current Investments	-	-	75,530	70,662	65,996	62,812	58,739	56,363	53,651	50,237	49,866	49,707	49,451
Non-Current Investments	-	-	113,295	105,992	98,993	94,219	88,108	84,544	80,477	75,355	74,799	74,560	74,176

Appendix B

SENSITIVITY 2 – ACCOUNTING FOR ASSET RENEWAL

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Productivity Ratio	-	-	-	(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,815)	(2,135)	(2,464)	(2,803)
Productivity Improvement - Employee	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - M&C	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - IPART assumption	-	-	-	(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,815)	(2,135)	(2,464)	(2,803)
Asset Maintenance Ratio	0%	0%	101%	103%	103%	103%	103%	108%	106%	106%	105%	105%	105%
Actual Asset maintenance	-	-	15,333	15,625	15,921	16,224	16,532	17,846	20,373	20,741	21,116	21,499	21,888
Required Asset Maintenance	17,253	12,466	15,241	15,213	15,479	15,738	16,081	16,451	19,267	19,657	20,049	20,467	20,906
Building and Infrastructure Renewals Ratio	0%	0%	84%	101%	101%	111%	113%	113%	95%	91%	86%	86%	86%
Asset Renewals	9,681	14,827	27,752	23,954	24,609	27,540	28,764	29,376	29,376	28,764	27,846	28,458	29,070
Depn of building and infrastructure assets	-	-	33,010	23,829	24,298	24,754	25,357	26,009	30,970	31,656	32,346	33,083	33,855
Cash Expense Cover Ratio	1.6	4.0	3.8	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Total Expenses	230,911	223,072	229,930	244,337	250,393	258,988	265,748	273,011	285,243	290,508	295,567	302,582	309,819
Depreciation	47,926	45,771	47,473	38,519	39,097	39,664	40,383	41,153	46,236	47,048	47,867	48,737	49,646
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.5	1.4	1.4	1.5	1.5	1.4	1.4	1.3	1.4	1.4
Annual Capital Expenditure	-	-	67,743	57,230	55,218	55,626	59,063	62,364	63,615	64,422	64,263	67,574	70,191
Annual Depreciation	47,926	45,771	47,473	38,519	39,097	39,664	40,383	41,153	46,236	47,048	47,867	48,737	49,646
Cash & Investments as % of Total Operating Rever	102%	108%	105%	96%	87%	80%	72%	67%	63%	59%	58%	57%	55%
Current Investments & Cash	108,267	109,623	119,562	115,882	112,494	110,473	107,591	106,436	104,977	102,846	103,790	104,979	106,104
Non-current Investments	114,480	132,948	113,295	105,992	98,993	94,219	88,108	84,544	80,477	75,355	74,799	74,560	74,176
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,826	270,196	284,421	292,304	300,173	308,585	317,178	325,547
Broad Liabilities Ratio	76%	71%	72%	69%	61%	50%	40%	30%	27%	22%	18%	14%	11%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	98,006	87,794	72,336	55,338	37,113	32,482	23,967	18,303	12,518	6,676
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,826	270,196	284,421	292,304	300,173	308,585	317,178	325,547
Debt Service Cover Ratio	5.2	4.2	5.8	4.2	4.9	5.5	6.5	7.6	7.6	8.1	8.4	11.2	12.8
