SECTION 2

LONG TERM FINANCIAL PLAN

Executive Summary

Dungog Shire has a very active and involved community. This Long Term Financial Plan and the revenue strategies it contains have been developed in consultation with the community through a series of community meetings and workshops involving the Community Reference Panel, Councillors and Council staff.

Dungog Shire is not financially sustainable within its current level of funding and Council has committed to implement an Improvement Plan, including consideration for a multi-year special rate variation that is proposed to commence from 1 July 2019. Council has facilitated community meetings and workshop discussions clearly outlining Council's unsustainable financial position and the need to reduce infrastructure backlogs and increase investment in asset maintenance and renewal.

This Long Term Financial Plan models the implementation of critical financial initiatives designed to correct the financial position of Council, in particular:

- Increase revenue with a proposed tapered Special Rates Variation commencing in 2019-20 at 15% for 2 years, then 10% for 3 years, followed by 6% for two years.
- Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- Additional annual budget for Council's infrastructure maintenance program of $450,000 per annum, increasing annually.
- Additional annual budget for community infrastructure renewal, with a focus on roads and bridges. On average an additional $4.8 million per annum.
- Adequate resources, services and regulatory responsibilities that affect the wellbeing and safety of the community.

Where are we now? Our current financial position.

Operating performance

Dungog Shire Council faces a number of challenges in terms of financial sustainability. It is a small regional NSW Council with a population of 8,975[1], responsible for providing services across an area of 2,248 sq. km and maintaining $459 million of community assets.[2]

Dungog Shire Council has budgeted net operating losses for a number of years and has commenced a wide range program of community engagement to discuss the proposed Special Rate Variation that will be necessary to become a financially sustainable local government organisation.

Financial position

Council has $16.6 million of current assets, predominantly cash and investments, and it has current liabilities of $3.1 million, mostly being provisions for accrued employee leave. Of its total cash and investment assets, Council has a very low level of unrestricted cash of $252,000. This represents the total cash available that is not already committed for a specific purpose.

Council has $1.4 million in loans relating to asset upgrade and renewal projects, payable over the next 20 years. Council's non-current assets amount to $302 million, with the majority of this being the written down value of roads infrastructure.[3]

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1 ABS, Census 2016 population statistic.

2 Dungog Shire Council, *Audited financial statements for the year end 30 June 2017*, gross value of infrastructure, property, plant and equipment.

3 All figures relating to Financial Position referenced from: Dungog Shire Council, *Audited financial statements for the year end 30 June 2017*, gross value of infrastructure, property, plant and equipment.

Where are we going? Opportunities and challenges

'Fit for the Future' Improvement Plan

The State Government's local government industry reform known as 'Fit for the Future'[4] was commenced in 2014 as a way to benchmark all NSW Councils against a particular set of criteria and to use the results of the assessment to inform the State Government decision to amalgamate some councils. Councils that did not meet the criteria and that were not merged have been required to be reassessed against the benchmark criteria and lodge Improvement Plans with the State Government. The State Government's 'Fit for the Future' framework prevents councils from accessing State Government support until they have been reassessed under the 'Fit for the Future' criteria as having met the benchmark position. Critically for Dungog Shire Council, access to NSW Treasury loans at Government rates is being withheld.

Dungog Shire Council has developed an Improvement Plan to assist in addressing its future financial sustainability. The commencement of the major elements of this program has been delayed for four years by State Government legislation and regulations while Council was the subject of three separate merger proposals.

In 2017 the formal examination of these merger processes was completed, a new Council was elected, and Council is now able to recommence the long term strategic planning necessary to improve and secure Council's financial sustainability.

Rate pegging

NSW Councils are subject to rate pegging legislation, whereby the amount of revenue councils can raise from ordinary and special rates is limited by a capped percentage increase announced by the Independent Pricing and Regulatory Tribunal (IPART) each year. For the 2018-19 year, the rate peg has been set at 2.3%.

The rate peg is generally not equivalent to real increases in Council's costs including wage increases, government regulatory charges and electricity. There are provisions for councils to apply for Special Rate Variations (SRVs) to increase general rates above the rate peg amount and most NSW Councils have applied for at least one SRV in the past 6 years.

Financial Assistance Grants

Council has been heavily affected by a Federal Government decision to freeze indexation of Financial Assistance Grants for three years to 30 June 2017. This funding represents approximately 15% of Council's annual income and is critically important for the provision of Council services. Council is strongly in support of the need to repair Financial Assistance Grants funding to local government, noting that funding under these grants amounted to 1% of total Commonwealth revenue in 1996. That has since been eroded so that, now, they amount to just 0.55%. This has made it harder for Dungog Shire Council to maintain much needed community infrastructure and services.

Capital Grants

With constraints placed over two major sources of income, Council faces the necessity to maximise income from other sources while finding savings to enable financial sustainability. A reliance on capital grants will be necessary for asset renewal to maintain an acceptable level of asset infrastructure. However, there is a degree of uncertainty about the ongoing level of funding.

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4 NSW Office of Local Government, *Fit for the Future Marketing Package,* 2014, http://www.fitforthefuture.nsw.gov.au/sites/fftf/files/Fit-for-the-Future-A-Blueprint-for-the-future-of-Local-Government.pdf

The NSW Government has announced significant capital grant funding in the short term, including for asset renewals, upgrades and new assets. Council plans to take advantage of the opportunity to apply for capital grant funding, maximising this support for its infrastructure renewal programs.

