diverse, dynamic, progressive

BLACKTOWN CITY 2030

CITY OF EXCELLENCE

LONG TERM FINANCIAL PLAN 2015-2025

RESOURCING OUR VISION

Adopted 17 June 2015

Blacktown City Council

CONTENTS

INTRODUCTION

Council's Long Term Financial Plan (LTFP) contains a forecast of Council's revenue and expenditure for the ten year period from 2015/16 to 2024/25. The LTFP is based on Council's proposed 2015/16 budget, which is the base year of the LTFP. Future years in the LTFP are based on a range of assumptions used to project future revenue and expenditure. In addition to revenue and expenditure forecasts, the LTFP also includes a projection of Council's balance sheet and cash flow.

The primary purpose of the model is to assist in long term decision making regarding the prioritisation of the services delivered by Council and what assets and financial resources are required to provide those services. The model serves as a guide to Council's future financial positions. However, the projections contained in the LTFP are subject to changes in a variety of external factors as well as major decisions made by Council. It is necessary to regularly review and monitor a variety of factors and if necessary revise the projections contained in Council's LTFP. In keeping with the legislative requirements outlined below, the LTFP is revised annually as part of Council's annual budget process.

RESPONDING TO LEGISLATIVE REQUIREMENTS

In 2009 the Division of Local Government implemented the Integrated Planning & Reporting (IP&R) framework relating to the Strategic Planning processes and requirements for NSW councils. The Integrated Planning and Reporting requirements require NSW councils to develop a Resourcing Strategy to assist in developing its planning documents. The Resourcing Strategy comprises the following three components:

- Asset Management Strategy
- Workforce Management Plan
- Long Term Financial Plan

The three components of the resourcing strategy cannot be developed in isolation. Rather, all three need to be considered together in order to identify the available money, assets and people to carry out the diverse range of services, activities and programs identified as Council continues to work towards its Community Strategic Plan entitled *Blacktown City 2030 – City of Excellence*.

The LTFP contains information based on financial modelling to assist in making future strategic decisions. To do so, the LTFP has been developed to provide a framework that assists in:

- Facilitating strategic decision making to address significant issues facing Council in the medium to long term
- Identifying potential future deficits or resourcing shortfalls
- Assessing the financial resources required to achieve Council's medium and long term objectives
- Measuring and comparing the long term financial impact of different policies and strategies and managing these accordingly
- Providing an indication of Council's future financial position based on specified levels of service
- Assessing whether current service levels are sustainable and testing the impact of different service levels

The LTFP must cover a minimum period of ten years. Over this period the level of detail contained in the LTFP will vary depending on the year under consideration, with greater detail in earlier years, less in later years.

Over the longer term, it is anticipated there will be changes in the factors used to develop long term projections, such as the annual rate pegging limit and CPI. As it is not possible to accurately predict these trends the LTFP contains a number of different scenarios in order to assess the likely future impact of changes in these factors. The impact of alternative scenarios have been modelled and are shown later in this document.

OBJECTIVES

In preparing the LTFP a number of core objectives of Council have been considered. These objectives are listed below.

BALANCED BUDGETS

Council has a longstanding commitment to adopting balanced budgets. Accordingly, whilst some of the scenarios contained in the LTFP show deficits in future years, notwithstanding these projections Council will always adopt balanced budgets. Deficits shown in future years for certain scenarios are only provided as a projection on existing financial trends, and do not mean Council intends to have budgeted deficits. Regular reviews of current strategies and investigating potential options to both enhance revenue and reduce expenditure will be undertaken as one of Council's key objectives is to achieve ongoing efficiency improvements whilst maintaining excellent service delivery.

ONGOING IDENTIFICATION OF IMPROVEMENTS

Council has a longstanding commitment to reducing costs while providing services required by an expanding city. For over a decade, when setting the parameters to prepare annual budgets, all operating costs, with the exception of employment related costs, have not been increased. Increases in these budgets are only approved after all other options have been thoroughly considered. It is estimated that this practice helps derive annual savings of approximately $1.3 million.

EMPLOYEE LEAVE ENTITLEMENT RESERVE

Council employees accrue leave in accordance with the provisions contained in the Local Government Award. Council maintains an internally restricted asset to assist in the funding of employee leave entitlements (ELE), that is, the future cost of undertaking leave held by staff. Council's practice has been to ensure the amount held in this reserve equates to approximately 20% of the total ELE provision. The LTFP assumes that this practice will be maintained over the ten year period covered by the LTFP.

WORKERS COMPENSATION RESERVE

Since 1991, Council has been self insured for workers compensation. A condition of being approved to hold a self insured workers compensation license is that Council must provide a Bank Guarantee to secure total outstanding claims liabilities. The amount required to be held is based on an assessment conducted annually by an independent actuary.

Although it is not mandatory, Council has traditionally supported this bank guarantee with an internally restricted reserve, called the Workers Compensation Reserve. Council's current funding strategy for the Workers Compensation Reserve is to maintain a minimum balance of $2.25 million. (Report FC340238, Ordinary meeting 3 December 2014).

UNRESTRICTED CURRENT RATIO

The unrestricted current ratio is a measure of whether a Council has sufficient liquid assets available to meet short term commitments, after excluding certain restricted assets (such as unspent S94 Contributions and Grants). As a general rule the target/healthy ratio is 100% or greater. That is, for every $1 of liability there is $1 of asset to cover it. It is an objective of the LTFP that Council's unrestricted current ratio remains greater than 100% for the ten year period covered by the LTFP.

DEBT SERVICE RATIO

The debt service ratio represents the percentage of Council's total operating revenue that is attributable to net debt servicing costs. The debt servicing ratio target set by the Office of Local Government as part of their Fit For the Future assessments of local councils is a ratio of no more than 20%. Council has maintained a sound financial position whilst being completely debt free for more than a decade. One of Council's objectives is ensuring that its debt servicing ratio continues to fall below the target of 10%.

RATES AND ANNUAL CHARGES OUTSTANDING RATIO

This ratio measures the percentage of a council's total rates and annual charges that is outstanding. It is accepted that for large urban councils this ratio should remain below 5%. Over the ten year period covered by the LTFP, Council will endeavour to remain within this target.

PRUDENT INVESTMENT MANAGEMENT

Council has a longstanding philosophy of prudent and conservative management of its investment portfolio. In keeping with this approach Council's investment portfolio comprises mainly of investment products which are both high rated and low risk. Council will continue this approach in the future and this is reflected in the interest revenue projections contained in the LTFP.

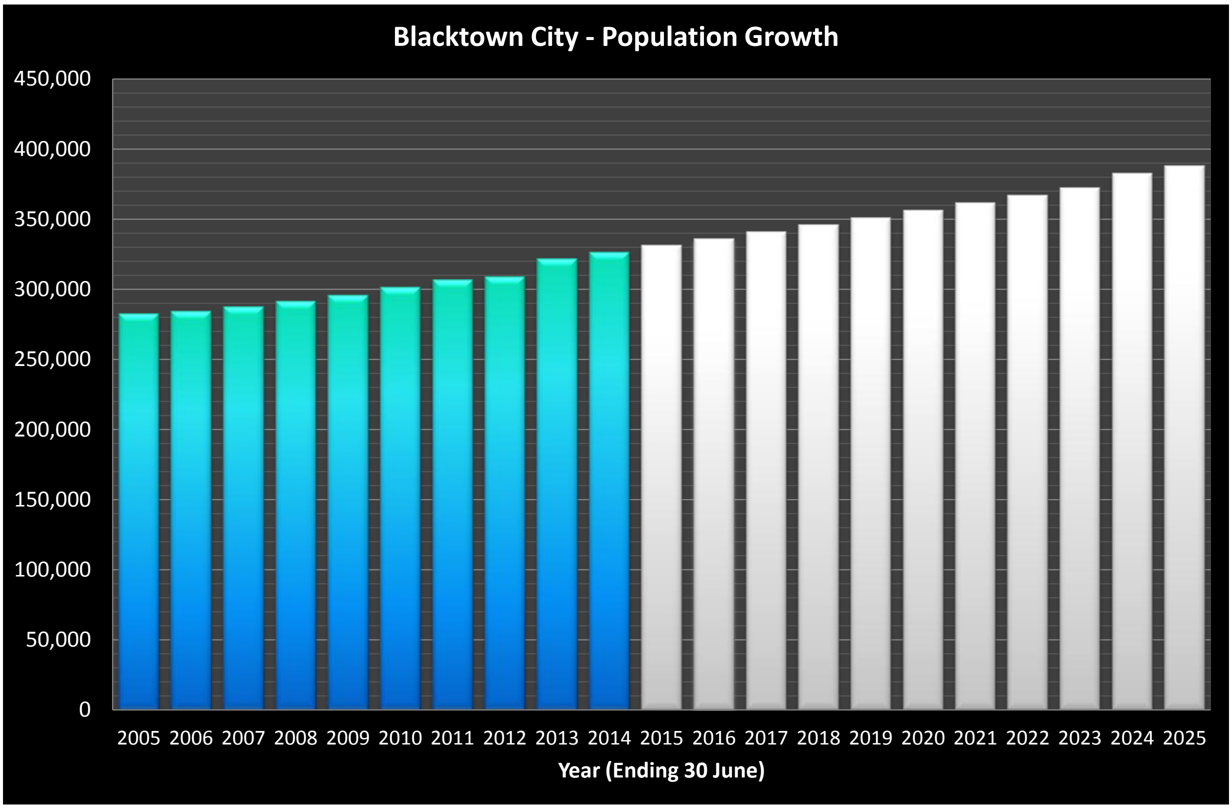
LTFP ASSUMPTIONS

In preparing Council's LTFP, projections on future financial trends have been based on a number of assumptions. These assumptions are explained below.

POPULATION

Growth in population has a major impact on Council's future revenues and expenses. Blacktown City's high rate of growth will continue for quite some time, with Blacktown being the major location of the North West Growth Centre. This phase in Blacktown's growth will see approximately 50,000 new home sites over the next 20 years. The metropolitan plan for Sydney "A Plan for a Growing Sydney" identifies that there will be 664,000 new dwellings in Sydney by 2031. The 'Blacktown Planning Strategy 2036' estimates that Blacktown will provide 44,000 of these new dwellings in established areas. Such continued high growth creates a major challenge for Council to ensure it balances the needs of established areas with those of new release areas. With this increase in population there is an increase in the demand for new and expanded facilities and services provided by Council. The changing demographics of the Blacktown Local Government Area (LGA) will also mean changes in the types of services to be provided by Council in the future, which will have an increasing impact on the later years covered by the LTFP.

The graph below shows the movement in Blacktown's population over the past ten years and the projected increase over the next ten years. By 2025, Blacktown's population is anticipated to approach 400,000.



LEVELS OF SERVICE TO THE COMMUNITY

The Long Term Financial Plan is based on the maintenance of existing Council services to the community at existing service levels. The LTFP will be reviewed as required when the type of service or service levels are varied by Council in reflection of City needs and community priorities. In such cases, the capacity of the Council to fund these services will be assessed against the financial policy framework provided in the LTFP.

Council's existing services are outlined in the Delivery Program 2013-2017 in the section "Functions of Council". The present levels of service have generally been defined historically by a balance between the community's desired level of service (assessed by various means including surveys, service requests and informal feedback) and Council's resource capacity and strategic priorities. In some cases, service levels are set through major contracts or service level agreements.

Service levels are increasingly a matter of engagement and dialogue with the community under the Integrated Planning and Reporting Framework. The Delivery Program provides for a 'best value' approach to Council's services and an ongoing program of service review.

Service levels for asset-based or "Infrastructure Services" are of particular importance to Council's long term planning and the financial modelling which is provided in the LTFP. These service levels are discussed in more detail within the accompanying Asset Management Strategy.

REVENUE

RATES AND CHARGES

Rates and charges are a major source of Council's income, representing approximately 50% of total revenue. In NSW, council rates are levied based on land valuations supplied by the Valuer General's Department. These valuations are reviewed every 3 years as part of a process termed General Revaluation. It is important to note that regardless of changes in the land valuations for existing properties, the actual total amount of rates income a council may levy is limited by rate pegging. Rate pegging refers to the process in which the State Government determines annually the allowable increase in rates, which is referred to as the rate peg. This allowable increase is announced annually by the Independent Pricing and Regulatory Tribunal (IPART).

Councils can apply for a special rate variation to increase their rates income by an amount higher than the approved rate variation limit. However, approved increase in rates will take into account factors such as the community's capacity to pay as well as population growth and changing demographics.

The approved annual rate pegging limit since 1998/1999 is shown in the table below, along with the actual rate increase adopted by Council. This table shows that over this period the average annual rate variation limit has been 3.02%. For 2015/16, IPART has determined the rate variation limit to be 2.4%. Council had a special rate variation approved by IPART for 2014/15 and 2015/16 of 6.7% and 5.11% respectively inclusive of the rate pegging limit.

Year	Rate pegging limit %	Blacktown City Council's rate increase %
1998/99	1.7	0.0
1999/00	2.4	1.0
2000/01	2.7	2.7
2001/02	2.8	2.8
2002/03	3.3	3.3
2003/04	3.6	3.6
2004/05	3.5	3.5
2005/06	3.5	6.6
2006/07	3.6	3.6
2007/08	3.4	3.4
2008/09	3.2	3.2
2009/10	3.5	3.5
2010/11	2.6	2.6
2011/12	2.8	2.8
2012/13	3.6	3.6
2013/14	3.4	3.4
2014/15	2.3	6.7
2015/16	2.4	5.11
Total cumulative increase	**54.3**	**61.41**
Average annual increase	**3.02**	**3.41**
# includes special rate variation approved by IPART in June 2014		

As shown in the previous table, over the period 1998/99 to 2015/16 the approved annual rate variation limit has averaged 3.02%. The base case scenario in Council's 10 year LTFP assumes an annual rate variation limit of 3.0% for future years of the LTFP. Alternative scenarios have been modelled on the assumption that the average annual rate variation limit may be higher or lower than 3%.

In terms of the actual annual increase in Council's rates revenue, it is noted that a proportion of the actual increase is a result of 'growth', that is additional rates received due to an increase in the number of rateable properties. This generally occurs when larger parcels of land are subdivided into smaller lots, but can also occur as a result of high density developments such as large residential unit complexes. The level of such development activity can vary from year to year as a result of changes in prevailing economic conditions, planning decisions made by the State Government and the availability and price of vacant land.

The level of additional rates income attributable to growth for Council has varied considerably over the past 10 years but has averaged 0.75% per annum. As it is not possible to accurately project growth levels in individual years it is assumed that this level of growth will continue over the next 10 years.

Revenue from annual charges comprises the Domestic Waste Management (DWM) Charges and Stormwater Management Charge. In accordance with Section 504 of the Local Government Act 1993, income obtained from charges for domestic waste management must be calculated so as to not exceed the reasonable cost to the council of providing those services. As such, the provision of Domestic Waste Management services is not subject to rate pegging. The LTFP assumes the annual DWM charge will increase on average, by 5.00% p.a. to recover significant increases expected in future tipping charges. However, the actual increase in each year may be higher or lower than this percentage having regard to movements in specific costs.

APPROVED SPECIAL RATE VARIATION

Council had a special rate variation approved by IPART to increase rates above the rate peg limit for the 2014/15 and 2015/16 financial year to increase funding for additional asset renewal.

In applying for the special rate variation, Council adopted an asset renewal funding strategy to permanently increase the annual funding allocated to asset renewal. This comprised the following items:

- $1 million – operational savings re-allocated towards asset renewal
- $2 million – reallocation of funding from the Infrastructure Sinking Fund (ISF)
- $5.557 million – special rate variation 2014/15 (indexed by rate pegging in future years)
- $2.910 million – special rate variation 2015/16 (indexed by rate pegging in future years)

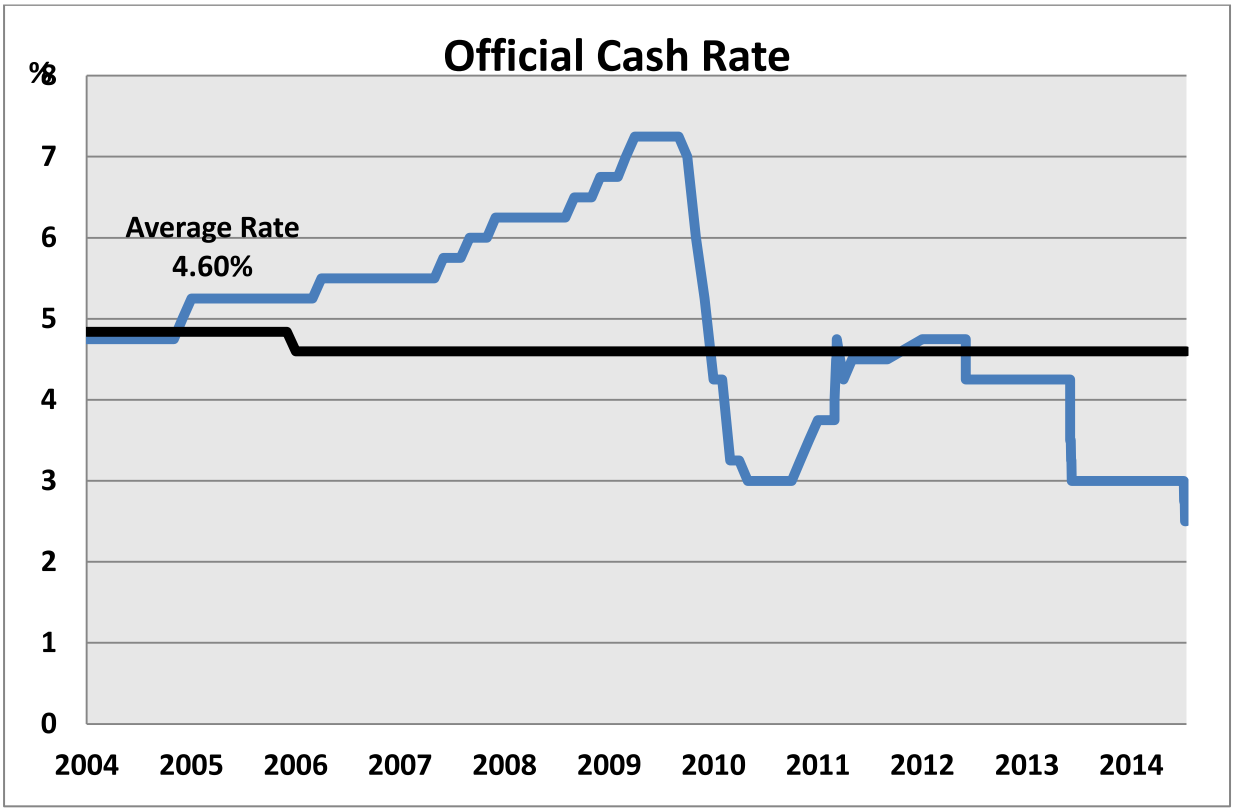
This funding strategy will see an additional $137.536 million allocated towards asset renewal works over the period between 2014/15 to 2024/25. The following table provides a summary of the estimated additional funding to be allocated annually to asset renewal as part of this asset renewal funding strategy.