EBITA	36,283	48,782	41,863	28,196	33,950	38,697	45,724	53,140	53,534	56,592	60,366	62,506	64,259
Operating Income	(15,780)	(1,439)	(9,867)	(14,434)	(9,062)	(4,664)	1,878	8,770	4,346	6,874	10,146	11,641	12,688
Interest	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Depreciation	47,926	45,771	47,473	38,519	39,097	39,664	40,383	41,153	46,236	47,048	47,867	48,737	49,646
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Building and Infrastructure Backlog Ratio	#DIV/0!	#DIV/0!	0.104	0.128	0.114	0.092	0.069	0.045	0.033	0.024	0.018	0.012	0.006
Asset Backlog	97,680	90,438	95,181	98,006	87,794	72,336	55,338	37,113	32,482	23,967	18,303	12,518	6,676
Total Infrastructure & Depreciable land improvements	-	-	917,333	764,517	773,362	782,534	800,229	820,326	970,329	986,477	1,001,637	1,019,101	1,038,133
Interest Cover ratio	8.8	11.0	9.8	6.9	8.7	10.5	13.2	16.5	18.1	21.2	25.6	29.4	33.4
EBITA	36,283	48,782	41,863	28,196	33,950	38,697	45,724	53,140	53,534	56,592	60,366	62,506	64,259
Interest Expense	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Sustainable Operating Ratio	-9%	-2%	-6%	-8%	-5%	-3%	-1%	1%	0%	1%	2%	2%	2%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	226,651	237,702	250,280	263,127	276,786	284,440	292,074	300,242	308,585	316,696
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	232,262	243,762	256,826	270,196	284,421	292,304	300,173	308,585	317,178	325,547
2012 SRV	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,864	8,100	8,343	8,593	8,851
Operating Expenses	230,911	223,072	229,930	244,337	250,393	258,988	265,748	273,011	285,243	290,508	295,567	302,582	309,819
Operating Ratio	-6%	0%	-3%	-5%	-3%	-1%	2%	4%	2%	3%	4%	5%	5%
Operating Revenue excl Capital Grants & Contributions		-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	232,262	243,762	256,826	270,196	284,421	292,304	300,173	308,585	317,178	325,547
Capital Grants & Contribuitions	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	244,337	250,393	258,988	265,748	273,011	285,243	290,508	295,567	302,582	309,819
Own Source Operating Revenue Ratio	79%	84%	85%	86%	87%	87%	88%	88%	89%	89%	89%	89%	89%
Rates & Annual Charges	112,058	120,034	122,995	131,514	140,997	151,132	162,047	173,803	178,934	184,217	189,654	195,252	201,014
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,864	8,100	8,343	8,593	8,851
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	232,262	243,762	256,826	270,196	284,421	292,304	300,173	308,585	317,178	325,547
Unrestricted Current Ratio	2.0	2.2	2.4	2.2	2.1	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Current Assets less external restrictions	135,639	139,194	149,436	146,200	143,289	141,702	139,265	138,566	137,574	135,922	137,358	139,050	140,691
Current Assets	135,639	139,194	149,436	146,200	143,289	141,702	139,265	138,566	137,574	135,922	137,358	139,050	140,691
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix B