Where do we want to be? Our plan for the future

Community Vision and Key Directions

The Dungog community have developed a community vision statement:

“A vibrant united community, with a sustainable economy. An area where rural character, community safety and lifestyle are preserved.”

The vision for the future is built around seven key themes:

1. The Natural Environment – “The health of our natural environment and biodiversity is preserved and enhanced.”
2. Our Local Economy – “Our economy is strong, innovative and sustainable providing diverse employment opportunities and ease of access to goods and services.”
3. Community and Culture – “We enjoy a safe supportive community characterised by vibrant cultural life and a strong sense of local heritage.”
4. Rural and Urban Development – “Growth is achieved through a balanced mix of development which acknowledges our unique scenic qualities, rural amenity and country lifestyle.”
5. Recreation and Open Space – “Access to a range of places, activities and facilities which cater for diverse sporting and recreational interests.”
6. Public Infrastructure and Services – “Our community is supported by safe, functional, accessible and well maintained infrastructure and effective local and regional transport networks.”
7. Governance and Finance – “Council is recognised for strong community leadership, financial sustainability and ethical, accountable and responsive governance.”

This Long Term Financial Plan supports Council to implement the community vision. In order to live sustainably the Council has to look into the future and provide future generations with sustainable infrastructure and environment without the burden of excessive debt. A Long Term Financial Plan promotes this sustainability by ensuring that decision makers have information about the long term cumulative effects of their decisions.

The aim of the Long Term Financial Plan is to place a structure for financial decision making at a high level by providing guiding principles for the short, medium and long term.

How do we get there? Financial Strategy

Council is intent on maintaining all current levels of services for 2018-19 and beyond. In order to achieve this Council has identified that it will need to increase revenue to address the demands of maintaining fit for purpose assets and increasing costs of expenditure.

Application for a special rate variation is one of a number of actions Council has included in its Improvement Plan in order to improve overall performance and better manage community infrastructure. Council is looking to develop a positive culture of efficiency and productivity as well as to facilitate productivity improvements across the organisation. The key actions of the Council’s Improvement Plan are:

- Review of developer contribution plans to ensure that funding is put aside for the increased demands in public amenities and public services that are associated with future development.
- Review of fees and charges to identify any additional revenue streams to increase Council's revenue base.
- Continue the implementation and refinement of Council's asset management to better define asset conditions, service levels, useful lives and required annual maintenance taking into account community expectations.
- Continue to explore strategic alliance and shared service opportunities with neighbouring Council's and the Hunter Joint Organisation.
- Implementation of a program of service reviews to improve efficiency and potential for transition of non-core services to external service providers.
- Sale of Council owned assets that are surplus to need.
- Lobbying and representations to Government regarding inequities in road funding, reclassification of Dungog Shire Council's road network and the impost of unrateable land.
- Prepare a Rural Lands Strategy to inform better decisions on highest and best land use for agriculture purposes and to assist with planning for the more marginal land for other uses.

Long Term Financial Sustainability

Purpose of the Long Term Financial Plan

The Long Term Financial Plan (LTFP) is a critical part of Council's strategic planning process. It is a decision-making and problem solving tool for stakeholders (Council and the community) to use in assessing the financial realities of implementing the Dungog Shire Council Community Strategic Plan 2030. The financial modelling that has been prepared as part of this plan will provide the basis for making decisions about what resources are required for Council to deliver on its commitments to the community.

This LTFP will model the financial implications of the Dungog Shire Council Community Strategic Plan 2030 and Delivery Program, along with the ability to maintain existing facilities and infrastructure, based on a range of assumptions and within any known constraints.

This LTFP seeks to support Council in addressing the following objectives:

- Source revenue to protect and improve Council's financial sustainability
- Deliver the infrastructure required to support economic growth and expansion
- Ensure funding sources that allow Council to capitalise on future opportunities as they arise
- Adequately resource community infrastructure and services to meet the objectives contained in the Community Strategic Plan.

How do we define long term financial sustainability?

A financially sustainable council is one that has the ability to fund ongoing service delivery and the renewal and replacement of assets without imposing excessive debt or unplanned rate increases on future generations. This definition has been translated into four key financial sustainability principles that Council is committed to:

- Council must achieve a fully funded operating position reflecting that Council collects enough revenue to fund operational expenditure, repayment of debt and depreciation
- Council must maintain sufficient cash reserves to ensure that it can meet its short-term working capital requirements
- Council must have an appropriately funded capital program where the source of funding is identified and secured for both capital renewal and new capital works

- Council must maintain its asset base by renewing ageing infrastructure which is identified and by ensuring cash reserves are set aside for those works which are yet to be identified.

How is long term financial sustainability measured?

The Fit for the Future reassessment process developed a set of performance criteria and benchmark indicators. These indicators are now being used to assess the financial sustainability of councils as stand-alone entities.

Council has determined to use these performance indicators as part of assessing the long term financial health of the organisation and its capacity to fund the proposed delivery program. The following table shows our starting point, and notes unfortunately that council is only currently meeting one of the seven (7) indicators, that being the debt service ratio.