Year	Special rate variation $'000	Operational savings $'000	Re-allocation of ISF funding $'000	Total additional asset renewal funding
2014/15	5,557	1,000	2,000	**8,557**
2015/16	8,634	1,000	2,000	**11,634**
2016/17	8,893	1,000	2,000	**11,893**
2017/18	9,160	1,000	2,000	**12,160**
2018/19	9,435	1,000	2,000	**12,435**
2019/20	9,718	1,000	2,000	**12,718**
2020/21	10,009	1,000	2,000	**13,009**
2021/22	10,309	1,000	2,000	**13,309**
2022/23	10,619	1,000	2,000	**13,619**
2023/24	10,937	1,000	2,000	**13,937**
2024/25	11,265	1,000	2,000	**14,265**
Total:	**104,536**	**11,000**	**22,000**	**137,536**

INTEREST AND INVESTMENT REVENUE

The level of interest revenue earned by Council will vary with regard to the total amount held in Council's Investment Portfolio. Council's LTFP projects major future movements in the amount of Council's Investment Portfolio with regard to future capital works, receipt of external grants and contributions. A number of large capital projects which are funded from Section 94 contributions (discussed in further detail later in this document) will lead to a decrease in the projected balance of funds held and the interest revenue generated.

Interest Revenue is also subject to external factors such as monetary policy decisions, and economic and investment market conditions. Over the longer term, economic conditions can vary considerably, which in turn can affect interest rates. In times of economic expansion, rising interest rates can be an effective way of reducing economic growth and thereby lowering inflationary pressures. Conversely, during economic downturns the lowering of interest rates can have a positive impact on economic growth. The graph below depicts movements in the Official Reserve Bank of Australia Cash Rate over the ten year period 2004 to 2014.



Over the above ten year period the Official Cash Rate has varied from current low point 2.25% to a maximum of 7.25%. The average has been 4.60% over this period. In preparing long term future interest revenue projections, Council has researched available economic data and projections from a variety of sources as well as sought advice from its external investment advisers. Based on this research and having regard for Council's conservative investment policy, the LTFP model projects future interest rates to average 3% p.a. over the next ten years. However, having regard for likely future changes in economic conditions, these forecasts will be continually monitored and the index updated in the LTFP model on a regular basis.

USER CHARGES AND FEES

Council provides a wide range of facilities and services for which it receives revenue from user fees and charges. These services include childcare, preschools, aquatic and leisure centres, animal control and building and engineering construction certification. Often the revenue received does not fully offset the costs associated with the service or facility as they are aimed at providing a broad community benefit and if higher fees were charged then many residents may be unable to enjoy the use of the facility or service. In other instances, fees may not be high enough to recover full costs due to external market pressures or the fee being set by statute.

Approximately two thirds of Council's total user fees and charges are generated through child care centres and leisure centres (comprising health and fitness facilities and swimming pools). Whilst these fees are considered discretionary, revenue growth in these areas is limited due to Council seeking to provide services accessible to the wider community. Other fees such as those relating to development applications are fixed by legislation.

Historically the revenue received for the majority of these fees and charges have increased in line with CPI. Accordingly, the LTFP model includes a projected increase in user charges and fees in line with projected CPI growth.

OTHER REVENUES

Other revenues include fines, other revenue from community centres, charges for the reinstatement of roads and footpaths, and Council's leisure centres. Revenue from these sources is difficult to predict as they can be susceptible to a range of external factors such as prevailing economic conditions, population growth and changing demographics. Other revenue is projected to increase at 3% p.a. which is based on historical trends in these categories of income.

GRANTS AND CONTRIBUTIONS

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

The largest single source of Council's grants revenue is the Financial Assistance Grant. This is a general purpose grant and is allocated to councils on a formula basis that has regard for a range of factors such as population, quantum of infrastructure maintained and the relative disadvantage between councils.

In general, the total funding available increases each year in line with CPI and population growth. However, the Federal government announced on 13 May 2014 that commencing 1 July 2014 a three year freeze on annual indexation of the Financial Assistance Grant. The impact of this is that Council will receive approximately $770,000 less annually from 2014/15 to 2016/17, which in cumulative terms is around $4.6 million. Council has also been advised by the NSW Local Government Grants Commission that it identified that it has overpaid the FAG allocation to Council in previous years. This overpayment was corrected as part of the 2014/15 FAG allocation and has had a negative impact on the FAG budget estimate for 2015/16.

It is estimated Council's FAG allocation for 2015/16 will be around $2 million lower than what it would have been without these changes. The LTFP projects the Financial Assistance Grant to increase by 2% from 2017/18, allowing for population growth as well as other disability factors. It is assumed that other grants will increase on average by 2% per annum.

SECTION 94 DEVELOPER CONTRIBUTIONS

Section 94 of the Environmental Planning and Assessment Act 1979 enables councils to levy contributions for public amenities and services required as a consequence of development. Developer contributions are essential to providing key facilities and services for local residents, especially in new areas.

Contributions are held as an externally restricted asset until they are spent for the purposes designated. Council's policy is to commence specific works only when sufficient contributions have been received to complete the works. However, Council does try to forward fund works if possible to stimulate and unlock development. The level and timing of contributions fluctuate according to a variety of factors including economic growth and the level of development activity.

The LTFP applies an average increase of 1.16% to Section 94 contributions, noting that the actual increase in any given year may vary significantly from this index. Council is preparing contribution plans for each North West Growth Centre Precinct. Contributions are currently made up of a $30,000 per lot capped contribution from development and the balance from government through the Local Infrastructure Growth Scheme (LIGS).

The state government has formally committed to annually allocating “gap” funding through the LIGS until “the new planning act” addresses all matters relating to developer contributions. However, in 2014, the new planning act did not proceed as expected. As a consequence, long-term funding remains uncertain.

The state government has now made 4 consecutive short-term funding allocations in its budgets. Given the uncertainty of alternative long-term funding streams to mitigate the possible shortfall arising from the cap on section 94 contributions, it is difficult to accurately predict the timing of the payment of future contributions in new Growth Centre precincts, and so they have not been incorporated in the LTFP. The LTFP projects the cashflows for S94 based on historical cashflow trends. When more realistic projections are available they will be incorporated into the LTFP.

NEW SECTION 94 DEVELOPER CONTRIBUTIONS (NORTH WEST GROWTH CENTRE PRECINCTS)

The LTFP incorporates an average increase in expenditure of 16.07% predominately for the new Section 94 Contribution Plans for the North West sector this may vary from year as it is difficult to project expenditure patterns associated with the development of this sector.

EXPENDITURE

EMPLOYEE COSTS

Employee Costs include the payment of salary and wages, Employee Leave Entitlements, Superannuation and Workers Compensation expenses. Overall employee costs comprise around 45% of Council’s total operating costs.

The primary component of increases in employee costs are annual salary and wage increases approved in Council’s Enterprise Agreement. Other factors are changes in the level of superannuation contributions, worker’s compensation costs and increases in Council’s staff numbers.

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

For Council employees in the accumulation scheme, Council is required to make compulsory employer superannuation contributions in accordance with the compulsory employer superannuation contribution limits. As a result of legislative changes, this contribution will progressively increase from its current level of 9% to 12% by 2025. The current rate of 9.50% will remain until 30 June 2021 and then increase by 0.5% in subsequent financial years until it reaches 12%. For employees who are in a Defined Benefit Superannuation scheme, Council’s superannuation contribution is based on a multiple of the employee’s salary. In addition to this amount, all NSW councils were initially advised in 2011 that due to the impact of the Global Financial Crisis and the negative effect this had on the financial position of the Defined Benefit Superannuation scheme, all councils would be liable for a separate fixed levy payable over a projected 10 year period. For Council, this levy is approximately $1.3 million annually. Recent advice from Local Government Super is that whilst the financial position of the scheme is reviewed on an annual basis, it would be prudent for Council to budget for this additional levy to continue for the foreseeable future. As such, this additional cost has been incorporated in the LTFP and is assumed to continue for the 10 year life of the plan. Should the required contribution vary from this forecast, the LTFP will be revised accordingly.

The LTFP projects overall employee costs to increase on average by 4.20% per annum, this increase covers a range of employee related expenses such as employee leave entitlements, employer superannuation contributions (including the progressive increase in compulsory employer superannuation contributions from 9% to 12%) and workers compensation expenses. The LTFP incorporates a modest provision for future increases in Council's staff numbers based on historical growth in full time equivalent staff numbers. This is considered a reasonable allowance in order for Council to meet the operational requirements of an expanding city.

MATERIALS AND CONTRACTS

Council's materials and contracts expenditure includes a broad range of services and resources including audit, legal and consultants fees, reserves and roads maintenance, cleaning and waste management.

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

The LTFP projects these costs to increase in line with CPI beyond the 2013 – 2017 delivery program. In order to provide balanced budgets, materials and contracts and other expenses have increased below CPI. However, specific costs such as energy, tipping charges and payments to other levels of government have been indexed at a higher rate based on recent trends.

DEBT SERVICING

Council has maintained a sound financial position whilst being completely debt free for over a decade. The LTFP has been prepared on the assumption that Council will continue to maintain its debt free status in the future. As such, no borrowing costs have been included in the financial projections. It is noted that should Council change its policy with regard to maintaining a debt free status, the LTFP will be adjusted accordingly.

DEPRECIATION

The LTFP projects annual depreciation expenditure to increase by an average of 5.30% p.a. based on projected levels of capital expenditure over the 10 years of the LTFP. The actual depreciation expenditure in future years will be impacted by future asset revaluation methods and timing as stipulated by relevant accounting standards.

Council's infrastructure assets have been revalued in accordance with a staged implementation program as advised by the Office of Local Government. The revaluation of Council's assets at fair value is to be undertaken as per the following schedule:

- 2014/15 financial year – roads, bridges, footpaths and drainage
- 2015/16 financial year – community land, land improvements, other structures and other assets
- 2016/17 financial year – water and sewerage assets (only applies to councils responsible for this asset class)
- 2017/18 financial year – operational land, buildings, plant and equipment
- 2018/19 financial year – land under roads

Full revaluations are to be undertaken for all assets on a 5 year cycle

OTHER OPERATING EXPENSES

Other operating expenses comprise a variety of items, such as the following:

- Advertising
- Contributions to fire services
- Cultural services and civic events
- Energy costs
- Insurances
- Street lighting
- Tipping fees

Generally, the LTFP projects the majority of items categorised as other operating expenses to increase annually by CPI. However, within this category there are specific items which have been projected to increase at an alternative rate to the CPI. These include the following expenses.

Energy costs are one area which Council has experienced significant cost increases. This has been the result of a progressive increase in the number of Council provided facilities, such as libraries and leisure centres, many of which have high energy requirements, along with general increases in energy tariffs. The LTFP assumes average energy costs will increase by 5% per annum, which allows for tariff increases, increased usage and increased facilities.

Another cost which is anticipated to increase at a higher rate than CPI is payments made by Council to other levels of government. This consists of compulsory contributions to the NSW Fire Brigade and Rural Fire Service and contributions to other government agencies. Based on trend analysis, it is projected in the LTFP that these payments will increase annually by an average of 7.50%.

As noted later in this document, Council incurs annual expenditure in the order of $15.1 million which is attributable to 'cost shifting'. 'Cost Shifting' refers to the net cost of responsibilities transferred to Council from the Federal or State Government without the transfer of adequate funding. The LTFP assumes the level of cost shifting will continue to increase annually by the assumed CPI.

CAPITAL WORKS PROGRAM

Council's extensive capital works improvement program aims to deliver much needed maintenance and renewal of infrastructure assets including roads, community buildings, parks and reserves and leisure facilities. The proposed 2015/16 Works Improvement Program is the biggest capital expenditure works program ever considered by Council, largely due to asset renewal and section 94 works in the North-West Growth Sector. The total proposed value of works is $95,108,880, this includes $17,750,000 from the Infrastructure Sinking Fund (discussed in the following section). As the City continues to grow, it is expected the value of Council's capital works program over the next 10 to 20 years will continue to be as big if not bigger than the program of works proposed for 2015/16. The financial projection of future capital works will depend on the nature, timing and funding of specific projects. The majority of infrastructure projects are costed in accordance with current design estimates. Any significant cost revisions in subsequent years will be reflected in the LTFP.

WORKS IMPROVEMENT PROGRAM

Council's Works Improvement Program (WIP) is a document that is reviewed annually by Council which lists all capital works projects which have been identified to service the community within the local government area. The projects identified in the WIP are either renewal projects or projects to create new assets or to enhance existing assets. Council's Asset Management Plans inform the WIP of the projects which are to be listed for funding consideration. The WIP is divided into a number of key asset programs such as roadworks, bridges, buildings, drainage, transport facilities and parks improvements. Each program identified in the WIP also identifies the relevant funding source whether it is grants and contributions, section 94 developer contributions, general revenue or Council's Infrastructure Sinking Fund (ISF).

Each year Council adopts a 1 year WIP with projects listed in each program identified for funding above the funding cut-off line. Each project listed in the WIP is prioritised using a program specific scoring system which assesses each project to generate a merit based project list for funding consideration.

The total value of works proposed for funding in the 2015/16 WIP is $95,108,880. This funding comprises the following 3 funding levels:

Level 1 ($83,474,880) – comprising funding from general funds, grants and reserves

Level 2 ($8,724,000) – comprising funding for asset renewal in accordance with Council's adopted asset renewal funding strategy

Level 3 ($2,910,000) – comprising additional funding for asset renewal from the additional rates income attributable to the IPART approved special rate variation for 2015/16

INFRASTRUCTURE SINKING FUND

The Infrastructure Sinking Fund (ISF) Program forms part of Council's overall Works Improvement Program. The ISF was established to ensure that funds arising from Council's debt reduction strategy were used for the provision of important infrastructure to the City, as well as to expedite works in new release areas.

Since 1996/97, the ISF has provided in excess of $263 million over and above Council's normal Works Improvement Program for important infrastructure works throughout the City. In 2015/16, the ISF program totals $17.8 million which includes an allocation of over $5.6 million towards Council's normal Works Improvement Program to support Council's obligation to maintain roadworks funding under the Federal Government Roads to Recovery grant program along with $1.9 million to go towards meeting our expenditure requirements for stormwater assets. In keeping with Council's adopted asset renewal funding strategy $2 million in ISF funding has been allocated directly to additional asset renewal works. In addition $1.5 million has been allocated toward land acquisitions not funded by a contribution plan. The amount available in the ISF in any year will vary depending on the final cost of works voted from previous ISF programs and interest earned on the reserve.

The ISF is prepared based on a long term view and presented in a 10 year format. While the ISF details an indicative 10 year Program, Council's current practice is to only adopt a 1 year program of works (i.e. 2015/16) with the ISF program reviewed and adopted annually by Council. Projects listed in the 10 year ISF program are considered to be of strategic importance to the City and in keeping with the priorities identified in *Blacktown City 2030*. However, with limited funds available, the projects proposed for funding in 2015/16 are considered to be those which will provide the greatest benefit to the community.

COUNCIL'S CURRENT FINANCIAL POSITION

As a result of a longstanding commitment to prudent financial management combined with the application of a variety of effective financial strategies, Council's current financial position is sound. Council is proud of its history of sound financial management, highlighted by achievements which include being debt free for more than a decade, its average rates being one of the lowest for Western Sydney councils and our high levels of liquidity.

In terms of assessing Council's current financial position it is useful to refer to the financial information contained in Note 13 – (Statement of Performance Measurement) of Council's Annual General Purpose Financial Reports and special schedule 7 . The information in this note comprises a variety of indicators which can be used to assess a council's financial position. This information is summarised below.

UNRESTRICTED CURRENT RATIO

Ratio	2013/14	2012/13	2011/12
Unrestricted current ratio	4.29:1	4.40:1	4.26:1

The purpose of the unrestricted current ratio is to highlight that sufficient liquid assets are available to meet short term commitments, after excluding certain restricted assets (e.g. unspent s94 contributions and grants). As a general rule the target/healthy ratio is 100% or greater, i.e. for every $1 of liability there is $1 of asset to cover it.

