

Appendix Q – 3.1 key assumptions that underpin your strategies and expected outcomes.

For example the key assumptions that drive financial performance including the use of SRVs, growth in rates, wage increases, Financial Assistance or other operating grants, depreciation, and other essential or major expense or revenue items.

The Fit for the Future ratios are based on Council's 2015/16 LTFP. All key assumptions are detailed in the LTFP section of the 2015-19 Strategic Plan.

The LTFP and therefore forecasts of ratios are considered very conservative on the basis that they currently assume a "business as usual" scenario and as such do not incorporate significant business improvement initiatives that are already in progress, or planned.

Assumptions General:

Population growth

Although projected population growth within the Shire is set to rise by more than one third over the next 20 years (215,554 by 2036); population growth does not always lead to growth in Council's rateable base.

In recent years, our rateable property base has grown by approximately 0.5% per annum and this escalation has been factored into the assumptions within the LTFP for income and expenditure projections.

Inflation

A number of indices used in the LTFP have been based on the Reserve Bank of Australia's Consumer Price Index (CPI) inflation forecast of 2% - 3% from the February 2015 Statement on Monetary Policy.

We have considered this forecast and used a 2.5% escalation in most LTFP income and expense categories, with the exception of regulated income and expense items that are set by IPART.

Income Assumptions:

	Category	2015-16	2016-17	2017-18	2018-19	Thereafter
Income	Rates – ordinary	6.9%	6.9%	2.5%	2.5%	2.5%
	Rates – special	6.9%	6.9%	2.5%	2.5%	2.5%
	Domestic waste management	3.0%	5.0%	5.0%	5.0%	5.0%
	Stormwater management	0.0%	0.0%	0.0%	0.0%	0.0%
	Water service	-2.1%	-0.2%	5.6%	2.5%	2.5%
	Sewerage service	2.5%	2.4%	3.5%	3.5%	2.5%
	Drainage service	9.9%	9.8%	7.6%	3.5%	2.5%
	User charges - water usage	2.5%	2.5%	2.5%	2.5%	2.5%
	Fees and charges – specific	2.5%	2.5%	2.5%	2.5%	2.5%
	Fees and charges – other	5.0%	5.0%	5.0%	5.0%	5.0%
	Interest - investments	2.7%	3.0%	3.0%	3.0%	3.5%

	Other revenues	2.5%	2.5%	2.5%	2.5%	2.5%
	Operating grants	2.5%	2.5%	2.5%	2.5%	2.5%
	Net gains from disposal	0.0%	0.0%	0.0%	0.0%	0.0%

Rates

In 2013 Council was approved by the Independent Pricing and Regulatory Tribunal (IPART) for a Special Rate Variation of 6.9% to be levied on Ordinary and Special Rates for a period of four years commencing in 2013-14 FY.

The LTFP uses a rate increase for both 2015-16 FY and 2016-17 FY of 6.9%. This includes a rating increase limit (rate peg) of 2.4% for 2015-16 FY, as determined by IPART. The balance of the approved increase is to be used to specifically address the infrastructure backlog and improve existing community assets. A rate peg of 2.5% has been assumed each year thereafter.

WSC acknowledge that the Infrastructure Backlog Ratio for the General Fund is not currently meeting the required benchmark of 2%. This is due to a culmination of the following factors:

- Impact of 35 years of rate capping and revenues not keeping pace with price increases
- Diversity of services and aspirations of a growing community
- Cost shifting from other levels of government
- Historical operating losses in past years and underfunding on asset maintenance and replacement.

However, WSC's current management team have a demonstrated capacity to identify, rectify and manage historical issues and a defined action plan is in place to address the general fund backlog.

This action plan centres on the Special Rate Variation (SRV) approved for WSC in 2013/14. In 2013, after a rigorous assessment process, IPART granted an increase in Ordinary Rates of 6.9% each year for four years commencing 1 July 2013. This funding was approved by IPART specifically based on the need to address the backlog. Funds derived from the SRV are quarantined and used specifically and exclusively to address the general fund backlog. WSC has since 2013/14 (first year of the SRV), dedicated \$10m per annum to reducing the backlog and will continue to do so until the historical general fund backlog is eliminated.

The plan is also supported by the Council Endorsed Asset Management Policy (which prioritises spend on renewals and upgrades over new assets and mandates Asset Renewal and Asset Maintenance Ratios of greater than 1). An Asset Management Strategy and Asset Management plans are in place to ensure execution against this policy and to ensure the backlog does not grow further.

Domestic Waste Management Charge

All residential properties attract an annual domestic waste management charge recouped for the provision of waste collection, recycling services and remediation of closed landfill sites. Income received is "restricted for purpose". The LTFP assumes the 3% adopted for 2015/16 FY and then 5% per annum from 2016/17 FY forward.