Table 1 Dungog Shire Council 2016/17 performance results

Ratio	Calculation	What is Being Measured?	Sustainable Target	2016/17 Actual Ratio
Operating Performance	Total operating revenue (excluding capital grants and contributions) less total operating expenditure Divided by continuing operating revenue (excluding capital grants and contributions)	Does the Council have a balanced budget?	Greater than zero	-17.51%
Own Source Operating Revenue	Total continuing operating revenue (excluding all grants and contributions) Divided by continuing operating revenue	Indicates the level of Council's self-sufficiency.	>60%	40.49%
Asset Renewal Ratio **(Buildings and Infrastructure)**	Asset renewal expenditure divided by depreciation	Is asset renewal expenditure sufficient to maintain assets in the long-term?	Greater than 100%	92.37%
Infrastructure Backlog Ratio	Estimated cost to bring assets to a satisfactory condition Divided by total value of infrastructure, building and other structures	Is the asset backlog manageable?	Less than 2%	4.78%
Asset Maintenance Ratio	Actual asset maintenance divided by required asset maintenance	Are the assets being adequately maintained?	Greater than or equal to 100%	72%
Debt Service Ratio	Loan repayments (interest and principal) divided by operating revenue (excluding capital grants and contributions)	Indicates whether Council has excessive debt servicing costs relative to operating revenue	> than 0% and < or equal to 20%	1.33%
Real Operating expenditure per capita	Operating expenditure divided by population	Operating efficiency of the Council	Declining trend over time	$2,197 per capita

Financial Management in Council

Existing environment and past influences

About Dungog

The Local Government Area of Dungog is classified as a Large Rural Agricultural Council[5], located centrally within the Hunter Region and bound by the Mid Coast Council to the north-east, Port Stephens and Maitland Councils to the South, Singleton Council to the west and Upper Hunter Shire Council to the north-west.

The local government area is situated between two major state highways, the New England Highway and the Pacific Highway. The upper reaches of the Council area are part of the Barrington Tops National Park World Heritage Area. 17% of the total land area is protected conservation area, comprising of National Parks, state conservation areas and nature reserves. An additional 6% of the land area is NSW State Forests.

The Shire has close proximity to labour markets of the Lower Hunter and the resource industries in the Upper Hunter. Its key industries include agriculture, health care and ageing, forestry, manufacturing and construction, transport, tourism and professional services. The Shire has experienced average annual population growth of 1.2% over the past five years.

Dungog Shire Council is governed by 9 elected Councillors and employs 66 equivalent fulltime employees to provide a wide range of local services. Its annual revenue is $22.5 million and it provides for the construction and maintenance of $300 million infrastructure assets, including 317km of sealed local roads, 273km of unsealed roads, 123km regional roads, 71 hectares of open public space, 32 timber bridges, community halls, stormwater drainage and waste infrastructure.

Regulatory environment

In NSW, councils obtain all their powers and responsibilities under NSW legislation. The system of local government in NSW is principally created through the *NSW Local Government Act 1993.* The State also devolves many functions to councils under other Acts including the *Environmental Planning and Assessment Act 1979, Roads Act 1993, Protection of the Environment Operations Act 1997, Water Management Act 2000, Swimming Pools Act 1992 and Companion Animals Act 1998.*

Principal legislation and State strategies that drive Council operations include:

- The *NSW Local Government Act 1993*
    - Defines the scope and boundaries of Council's role and the way it must conduct its business.
- The NSW State Plan
    - The State Plan: A New Direction for NSW defines the overarching goals and outcomes that NSW Government has set for this state and which should shape public policy.
- *Environmental Planning and Assessment Act 1979*, the principal legislation regulating land use in NSW. This Act allows plans to be made to guide the process of development and to regulate competing land uses.

Council incurs significant, increasing operational costs in undertaking it's planning, reporting and compliance obligations. The NSW State Government has acknowledged the issue and commissioned IPART to identify the inefficient, unnecessary and excessive burdens that

5 Australian Classification of Local Government and Office of Local Government Group Numbers

State Government places on local government.[6] The review was completed in 2016 and is currently under consideration by the Minister for Local Government. Key IPART recommendations that impact Dungog Shire Council include the following:

- NSW Government avoid creating unnecessary and duplicative compliance requirements on councils.
- NSW Government remove restrictions on fees to allow for the recovery of efficient costs by councils.
- NSW Government grant programs address ongoing maintenance and renewal costs when funding new assets.
- Government agencies rely on existing council financial reporting processes instead of creating additional audit and performance reporting requirements.
- Streamlined acquittal processes for grants of less than $20,000.
- Local Government data is shared between state government agencies.

Financial environment – cost shifting

Local Government NSW (LGNSW), the peak organisation representing the interests of all 128 general purpose councils in the state, have just released a report titled the "***Impact of Cost Shifting on Local Government in NSW***". The report identifies Dungog Shire Council as the most affected rural council in NSW by State Government cost shifting.