As shown in the above table, over the past 3 years Council's unrestricted current ratio has been significantly higher than the accepted benchmark of 1.0:1.

DEBT SERVICE RATIO

Ratio	2013/14	2012/13	2011/12
Debt service ratio	0%	0%	0%

The debt service ratio is the percentage of a council's net debt servicing costs divided by total operating revenue. Prudent financial management dictates that a council does not over commit itself to debts it cannot fulfill. The Office of Local Government has determined that an acceptable debt service ratio is less than 20%.

Council has maintained a sound financial position whilst being completely debt free for more than a decade.

RATES AND ANNUAL CHARGES OUTSTANDING PERCENTAGE

Ratio	2013/14	2012/13	2011/12
Rates and annual charges outstanding percentage	3.19%	3.44%	3.32%

Council's outstanding rates and charges has in the past exceeded the recommended maximum benchmark for urban councils of 5%. As a result of improved debt recovery procedures this ratio has decreased in recent years and is within the benchmark of 5%.

BUILDING AND INFRASTRUCTURE RENEWALS RATIO

Ratio	2013/14	2012/13	2011/12
Building and infrastructure renewals ratio	41.28.%	38.11.%	34.04%

The purpose of this ratio is to assess the rate at which these assets are being renewed relative to the rate at which they are depreciating. The recommended benchmark for this ratio is for the 3 year average to be greater than or equal to 100%..

Council's 3 year average was 37.9%. In 2013/14, the ratio was 41.28%, which was an increase on the previous year. This was because Council increased the amount spent on renewing existing assets from $16.776 million in 2012/13 to $19.330 million in 2013/14. Following the approval of Council's special rate variation for asset renewal, it is expected that this ratio will improve over the next few years as Council is able to increase the amount spent each year on the renewal of existing assets.

INFRASTRUCTURE BACKLOG RATIO

Ratio	2013/14	2012/13	2011/12
Infrastructure backlog ratio	3.04%	2.85%	2.34%

This ratio shows that asset renewal backlog as a proportion of the total value of Council's Infrastructure.

The higher this ratio, the higher a council's relative backlog as a proportion of its total infrastructure portfolio. The benchmark for this ratio is for the backlog to be less than 2% of the value of council's infrastructure assets. Council's ratio for 2013/14 was 3.04%, which does not meet the benchmark of less than 2%. This ratio will improve over the next few years due to the funding strategy including the approval of Council's special rate variation for asset renewal.

Due to the size of Council's asset base ($2.6 billion), the benchmark requires Council to have a renewal backlog of less than $52 million. Council's asset renewal funding strategy as adopted from 2014/15 forecasts a reduction in the backlog to $34 million over the next 10 years. This may be further reduced by an additional allocation in the current year.

Based on the current levels of annual funding for asset renewal and our long term asset renewal funding forecasts, it is expected that Council will be able to achieve this benchmark over the next 10 years.

ASSET MAINTENANCE RATIO

Ratio	2013/14	2012/13	2011/12
Asset maintenance ratio	91.30%	102.00%	90.80%

This ratio compares the actual versus required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing through insufficient maintenance. The benchmark for this ratio is for the 3 year average to be greater than or equal to 100%. That is a councils should be spending at least the required expenditure on asset maintenance as shown in "Special Schedule 7 - Report on infrastructure assets" of their annual financial statements.

Council's 3 year average for the period 2011/12 to 2013/14 was 94.70%, this implies that Council is not currently spending enough on the maintenance of its assets.

CAPITAL EXPENDITURE RATIO

Ratio	2013/14	2012/13	2011/12
Capital expenditure ratio	3.08	2.65	2.75

The Capital Expenditure Ratio shows the extent to which a council is expanding its asset base through capital expenditure on both new assets and the replacement and renewal of existing assets. This ratio is calculated by dividing the total capital expenditure for the year by the annual depreciation amount. The benchmark for this ratio is for a factor greater than 1.1:1.

Council exceeded the benchmark for 2013/14 with a ratio of 3.08:1. It is noted, though, that this calculation includes the value of the assets dedicated to Council in lieu of developer contributions along with the value of the land under roads recognised in the financial accounts in each financial year.

CONSERVATIVE INVESTMENT MANAGEMENT - NO CAPITAL LOSSES

Council has traditionally had a conservative approach towards the management of its investment portfolio. Council has had an investment policy which restricts Council to investing generally in higher rated, low risk forms of investments. A key aspect of the policy is the requirement for Council officers to seek independent investment advice when making decisions regarding the composition of Council's investment portfolio.

The benefit of this approach was highlighted during the Global Financial Crisis, when Council's investment portfolio suffered no capital losses. Council's Investment Policy is regularly reviewed, having regard for changes in investment markets and economic conditions as well as any changes made to applicable legislative requirements.

COUNCIL'S LAND DEVELOPMENT STRATEGY

Council in November 2014 adopted a 10 year land projects business plan and cash flow which is targeted at significantly increasing the net profit, so the annual return on Council's budget is increased to a minimum of $2.0 million.

Since 1984 Council has had a land projects group established to maximise returns on surplus operational land assets within the rural, residential, business and industrial zones of the City, for which Council seeks to develop and/or sell with the objective of maximising the investment returns to Council. Council's Land Development Strategy has funded a number of major projects including the Max Webber Library, development of the Civic Plaza, Improvements to the Mount Druitt Business District and AFL/Cricket facility at the Blacktown International Sports Park.

It is anticipated that with the rapid development of the North West Sector, Council will acquire a number of residential properties with the propose to subdivide, providing a financial return to Council.

In early 2014 an expert property advisory panel was formed which has worked actively in the development of a new business plan to help guide Council's land development activities in the future. The business plan has the following objectives to provide maximum return to Council:

- Return on land projects, measured for all projects on a consolidated net profit basis, to have a target of $2.0 million net profit returned to Council's annual budgets for funding of new capital works across the city.
- Key performance indicators to be used to inform decision making around which properties are to be acquired and developed as summarised as follows:
  a. **Return on revenue** (also known as net profit margin) – target rate of 16% or greater. Return on revenue is calculated as net profit as a percentage of net sales revenue
  b. **Return on costs**- target 19% or greater. This is calculated as net profit as a percentage of total development costs
  c. **Internal rate of return (IRR)** – Target rate of 17.5%. IRR is the calculated discount rate for a project at which level the net present value of costs equals the net present values of revenues for the project.

The LTFP incorporates the 10 year cash flow forecasts associated with Council's land projects business plan.

EFFICIENCY DIVIDENDS

Council has a long-standing practice when preparing annual budgets to not index operating costs, other than employee related costs. This means that opportunities for savings and efficiencies need to be identified in order to ensure the continuation of existing service levels. It is estimated that this practice results in annual savings of approximately $1.3 million. It is anticipated that Council will continue to achieve productivity gains to offset rising costs over the life of the LTFP.

FUTURE FINANCIAL CHALLENGES

In projecting Council's future financial position, a number of anticipated future challenges which may have an adverse impact on Council have been considered. These are summarised below.

RATE PEGGING

For over 30 years NSW councils have been subject to rate pegging. Rate pegging is the maximum percentage limit by which NSW councils may increase the total income they receive from rates. The rate pegging percentage is set each year by IPART.

For many years the NSW Local Government sector has objected to rate pegging due to the adverse effect it has on the financial sustainability of NSW councils. IPART, in its 2008 paper - Review of the Revenue Framework for Local Government found that over the period 1976/77 to 2006/07 taxation (i.e. rates) revenue grew more slowly in NSW than in the rest of Australia. Since rate pegging was introduced in NSW, rates revenue per capita for NSW councils increased by an average of 1.9% per annum, compared with 3.4% per annum for the rest of Australia. IPART has acknowledged that rate pegging has constrained the growth of NSW councils' rate revenue relative to councils in other states.

It has been Council's experience, particularly over the past decade, that many of its major costs have increased at a higher level than rate pegging. Major examples of this include energy costs (fuel, electricity, gas), materials used in the construction and maintenance of Council's road and drainage networks and labor costs. In the past Council has addressed this challenge through the ongoing identification of cost savings and efficiencies. However, this will be an increasing challenge in the future as the population of the Blacktown LGA and the value of infrastructure maintained by Council continues to increase.

SECTION 94 DEVELOPER CONTRIBUTIONS CAP

BACKGROUND TO SECTION 94 DEVELOPER CONTRIBUTIONS

Since the 1940s the NSW planning process has had the ability to require developers to contribute to the provision of local infrastructure, the need for which arises as a result of development. Legislation requiring a contribution towards the provision of local infrastructure was first codified in the Environmental Planning and Assessment Act 1979 (EP&A Act).

In 1992 the statutory provisions relating to Section 94 of the EP&A Act were amended so that councils were required to prepare "contributions plans" to ensure that contributions were efficient, responsible, accountable and certain. These provisions are regulated in the Environmental Planning and Assessment Regulation 2000 (as amended).

Section 94 of the EP&A Act enables councils to legally levy contributions for local infrastructure as a consequence of development. The power to levy contributions relies on there being a clear link (or nexus) between the development being levied and the need for the local infrastructure for which the levy is required.

Generally, contributions can only be made towards:

- Capital costs including land acquisition costs
- Local infrastructure which a council has the responsibility to provide
- Local infrastructure which is needed as a consequence of or to facilitate new development.

This infrastructure (or facilities) is referred to as “baseline facilities”, in other words, only the basic level of facilities that are essential for new communities to be established. Once the facilities are delivered, councils are required to maintain them. The types of infrastructure or facilities that have been previously funded through Section 94 include roads, stormwater drainage, open space (sports fields, playgrounds) and community facilities (libraries, neighbourhood centres, community centres and child care centres).

Council has adopted a number of Section 94 Contributions Plans since 1993. It is considered that Contributions Plans are the most cost efficient way for a council to deliver infrastructure. Large release areas, such as the Parklea Release Area, have had their local infrastructure funded and provided by Section 94 contributions.

Concerned by representations by the development industry that the increase in various government charges was affecting housing affordability, the State Government introduced a "Cap" on Section 94 contributions across NSW.

$20,000 & $30,000 SECTION 94 DEVELOPER CONTRIBUTIONS CAP

Arguably the most significant reforms to the NSW Developer Contributions System since 2000, and impacting particularly on NSW growth councils such as Blacktown, were the 2010 reforms which introduced, without consultation, a $20,000 per lot/dwelling Cap on Section 94 Contributions.

The 2010 reforms also proposed an alternative approach to setting local development contributions and local council rates. The changes were again intended to increase housing supply by lowering development charges for infrastructure. Further reforms were introduced later in 2010 with the addition of a $30,000 Cap per residential lot/dwelling on contributions in new release areas ("greenfield" areas) to account for greater costs in creating new communities from nothing.

2010 REFORMS - FUNDING IMPLICATIONS FOR COUNCIL

The 2010 reforms created a significant funding risk for Blacktown City. To accurately project the extent of this risk, Council engaged an actuary to model the impact of the Section 94 cap on its new release areas. At the time Council’s Contributions Plan No. 20 – Riverstone and Alex Avenue Precincts (CP20) had just been adopted by Council and was used as a basis to project the full extent of funding shortfalls forecast across the Blacktown City section of the North West Growth Centre.

CP20 had $745 million in local infrastructure to service 15,500 new residential lots. By applying the $30,000 per lot Greenfield Cap to the Contributions Plan, only $465 million could be collected from development, leaving $280 million in infrastructure unfunded for the 2 precincts.

When this funding shortfall was projected across all of Blacktown’s future precincts in the North West Growth Centre, a funding shortfall of almost $1 billion was projected. However, this projected shortfall has since been revised to around $1.1 billion as precinct planning for other Precincts has been subsequently undertaken. This figure remains as the current projected shortfall for the Blacktown LGA section of the North West Growth Centre.

LONG TERM FUNDING

Presently there is no long term funding solution available to assist councils in delivering the essential infrastructure required to support new communities. The State Government announced as part of the 2013/2014 Budget that “the NSW Government would continue to provide for councils where the cost of delivering essential infrastructure is greater than the amount they can collect from Section 94 levies.

The assistance is through the Local Infrastructure Growth Scheme (LIGS). The LIGS follows other short-term funding initiatives from two previous State budgets i.e. the Priority Infrastructure Fund and the Housing Acceleration Fund. However, these short-term interim arrangements do not provide Council with a long-term funding solution.

In the absence of a long-term funding solution, Blacktown City Council currently faces a projected long-term funding shortfall in the order of $1.1 billion for local infrastructure in the Blacktown City section of the North West Growth Centre. Despite short-term interim initiatives delivered and announced by the State Government, no long-term funding solutions have so far been identified.

Council acknowledges that the recent review of the EP&A Act through the Department of Planning and Environment's Green and White Papers, and the work of the Infrastructure Contributions Taskforce are likely to provide direction and advice regarding future local and state developer levies. However, until these reforms to developer contributions are realized, Council's funding challenges in terms of developer contributions remain.

Council also faces a $137 million funding shortfall for the provision of community facilities (buildings) in the North West Growth Sector as these facilities are not considered as "essential local infrastructure" by the State Government, and cannot be levied on development.

COST SHIFTING

Cost shifting is a major challenge confronted by local government. Cost shifting occurs when there is a transfer of services from a Federal or State Government to local government without the provision of adequate funding required to provide the service.

Some major examples of cost shifting include:

- Cost of the mandatory pensioner rebates on Council rates
- Exemption of State Government properties from the Stormwater Management Charge
- Cost of regulating on site sewerage facilities
- Administration of the Companion Animals Act
- Functions under the Protection of the Environment Act
- Cost of functions as a local control authority for noxious weeds
- Public library operations
- Processing of development applications
- Citizenship ceremonies

The annual cost to Council of cost shifting is estimated to be in the order of $15.1 million per annum. The LTFP assumes these costs will increase annually by CPI.

ASSET RENEWAL FUNDING

A major challenge confronting the NSW Local Government sector is the need to increase the amount of funding allocated to the maintenance and renewal of existing infrastructure. This has been highlighted in a number of studies such as the 2006 Local Government and Shires Association's Independent Inquiry into the Financial Sustainability of NSW Local Government and more recently the 2013 report released by NSW Treasury Corporation (TCorp) in regard to Financial Sustainability of all NSW councils. The TCorp review identified an infrastructure renewal backlog of $7.2 billion for all NSW councils.

These studies have identified the need for NSW councils to significantly increase funding for the renewal of existing infrastructure. They have further identified that if funding is not increased in the immediate term, then the infrastructure renewal backlog will continue to increase at a level which in the future may become too great to address without serious ramifications on service delivery.

For Council, the infrastructure renewal backlog as at 30 June 2014 was $79.8 million. Council is custodian of infrastructure, property, plant and equipment assets that have a value of approximately $2.8 billion. Without adequate funding, effective maintenance and renewal of these assets to maximise their potential life cannot be achieved. Council's adopted Resourcing Strategy, which includes the Asset Management Strategy 2013-2023, provides detailed information in regard to the renewal requirements for Council's infrastructure assets. The Asset Management Strategy is supported by individual Asset Management Plans for each key asset class.

In preparing Council's Asset Management Strategy, detailed long term modelling was undertaken on Council's infrastructure network. This modelling highlights the need for increased levels of Asset Management Funding for asset renewal and maintenance of Council's infrastructure asset base.

COUNCIL'S CURRENT ASSET RENEWAL FUNDING STRATEGY

In order to better manage Council's asset renewal backlog, Council adopted an asset renewal funding strategy in February 2014 to increase the annual amount of funding allocated towards asset renewal works. This funding strategy comprised the following:

- $10.850 million – annual amount allocated at level 1 in the Works Improvement Program
- $1 million – operational savings re-allocated towards asset renewal
- $2 million – reallocation of funding from the Infrastructure Sinking Fund (ISF)
- $5.557 million – special rate variation 2014/15 (indexed by rate pegging in future years)
- $2.910 million – special rate variation 2015/16 (indexed by rate pegging in future years)

Including indexation on the above amounts, in 2015/16, the total funding allocated towards asset renewal in the Works Improvement Program is around $22.484 million.