SENSITIVITY 3 – INCREASE LABOUR AND M&C COSTS

Income and Expenditure Statement

Income and Expenditure Statement *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Operating Revenue													
Rates and annual charges	112,058	120,034	122,995	131,514	140,997	151,132	162,047	173,803	180,441	187,335	194,495	201,933	209,658
Rates	-	-	102,688	110,728	119,586	129,153	139,485	150,644	156,670	162,936	169,454	176,232	183,281
Pensioner Rates Subsidy	-	-	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Charges under S611	-	-	84	87	89	92	95	97	100	103	106	110	113
Pensioner Rates Subsidy Reimbursement	-	-	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595	1,595
Stormwater Charges	-	-	2,000	1,950	2,005	2,055	2,107	2,159	2,213	2,269	2,325	2,383	2,443
Waste Management	-	-	19,528	20,055	20,622	21,137	21,666	22,207	22,763	23,332	23,915	24,513	25,126
Annual Charges	-	-	0	-	-	-	-	-	-	-	-	-	-
Rates and annual charges - Special Projects	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,940	8,258	8,588	8,931	9,289
User charges & fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
User charges & fees - waste	2,002	2,456	0	-	-	-	-	-	-	-	-	-	-
User charges & fees - other	52,216	60,470	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Interest	10,890	10,117	8,152	6,609	5,699	5,634	5,205	4,638	4,451	4,638	4,451	4,137	2,670
Other operating revenues	10,810	11,462	9,647	10,129	10,636	11,168	11,558	11,963	12,382	12,815	13,264	13,728	14,208
Grants & contributions - Operating	23,632	14,305	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697	15,697
Net gain from the disposal of assets	-	-	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenue	217,506	223,826	222,345	232,262	243,720	256,685	269,905	283,920	293,054	302,949	312,839	322,969	332,328
Operating Expenses													
Employee costs	94,688	87,229	90,902	95,602	99,471	103,738	107,846	112,543	117,997	122,430	127,007	131,939	137,065
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,889	8,118	8,353	8,595	9,345	10,760	11,057	11,363	11,678	12,003
Capital Works (expensed)	-	-	1,869	2,635	2,708	3,030	3,165	3,232	3,232	3,165	3,064	3,131	3,198
Other BAU	94,688	87,229	81,367	85,078	88,645	92,355	96,086	99,967	104,005	108,208	112,580	117,130	121,864
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Borrowing (Current) - Standard	-	-	0	194	220	233	246	265	283	316	225	204	184
Borrowing (current) - LIRS	-	-	0	-	-	-	-	-	-	-	-	-	-
Borrowing (Non-current)- Standard	-	-	4,257	3,262	3,043	2,809	2,563	2,298	2,016	1,700	1,475	1,271	1,087
Borrowing (non-current) - LIRS	-	-	0	654	654	654	654	654	654	654	654	654	654
Borrowing (non-current) - New	-	-	-	-	-	-	-	-	-	-	-	-	-
Materials & contracts	40,653	42,051	44,640	48,209	49,832	52,216	54,089	56,360	59,188	60,793	62,381	64,425	66,536
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	7,667	7,889	8,118	8,353	8,595	9,345	10,760	11,057	11,363	11,678	12,003
Capital Works (expensed)	-	-	4,360	6,149	6,318	7,070	7,384	7,541	7,541	7,384	7,149	7,306	7,463
Other BAU	40,653	42,051	32,613	34,171	35,397	36,793	38,110	39,474	40,887	42,352	43,869	45,441	47,070
Employee Productivity	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & amortisation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	33,010	34,171	34,746	35,320	36,047	36,824	43,695	44,505	45,314	46,173	47,070
Land Improvements	-	-	2,873	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Other Structures	-	-	3,733	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862	3,862
Plant & Equipment	-	-	6,828	6,826	6,935	7,047	7,162	7,281	7,403	7,528	7,657	7,790	7,927
Office Furnitures & Fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029
Other BAU	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Waste Management - Waste Levy	-	-	0	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	0	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	0	-	-	-	-	-	-	-	-	-	-
Capital Works (expensed)	-	-	0	-	-	-	-	-	-	-	-	-	-
Other BAU	37,511	43,571	42,009	43,227	44,529	45,765	47,035	48,340	49,682	51,061	52,477	53,934	55,430
Net loss from disposal of assets	-	-	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Productivity Factor	-	-		(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,818)	(2,144)	(2,483)	(2,835)
Total Operating Expenses	230,911	223,072	229,930	242,033	249,193	257,670	265,405	274,101	290,122	297,764	305,489	314,398	323,657
Total Operating Revenue Less Operating Expendit	(13,405)	754	(7,585)	(9,770)	(5,473)	(985)	4,500	9,818	2,932	5,184	7,350	8,571	8,672
Less Airport - profit	2,375	2,193	2,282	2,359	2,431	2,502	2,571	2,640	2,714	2,792	2,872	2,955	3,040
Council surplus /deficit	(15,780)	(1,439)	(9,867)	(12,129)	(7,904)	(3,487)	1,929	7,178	218	2,393	4,478	5,616	5,632
less SRV revenue for capital works	(5,898)	(4,747)	(5,196)	(5,612)	(6,061)	(6,545)	(7,069)	(7,635)	(7,940)	(8,258)	(8,588)	(8,931)	(9,289)
Sustainable surplus/deficit excluding capital fund	(21,678)	(6,186)	(15,063)	(17,741)	(13,965)	(10,032)	(5,140)	(457)	(7,722)	(5,865)	(4,110)	(3,316)	(3,657)