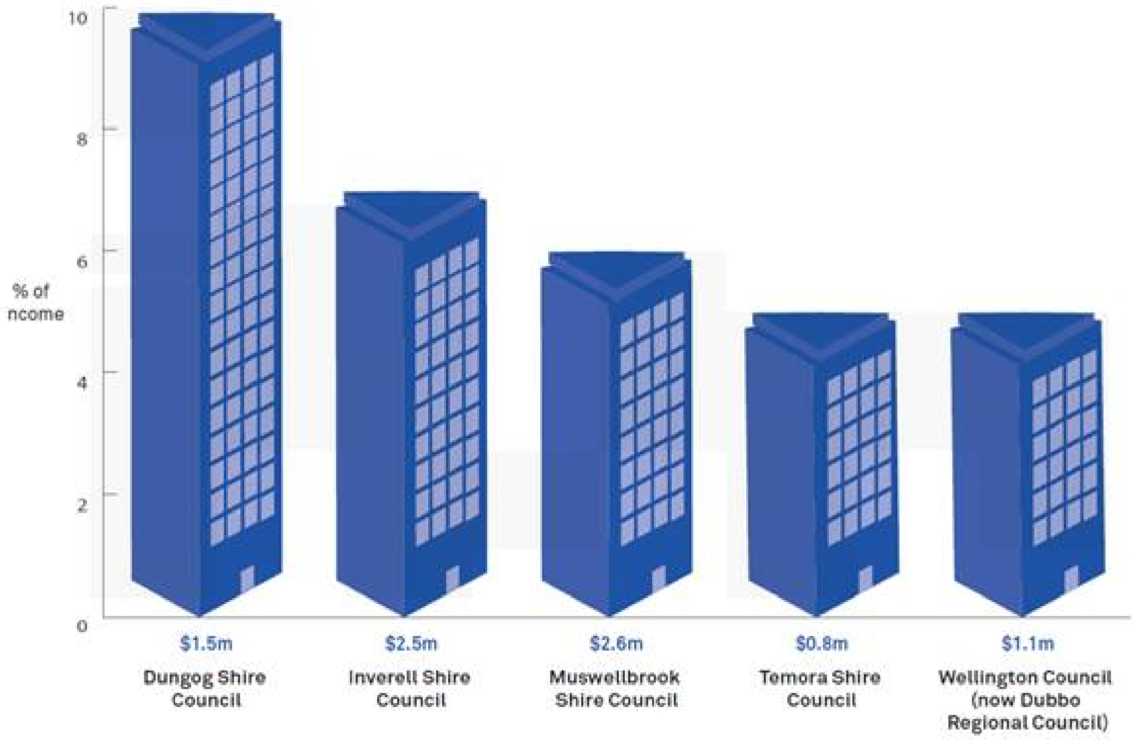
The report clearly shows that 10 percent of Dungog Shire Council's total income (before capital amounts) is spent on cost shifting expenses. Cost shifting has occurred in the areas of library funding, emergency services, and the Waste Levy whereby only 18% of the Waste Levy collected from local government by the NSW Government is returned to council for community waste minimisation and recycling programs. However, the biggest driver in cost shifting from State Government to Dungog Shire Council is road maintenance.

The transfer of responsibilities for roads under the State Government road reclassification reviews that occurred in the 1990's resulted in Dungog Shire Council inheriting an additional 118kms of roads. These roads were reclassified from main roads to regional or local roads with the direct impact being the cost shifting of ongoing renewal/maintenance costs and depreciation costs to Council. Only minimal compensation was received by Council in association with the road reclassification, and notwithstanding the annual Block Grant and Repair Program grants received Dungog Shire Council is now the only local government area in NSW without a State Road.

Cost shifting forces Council to divert ratepayers' funds away from much-needed local infrastructure projects, to meet additional demands placed on local government by the State Government. LGNSW research shows another concerning trend: not only does cost shifting continue to grow, it is growing at an accelerated rate. The per annum cost shift has more than doubled in a single decade. The federal government is responsible for just 2% of the cost shifting burden borne by councils each year.

6 IPART, Review of reporting and compliance burdens on Local Government https://www.ipart.nsw.gov.au/Home/Reviews

The five rural councils most affected by cost shifting



Financial environment - rate pegging

Council's ability to align rating revenues with the increased cost of providing local government services has been restrained for over 40 years by rate pegging, a legislative instrument whereby the maximum increase in rating revenues is set by the NSW State Government, now via IPART NSW.

Financial environment – unrateable land

More than 23% of the land area within the Dungog local government area is non-rateable with major landowners being exempt from paying rates. This includes the National Parks and State Forests, both that benefit from the provision and maintenance of local roads and bridges by Council. The rate of consumption of local road assets is higher as a result of vehicle traffic caused by foresters, visitors and contractors associated with harvesting and haulage. The supply of log products from state forest plantations causes considerable heavy vehicle activity, reducing the useful life of local roads. Dungog Shire Council has worked closely with the NSW Country Mayor's Association and the Hunter Joint Organisation to bring this matter to the attention of the NSW Government, and in particular the NSW Premier and Deputy Premier.

Financial environment - federal funding

All Australian councils receive a share of commonwealth revenue to support the provision of local infrastructure and services. This funding is facilitated through the Federal Financial Assistance Grants program. It is a vital source of funding for rural and regional councils and represents 15% of Dungog Shire Council's annual operating income (excluding capital grants).

Council is dependent on other levels of government to make decisions about the allocation of funding. Over time, the financial assistance grant has not increased in line with the real costs of providing local government services. In particular, Council's budget was heavily affected by a Federal Government decision to freeze indexation of Financial Assistance Grants for three years to 30 June 2017.