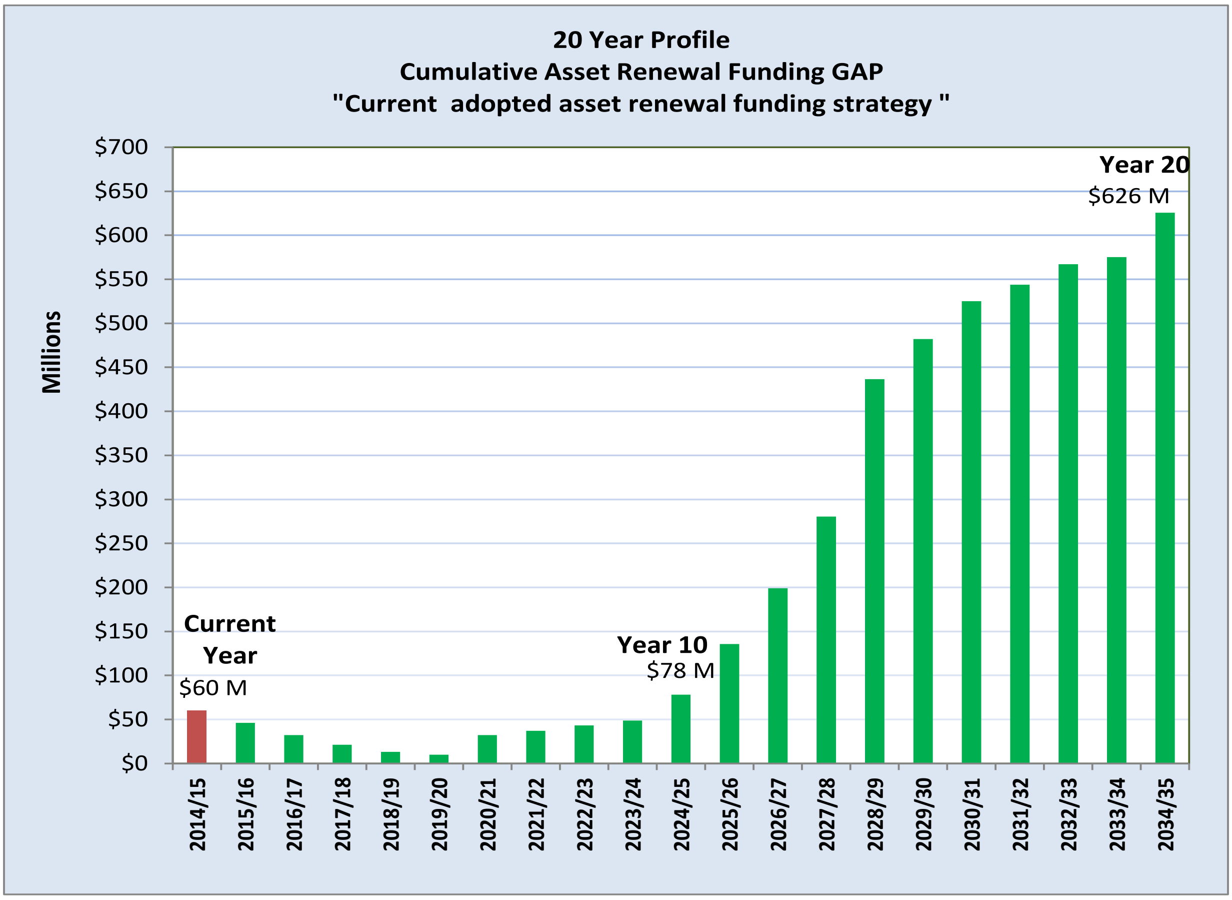
In addition to Council's adopted asset renewal funding strategy, Council has established an internally restricted reserve called the "Asset Renewal Reserve". The purpose of this reserve is for Council to set aside funds for future use on infrastructure asset renewal. As funds become available in this reserve, Council is able to make one-off funding allocations towards asset renewal works.

FUTURE ASSET RENEWAL BACKLOG

Council's asset renewal funding requirements do not increase by a linear amount on an annual basis. Rather, the level of funding required increases significantly when the infrastructure assets from the older parts of the City reach the stage of their life cycle whereby more expensive renewal treatments are required. This means that in coming years, Council will be confronted with much higher funding requirements than it is now, as the infrastructure for those large areas of the City constructed in the 1980s will need to be renewed. For this reason, it is important that Council adequately addresses its current asset renewal requirements, so that it has a better basis to address future funding requirements.

Council's asset renewal backlog is expected to be around $60 million as at 30 June 2015. Based on Council's current asset renewal funding strategy, the LTFP forecasts that around $237 million will be allocated towards asset renewal works over the period 2015/16 to 2024/25. The following graph shows the cumulative asset renewal backlog based on this level of funding. It is forecast that the asset renewal funding backlog in 10 years' time will be around $78 million and $626 million in 20 years.

Whilst the asset renewal funding strategy does not eliminate the backlog over the next 20 years, it is forecast that the current level of funding will allow Council to keep the annual backlog at a manageable level over the next 10 years.



It is noted that future estimates are less precise and that other factors such as new technology will impact on these estimates. The forecast does however, make clear the scale of the future asset renewal challenge.

FIT FOR THE FUTURE

In September 2014, the State Government released its local government reforms, entitled "Fit For the Future (FFTF). All NSW councils must indicate their intention to amalgamate with other council/s ('merger proposal') or develop an improvement plan as a stand alone council to respond to the FFTF benchmarks ('improvement proposal') by 30 June 2015. As Blacktown City has not been identified for any possible amalgamation by the Government in this process, Council will be submitting an improvement proposal. Council proposals will be assessed by an independent expert panel later in 2015.

The essential areas of assessment in an improvement proposal are as follows:

- Scale and capacity – based on the Independent Local Government Review Panel (ILGRP) findings (which are that Blacktown City meets the required benchmarks)
- Financial benchmarks – outlined in **Appendix 7**
- Improvement strategies

The focus of the FFTF reforms, and discussion by the State Government and other stakeholders to date, has almost entirely been on the question of local government amalgamations. Similarly, the financial incentives offered to councils in the reform process are mainly limited to councils which propose and complete mergers.

It is essential that Blacktown City be deemed 'fit for the future' through the assessment of our improvement proposal, in order to avoid any subsequent financial disadvantage or reputational risk.

FINANCIAL BENCHMARKS

One of the key issues for Council to address as part of the FFTF process is the financial benchmarks. There are 7 financial indicators listed in the FFTF reform process. These indicators are largely drawn from the 2013 NSW TCorp report on local government finances. Blacktown City presently meets the benchmark for only 1 of these indicators and is unlikely to meet several of the other benchmarks in future, for the valid reasons detailed in **Appendix 7**.

The OLG has acknowledged that some of these indicators are inappropriate for councils in high growth areas. Overall, these financial benchmarks do not provide an adequate or complete indication of a council's performance or long-term sustainability. Local Government NSW (LGNSW) has recently published an independent review of the FFTF criteria and has proposed a number of improvements be made prior to the assessment of proposals.

The financial criteria are to be fully addressed in our FFTF proposal in the proper context of Council's actual financial position. The discussion of these benchmarks is therefore supplemented with additional and more balanced financial information, including financial indicators that more accurately assist in assessing Blacktown City's financial strength and sustainability.

Further information on these benchmarks and commentary on Council's present and anticipated future position in relation to the indicators is provided at **Appendix 7**, which outlines the measures Council might need to consider in order to meet the benchmarks in future, should it determine to do so. It is noted that the steps which may be necessary to achieve such a position would not improve Council's financial sustainability in all cases.

SENSITIVITY ANALYSIS

Council's LTFP covers a 10 year period based on assumptions regarding future financial trends. These assumptions include future rate variation limits (i.e. rate pegging), increases in CPI and employment costs. Many of these factors can fluctuate over time as they are influenced by a variety of circumstances, such as prevailing economic conditions, decisions by other levels of government and changing community expectations. As it is not possible to accurately predict changes in these factors in individual years over the long term, they have been projected to remain constant over the 10 year period covered by the LTFP. To ensure these assumptions are both robust and realistic, they have been based on available information, including economic projections from a variety of sources as well as recent trends.

A full list of the assumptions underlying the projections in the LTFP is contained in **Appendix 1**.

Over a ten year period, these assumptions may be subject to change outside the parameters used in developing the LTFP. Any major change in these assumptions will have an impact on the financial projections contained therein. The level of impact depends not only on the level of change but also on the nature of the assumption.

A minor variance in some of the assumptions will have a relatively small impact on the projections contained in the LTFP. For example, increases in the level of grant income received for specific purposes would result in a corresponding increase in expenditure. Conversely, a change in the annual rate pegging limit will have a significant impact on future financial projections. Sensitivity analysis has been undertaken to assess the impact of changes in the factors which have been used to project future revenue and expenditure. This sensitivity analysis is shown in **Appendix 2**.

Sensitivity analysis involves developing different scenarios by varying the critical assumptions, such as the projected level of rates revenue and employee costs. The different scenarios demonstrate the impact of these changes on Council's financial projections.

A base model, optimistic and pessimistic model have been considered in the sensitivity analysis.

SCENARIOS

Council's LTFP contains long term projections based on specific assumptions. As it is difficult to accurately predict all future trends, alternative scenarios have been modelled to help provide an indication of Council's future financial position under a variety of circumstances. These alternative scenarios are summarised below.

BASE CASE SCENARIO

The *base case* scenario forms the basis of Council's LTFP. It is based on a range of assumptions which are considered the most likely to occur over the next ten years. These assumptions are detailed in **Appendix 1** to the LTFP. The *base case* scenario is shown in **Appendix 3.**

OPTIMISTIC CASE SCENARIO

The second scenario is an *optimistic case.* In this scenario the LTFP is based on assumptions which are slightly more favourable than those in the base case. The *optimistic case* scenario is shown in **Appendix 4.**

PESSIMISTIC CASE SCENARIO

The third scenario is a *pessimistic case.* In this scenario the LTFP is based on assumptions which are slightly less favourable than those in the base case. The *pessimistic case* scenario is shown in **Appendix 5.**

BALANCED BASE CASE SCENARIO

The fourth scenario is based on the *base case scenario* but shows reduced expenditure so that the model is fully balanced (i.e. no deficits over the full ten year period). The *balanced base case* scenario is shown in **Appendix 6.**

FIT FOR THE FUTURE – FINANCIAL INDICATORS

As part of the State Government's Fit For the Future reform process (as discussed above), 7 financial indicators were established which are largely drawn from the 2013 NSW TCorp report on local government finances. A detailed analysis and explanation of these indicators is shown in **Appendix 7.**

PERFORMANCE MONITORING

It is important that Council regularly assesses its financial performance and position against the projections contained in the LTFP. As part of this process Council needs to determine what factors it will monitor on a regular basis. It is proposed that these factors include the following.

UNRESTRICTED CURRENT RATIO

The Unrestricted Current Ratio is a measure of whether Council has sufficient liquid assets to meet short term commitments, after excluding certain restricted assets. Council's target for this indicator will be a ratio of greater than 100%.

DEBT SERVICE RATIO

The Debt Service Ratio is Council's total operating debt servicing costs as a percentage of Income from Continuing Operations excluding capital items and specific purpose grants and contributions. Council's target for this indicator will be a ratio of 10% or lower.

RATES AND ANNUAL CHARGES OUTSTANDING RATIO

This ratio measures the percentage of Council's total rates and charges that is outstanding. Council's target for this indicator will be a ratio of under 5%.

EMPLOYEE LEAVE ENTITLEMENT RESERVE

Council's target is that its Employee Leave Entitlements (ELE) reserve represents at least 20% of its ELE provision.

WORKERS COMPENSATION RESERVE

Council's target is that the Workers Compensation Reserve remain at a minimum balance of $2.25 million.

INVESTMENT RETURNS

Council's target is that over the longer term investment returns are in line with benchmarks contained in Council's Investment Policy.

APPENDIX 1 - ASSUMPTIONS USED IN THE LTFP

The table below lists each of the assumptions used in developing the LTFP

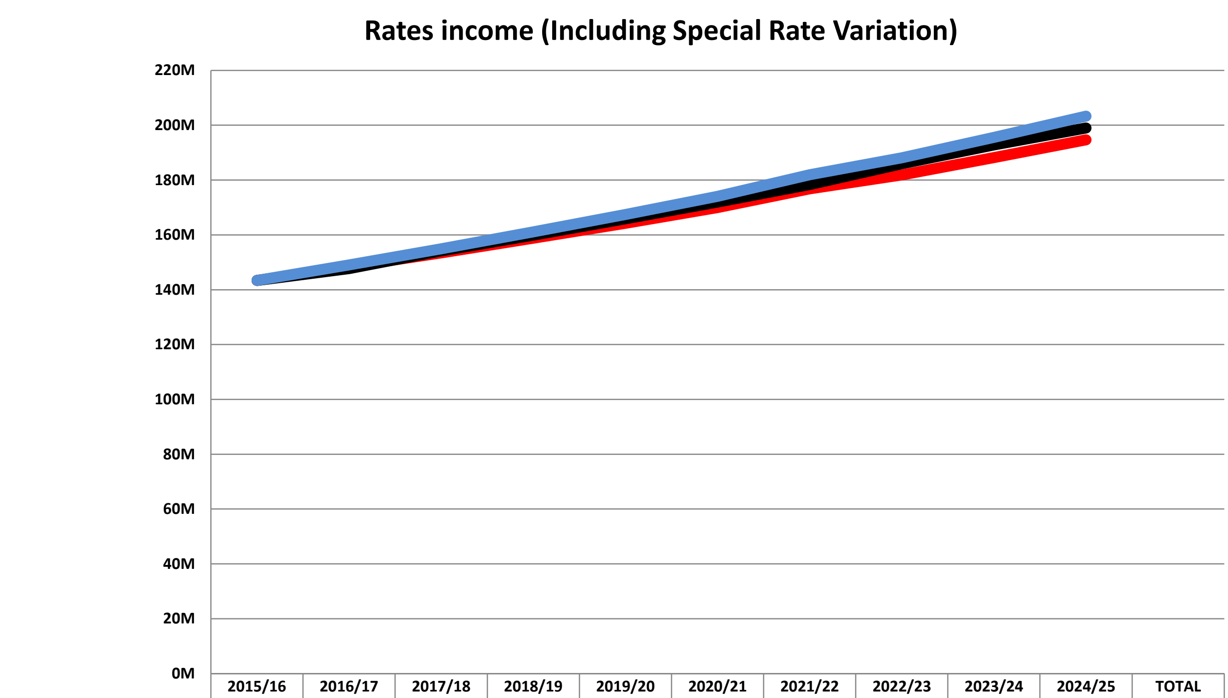
Revenue	2016/17 Projected annual increase	2017/18 Projected annual increase	2018/19 Projected annual increase	2019/20 Projected annual increase	2020/21 Projected annual increase	2021/22 Projected annual increase	2022/23 Projected annual increase	2023/24 Projected annual increase	2024/25 Projected annual increase	Projected Average annual increase
Rates	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Special rates	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Domestic waste management charge	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Fees and charges (CPI)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Financial assistance grant	-2.75%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	1.47%
Other income (CPI)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Interest revenue	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Grants and contributions	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
S94 contributions	77.31%	14.20%	16.79%	-5.20%	-6.24%	-8.03%	-13.13%	-29.29%	-36.00%	1.16%
Expenditure										
Salaries and wages	4.00%	4.00%	4.00%	4.00%	4.00%	4.45%	4.45%	4.45%	4.45%	4.20%
Energy costs	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Maintenance	0.24%	0.94%	2.57%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	2.42%
Other expenses	0.94%	2.00%	1.31%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	2.47%
Contribution to other levels of Government	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Profit on disposal of assets and proceeds on sale of assets	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Capital expenditure	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
S94 Capital expenditure	185.12%	-8.63%	26.96%	-19.27%	33.29%	-5.08%	-11.80%	-25.51%	-30.47%	16.07%

APPENDIX 2 – SENSITIVITY TESTING

Council's LTFP is based on a range of assumptions used to project future financial trends. In some cases, small changes in an assumption can have a substantial impact on the long term projections contained in the LTFP, whereas changes in other assumptions have a less material impact. As it is not always possible to accurately predict future movements in all of the assumptions used to prepare the LTFP, it is beneficial to conduct sensitivity analysis on the impact of small changes in those assumptions which have the greatest impact on the LTFP. The sensitivity analysis undertaken is outlined below.

RATES

As detailed previously an annual increase of 3.75% in Council's ordinary rates income and an annual increase of 3% for special rate variation has been incorporated in the *base case* scenario of the LTFP. Sensitivity analysis on a slightly higher (4%) annual increase for ordinary rates and 3.25% for special rate income, as well as a slightly lower (3.5%) for ordinary rates and 2.75% for special rates income. As can be seen in the graph below these changes have a notable impact on long term projections contained in the LTFP.

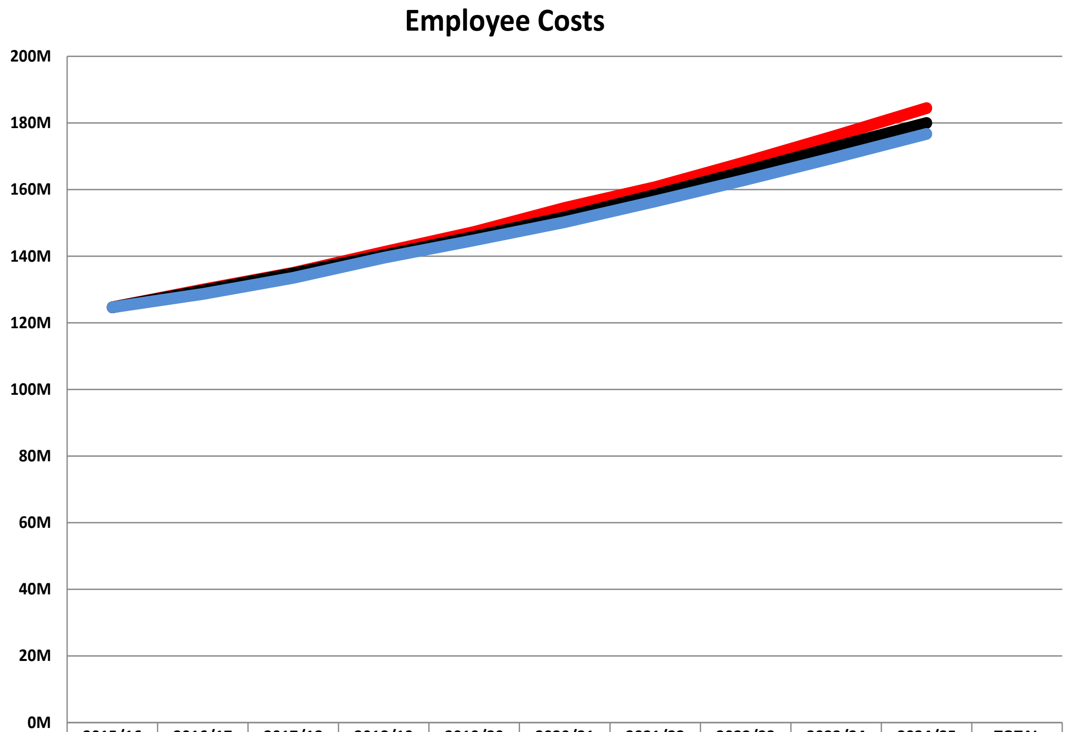


	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
3.50% Rates Increase	143M	148M	153M	159M	164M	170M	177M	182M	188M	195M	1,679M
3.75% Rates Increase	143M	148M	154M	160M	166M	172M	178M	186M	193M	199M	1,699M
4% Rates Increase	143M	149M	155M	161M	167M	174M	182M	188M	196M	203M	1,718M

Based on the average annual rates increase of 3.75% in the *base case* scenario rating income is projected to increase from $143.392 million to $198.958 million in 2024/2025. If the annual rate increase is reduced from 3.75% to 3.50% (which projects rates increase of 0.25% lower than the base case from 2015/2016) the projected annual rates income in 2024/2025 is reduced to $194.683 million. Conversely, if the average annual rate increase is changed from 3.75% to 4% (which projects rates increase of 0.25% higher than the base case from 2015/2016) the annual rates income in 2024/2025 is increased to $203.317 million.