Appendix B

SENSITIVITY 3 – INCREASE LABOUR AND M&C COSTS

Balance Sheet

Balance Sheet *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Current Assets													
Cash & Investments	108,267	109,623	119,562	115,363	110,885	107,148	101,863	97,556	92,694	87,210	84,590	81,977	78,796
Cash and cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Current Investments	86,439	65,591	75,530	70,142	64,387	59,487	53,010	47,482	41,368	34,602	30,666	26,705	22,142
Other Current Assets	27,372	29,571	29,874	30,318	30,795	31,229	31,674	32,130	32,597	33,077	33,568	34,071	34,587
Receivables	15,872	15,136	15,420	15,836	16,284	16,691	17,108	17,536	17,974	18,423	18,884	19,356	19,840
Inventory	855	690	703	722	742	761	780	799	819	840	861	882	904
Other	3,010	315	321	330	339	347	356	365	374	383	393	403	413
Non current assets classified as held for sale	7,635	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430
Total Current Assets	135,639	139,194	149,436	145,680	141,680	138,376	133,536	129,686	125,291	120,287	118,158	116,048	113,383
Non Current Assets													
Non-Current Investments	114,480	132,948	113,295	105,212	96,580	89,230	79,515	71,223	62,052	51,903	45,999	40,057	33,213
Infrastructure, property, plant & equipment	1,284,920	1,289,624	1,308,483	1,467,766	1,478,262	1,490,729	1,512,364	1,536,692	1,744,530	1,762,640	1,779,172	1,798,306	1,819,308
Building & Infrastructure	-	-	873,810	1,042,221	1,061,781	1,083,257	1,113,845	1,147,066	1,363,738	1,390,619	1,415,859	1,443,636	1,473,213
Land Improvements	-	-	21,138	18,165	15,192	12,219	9,246	6,273	3,300	328	(2,645)	(5,618)	(8,591)
Other Structures	-	-	22,385	18,523	14,662	10,800	6,938	3,076	(786)	(4,648)	(8,510)	(12,371)	(16,233)
Plant & Equipment	-	-	25,532	24,268	23,067	21,922	20,834	19,804	18,834	17,926	17,081	16,303	15,591
Office, Furniture & Fittings	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Assets	-	-	93,458	92,429	91,400	90,371	89,342	88,313	87,284	86,255	85,226	84,197	83,168
Investment property	11,715	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350	13,350
Non Depreciable Assets (Land, Heritage Collect	-	-	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810	258,810
Newcastle Airport	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Assets	1,567	2,683	2,733	2,807	2,886	2,959	3,033	3,108	3,186	3,266	3,347	3,431	3,517
Receivables	1,265	1,300	1,324	1,360	1,399	1,434	1,469	1,506	1,544	1,582	1,622	1,662	1,704
Intangible Assets	287	1,372	1,398	1,435	1,476	1,513	1,551	1,590	1,629	1,670	1,712	1,755	1,798
Other	15	11	11	12	12	12	12	13	13	13	14	14	14
Total Non Current Assets	1,412,682	1,438,605	1,424,511	1,575,785	1,577,728	1,582,917	1,594,912	1,611,023	1,809,769	1,817,808	1,828,518	1,841,795	1,856,038