Financial environment - capital grants

Similar to other NSW regional and rural Councils, Dungog Shire Council receives a high level of capital grants to assist with the upgrade and renewal of community infrastructure as well as new assets. In the past ten years Council has received capital grant funding equivalent to 64% of its capital expenditure.

Impact of 'Fit for the Future'

In October 2014, the Minister for Local Government required NSW Councils to provide improvement proposals to demonstrate how they were, or would become, 'Fit for the Future'. Dungog Shire Council submitted a proposal opting to retain its existing structure and prepared a plan to undertake a program of improvements. The Improvement Plan has two central elements that focus on providing significant increases to Council's funding sources:

- Borrowing funds for major infrastructure projects, supplementing government grants, in particular for replacement of timber bridges.
- Making application for a significant special rates variation to address ongoing operational budget deficits.

The proposal and related improvement plan was examined by the Independent Pricing and Regulatory Tribunal (IPART) which determined that Council did not meet the government's 'Fit for the Future' criteria. Following the IPART assessment, in December 2015, the NSW Premier announced 35 council merger proposals, including the merger of Dungog Shire Council. Dungog Shire Council was subsequently considered as part of 2 additional local government merger proposals. The final determination of the proposals by the Minister for Local Government was not completed until 2017 and the Premier accepted that Dungog Shire Council should remain in place, continuing to serve the community.

During this prolonged period, Council was effectively delayed in implementing the long term strategic decisions about future funding options that it had identified as being necessary to improve Council's financial sustainability. Special Rate Variations were not able to be considered while merger proposals were being formally investigated, and Council was also prevented from borrowing funds from NSW Treasury.

The Office of Local Government continues to monitor council's performance against the 'Fit for the Future' benchmarks and in March 2018 invited Council to submit its updated Improvement Plan[7], outlining the actions it will take to improve its financial sustainability, infrastructure and service management and efficiency.

Financial environment – the state of Council's finances

Dungog Shire Council has delivered operating deficits for several consecutive years and the implications are that the existing asset stock is being run down and that current service levels are unlikely to be sustainable unless revenue is increased.

Council's largest revenue sources are general rates income, and government grants and contributions. Council has very limited scope to generate additional revenue sources through fees and charges. Its operations are focused on traditional general fund council services. User fees and charges are raised where they can be tied to reasonable costs and where there is a community appetitie to pay for service.

Council has an estimated infrastructure backlog of $18,344,000[8] which represents 6.47% of it's written down infrastructure asset value, as compared to the local government prescribed industry benchmark of less than 2%. Council has not spent adequate funds on asset maintenance and renewal over the last several years and the current shortfall in Council's funding of required infrastructure asset maintenance is $1.7 million per annum.

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7 Fit for the Future Council Reassessment Proposal

8 Dungog Shire Council, *Review of Special Schedule 7,* Morrison Low, updated May 2018.

The total level of Council's cash and investments indicate it has adequate liquidity. However, it has a very low level of unrestricted cash, cash that is not already committed for a specific purpose. It has a low level of debt and additional capacity to borrow funds, if they can be used to reduce future operating costs.

Council has a relatively low cost per capita for the delivery of services when compared to its peer group councils.[9] Its $2,197 total operating cost per capita is 70% of the peer group average and a third of the highest Council's cost per capita. This is indicative that Dungog offers a smaller range of services comparatively and that Council has minimised the cost to ratepayers for its services through years of efficiency savings driven by the reduction in net operating revenues over time. It may also indicate that Council is at risk of under-resourcing its regulatory and compliance responsibilities.

Financial management principles

Council's approach to financial management is underpinned by the following principles:

- Spending is responsible and sustainable, aligning general revenue and expenses.
- Functions and operations are adequately and responsibly resourced.
- Investment in responsible and sustainable infrastructure for the benefit of the local community.
- Council is investing in its asset management capability and is developing a comprehensive asset management framework that will improve long term planning ensuring budgets for asset maintenance and renewal are optimally allocated.
- Making policy decisions that consider the financial effects on future generations and the current generation funding the cost of its services.
- Undertaking strong engagement with the community, ensuring that services and infrastructure meet community expectations and is within the community's ability to pay.

In conjunction with these principles, Council's Long Term Financial Plan is guided by a number of policies and strategies which are outlined below.

Rating income strategy

Rating income is generated by a levy on properties within the council area for the provision of local government services. Council reviews its rating structure annually, ensuring that it is fair and equitable, with each rating category contributing to the rate levy according to the demands placed on Council's limited resources.

Council's general rate income represents 36% of its annual operating income (excluding capital grants). Council relies on the annual rate pegging increase set by IPART to fund the real cost increases it incurs for funding community infrastructure and services. This plan models a rate peg increase of 2.5% from 2019-20 for the remaining life of the plan.

The proposed SRV application will impact on all ratepayers with a cumulative increase of 97.8% over the seven year period, including the assumed rate peg increase of 2.5% per annum.

Council continues to advocate for a change to legislation to remove rating exemptions for other levels of government that conduct business on land owned within the local government area.

9 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with all (36) Group 10 and 11 Large Rural Councils with information published http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

Domestic waste management charges

In addition Council charges a domestic waste management charge to owners of rateable properties. This covers the cost of kerbside collection and land fill services and includes the full cost of administration, service provision and tipping fees. Council actively manages a waste strategy that aims to extend the useful life of its landfill asset by increasing recycling and waste diversion rates.