EMPLOYMENT COSTS

As detailed previously an average annual increase of 4.30% in Council's employee costs has been incorporated in the *base case* scenario of the LTFP. Sensitivity analysis on a slightly higher (4.55%) average annual increase as well as a slightly lower (4.05%) has been conducted. As can be seen in the graph below these changes have an impact on long term projections contained in the LTFP.



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
4.45% Average Increase	125M	130M	135M	141M	147M	155M	161M	168M	176M	184M	1,522M
4.20% Average Increase	125M	130M	135M	140M	146M	152M	158M	165M	173M	180M	1,504M
3.95% Average Increase	125M	129M	134M	140M	145M	150M	156M	163M	170M	177M	1,489M

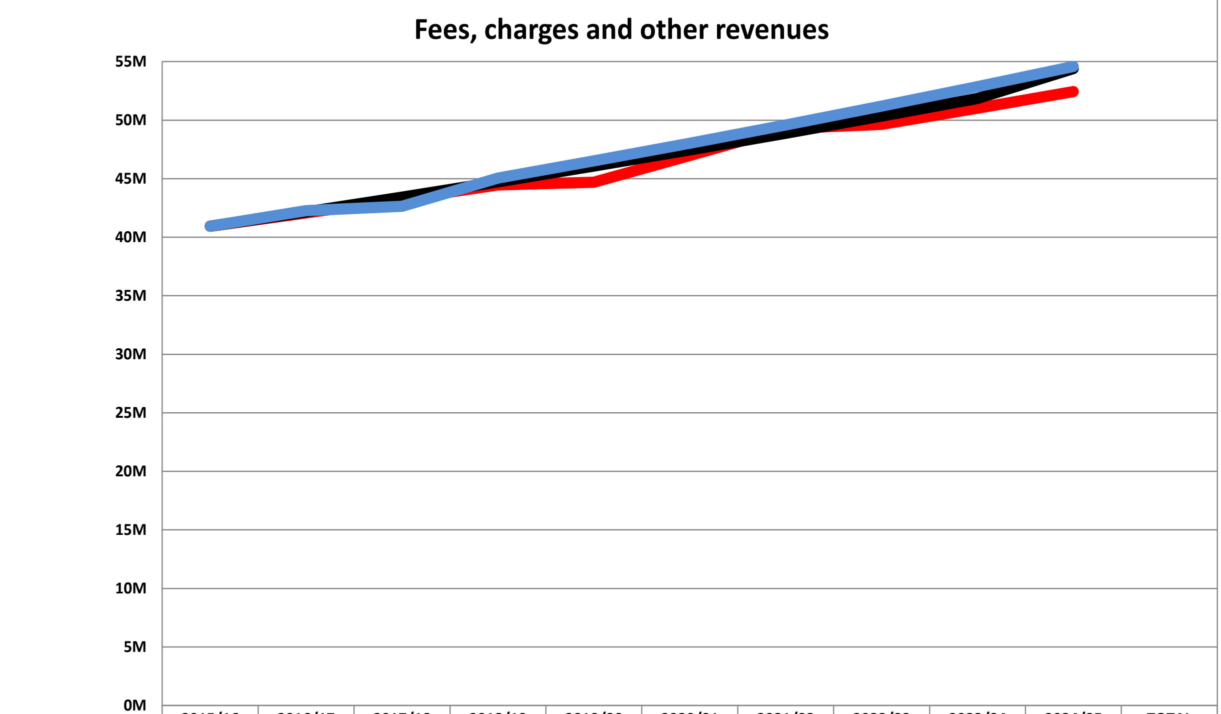
Using the annual average increase of 4.20% in the *base case* scenario, employee costs are projected to increase from $124,716,000 to $180,547,000 in 2024/2025.

If the average annual employment costs increase is reduced from 4.20% to 3.95% the annual employment costs in 2024/2025 is projected to be $176,754,000.

Conversely, if the average annual employment costs are increased to 4.45%, the annual employment costs in 2024/2025 are increased to $184,483,000.

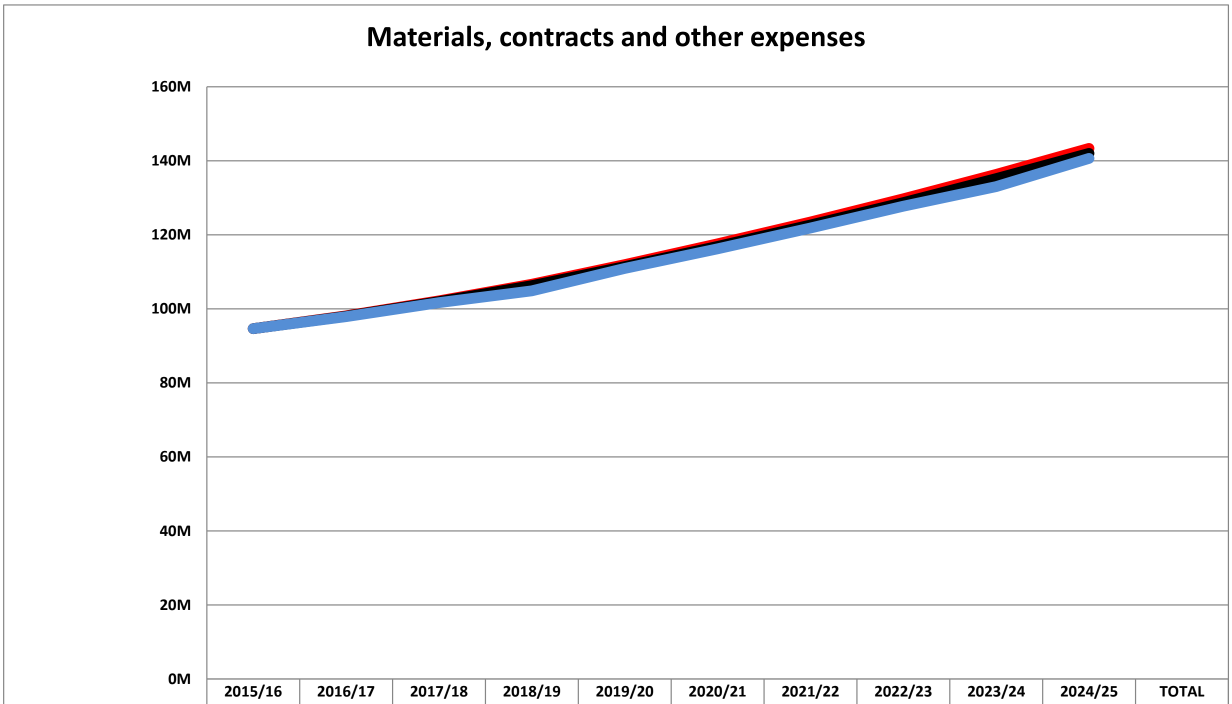
CPI

As detailed previously an annual increase of 3% for CPI has been incorporated in the *base case* scenario of the LTFP from the 2017/18 financial year onwards. CPI has been used to project both certain income and expenditure items in the LTFP. Sensitivity analysis on a slightly higher (3.25%) annual CPI increase as well as a slightly lower (2.75%) annual CPI increase has been conducted. As can be seen in the graphs below these changes impact on the long term revenue and expenditure projections contained in the LTFP.



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
2.75% Increase	41M	42M	43M	44M	45M	47M	49M	50M	51M	52M	464M
3% Increase	41M	42M	43M	45M	46M	47M	49M	50M	52M	54M	469M
3.25% Increase	41M	42M	43M	45M	47M	48M	50M	51M	53M	55M	475M

Using the annual CPI increase of 3.0% in the *base case* scenario, total user fees & charges and other revenues is projected to increase from $40,937,000 to $53,413,000 in 2024/2025. If the annual CPI rate increase is reduced from 3% to 2.75% this revenue is projected to be $52,261,000 in 2024/2025. Conversely, if the annual CPI increase is changed to 3.25% this revenue is projected to be $54,588,000 in 2024/2025.



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
Pessimistic Increase	95M	98M	102M	107M	112M	118M	123M	130M	136M	143M	1,164M
Base Increase	95M	98M	102M	106M	111M	117M	123M	129M	135M	142M	1,158M
Optimistic Increase	95M	98M	102M	105M	111M	116M	122M	128M	133M	141M	1,151M

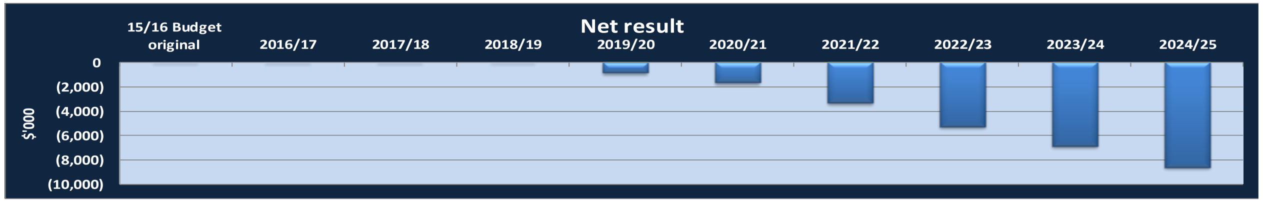
In the *base case* scenario, total materials contracts and other expenses are projected to increase from $94,669,000 to $141,974,000. in 2024/2025. If the annual CPI rate increase is reduced by 0.25% this expenditure is projected to be $140,635,000 in 2024/2025. Conversely, if the annual CPI increased by 0.25% this expenditure is projected to be $143,338,000 in 2024/2025.

APPENDIX 3 – BASE CASE SCENARIO

Base case

Long term financial plan - income statement

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000	Total $'000
Revenue from operating activities											
Rates and annual charges	183,019	190,355	197,994	205,949	214,231	222,855	231,836	241,190	250,930	261,074	2,199,433
Special rate variation	8,634	8,893	9,160	9,435	9,718	10,009	10,309	10,619	10,937	11,265	98,979
Fees and charges	34,263	35,288	36,350	37,440	38,563	39,720	40,911	42,139	43,403	44,705	392,782
Interest received	11,240	9,379	8,658	9,728	10,406	11,584	11,459	11,020	10,236	9,274	102,984
Other revenues	6,674	6,874	7,081	7,293	7,512	7,737	7,969	8,208	8,455	8,708	76,511
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797	264,689
Total	268,773	275,367	284,312	295,415	306,512	318,509	329,620	340,854	352,193	363,823	3,135,378
Expenses from operating activities											
Employee costs	124,716	129,665	134,852	140,246	145,855	151,690	158,440	165,490	172,855	180,547	1,504,356
Materials and contracts	36,579	37,361	38,332	39,696	41,210	42,783	44,421	46,124	47,897	49,743	424,146
Other expenses	58,090	60,639	63,602	66,570	70,212	74,086	78,207	82,593	87,261	92,231	733,491
Total	219,385	227,665	236,786	246,512	257,277	268,559	281,068	294,207	308,013	322,521	2,661,993
Operational result - surplus / (deficit)	49,388	47,702	47,526	48,903	49,235	49,950	48,552	46,647	44,180	41,302	473,385
Depreciation (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Operational result - surplus / (deficit) including depreciation	(12,612)	(18,658)	(22,637)	(25,667)	(29,241)	(33,193)	(39,137)	(45,286)	(51,398)	(57,393)	(335,222)
Capital income											
Grants and contributions - capital	145,459	205,811	225,507	252,077	242,534	231,682	218,571	198,830	160,511	127,220	2,008,202
Net gain on disposal of assets	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663	85,987
Total	160,147	211,457	238,915	259,502	246,777	246,644	230,462	203,317	165,085	131,883	2,094,189
Capital expenditure											
Capital expenditure (non-WIP)	21,178	33,401	11,655	11,914	12,179	12,451	12,728	13,013	13,303	13,601	155,423
Works improvement program	83,475	172,904	161,966	196,466	166,831	210,311	202,594	184,477	149,083	117,732	1,645,839
Dedicated assets	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	650,000
Additional asset renewal	11,634	11,893	12,160	12,435	12,718	13,009	13,309	13,619	13,937	14,265	128,979
Total	181,287	283,198	250,781	285,815	256,728	300,771	293,631	276,109	241,323	210,598	2,580,241
Capital result - surplus / (deficit)	(21,140)	(71,741)	(11,866)	(26,313)	(9,951)	(54,127)	(63,169)	(72,792)	(76,238)	(78,715)	(486,052)
Funding movements											
Transfer from reserve	105,983	208,293	176,325	211,877	183,410	228,156	221,837	205,237	171,490	141,925	1,854,533
Transfer to reserve	(123,065)	(182,247)	(202,325)	(230,903)	(223,273)	(214,773)	(202,861)	(184,218)	(146,205)	(113,069)	(1,822,939)
Internal charges - income	24,729	25,471	26,235	27,022	27,833	28,668	29,528	30,414	31,326	32,266	283,492
Internal charges - expense	(23,545)	(24,240)	(24,967)	(25,716)	(26,488)	(27,282)	(28,101)	(28,944)	(29,812)	(30,706)	(269,801)
Add back Depreciaton (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Less Book value of assets disposed	(12,350)	(3,238)	(10,928)	(4,870)	(1,612)	(12,252)	(9,099)	(1,612)	(1,612)	(1,612)	(59,185)
Total	33,752	90,399	34,503	51,980	38,346	85,660	98,993	112,810	120,765	127,499	794,707
Net result - surplus / (deficit)	0	0	0	0	(846)	(1,660)	(3,313)	(5,268)	(6,871)	(8,609)	(26,567)



Base case

Long term financial plan - balance sheet

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000
Current assets										
Cash and cash equivalents	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784
Investments	154,360	130,321	165,981	188,571	227,855	223,678	209,060	182,916	150,857	113,444
Receivables	19,691	20,281	20,890	21,516	22,162	22,827	23,511	24,217	24,943	25,692
Inventories	38,278	39,426	40,609	41,827	43,082	44,375	45,706	47,077	48,489	49,944
Other	845	870	896	923	951	979	1,008	1,039	1,070	1,102
Total	238,958	216,682	254,160	278,621	319,834	317,643	305,069	281,033	251,143	215,966
Non-current assets										
Investments	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500
Receivables	1,726	1,778	1,831	1,886	1,943	2,001	2,061	2,123	2,187	2,252
Property, plant and equipment	2,989,255	3,206,093	3,386,711	3,597,955	3,776,207	3,993,835	4,199,778	4,383,953	4,529,699	4,641,603
Investment property	36,349	37,439	38,562	39,719	40,911	42,138	43,402	44,704	46,045	47,427
Investments accounted for using the equity method	6,959	7,167	7,382	7,604	7,832	8,067	8,309	8,558	8,815	9,079
Total	3,166,789	3,384,977	3,566,986	3,779,664	3,959,393	4,178,541	4,386,050	4,571,838	4,719,246	4,832,861
Total assets	3,405,747	3,601,659	3,821,146	4,058,285	4,279,227	4,496,184	4,691,119	4,852,871	4,970,389	5,048,827
Current liabilities										
Payables	37,816	38,951	40,119	41,323	42,563	43,840	45,155	46,509	47,905	49,342
Provisions	48,364	50,299	52,311	54,403	56,579	58,842	61,196	63,644	66,190	68,837
Total	86,180	89,250	92,430	95,726	99,142	102,682	106,351	110,153	114,095	118,179
Non-current liabilities										
Provisions	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total liabilities	94,770	98,184	101,721	105,389	109,192	113,134	117,221	121,457	125,852	130,406
Net assets	3,310,977	3,503,475	3,719,425	3,952,896	4,170,035	4,383,050	4,573,898	4,731,414	4,844,537	4,918,421
Equity	3,310,977	3,503,475	3,719,425	3,952,896	4,170,035	4,383,050	4,573,898	4,731,414	4,844,537	4,918,421

Base case

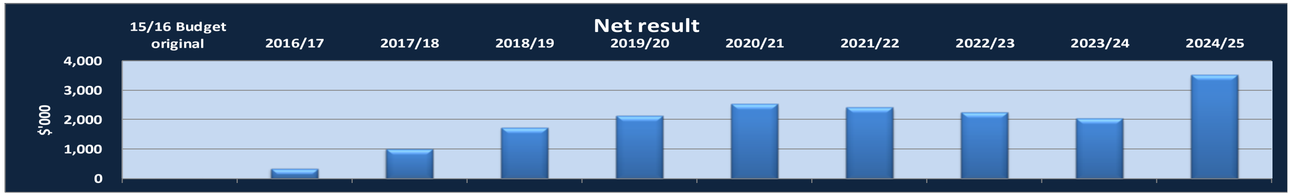
Long term financial plan - cash flow statement