Total Assets	1,548,321	1,577,799	1,573,947	1,721,466	1,719,408	1,721,294	1,728,449	1,740,709	1,935,060	1,938,095	1,946,675	1,957,843	1,969,421
Current Liabilities													
Borrowings	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Standard Borrowing	-	-	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
LIRS	-	-											
Other Current Liabilities	64,514	59,305	60,637	62,418	64,321	66,140	68,010	69,934	71,913	69,934	71,913	73,949	76,043
Payables	24,418	24,165	24,618	25,283	25,997	26,647	27,313	27,996	28,696	27,996	28,696	29,413	30,149
Provisions	40,096	35,140	36,019	37,135	38,324	39,493	40,697	41,939	43,218	41,939	43,218	44,536	45,894
Total Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
		187%											
Non-Current Liabilities													
Borrowings	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Standard Borrowing	-	-	52,851	49,880	46,522	42,958	39,190	35,138	30,818	25,992	22,550	19,438	16,623
LIRS	-	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
	-	-	0	0	0	0	0	0	0	0	0	0	0
Other Non Current Liabilities	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
Provisions	7,233	6,966	7,140	7,361	7,597	7,829	8,068	8,314	8,567	8,828	9,098	9,375	9,661
	-	-											
Total Non Current Liabilities	71,601	71,507	69,991	67,241	64,119	60,787	57,258	53,451	49,385	44,820	41,648	38,813	36,284
	-	-											
Total Liabilities	140,283	133,638	133,240	132,631	131,797	130,490	129,036	127,438	125,618	119,581	117,003	115,874	115,141
Net Assets	1,408,038	1,444,161	1,440,708	1,588,835	1,587,610	1,590,804	1,599,413	1,613,271	1,809,442	1,818,514	1,829,672	1,841,968	1,854,280
Equity													
Retained Earnings	1,130,675	1,150,927	1,440,974	1,435,258	1,587,610	1,590,804	1,599,413	1,613,271	1,620,168	1,818,514	1,829,672	1,841,968	1,854,280
Opening Retained Earnings	1,130,675	1,150,927	1,444,161	1,440,708	1,588,835	1,587,610	1,590,804	1,599,413	1,613,271	1,809,442	1,818,514	1,829,672	1,841,968
Operating Surplus / Deficit (Consolidated)	-	-	(9,867)	(12,129)	(7,904)	(3,487)	1,929	7,178	218	2,393	4,478	5,616	5,632
Capital Grants	-	-	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
RE movements			(266)	(0)	0	0	0	(0)	(0)	0	0	0	(0)
Revaluation Reserve (Closing)	277,363	293,234	0	153,576	0	-	-	-	189,273	-	-	-	-
Asset Revaluation (Infrastructure)			0	280,487	0	-	-	-	348,580	-	-	-	-
Asset Revaluation (Infrastructure) Accum Depn			0	(126,911)	0	-	-	-	- 159,307	-	-	-	-
	-	-											
Total Equity	1,408,038	1,444,161	1,440,708	1,588,835	1,587,610	1,590,804	1,599,413	1,613,271	1,809,442	1,818,514	1,829,672	1,841,968	1,854,280