Investment principles

Council has an investment policy that reinforces Council's ongoing commitment to maintain a conservative risk/return portfolio, an important component of its ongoing prudent financial management practices. The overall objectives of the policy are to ensure that Council invests its funds:

- in accordance with the requirements of the *NSW Local Government Act (1993)* and Council's investment policy
- in a conservative manner where preservation of capital is the principal objective
- in a manner that seeks to ensure the security of the Council's cash and investment portfolio, achieve appropriate earnings and manage cash resources to ensure that there is sufficient liquidity to meet Council's business objectives.

Loan borrowings

Critically given Council's inability to meet State Government's Fit for the Future criteria, access to NSW Treasury loans at government rates is being withheld. Council's approach to debt is that it be used to fund the cost of major infrastructure renewals to correct the infrastructure backlog and reduce operating maintenance costs. In addition, debt is used to enable Council to capitalise on funding opportunities for infrastructure renewal or planned expenditure on new assets where there is grant funding available that requires a co-contribution from Council.

Co-contribution funding places further restrictions on Dungog Shire Council and as such at the State Government level Dungog Council has suggested that the Premier give consideration to a blanket application for hardship applying to all Regional council's laon applications to alleviate this burden.

Cash reserves and restrictions

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

The establishment and funding of cash reserves is a financial management strategy to provide funds for future expenditure that could not otherwise be financed during a single year without having a material impact on the budget.

Developer contributions

Sections 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979* enable Council to levy contributions for public amenities and services required as a consequence of development. With the assistance of an external technical consultant Council has commenced a review of its Developer Contribution Plans to better target and fund the future development and infrastructure requirements of the local government area.

Council is also reviewing its options to implement a framework for road and transport infrastructure contributions to recover costs to ratepayers by commercial heavy vehicles on local roads.

Discretionary and regulatory fees and charges

A review of Council fees and charges has been undertaken with regard to best value principles including value for money, community expectation and values, and a balance between affordability and accessibility of services.

Council has progressively increased fees and charges within its control to maximise user contributions to the cost of providing services.

Council currently undertakes private works as a commercial interest. Income generated from private works has been included in the financial plan modelling.

Asset disposal policy

Council has commenced to process of reviewing assets to identify and dispose of any assets which are no longer needed to provide services to the community. Any funds received will be used to increase Council's capacity to address the funding gap for its asset maintenance.

Asset management

Infrastructure assets such as roads, drains, bridges and public buildings present particular challenges as their condition and longevity can be difficult to determine and increasing public demands on quality and standards adds to the complexity. The cost of asset renewal, maintenance and upgrades is large and requires planning for large peaks and troughs in expenditure.

Council is currently reviewing its asset management strategy and reviewing and testing its asset management planning assumptions against industry standards. This Long Term Financial Plan will be kept current and updated to include reference to current asset maintenance and renewal estimates, matching the amounts reflected in asset management plans, as those plans continue to be developed.

Council has changed its approach to asset management, shifting its focus from the creation of new assets to the renewal of assets, except where critical new infrastructure is required. Council is looking to implement a new asset management system to help risk rate and prioritise the renewal and repair of infrastructure assets. Council is also undertaking a full condition assessment of its roads and bridges to better understand its liability and future renewal profile.

Employee costs

Employee costs make up approximately 25% of the annual projected expenditure. The high proportionate cost is reflective of the service based nature of a large proportion of Council activities as well as the construction and maintenance of infrastructure owned by Council. The objective of this Long Term Financial Plan is to accommodate employee costs to retain the necessary workforce to achieve the community's expectations for future projects.

Special Rates Variation

Key purpose of the special variation

Dungog Shire Council has a very low revenue base to anchor the various services required of a modern council and there are very few options to increase revenue, other than through a general rate increase. Council's inability to reach own source revenue targets and operating surplus ratios tangibly highlights the need to increase general rates. For this reason, Council is considering a special rate variation as part of the solution to becoming a financially sustainable local government authority. However, in addition to the proposed special rate variation Council is also well advanced in implementing a raft of strategies designed to correct the financial position of the organisation. These strategies which form part of Council's Improvement Plan, clearly demonstrate Council's strong resolve and willingness to be part of the solution and include the following:

- ✓ Energy efficiency initiatives including solar and other renewal energy reviews.
- ✓ Extending the life of the landfill by increasing recycling and diversion rates.
- ✓ Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- ✓ Review of developer contribution plans to ensure that funding is put aside for the increased demands in public amenities and public services that are associated with future development.
- ✓ Prepare a Rural Lands Strategy to inform better decisions on highest and best land use for agriculture purposes and to assist with planning for the more marginal land for other uses.
- ✓ Review of fees and charges to identify any additional revenue streams to increase Council's revenue base.

- ✓ Continue the implementation and refinement of Council's asset management to better define asset conditions, service levels, useful lives and required annual maintenance, taking in to account community expectations.
- ✓ Continue to explore strategic alliance and shared service opportunities with neighbouring Council's and the Hunter Joint Organisation.
- ✓ Implementation of a program of service reviews to improve efficiency and potential for transition of non-core services to external service providers.
- ✓ Sale of Council owned assets that are surplus to need.
- ✓ Lobbying and representations to Government regarding inequities in road funding, reclassification of Dungog Shire Council's road network and the impost of unrateable land.