	15/16 Budget original	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash flows from operating activities										
Receipts										
Rates and annual charges	183,019	190,355	197,994	205,949	214,231	222,855	231,836	241,190	250,930	261,074
Special rate increase	8,634	8,893	9,160	9,435	9,718	10,009	10,309	10,619	10,937	11,265
Fees and charges	34,263	35,288	36,350	37,440	38,563	39,720	40,911	42,139	43,403	44,705
Interest received	11,240	9,379	8,658	9,728	10,406	11,584	11,459	11,020	10,236	9,274
Other revenues	6,674	6,874	7,081	7,293	7,512	7,737	7,969	8,208	8,455	8,708
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797
Total	268,773	275,367	284,312	295,415	306,512	318,509	329,620	340,854	352,193	363,823
Payments										
Employee costs	(124,716)	(129,665)	(134,852)	(140,246)	(145,855)	(151,690)	(158,440)	(165,490)	(172,855)	(180,547)
Materials and contracts	(36,579)	(37,361)	(38,332)	(39,696)	(41,210)	(42,783)	(44,421)	(46,124)	(47,897)	(49,743)
Other expenses	(58,090)	(60,639)	(63,602)	(66,570)	(70,212)	(74,086)	(78,207)	(82,593)	(87,261)	(92,231)
Total	(219,385)	(227,665)	(236,786)	(246,512)	(257,277)	(268,559)	(281,068)	(294,207)	(308,013)	(322,521)
Net cash provided (or used) in operating activities	49,388	47,702	47,526	48,903	49,235	49,950	48,552	46,647	44,180	41,302
Cash flows from investing activities										
Receipts										
Proceeds from grants and contributions - capital	80,459	140,811	160,507	187,077	177,534	166,682	153,571	133,830	95,511	62,220
Proceeds from the sale of property	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663
Payments										
Purchase of property plant and equipment	(116,287)	(218,198)	(185,781)	(220,815)	(191,728)	(235,771)	(228,631)	(211,109)	(176,323)	(145,598)
Net cash provided (or used in) investing activities	(21,140)	(71,741)	(11,866)	(26,313)	(9,951)	(54,127)	(63,169)	(72,792)	(76,238)	(78,715)
Net increase / (decrease) in cash held	28,248	(24,039)	35,660	22,590	39,284	(4,177)	(14,617)	(26,145)	(32,058)	(37,413)
Cash at beginning of reporting period	284,396	312,644	288,605	324,265	346,855	386,139	381,962	367,344	341,200	309,141
Cash at end of reporting period	312,644	288,605	324,265	346,855	386,139	381,962	367,344	341,200	309,141	271,728

APPENDIX 4 – OPTIMISTIC CASE SCENARIO

Base case - Optimistic **Long term financial plan - income statement**

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000	Total $'000
Revenue from operating activities											
Rates and annual charges	183,019	190,692	198,694	207,040	215,741	224,816	234,281	244,153	254,447	265,184	2,218,067
Special rate variation	8,634	8,915	9,204	9,503	9,812	10,131	10,460	10,800	11,151	11,514	100,126
Fees and charges	34,263	35,203	36,174	37,168	38,190	39,240	40,319	41,428	42,567	43,738	388,290
Interest received	11,240	9,379	8,669	9,771	10,505	11,765	11,751	11,457	10,855	10,117	105,509
Other revenues	6,674	6,858	7,047	7,241	7,440	7,645	7,856	8,072	8,294	8,523	75,650
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797	264,689
Total	268,773	275,625	284,857	296,293	307,770	320,201	331,803	343,588	355,546	367,873	3,152,331
Expenses from operating activities											
Employee costs	124,716	129,665	134,527	139,572	144,806	150,236	156,456	162,949	169,711	176,754	1,489,392
Materials and contracts	36,579	37,309	38,227	39,529	40,983	42,493	44,064	45,697	47,396	49,163	421,440
Other expenses	58,090	60,569	63,460	66,355	69,917	73,708	77,741	82,034	86,605	91,472	729,951
Total	219,385	227,543	236,214	245,456	255,706	266,437	278,261	290,680	303,712	317,389	2,640,783
Operational result - surplus / (deficit)	49,388	48,082	48,643	50,837	52,064	53,764	53,542	52,908	51,834	50,484	511,548
Depreciation (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Operational result - surplus / (deficit) including depreciation	(12,612)	(18,278)	(21,520)	(23,733)	(26,412)	(29,379)	(34,147)	(39,025)	(43,744)	(48,211)	(297,059)
Capital income											
Grants and contributions - capital	145,459	205,811	225,507	252,077	242,534	231,682	218,571	198,830	160,511	127,220	2,008,202
Net gain on disposal of assets	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663	85,987
Total	160,147	211,457	238,915	259,502	246,777	246,644	230,462	203,317	165,085	131,883	2,094,189
Capital expenditure											
Capital expenditure (non-WIP)	21,178	33,401	11,655	11,914	12,179	12,451	12,728	13,013	13,303	13,601	155,423
Works improvement program	83,475	172,904	161,966	196,466	166,831	210,311	202,594	184,477	149,083	117,732	1,645,839
Dedicated assets	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	650,000
Additional asset renewal	11,634	11,915	12,204	12,503	12,812	13,131	13,460	13,800	14,151	14,514	130,126
Total	181,287	283,220	250,825	285,883	256,822	300,893	293,782	276,290	241,537	210,847	2,581,388
Capital result - surplus / (deficit)	(21,140)	(71,763)	(11,910)	(26,381)	(10,045)	(54,249)	(63,320)	(72,973)	(76,452)	(78,964)	(487,199)
Funding movements											
Transfer from reserve	105,983	208,276	176,278	211,792	183,291	228,001	221,639	204,995	171,201	141,586	1,853,042
Transfer to reserve	(123,065)	(182,247)	(202,335)	(230,946)	(222,899)	(214,099)	(201,753)	(182,517)	(144,424)	(109,503)	(1,813,788)
Internal charges - income	24,729	25,409	26,108	26,826	27,564	28,322	29,101	29,901	30,723	31,568	280,251
Internal charges - expense	(23,545)	(24,181)	(24,846)	(25,529)	(26,231)	(26,953)	(27,694)	(28,456)	(29,238)	(30,042)	(266,715)
Add back Depreciaton (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Less Book value of assets disposed	(12,350)	(3,238)	(10,928)	(4,870)	(1,612)	(12,252)	(9,099)	(1,612)	(1,612)	(1,612)	(59,185)
Total	33,752	90,379	34,440	51,843	38,589	86,162	99,883	114,244	122,228	130,692	802,212
Net result - surplus / (deficit)	0	338	1,010	1,729	2,132	2,534	2,416	2,246	2,032	3,517	17,954



Base case - Optimistic

Long term financial plan - balance sheet

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000
Current assets										
Cash and cash equivalents	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784
Investments	154,360	130,679	167,412	191,868	233,886	233,401	223,623	203,557	178,939	150,459
Receivables	19,691	20,281	20,890	21,516	22,162	22,827	23,511	24,217	24,943	25,692
Inventories	38,278	39,426	40,609	41,827	43,082	44,375	45,706	47,077	48,489	49,944
Other	845	870	896	923	951	979	1,008	1,039	1,070	1,102
Total	238,958	217,040	255,591	281,918	325,865	327,366	319,632	301,674	279,225	252,981
Non-current assets										
Investments	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500
Receivables	1,726	1,778	1,831	1,886	1,943	2,001	2,061	2,123	2,187	2,252
Property, plant and equipment	2,989,255	3,206,115	3,386,777	3,598,090	3,776,437	3,994,187	4,200,280	4,384,638	4,530,597	4,642,750
Investment property	36,349	37,439	38,562	39,719	40,911	42,138	43,402	44,704	46,045	47,427
Investments accounted for using the equity method	6,959	7,167	7,382	7,604	7,832	8,067	8,309	8,558	8,815	9,079
Total	3,166,789	3,384,999	3,567,052	3,779,799	3,959,623	4,178,893	4,386,552	4,572,523	4,720,144	4,834,008
Total assets	3,405,747	3,602,039	3,822,643	4,061,717	4,285,488	4,506,259	4,706,184	4,874,197	4,999,369	5,086,989
Current liabilities										
Payables	37,816	38,951	40,119	41,323	42,563	43,840	45,155	46,509	47,905	49,342
Provisions	48,364	50,299	52,311	54,403	56,579	58,842	61,196	63,644	66,190	68,837
Total	86,180	89,250	92,430	95,726	99,142	102,682	106,351	110,153	114,095	118,179
Non-current liabilities										
Provisions	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total liabilities	94,770	98,184	101,721	105,389	109,192	113,134	117,221	121,457	125,852	130,406
Net assets	3,310,977	3,503,855	3,720,922	3,956,328	4,176,296	4,393,125	4,588,963	4,752,740	4,873,517	4,956,583
Equity	3,310,977	3,503,855	3,720,922	3,956,328	4,176,296	4,393,125	4,588,963	4,752,740	4,873,517	4,956,583

Base case - Optimistic

Long term financial plan - cash flow statement

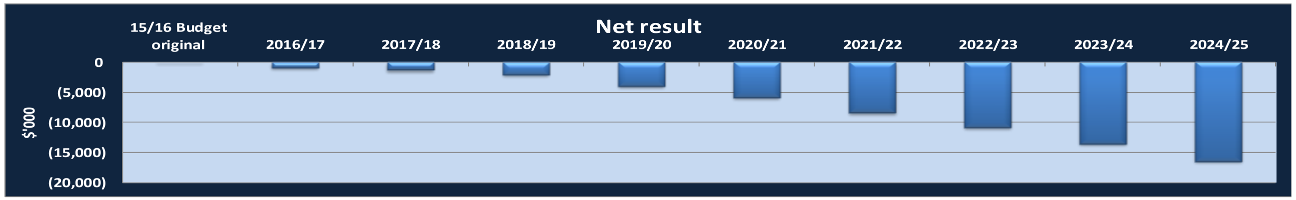
	15/16 Budget original	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash flows from operating activities										
Receipts										
Rates and annual charges	183,019	190,692	198,694	207,040	215,741	224,816	234,281	244,153	254,447	265,184
Special rate increase	8,634	8,915	9,204	9,503	9,812	10,131	10,460	10,800	11,151	11,514
Fees and charges	34,263	35,203	36,174	37,168	38,190	39,240	40,319	41,428	42,567	43,738
Interest received	11,240	9,379	8,669	9,771	10,505	11,765	11,751	11,457	10,855	10,117
Other revenues	6,674	6,858	7,047	7,241	7,440	7,645	7,856	8,072	8,294	8,523
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797
Total	268,773	275,625	284,857	296,293	307,770	320,201	331,803	343,588	355,546	367,873
Payments										
Employee costs	(124,716)	(129,665)	(134,527)	(139,572)	(144,806)	(150,236)	(156,456)	(162,949)	(169,711)	(176,754)
Materials and contracts	(36,579)	(37,309)	(38,227)	(39,529)	(40,983)	(42,493)	(44,064)	(45,697)	(47,396)	(49,163)
Other expenses	(58,090)	(60,569)	(63,460)	(66,355)	(69,917)	(73,708)	(77,741)	(82,034)	(86,605)	(91,472)
Total	(219,385)	(227,543)	(236,214)	(245,456)	(255,706)	(266,437)	(278,261)	(290,680)	(303,712)	(317,389)
Net cash provided (or used) in operating activities	49,388	48,082	48,643	50,837	52,064	53,764	53,542	52,908	51,834	50,484
Cash flows from investing activities										
Receipts										
Proceeds from grants and contributions - capital	80,459	140,811	160,507	187,077	177,534	166,682	153,571	133,830	95,511	62,220
Proceeds from the sale of property	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663
Payments										
Purchase of property plant and equipment	(116,287)	(218,220)	(185,825)	(220,883)	(191,822)	(235,893)	(228,782)	(211,290)	(176,537)	(145,847)
Net cash provided (or used in) investing activities	(21,140)	(71,763)	(11,910)	(26,381)	(10,045)	(54,249)	(63,320)	(72,973)	(76,452)	(78,964)
Net increase / (decrease) in cash held	28,248	(23,681)	36,733	24,456	42,019	(485)	(9,778)	(20,065)	(24,618)	(28,480)
Cash at beginning of reporting period	284,396	312,644	288,963	325,696	350,152	392,170	391,685	381,907	361,841	337,223
Cash at end of reporting period	312,644	288,963	325,696	350,152	392,170	391,685	381,907	361,841	337,223	308,743

APPENDIX 5 – PESSIMISTIC CASE SCENARIO

Base case -Pessimistic

Long term financial plan - income statement

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000	Total $'000
Revenue from operating activities											
Rates and annual charges	183,019	190,019	197,296	204,864	212,731	220,913	229,421	238,270	247,472	257,043	2,181,048
Special rate variation	8,634	8,871	9,115	9,366	9,624	9,888	10,160	10,440	10,727	11,022	97,847
Fees and charges	34,263	35,374	36,527	37,713	38,939	40,204	41,511	42,860	44,253	45,691	397,335
Interest received	11,240	9,379	8,638	9,666	10,277	11,362	11,114	10,520	9,545	8,353	100,094
Other revenues	6,674	6,891	7,115	7,345	7,584	7,830	8,084	8,347	8,618	8,897	77,385
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797	264,689
Total	268,773	275,112	283,760	294,524	305,237	316,801	327,426	338,115	348,847	359,803	3,118,398
Expenses from operating activities											
Employee costs	124,716	129,977	135,501	141,259	147,263	153,522	160,737	168,292	176,201	184,483	1,521,951
Materials and contracts	36,579	37,415	38,441	39,864	41,438	43,076	44,782	46,558	48,407	50,333	426,893
Other expenses	58,090	60,709	63,744	66,787	70,509	74,468	78,679	83,160	87,929	93,005	737,080
Total	219,385	228,101	237,686	247,910	259,210	271,066	284,198	298,010	312,537	327,821	2,685,924
Operational result - surplus / (deficit)	49,388	47,011	46,074	46,614	46,027	45,735	43,228	40,105	36,310	31,982	432,474
Depreciation (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Operational result - surplus / (deficit) including depreciation	(12,612)	(19,349)	(24,089)	(27,956)	(32,449)	(37,408)	(44,461)	(51,828)	(59,268)	(66,713)	(376,133)
Capital income											
Grants and contributions - capital	145,459	205,812	225,507	252,077	242,534	231,682	218,571	198,830	160,511	127,220	2,008,203
Net gain on disposal of assets	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663	85,987
Total	160,147	211,458	238,915	259,502	246,777	246,644	230,462	203,317	165,085	131,883	2,094,190
Capital expenditure											
Capital expenditure (non-WIP)	21,178	33,401	11,655	11,914	12,179	12,451	12,728	13,013	13,303	13,601	155,423
Works improvement program	83,475	172,904	161,966	196,466	166,831	210,311	202,594	184,477	149,083	117,732	1,645,839
Dedicated assets	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	650,000
Additional asset renewal	11,634	11,871	12,115	12,366	12,624	12,888	13,160	13,440	13,727	14,022	127,847
Total	181,287	283,176	250,736	285,746	256,634	300,650	293,482	275,930	241,113	210,355	2,579,109
Capital result - surplus / (deficit)	(21,140)	(71,718)	(11,821)	(26,244)	(9,857)	(54,006)	(63,020)	(72,613)	(76,028)	(78,472)	(484,919)
Funding movements											
Transfer from reserve	105,983	208,322	176,384	211,969	183,536	228,320	222,040	205,483	171,781	142,265	1,856,083
Transfer to reserve	(123,065)	(182,561)	(202,305)	(230,841)	(223,399)	(215,018)	(203,003)	(183,723)	(145,514)	(112,148)	(1,821,577)
Internal charges - income	24,729	25,533	26,363	27,220	28,104	29,018	29,961	30,934	31,940	32,978	286,780
Internal charges - expense	(23,545)	(24,299)	(25,088)	(25,904)	(26,746)	(27,615)	(28,512)	(29,439)	(30,396)	(31,384)	(272,928)
Add back Depreciaton (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Less Book value of assets disposed	(12,350)	(3,238)	(10,928)	(4,870)	(1,612)	(12,252)	(9,099)	(1,612)	(1,612)	(1,612)	(59,185)
Total	33,752	90,117	34,589	52,144	38,359	85,596	99,076	113,576	121,777	128,794	797,780
Net result - surplus / (deficit)	0	(950)	(1,321)	(2,056)	(3,947)	(5,818)	(8,405)	(10,865)	(13,519)	(16,391)	(63,272)