Appendix B

SENSITIVITY 3 – INCREASE LABOUR AND M&C COSTS

Cash Flow Statement

Cashflow, Investments & Reserves *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Cashflow													
Changes from Operations													
Grants & contributions - Capital	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Proceeds from the sale of Assets	17,408	8,275	14,761	17,848	10,779	10,388	4,591	4,692	4,712	4,652	4,551	4,654	4,758
Proceeds - Infrastructure & Property	16,033	3,582	12,612	14,075	6,860	6,060	80	80	80	80	80	80	80
Proceeds - Plant & Equipment	1,375	4,693	1,500	1,545	1,593	1,639	1,687	1,736	1,787	1,839	1,892	1,948	2,004
Deduct Profit on Sale	-	(1,773)	-	-	-	-	-	-	-	-	-	-	-
Add back Loss on Sale	7,972	1,538	649	2,228	2,326	2,689	2,824	2,876	2,845	2,733	2,578	2,627	2,674
Total Capital Raising revenue	75,055	72,046	68,914	73,390	67,004	67,299	62,343	63,340	70,354	71,228	72,066	73,161	74,299
Total Operating Revenue Less Operating Expenditure	(13,405)	754	(9,867)	(12,129)	(7,904)	(3,487)	1,929	7,178	218	2,393	4,478	5,616	5,632
Net Funds available after capital revenue	61,650	72,800	59,047	61,261	59,100	63,812	64,273	70,518	70,572	73,621	76,544	78,777	79,931
	-	-											
Add back	-	-											
Change in Other Current Assets	2,386	(2,695)	(303)	(444)	(477)	(434)	(445)	(456)	(467)	(479)	(491)	(503)	(516)
Change in Other Non-current Assets	(1)	(4)	(50)	(74)	(79)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)
Change in Other Current Liabilities	4,365	(5,209)	1,332	1,781	1,903	1,819	1,871	1,924	1,979	(1,979)	1,979	2,036	2,094
Change in Other Non-current Liabilities	(1,660)	(267)	174	221	236	232	239	246	254	261	269	277	286
Total Changes in other Balance Sheet Lines	5,090	(8,175)	1,153	1,485	1,582	1,544	1,591	1,638	1,687	(2,277)	1,675	1,726	1,778
Funding Available from operations	66,740	64,625	60,200	62,745	60,681	65,356	65,863	72,156	72,259	71,344	78,219	80,503	81,709
Changes in Investments (ex Investments for reserves)													
Proceeds from Asset Sales (above)	-	-											
Capital Expenses	-	-	10	6	12	12	12	12	13	14	15	16	17
Asset renewals	-	-	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
New / upgrade	-	-	25,024	26,000	22,450	17,011	17,517	18,034	19,123	20,263	20,420	21,920	21,920
New/upgrade - Infrastructure	-	-	19,024	19,820	16,078	10,453	10,768	11,089	11,976	12,907	12,850	14,130	13,903
New/upgrade - Plant & Equipment	-	-	6,000	6,180	6,372	6,558	6,749	6,945	7,147	7,356	7,570	7,790	8,017
Special Projects	-	-	14,957	7,271	8,147	11,063	12,770	14,942	15,103	15,381	15,982	17,180	19,184
Funding on investments (capital works)	33,334	42,466	67,743	72,417	70,820	73,086	77,299	80,988	82,239	82,658	81,917	85,616	88,621
	-	-											
Changes in Financing	-	-											
Proceeds from new borrowings	11,308	6,276	1,024	0	0	0	0	0	0	0	0	0	0
Repayment of borrowing & advances	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Repayment of Finance Lease Liabilities	(390)	(361)	0	0	0	0	0	0	0	0	0	0	0
Funding from / repayment of Financing	8,032	(1,169)	(1,903)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
	-	-											
Net Overall Funding Surplus/(Deficit) ex Investmer	41,438	20,990	(9,446)	(12,283)	(13,110)	(11,087)	(15,000)	(12,599)	(14,033)	(15,633)	(8,524)	(8,555)	(10,025)
Net Transfers from/(to) Restricted Assets	-	-											
Cash & Investments													
Opening Investments & Cash	-	-	242,304	232,858	220,575	207,465	196,378	181,378	168,779	154,746	139,113	130,589	122,034
Net Change in Investments	-	-	(9,446)	(12,283)	(13,110)	(11,087)	(15,000)	(12,599)	(14,033)	(15,633)	(8,524)	(8,555)	(10,025)
Closing Investments & Cash	222,747	242,304	232,858	220,575	207,465	196,378	181,378	168,779	154,746	139,113	130,589	122,034	112,009
Cash and cash equivalents	-	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Remaining funds for investment	-	-	188,826	175,354	160,966	148,717	132,526	118,705	103,421	86,504	76,665	66,762	55,355
Current Investments	-	-	75,530	70,142	64,387	59,487	53,010	47,482	41,368	34,602	30,666	26,705	22,142
Non-Current Investments	-	-	113,295	105,212	96,580	89,230	79,515	71,223	62,052	51,903	45,999	40,057	33,213