The key purpose of the special variation is to address the shortfall in funding for maintenance and renewal of community infrastructure, in particular timber bridges and road network, and to become financially sustainable. Council has been unable to generate sufficient revenues over a long period of time to fund the required asset renewal. This is in part due to decisions by previous council's to freeze rates and at times drop rates. This has resulted in a low average rate for Dungog Shire Council compared to some neighbouring councils. Given that rates are cumulative, this loss of rates has an ongoing impact. Any ongoing failure to address this funding gap will result in a proportionate worsening of the infrastructure backlog, which is already falling well short of the sustainable target.

Council has committed to an Improvement Plan, to improve its performance against the Government's 'Fit for the Future' performance targets. Achieving the benchmarks is now Council's priority to secure its financial sustainability for the future of the community.

Council further evaluated its need for a special variation, reviewing its financial sustainability options with the assistance of Morrison Low. The financial evaluation and assessment found that:

- Council is not able to meet the majority of the 'Fit for the Future' ratios by continuing with its current operation.
- Council has very limited unrestricted cash.
- Operating deficits have been occurring for a prolonged period and will continue in to the future.
- Council's current revenue base of $15.6 million (excluding capital) is very low.
- Council needs to increase its funding of infrastructure maintenance and renewal.

The assessment concluded that Council's current operation is financially unsustainable.

Extent of the rate rise

The proposed application for a special rate variation has been incorporated into Scenario 2 of this Long Term Financial Plan. It will impact on all ratepayers with a cumulative increase of 97.8% over a 7 year period, including an assumed rate peg increase of 2.5% per annum.

Council was mindful in establishing the quantum of a proposed special variation to generate the financial capacity to commence addressing the infrastructure issues, to deliver current service levels into the future while creating an operating result that would build its financial capacity.

The estimated additional rating income from the proposed special variation is detailed in the following table.

Table 2 Scenario 2 – additional income from special rates variation

Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26
$711,000	$1,553,000	$2,161,000	$2,841,000	$3,601,000	$4,044,000	$4,520,000

The following table demonstrates the proposed effect of the permanent, multi-year rates increase. This extends over the whole seven year period as average rates in each category increase by a tapering percentage increase in each of these years.

Table 3 Impact on residential rates of proposed special rate variation

	Base year 2018-19	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative increase
Average residential rate under an assumed rate peg of 2.5% per annum	$863	$884	$907	$929	$925	$976	$1,001	$1,026	18.9%
Annual increase %		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Average residential rate with the proposed SV	$863	$992	$1,141	$1,255	$1,381	$1,519	$1,610	$1,707	97.8%
Annual increase %		15.00%	15.00%	10.00%	10.00%	10.00%	6.00%	6.00%	
Cumulative impact of SV above base year levels		$108	$235	$326	$428	$543	$609	$681	

Table 4 Impact on farmland rates of proposed special rate variation

	Base year 2018-19	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative increase
Average farmland rate under an assumed rate peg of 2.5% per annum	$2,214	$2,269	$2,326	$2,384	$2,444	$2,505	$2,567	$2,632	18.9%
Annual increase %		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Average farmland rate with the proposed SV	$2,214	$2,546	$2,928	$3,221	$3,543	$3,897	$4,131	$4,378	97.8%
Annual increase %		15.00%	15.00%	10.00%	10.00%	10.00%	6.00%	6.00%	
Cumulative impact of SV above base year levels		$277	$602	$837	$1,099	$1,392	$1,563	$1,747	

Table 5 Impact on business rates of proposed special rate variation

	Base year 2018-19	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative increase
Average business rate under an assumed rate peg of 2.5% per annum	$914	$937	$960	$984	$1,009	$1,034	$1,060	$1,086	18.9%
Annual increase %		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Average business rate with the proposed SV	$914	$1,051	$1,209	$1,329	$1,462	$1,609	$1,705	$1,807	97.8%
Annual increase %		15.00%	15.00%	10.00%	10.00%	10.00%	6.00%	6.00%	
Cumulative impact of SV above base year levels		$114	$248	$345	$454	$575	$645	$721	

Community support

Commencing in February 2018, Council invited all members of the Dungog Shire community to attend a series of meetings developed to inform ratepayers of Council's financial situation and the need to consider a special rates variation. Following those community meetings, a Community Reference Panel of local residents and stakeholders was formed. The panel participated in a series of workshops to discuss the financial issues facing Dungog Shire and to put forward a position to Council for consideration.

The outcome of these meetings and workshops was a recommendation by the panel to Council to develop a Long Term Financial Plan that included a Special Rate Variation option.

Information about the proposed Special Rate Variation has been compiled on Council's webpage[10] which is accessible to the public.

Impact on ratepayers

Dungog Shire Council currently has the lowest average rate of its neighbouring councils. Compared with all Group 10 councils, Dungog Shire's average rate of $1,098 is less than 82% of the average[11] and 46% of the highest council's average rate. Compared with Group 10 councils, Dungog has a higher residential rate than average; however it is less than half of the highest council's average residential rate.