Base case -Pessimistic

Long term financial plan - balance sheet

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000
Current assets										
Cash and cash equivalents	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784
Investments	154,360	129,644	163,879	184,227	220,403	212,168	192,444	160,038	120,457	74,142
Receivables	19,691	20,281	20,890	21,516	22,162	22,827	23,511	24,217	24,943	25,692
Inventories	38,278	39,426	40,609	41,827	43,082	44,375	45,706	47,077	48,489	49,944
Other	845	870	896	923	951	979	1,008	1,039	1,070	1,102
Total	238,958	216,005	252,058	274,277	312,382	306,133	288,453	258,155	220,743	176,664
Non-current assets										
Investments	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500
Receivables	1,726	1,778	1,831	1,886	1,943	2,001	2,061	2,123	2,187	2,252
Property, plant and equipment	2,989,255	3,206,042	3,386,556	3,597,639	3,775,671	3,993,019	4,198,618	4,382,385	4,527,653	4,639,009
Investment property	36,349	37,439	38,562	39,719	40,911	42,138	43,402	44,704	46,045	47,427
Investments accounted for using the equity method	6,959	7,167	7,382	7,604	7,832	8,067	8,309	8,558	8,815	9,079
Total	3,166,789	3,384,926	3,566,831	3,779,348	3,958,857	4,177,725	4,384,890	4,570,270	4,717,200	4,830,267
Total assets	3,405,747	3,600,931	3,818,889	4,053,625	4,271,239	4,483,858	4,673,343	4,828,425	4,937,943	5,006,931
Current liabilities										
Payables	37,816	38,951	40,119	41,323	42,563	43,840	45,155	46,509	47,905	49,342
Provisions	48,364	50,299	52,311	54,403	56,579	58,842	61,196	63,644	66,190	68,837
Total	86,180	89,250	92,430	95,726	99,142	102,682	106,351	110,153	114,095	118,179
Non-current liabilities										
Provisions	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total liabilities	94,770	98,184	101,721	105,389	109,192	113,134	117,221	121,457	125,852	130,406
Net assets	3,310,977	3,502,747	3,717,168	3,948,236	4,162,047	4,370,724	4,556,122	4,706,968	4,812,091	4,876,525
Equity	3,310,977	3,502,747	3,717,168	3,948,236	4,162,047	4,370,724	4,556,122	4,706,968	4,812,091	4,876,525

Base case -Pessimistic

Long term financial plan - cash flow statement

	15/16 Budget original	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash flows from operating activities										
Receipts										
Rates and annual charges	183,019	190,019	197,296	204,864	212,731	220,913	229,421	238,270	247,472	257,043
Special rate increase	8,634	8,871	9,115	9,366	9,624	9,888	10,160	10,440	10,727	11,022
Fees and charges	34,263	35,374	36,527	37,713	38,939	40,204	41,511	42,860	44,253	45,691
Interest received	11,240	9,379	8,638	9,666	10,277	11,362	11,114	10,520	9,545	8,353
Other revenues	6,674	6,891	7,115	7,345	7,584	7,830	8,084	8,347	8,618	8,897
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797
Total	268,773	275,112	283,760	294,524	305,237	316,801	327,426	338,115	348,847	359,803
Payments										
Employee costs	(124,716)	(129,977)	(135,501)	(141,259)	(147,263)	(153,522)	(160,737)	(168,292)	(176,201)	(184,483)
Materials and contracts	(36,579)	(37,415)	(38,441)	(39,864)	(41,438)	(43,076)	(44,782)	(46,558)	(48,407)	(50,333)
Other expenses	(58,090)	(60,709)	(63,744)	(66,787)	(70,509)	(74,468)	(78,679)	(83,160)	(87,929)	(93,005)
Total	(219,385)	(228,101)	(237,686)	(247,910)	(259,210)	(271,066)	(284,198)	(298,010)	(312,537)	(327,821)
Net cash provided (or used) in operating activities	49,388	47,011	46,074	46,614	46,027	45,735	43,228	40,105	36,310	31,982
Cash flows from investing activities										
Receipts										
Proceeds from grants and contributions - capital	80,459	140,812	160,507	187,077	177,534	166,682	153,571	133,830	95,511	62,220
Proceeds from the sale of property	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663
Payments										
Purchase of property plant and equipment	(116,287)	(218,176)	(185,736)	(220,746)	(191,634)	(235,650)	(228,482)	(210,930)	(176,113)	(145,355)
Net cash provided (or used in) investing activities	(21,140)	(71,718)	(11,821)	(26,244)	(9,857)	(54,006)	(63,020)	(72,613)	(76,028)	(78,472)
Net increase / (decrease) in cash held	28,248	(24,707)	34,253	20,370	36,170	(8,271)	(19,792)	(32,508)	(39,718)	(46,490)
Cash at beginning of reporting period	284,396	312,644	287,937	322,189	342,559	378,729	370,458	350,666	318,158	278,441
Cash at end of reporting period	312,644	287,937	322,189	342,559	378,729	370,458	350,666	318,158	278,441	231,951

APPENDIX 6 – BALANCED BASE CASE SCENARIO

Base case - Balanced

Long term financial plan - income statement

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000	Total $'000
Revenue from operating activities											
Rates and annual charges	183,019	190,355	197,994	205,949	214,231	222,855	231,836	241,190	250,930	261,074	2,199,433
Special rate variation	8,634	8,893	9,160	9,435	9,718	10,009	10,309	10,619	10,937	11,265	98,979
Fees and charges	34,263	35,288	36,350	37,440	38,563	39,720	40,911	42,139	43,403	44,705	392,782
Interest received	11,240	9,379	8,658	9,728	10,406	11,604	11,521	11,172	10,533	9,778	104,019
Other revenues	6,674	6,874	7,081	7,293	7,512	7,737	7,969	8,208	8,455	8,708	76,511
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797	264,689
Total	268,773	275,367	284,312	295,415	306,512	318,529	329,682	341,006	352,490	364,327	3,136,413
Expenses from operating activities											
Employee costs	124,716	129,665	134,852	140,246	145,855	151,690	158,440	165,490	172,855	180,547	1,504,356
Materials and contracts	36,579	37,361	38,332	39,696	40,843	41,992	42,713	43,610	44,473	45,288	410,887
Other expenses	58,090	60,639	63,602	66,570	69,920	73,487	76,982	80,409	84,089	88,043	721,831
Total	219,385	227,665	236,786	246,512	256,618	267,169	278,135	289,509	301,417	313,878	2,637,074
Operational result - surplus / (deficit)	49,388	47,702	47,526	48,903	49,894	51,360	51,547	51,497	51,073	50,449	499,339
Depreciation (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Operational result - surplus / (deficit) including depreciation	(12,612)	(18,658)	(22,637)	(25,667)	(28,582)	(31,783)	(36,142)	(40,436)	(44,505)	(48,246)	(309,268)
Capital income											
Grants and contributions - capital	145,459	205,811	225,507	252,077	242,534	231,682	218,571	198,830	160,511	127,220	2,008,202
Net gain on disposal of assets	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663	85,987
Total	160,147	211,457	238,915	259,502	246,777	246,644	230,462	203,317	165,085	131,883	2,094,189
Capital expenditure											
Capital expenditure (non-WIP)	21,178	33,401	11,655	11,914	12,179	12,451	12,728	13,013	13,303	13,601	155,423
Works improvement program	83,475	172,904	161,966	196,466	166,831	210,311	202,594	184,477	149,083	117,732	1,645,839
Dedicated assets	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	650,000
Additional asset renewal	11,634	11,893	12,160	12,435	12,718	13,009	13,309	13,619	13,937	14,265	128,979
Total	181,287	283,198	250,781	285,815	256,728	300,771	293,631	276,109	241,323	210,598	2,580,241
Capital result - surplus / (deficit)	(21,140)	(71,741)	(11,866)	(26,313)	(9,951)	(54,127)	(63,169)	(72,792)	(76,238)	(78,715)	(486,052)
Funding movements											
Transfer from reserve	105,983	208,293	176,325	211,877	183,334	228,001	221,519	204,670	170,667	140,839	1,851,508
Transfer to reserve	(123,065)	(182,247)	(202,325)	(230,903)	(222,998)	(214,341)	(202,170)	(183,135)	(145,262)	(112,333)	(1,818,779)
Internal charges - income	24,729	25,471	26,235	27,022	27,563	28,114	28,395	28,395	28,395	28,395	272,714
Internal charges - expense	(23,545)	(24,240)	(24,967)	(25,716)	(26,230)	(26,755)	(27,023)	(27,023)	(27,023)	(27,023)	(259,545)
Add back Depreciaton (non cash item)	62,000	66,360	70,163	74,570	78,476	83,143	87,689	91,933	95,578	98,695	808,607
Less Book value of assets disposed	(12,350)	(3,238)	(10,928)	(4,870)	(1,612)	(12,252)	(9,099)	(1,612)	(1,612)	(1,612)	(59,185)
Total	33,752	90,399	34,503	51,980	38,533	85,910	99,311	113,228	120,743	126,961	795,320
Net result - surplus / (deficit)	0	0	0	0	0	0	0	0	0	0	0

Base case - Balanced

Long term financial plan - balance sheet

	15/16 Budget original $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000
Current assets										
Cash and cash equivalents	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784	25,784
Investments	154,360	130,321	165,981	188,572	228,515	225,748	214,125	192,831	167,665	139,399
Receivables	19,691	20,281	20,890	21,516	22,162	22,827	23,511	24,217	24,943	25,692
Inventories	38,278	39,426	40,609	41,827	43,082	44,375	45,706	47,077	48,489	49,944
Other	845	870	896	923	951	979	1,008	1,039	1,070	1,102
Total	238,958	216,682	254,160	278,622	320,494	319,713	310,134	290,948	267,951	241,921
Non-current assets										
Investments	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500	132,500
Receivables	1,726	1,778	1,831	1,886	1,943	2,001	2,061	2,123	2,187	2,252
Property, plant and equipment	2,989,255	3,206,093	3,386,711	3,597,955	3,776,207	3,993,835	4,199,778	4,383,953	4,529,699	4,641,603
Investment property	36,349	37,439	38,562	39,719	40,911	42,138	43,402	44,704	46,045	47,427
Investments accounted for using the equity method	6,959	7,167	7,382	7,604	7,832	8,067	8,309	8,558	8,815	9,079
Total	3,166,789	3,384,977	3,566,986	3,779,664	3,959,393	4,178,541	4,386,050	4,571,838	4,719,246	4,832,861
Total assets	3,405,747	3,601,659	3,821,146	4,058,286	4,279,887	4,498,254	4,696,184	4,862,786	4,987,197	5,074,782
Current liabilities										
Payables	37,816	38,951	40,119	41,323	42,563	43,840	45,155	46,509	47,905	49,342
Provisions	48,364	50,299	52,311	54,403	56,579	58,842	61,196	63,644	66,190	68,837
Total	86,180	89,250	92,430	95,726	99,142	102,682	106,351	110,153	114,095	118,179
Non-current liabilities										
Provisions	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total	8,590	8,934	9,291	9,663	10,050	10,452	10,870	11,304	11,757	12,227
Total liabilities	94,770	98,184	101,721	105,389	109,192	113,134	117,221	121,457	125,852	130,406
Net assets	3,310,977	3,503,475	3,719,425	3,952,897	4,170,695	4,385,120	4,578,963	4,741,329	4,861,345	4,944,376
Equity	3,310,977	3,503,475	3,719,425	3,952,897	4,170,695	4,385,120	4,578,963	4,741,329	4,861,345	4,944,376

Base case - Balanced

Long term financial plan - cash flow statement

	15/16 Budget original	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash flows from operating activities										
Receipts										
Rates and annual charges	183,019	190,355	197,994	205,949	214,231	222,855	231,836	241,190	250,930	261,074
Special rate increase	8,634	8,893	9,160	9,435	9,718	10,009	10,309	10,619	10,937	11,265
Fees and charges	34,263	35,288	36,350	37,440	38,563	39,720	40,911	42,139	43,403	44,705
Interest received	11,240	9,379	8,658	9,728	10,406	11,604	11,521	11,172	10,533	9,778
Other revenues	6,674	6,874	7,081	7,293	7,512	7,737	7,969	8,208	8,455	8,708
Grants and contributions - operating	24,943	24,578	25,069	25,570	26,082	26,604	27,136	27,678	28,232	28,797
Total	268,773	275,367	284,312	295,415	306,512	318,529	329,682	341,006	352,490	364,327
Payments										
Employee costs	(124,716)	(129,665)	(134,852)	(140,246)	(145,855)	(151,690)	(158,440)	(165,490)	(172,855)	(180,547)
Materials and contracts	(36,579)	(37,361)	(38,332)	(39,696)	(40,843)	(41,992)	(42,713)	(43,610)	(44,473)	(45,288)
Other expenses	(58,090)	(60,639)	(63,602)	(66,570)	(69,920)	(73,487)	(76,982)	(80,409)	(84,089)	(88,043)
Total	(219,385)	(227,665)	(236,786)	(246,512)	(256,618)	(267,169)	(278,135)	(289,509)	(301,417)	(313,878)
Net cash provided (or used) in operating activities	49,388	47,702	47,526	48,903	49,894	51,360	51,547	51,497	51,073	50,449
Cash flows from investing activities										
Receipts										
Proceeds from grants and contributions - capital	80,459	140,811	160,507	187,077	177,534	166,682	153,571	133,830	95,511	62,220
Proceeds from the sale of property	14,688	5,646	13,408	7,425	4,243	14,962	11,891	4,487	4,574	4,663
Payments										
Purchase of property plant and equipment	(116,287)	(218,198)	(185,781)	(220,815)	(191,728)	(235,771)	(228,631)	(211,109)	(176,323)	(145,598)
Net cash provided (or used in) investing activities	(21,140)	(71,741)	(11,866)	(26,313)	(9,951)	(54,127)	(63,169)	(72,792)	(76,238)	(78,715)
Net increase / (decrease) in cash held	28,248	(24,039)	35,660	22,590	39,943	(2,767)	(11,622)	(21,295)	(25,165)	(28,266)
Cash at beginning of reporting period	284,396	312,644	288,605	324,265	346,856	386,799	384,032	372,409	351,115	325,949
Cash at end of reporting period	312,644	288,605	324,265	346,856	386,799	384,032	372,409	351,115	325,949	297,683

APPENDIX 7 – FIT FOR THE FUTURE FINANCIAL INDICATORS

As noted previously, in September 2014, the State Government released its local government reforms, entitled "Fit For the Future (FFTF). All NSW councils must indicate their intention to amalgamate with other council/s ('merger proposal') or develop an improvement plan as a stand alone council to respond to the FFTF benchmarks ('improvement proposal') by 30 June 2015. As Blacktown City has not been identified for any possible amalgamation by the Government in this process, Council will be submitting an improvement proposal. Council proposals will be assessed by an independent expert panel later in 2015.

The benchmarks provided in the FFTF documentation relate to the financial position of councils. These indicators are as follows:

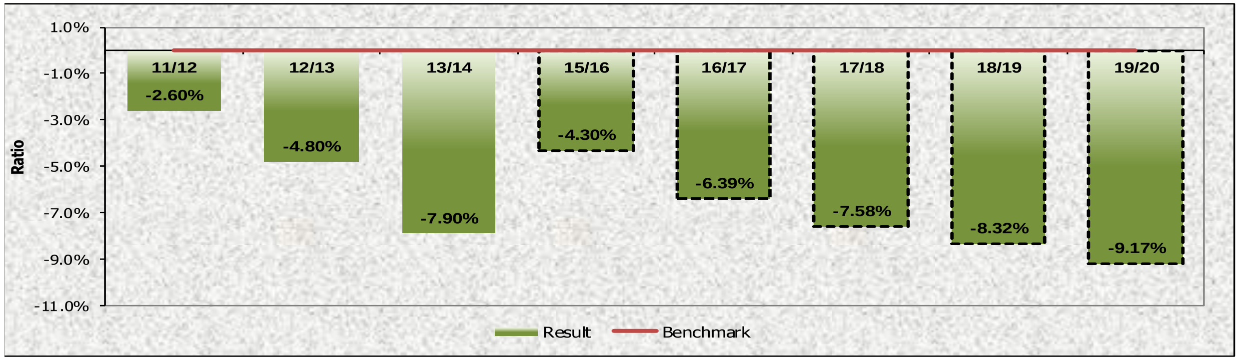
- Operating Performance Ratio (> or equal to break-even over 3 years)
- Own Source Revenue Ratio (> 60% over 3 years)
- Building and Infrastructure Asset Renewal Ratio (>1 over 3 years)
- Infrastructure Backlog Ratio (<2%)
- Asset Maintenance Ratio (>100% average over 3 years)
- Debt Service Ratio (>0 and less than or equal to a 20% average over 3 years)
- A decrease in Real Operating Expenditure per capita over time (decreasing over time).

Council only currently meets 1 of the 7 financial indicators used as part of the Fit For the Future assessment of NSW local government. The LTFP forecasts that over the next 5 years Council will be able to meet 3 of these indicators.

This section provides a summary of each of the 7 indicators, showing Council's historical performance against the benchmarks up to the 2013/14 financial year as well as our projected performance against the benchmarks from 2015/16 to 2019/20. The projections are based on the base case of the LTFP and the latest available infrastructure asset renewal forecasts as informed by condition assessments and our asset management plans.

The following summaries also provide a commentary of Council's performance against these benchmarks and information about what is required for Council to meet the benchmarks in the future.

1. Operating Performance Ratio	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater or equal to break-even average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Total continuing operating revenue (excl. capital grants & contributions) less operating expenses / Total continuing operating revenue (excl. capital grants & contributions)	-2.60%	-4.80%	-7.90%	-5.10%	☒	-4.30%	-6.39%	-7.58%	-8.32%	-9.17%
					Rolling 3 year average	-5.45%	-4.95%	-6.09%	-7.43%	-8.36%
					Meets the FFTF benchmark	☒	☒	☒	☒	☒



Purpose of Operating Performance Ratio:

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on result:

The benchmark for this ratio is +0% or better, meaning the operating result excluding capital grants and contributions needs to be a surplus. Council's average operating performance ratio over the past 3 years was -5.1%. This ratio is significantly impacted by the annual depreciation expense of Council assets. This ratio has also not been adjusted for the impact of the Federal Government ceasing to pay the Financial Assistance Grant (FAG) in advance as had been the case in previous years. This has also had a negative impact on Council's ratio for 2013/2014.