Appendix B

SENSITIVITY 3 – INCREASE LABOUR AND M&C COSTS

Key Ratios

Key Ratios *For the year ended 30 June*	Actual 2013 $'000	Actual 2014 $'000	Forecast 2015 $'000	Forecast 2016 $'000	Forecast 2017 $'000	Forecast 2018 $'000	Forecast 2019 $'000	Forecast 2020 $'000	Forecast 2021 $'000	Forecast 2022 $'000	Forecast 2023 $'000	Forecast 2024 $'000	Forecast 2025 $'000
Productivity Ratio	-	-	-	(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,818)	(2,144)	(2,483)	(2,835)
Productivity Improvement - Employee	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - M&C	-	-	-	-	-	-	-	-	-	-	-	-	-
Productivity Improvement - IPART assumption	-	-	-	(205)	(427)	(666)	(924)	(1,203)	(1,505)	(1,818)	(2,144)	(2,483)	(2,835)
Asset Maintenance Ratio	0%	0%	101%	101%	103%	104%	105%	106%	105%	106%	107%	108%	109%
Actual Asset maintenance	-	-	15,333	15,778	16,235	16,706	17,191	18,689	21,520	22,115	22,727	23,357	24,005
Required Asset Maintenance	17,253	12,466	15,241	15,553	15,794	16,034	16,339	17,664	20,542	20,881	21,220	21,580	21,956
Building and Infrastructure Renewals Ratio	0%	0%	84%	115%	116%	127%	130%	130%	110%	106%	100%	101%	101%
Asset Renewals	9,681	14,827	27,752	39,140	40,211	45,000	47,000	48,000	48,000	47,000	45,500	46,500	47,500
Depn of building and infrastructure assets	-	-	33,010	34,171	34,746	35,320	36,047	36,824	43,695	44,505	45,314	46,173	47,070
Cash Expense Cover Ratio	1.6	4.0	3.8	3.7	3.6	3.6	3.5	3.5	3.4	3.4	3.4	3.4	3.3
Cash & Cash equivalents	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Total Expenses	230,911	223,072	229,930	242,033	249,193	257,670	265,405	274,101	290,122	297,764	305,489	314,398	323,657
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Interest Costs	21,828	44,032	44,032	45,221	46,498	47,661	48,852	50,074	51,325	52,609	53,924	55,272	56,654
Capital Expenditure Ratio	0.0	0.0	1.4	1.5	1.4	1.5	1.5	1.6	1.4	1.4	1.3	1.4	1.4
Annual Capital Expenditure	-	-	67,743	72,417	70,820	73,086	77,299	80,988	82,239	82,658	81,917	85,616	88,621
Annual Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Cash & Investments as % of Total Operating Rever	102%	108%	105%	95%	85%	77%	67%	59%	53%	46%	42%	38%	34%
Current Investments & Cash	108,267	109,623	119,562	115,363	110,885	107,148	101,863	97,556	92,694	87,210	84,590	81,977	78,796
Non-current Investments	114,480	132,948	113,295	105,212	96,580	89,230	79,515	71,223	62,052	51,903	45,999	40,057	33,213
Total Operating Revenue	217,506	223,826	222,345	232,262	243,720	256,685	269,905	283,920	293,054	302,949	312,839	322,969	332,328
Broad Liabilities Ratio	76%	71%	72%	70%	61%	51%	41%	32%	28%	23%	19%	15%	12%
Borrowings (non-current)	64,368	64,541	62,851	59,880	56,522	52,958	49,190	45,138	40,818	35,992	32,550	29,438	26,623
Borrowings (current)	4,168	2,825	2,611	2,972	3,358	3,564	3,768	4,053	4,320	4,826	3,442	3,113	2,815
Infrastructure Backlog	97,680	90,438	95,181	99,019	89,567	74,634	57,847	40,492	37,195	29,049	23,330	17,032	10,194
Total Operating Revenue	217,506	223,826	222,345	232,262	243,720	256,685	269,905	283,920	293,054	302,949	312,839	322,969	332,328
Debt Service Cover Ratio	5.2	4.2	5.8	6.1	6.6	7.2	8.0	8.9	8.9	9.3	9.4	12.5	14.0
EBITA	36,283	48,782	41,863	40,843	45,557	50,440	56,465	62,363	62,131	64,959	67,667	69,572	70,418
Operating Income	(15,780)	(1,439)	(9,867)	(12,129)	(7,904)	(3,487)	1,929	7,178	218	2,393	4,478	5,616	5,632