Stormwater Management Charge

This levy contributes to the cost of managing and improving urban stormwater and was introduced in the 2006-07 FY. The amount chargeable has been prescribed in accordance with Section 125AA of the Local Government (General) Regulation 2005. The model assumes no increase or decrease into future years.

Water Sewerage and Drainage annual service charges

Water, sewerage and drainage (annual) service charges are levied by the WSA in accordance with the pricing determination by IPART.

Water Usage Fees

The water usage charge is set by IPART in accordance with the current pricing determination. In line with this determination, the water usage unit charge is aligned with CPI assumptions. Usage is expected to remain at historically low levels as demand has failed to bounce back following a significant period of drought.

Tipping Fees

Total External Tipping Fees have been increased by 5% per annum in the LTFP. The fees include the Section 88 Waste Levy which is collected by Council on behalf of the NSW Government, Environment and Protection Authority (EPA). The EPA levy has been escalating at an average of 15.5% in the past three years and we are predicting a 13% increase in 2015/16 FY.

Given that the CPI on non EPA costs is approximately 2.5% and that Green Tipping does not attract EPA, the 13% EPA increase is covered by increasing total tipping fees by 5%.

During 2014 Council negotiated volume based rates with large users to recoup lost market share. These users contribute 32% of the net revenue for total tipping income. Income projections contained within the LTFP have been based on current user trends incorporating the negotiated volume commitments.

Interest and investment Revenue

Council's investments are made in accordance with the Local Government Act 1993, the Local Government (General) Regulation 2005, Council's Investment Policy, the Ministerial Investment Order issued in 2011 and the Office of Local Government Investment Policy Guidelines published in 2010.

Council invests cash in fixed rate term deposits with Approved Deposit Institutions, keeping risk low while at the same time securing ongoing returns.

Interest rates have been declining since the 2010-11 FY and therefore the LTFP has adopted a conservative stance and assumes a stable interest rate over the next few years consistent with recent yields. The amount of interest revenue calculated in the LTFP is directly linked to the available cash balances from the cash flow statement.

Grants and contributions

The amount of both operating and capital grants and contributions available to Council is subject to external influences and will vary each year. The LTFP only accounts for grants and contributions in outer years where they are recurrent and reasonably certain to be realised. This is the case for both General purpose and Specific Purpose.

The Federal Government has announced an indexation freeze on the FAG for three years. The NSW Government announced as part of its recent election platform that it would protect the pensioner concessions for another three years however no increases have been announced. As such the LTFP assumes that these general purpose grants are recurrent in nature with escalations of CPI only applying to the FAG from the 2017-18 FY.

Each specific purpose grant has been considered individually for the LTFP and only those that have been ongoing in recent years have been included as recurrent future income (e.g. street lighting).

Expense Assumptions

	Category	2015-16	2016-17	2017-18	2018-19	Thereafter
Expenditure	Salaries and wages	2.7%	2.9%	2.9%	3.0%	3.0%
	Materials and contracts	2.5%	2.5%	2.5%	2.5%	2.5%
	Insurance	7.0%	7.0%	7.0%	7.0%	7.0%
	Utilities	2.5%	2.5%	2.5%	2.5%	2.5%
	Other expenses	2.5%	2.5%	2.5%	2.5%	2.5%
	Other– Waste Levy	13.0%	5.0%	5.0%	5.0%	5.0%

Employee benefits and on-costs

Employee costs account for almost one third of total operating expenditure and include:

- salaries
- wages
- superannuation
- payroll tax
- training
- workers compensation

The LTFP has also factored in predicted Award increases (2.7% for 2015-16 FY) and stepped increases to superannuation based on legislative change (from 9.5% current rate to 12% effective 1 July 2025).

Borrowing costs

Loan contracts applicable for each loan are used to define interest rates and total cash payments due in any given year throughout the LTFP.

Materials and contracts

Projections have been based on existing contracted rates escalated for CPI where applicable.

Depreciation and amortisation

Depreciation expense contributes to 23% of our operational expenditure. Depreciation expense assumptions are based on the effective lives of existing assets and the expected useful lives of new assets.

Other expenses – Waste Levy

This levy has been historically increasing well above the CPI rate. We have estimated a 13% increase in the waste levy for 2015-16 FY based on historic trends. In outer years the increase is estimated at 5%. Note though that if the escalation is greater than 5% in the outer years, the full increase will be passed through to tipping fees or the Domestic Waste Management Charge (so revenues will increase to create a neutral impact on the bottom line).

Other expenses – Electricity

Based on negotiated rates associated with the supply of electricity to large sites secured until December 2016, and the repeal of the carbon tax, it is estimated that the cost of electricity will not increase by more than the CPI in future years.