How could Council meet this benchmark in the future?

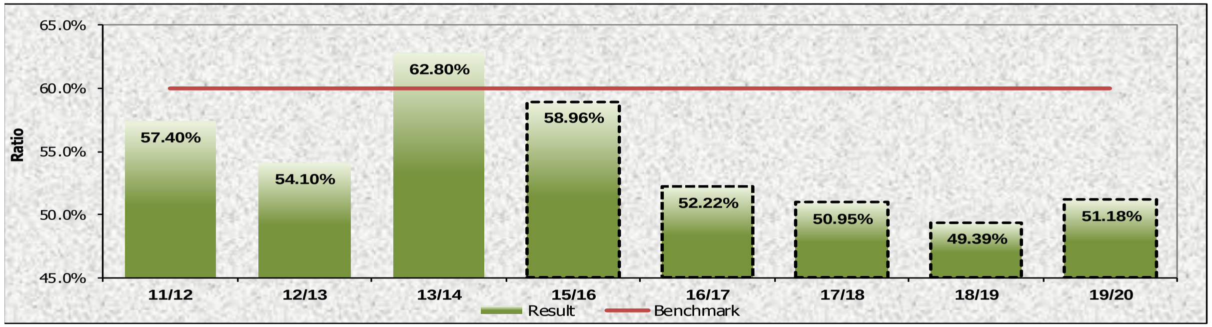
In order to meet this benchmark in the future, Council would need to implement strategies that would improve the net operating result significantly, so that it achieved an operating surplus.

Some options available for Council to consider are:

• Increasing operating revenues by methods such as increased income from user fees and charges or a special rate variation to increase rates income

• Decreasing operating expenditure through measures such as reducing the cost and or level of services provided.

2. Own Source Revenue Ratio	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than 60% average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Total continuing operating revenue (less all grants & contributions) / Total continuing operating revenue (incl. all grants & contributions)	57.40%	54.10%	62.80%	58.10%	☒	58.96%	52.22%	50.95%	49.39%	51.18%
					Rolling 3 year average	64.82%	61.30%	54.04%	50.85%	50.51%
					Meets the FFTF benchmark	✓	✓	☒	☒	☒



Purpose of Operating Performance Ratio:

This ratio measures Council's achievement of containing operating expenditure within operating revenue.This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.

Commentary on result:

Council exceeded the benchmark of 60% in 2013/14 with a ratio of 62.80%, however the 3 year average was below the benchmark at 58.1%. For Council, this indicator is largely affected by our high levels of development activity, which means a significant proportion of Council's revenue is from Section 94 developer contributions and non-cash contributions (works in kind). Whilst Council continues to experience the current high level of development activity, it is unlikely in the short term that Council will achieve this indicator.

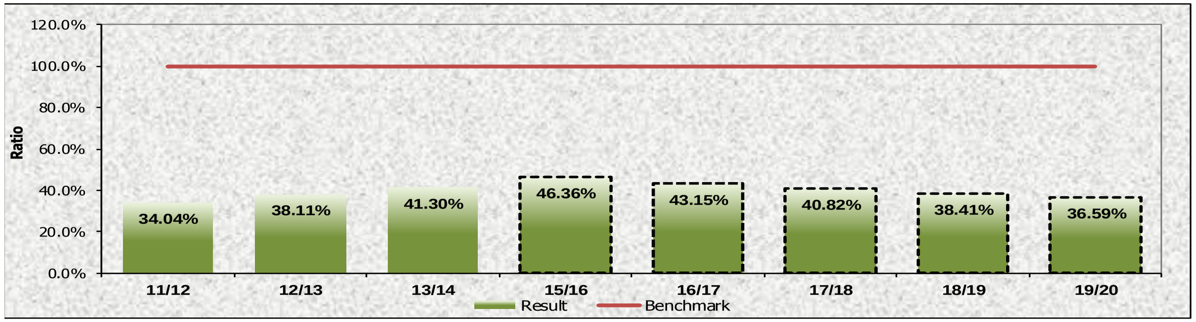
How could Council meet this benchmark in the future?

In order to achieve this indicator in the future, Council's own sources of revenue would need to increase by between $20 to $30 million. This increase could only be achieved through increased income from user fees and charges or rates income, such an increase would be highly dependent on the level of development activity at the time.

For this indicator to be relevant to Council's assessment of being considered fit for the future, it needs to factor in the impact of developer contributions and how the ratio is negatively affected for growth councils such as Blacktown.

It has been acknowledged by the Office of Local Government that this indicator may not be appropriate for councils in the growth sectors of Sydney such as Blacktown and Camden.

3. Building and Infrastructure Asset Renewal Ratio	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than or equal to 100% average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Asset renewals (building and infrastructure) Depreciation, amortisation & impairment (building and infrastructure)	34.04%	38.11%	41.30%	37.82%	☒	46.36%	43.15%	40.82%	38.41%	36.59%
					Rolling 3 year average	42.68%	43.30%	43.44%	40.79%	38.61%
					Meets the FFTF benchmark	☒	☒	☒	☒	☒



Purpose of Operating Performance Ratio:

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on result:

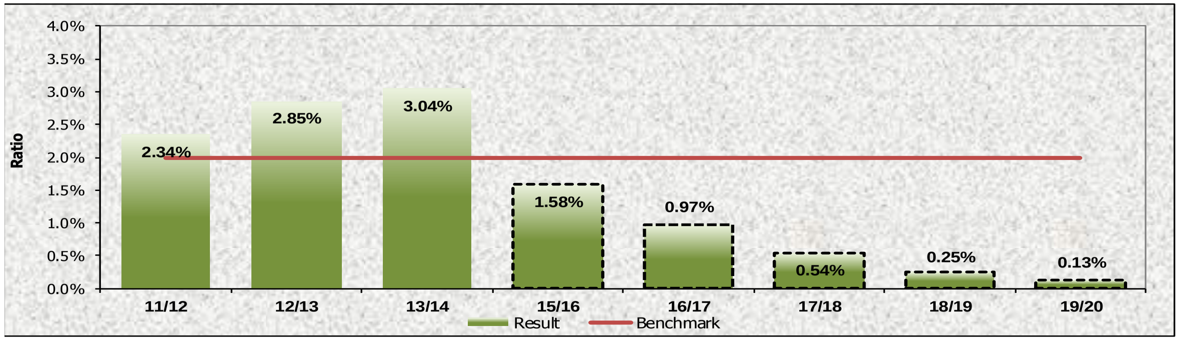
Council's 3 year average was 37.82%. In 2013/14, the ratio was 41.3%, which was an increase on the previous year. This was because Council increased the amount spent on renewing existing assets from $16.776 million in 2012/13 to $19.330 million in 2013/14. Following the approval of Council's special rate variation for asset renewal, the amount to be spent on asset renewal will increase by more than $10 million annually, however the ratio is unlikely to improve significantly due to the additional depreciation expense to be incurred with all the new assets being constructed in the North West Growth Centre over the next 10 to 20 years.

How could Council meet this benchmark in the future?

Due to the quantum of its assets ($2.8 billion), in order to achieve this benchmark, Council would need to spend around $47 million per annum on asset renewal. In 2013/2014, Council's expenditure on asset renewal was around $20 million, meaning we would need to increase our annual expenditure on asset renewal by around $27 million. After allowing for the recently adopted asset renewal funding strategy, which allocated an additional $10 million annually towards asset renewal, Council would still not realistically be able to meet this benchmark without significantly increasing income from rates or user fees and charges or reducing operational expenditure on other services.

Council has already adopted a sensible strategy of managing its asset renewal requirements based on mature asset renewal modeling. This approach is considered a more practical method of asset renewal management as it is aimed at matching the required expenditure for asset renewal with the actual condition of the assets based on physical asset condition assessments. This is considered a more sustainable and efficient use of Council resources as opposed to trying to match asset renewal expenditure against annual depreciation expense.

4. Infrastructure Backlog Ratio	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (less than 2%)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Estimated cost to bring assets to a satisfactory condition Total value of infrastructure & building assets	2.34%	2.85%	3.04%	2.74%	☒	1.58%	0.97%	0.54%	0.25%	0.13%
					Rolling 3 year average	2.29%	1.60%	1.03%	0.59%	0.31%
					Meets the FFTF benchmark	☒	✓	✓	✓	✓



Purpose of Operating Performance Ratio:

This ratio shows the asset renewal backlog as a proportion of the total value of a council's infrastructure.

Commentary on result:

The higher this ratio, the higher a council's relative backlog as a proportion of its total infrastructure portfolio. The benchmark for this ratio is for the backlog to be less than 2% of the value of council's infrastructure assets. Council's ratio for 2013/14 was 3.04%. This ratio will improve over the next few years due to Council's asset renewal funding strategy including the approved special rate variation.

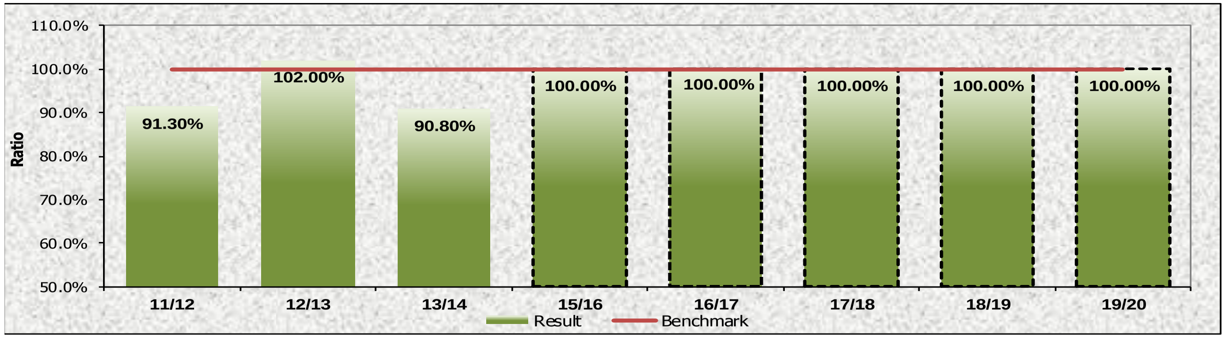
How could Council meet this benchmark in the future?

Due to the size of Council's asset base ($2.8 billion), the benchmark requires Council to have a renewal backlog of less than $52 million. Council's asset renewal funding strategy as adopted from 2014/15 forecasts a reduction in the backlog over the next 5 years.

Based on the current levels of annual funding for asset renewal and our long term asset renewal funding forecasts, it is expected that Council will be able to achieve this benchmark over the next 5 to 10 years. The challenge for Council will be in trying to meet this benchmark in the following 10 years when it is forecast that we will require a substantial increase in asset renewal funding for the older parts of the City.

5. Asset Maintenance Ratio

	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than or equal to 100% average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Actual asset maintenance Required asset maintenance	91.30%	102.00%	90.80%	94.70%	✗	100.00%	100.00%	100.00%	100.00%	100.00%
					Rolling 3 year average	96.93%	100.00%	100.00%	100.00%	100.00%
					Meets the FFTF benchmark	✗	✓	✓	✓	✓



Purpose of Operating Performance Ratio:

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing through insufficient maintenance.

Commentary on result:

The benchmark for this ratio is for the 3 year average to be greater than or equal to 100%. That is a council should be spending at least the required expenditure on asset maintenance as shown in "Special Schedule 7 - Report on infrastructure assets" of their annual financial statements.

Council's 3 year average was 94.70%, this implies that Council is not currently spending enough on the maintenance of its assets.

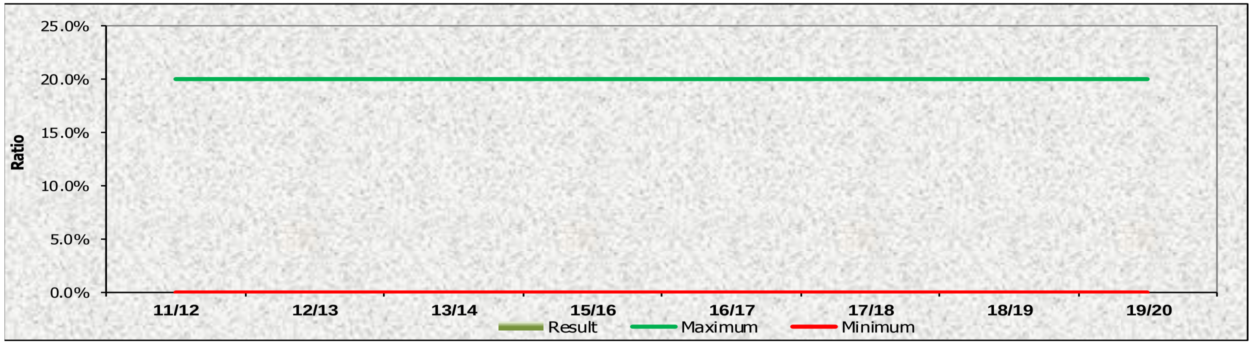
How could Council meet this benchmark in the future?

This benchmark (based on 2013/14 figures) would require Council to increase its annual asset maintenance expenditure by around $3.5 million. The flow on effect of Council already increasing its asset renewal expenditure as part of the recently adopted asset renewal funding strategy, is that it is anticipated that the required annual expenditure on asset maintenance will reduce and be more closely aligned to the actual annual expenditure for asset maintenance.

Rather than setting a benchmark of 100%, it is considered a more appropriate benchmark for this indicator would be to achieve a ratio within the range of 95% to 105%.

6. Debt Service Ratio

	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: **(greater than 0 and less than or equal to 20% average over 3 years)**	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Debt service cost (interest expense & principal repayments) / Income from continuing operations (excl. capital items & specific purpose grants/contributions)	0.00%	0.00%	0.00%	0.00%	☒	0.00%	0.00%	0.00%	0.00%	0.00%
Rolling 3 year average						0.00%	0.00%	0.00%	0.00%	0.00%
Meets the FFTF benchmark						☒	☒	☒	☒	☒



Purpose of Operating Performance Ratio:

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments.

Commentary on result:

This indicator is not considered relevant when assessing Blacktown's Fit For the Future creditentials. Blacktown is penalised by this indicator due to its strong long standing financial management strategies which have allowed Council to maintain a debt free status since 1999.

This indicator does not factor in our sound fiscal practices of maintaining an annual Infrastructure Sinking Fund, which was set up as a source of funding for major capital in lieu of debt, nor does it recognise the internal borrowings Council has approved to forward fund and expedite major capital works through out the City.

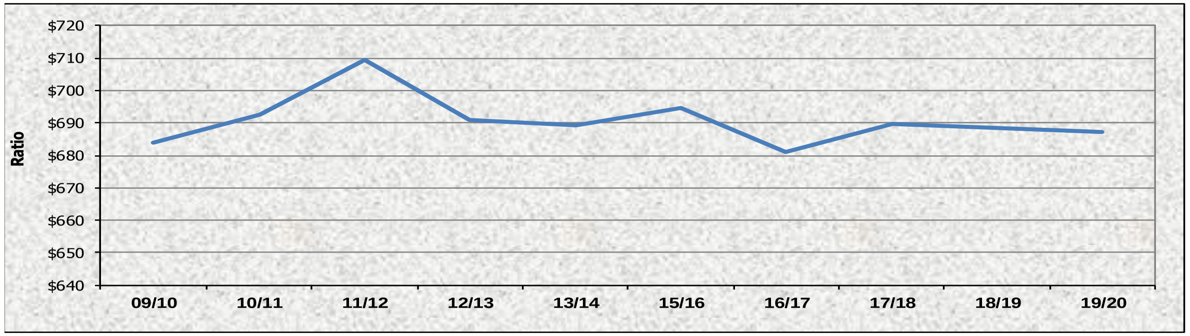
How could Council meet this benchmark in the future?

Council would need to give up its debt free status and would need to take on an annual debt servicing cost of up to a maximum of around $45 million to achieve this benchmark.

While Council may further consider the appropriate use of borrowings in the future, there is no current intention to change Council's long standing debt-free status.

The use of debt to fund any operational or recurrent expenditure is not considered appropriate or necessary.

7. Real Operating Expenditure per capita over time	Historical						Projected				
	Financial year					Meets the FFTF benchmark	Financial year				
Benchmark: (a decrease in real operating expenditure per capita over time)	2009/10	2010/11	2011/12	2012/13	2013/14		2015/16	2016/17	2017/18	2018/19	2019/20
Expenditure deflated by CPI Population	$ 684.09	$ 692.75	$ 709.29	$ 690.75	$ 689.17	✓	$ 694.43	$ 681.03	$ 689.72	$ 688.29	$ 687.22
						Meets the FFTF benchmark	✓	✓	☒	✓	✓



Purpose of Operating Performance Ratio:

This indicator measures productivity changes over time based on the movement in real per capita expenditure. Based on the assumption that service levels remain constant, a decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Commentary on result:

The basis for this indicator is that a council can realise natural efficiencies as population increases (through lower average cost of service delivery and representation). It can also assess how well a council is able to make the necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

For Council, this benchmark peaked in 2012 at $709.29 per capita which has then declined over the past 2 years reaching $689.17 as at the end of the 2014 financial year.

How could Council meet this benchmark in the future?

Council already meets this benchmark and should continue to meet this benchmark over the next 10 years provided the forecast growth of the City is realised and operational costs are contained.