Interest	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Depreciation	47,926	45,771	47,473	48,861	49,545	50,230	51,073	51,968	58,962	59,897	60,835	61,827	62,861
Principal repayments	(2,886)	(7,084)	(2,927)	(2,611)	(2,972)	(3,358)	(3,564)	(3,768)	(4,053)	(4,320)	(4,826)	(3,442)	(3,113)
Borrowing Interest Costs	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Building and Infrastructure Backlog Ratio	#DIV/0!	#DIV/0!	0.104	0.092	0.082	0.067	0.051	0.035	0.027	0.021	0.017	0.012	0.007
Asset Backlog	97,680	90,438	95,181	99,019	89,567	74,634	57,847	40,492	37,195	29,049	23,330	17,032	10,194
Total Infrastructure & Depreciable land improvements	-	-	917,333	1,078,909	1,091,635	1,106,276	1,130,029	1,156,415	1,366,252	1,386,299	1,404,704	1,425,647	1,448,389
Interest Cover ratio	8.8	11.0	9.8	9.9	11.6	13.6	16.3	19.4	21.0	24.3	28.7	32.7	36.6
EBITA	36,283	48,782	41,863	40,843	45,557	50,440	56,465	62,363	62,131	64,959	67,667	69,572	70,418
Interest Expense	4,137	4,450	4,257	4,110	3,916	3,697	3,463	3,217	2,952	2,670	2,354	2,129	1,925
Sustainable Operating Ratio	-9%	-2%	-6%	-7%	-5%	-3%	-1%	1%	-2%	-1%	0%	0%	0%
Operating Revenue excl Capital Grants & SRV	211,608	219,079	217,149	226,651	237,659	250,140	262,836	276,285	285,114	294,691	304,251	314,038	323,040
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	232,262	243,720	256,685	269,905	283,920	293,054	302,949	312,839	322,969	332,328
2012 SRV	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,940	8,258	8,588	8,931	9,289
Operating Expenses	230,911	223,072	229,930	242,033	249,193	257,670	265,405	274,101	290,122	297,764	305,489	314,398	323,657
Operating Ratio	-6%	0%	-3%	-4%	-2%	0%	2%	3%	1%	2%	2%	3%	3%
Operating Revenue excl Capital Grants & Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue (excluding Capital Grants)	217,506	223,826	222,345	232,262	243,720	256,685	269,905	283,920	293,054	302,949	312,839	322,969	332,328
Capital Grants & Contribuitons	9,721	18,000	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680	6,680
Operating Expenses	230,911	223,072	229,930	242,033	249,193	257,670	265,405	274,101	290,122	297,764	305,489	314,398	323,657
Own Source Operating Revenue Ratio	79%	84%	85%	86%	87%	87%	88%	89%	89%	89%	89%	90%	90%
Rates & Annual Charges	112,058	120,034	122,995	131,514	140,997	151,132	162,047	173,803	180,441	187,335	194,495	201,933	209,658
Rates & Annual Charges - Special Projects	5,898	4,747	5,196	5,612	6,061	6,545	7,069	7,635	7,940	8,258	8,588	8,931	9,289
User Charges & Fees	54,218	62,926	60,658	62,701	64,631	66,509	68,329	70,184	72,143	74,206	76,344	78,543	80,806
Other Revenue?	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenue	217,506	223,826	222,345	232,262	243,720	256,685	269,905	283,920	293,054	302,949	312,839	322,969	332,328
Unrestricted Current Ratio	2.0	2.2	2.4	2.2	2.1	2.0	1.9	1.8	1.6	1.6	1.6	1.5	1.4
Current Assets less external restrictions	135,639	139,194	149,436	145,680	141,680	138,376	133,536	129,686	125,291	120,287	118,158	116,048	113,383
Current Assets	135,639	139,194	149,436	145,680	141,680	138,376	133,536	129,686	125,291	120,287	118,158	116,048	113,383
External Restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities less specific purpose liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Current Liabilities	68,682	62,130	63,248	65,390	67,679	69,703	71,778	73,987	76,233	74,761	75,355	77,062	78,858
Specific Purpose Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-