Table 6 Average rate comparison[12]

Rating category	Dungog	Port Stephens	Upper Hunter	Singleton	Maitland	Mid-Coast[13]
Residential	$831	$969	$739	$829	$1,224	$1,128
Business	$880	$4,047	$898	$6,713	$6,552	$2,794
Farmland	$2,132	$1,703	$3,414	$1,990	$3,056	$1,846
All assessments	$1,098	$1,145	$1,331	$1,568	$1,585	$1,922

This table shows the average council rates for the year ended 30 June 2017. Upper Hunter and Mid-Coast Councils have subsequently applied for special rates variations for cumulative rates increases of 20.1% and 21 - 27%. Mid-Coast Council's application has been approved, and therefore it is expected that their average rate will increase over the next four years. Upper Hunter Council's application was not approved; however, Council may re-apply in a future year.

10 Dungog Shire Council, https://www.dungog.nsw.gov.au/council/special-rate-variation

11 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with all (36) Group 10 councils with information published http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

12 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with neighbouring Councils http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

13 Mid-Coast figures from IPART Determination of Special Variation Increase, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Council-Portal/Applications/2017-2018/Mid-Coast-Council/LG-Determination-Mid-Coast-Councils-application-for-a-special-variation-for-2017-18

In respect of the ability of the community to pay, some of the key indicators for Dungog Shire Council are as follows.

According to the 2016 census, the average household weekly income in the Dungog Shire Council area was $753, compared with the NSW average of $891 and Australian average of $877. The 2016 unemployment rate was lower than the national average by 1.4%. The average monthly mortgage payment of $1,854 was also lower than the national average by $104, and lower than the NSW average by $292. [14]

Table 7 Socio-economic indicators for the Hunter Region[15]

	Dungog	Port Stephens	Upper Hunter	Singleton	Maitland	Mid-Coast[16]
Socio-economic index rating 2016[17]	83	70	67	85	75	20
Unemployment rate	3.1%	4.3%	2.8%	3.4%	4.0%	5.4%
% Pensioner residential rate	22.1%	18.9%	22%	11.9%	17.1%	Not reported
Average Taxable Income (2015)	$53,793	$52,253	$56,449	$72,888	$59,167	$43,370

These figures reflect that on a comparative basis, Dungog Shire has a strong economy through relatively high personal income levels and low unemployment rates. It also has a high level of pensioner ratepayers and Council has been mindful of the community's ability to afford a relatively large rate variation from a comparatively low base.

Council's outstanding rates and charges ratio has, over the last three years been as follows:

2017-18	6.13%
2016-17	6.03%
2015-16	3.59%

The accepted benchmark for rural councils is 10%. Whilst there has been a one-off increase in the 2017-18 year, this ratio demonstrates that, generally, Council is able to recover its rates and annual charges within the year they are rated. This demonstrates ratepayers' capacity to pay and provides an indication that ratepayers have historically been able to pay rates and annual charges consistently.

Council has a current Hardship Policy (adopted in June 2015) that aims to provide options for ratepayers deemed to be in genuine financial hardship and to provide equitable access to financial assistance for all ratepayers. This Policy has been recently reviewed by the NSW Office of Local Government with regard to their Financial Hardship and Debt Recovery policies. It has also been reviewed by the executive of the Hunter Joint Organisation with regard to contemporary practice.

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14 ABS, *Data by region,* Dungog Shire Council, http://stat.abs.gov.au/itt/r.jsp?databyregion#/

15 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with neighbouring Councils http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

16 Mid-Coast figures from IPART Determination of Special Variation Increase, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Council-Portal/Applications/2017-2018/Mid-Coast-Council/LG-Determination-Mid-Coast-Councils-application-for-a-special-variation-for-2017-18

17 ABS Local Government Area (LGA) SEIFA 2016, Table 3, Index of Relative Socio-economic advantage and disadvantage, ranking within NSW by LGA. A lower ranking indicates that an area is relatively disadvantaged compared to an area with a higher ranking.

Productivity improvements

A special rate variation is only one of a number of initiatives Council has considered in order to improve its overall financial performance and better manage and maintain essential infrastructure. Council is taking action to develop a positive culture of efficiency and productivity as well as facilitating productivity gains across the organisation. These gains may lead to financial savings and non-financial savings, including improvements in Council's service delivery.

Over an extended period of operating within a constrained budget, Council's operations have become financially efficient, with staff learning to manage operations with limited resources. Whilst Council is committed to keeping its operational costs low, the focus on future efficiency gains is to enhance Council's productivity, ensuring that Council meets it current governance and service commitments with an appropriate allocation of resources.

Specific actions contained in Council's Improvement Plan include:

- Energy efficiency initiatives including solar and other renewal energy reviews.
- Extending the life of the landfill by increasing recycling and diversion rates.
- Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- Review of developer contribution plans to ensure that funding is put aside for the increased demands in public amenities and public services that are associated with future development.
- Prepare a Rural Lands Strategy to inform better decisions on highest and best land use for agriculture purposes and to assist with planning for the more marginal land for other uses.
- Review of fees and charges to identify any additional revenue streams to increase Council's revenue base.
- Continue the implementation and refinement of Council's asset management to better define asset conditions, service levels, useful lives and required annual maintenance, taking in to account community expectations.
- Continue to explore strategic alliance and shared service opportunities with neighbouring Council's (noxious weeds management, records storage, legal services, library services, environmental services and regional procurement) and the Hunter Joint Organisation.
- Implementation of a program of service reviews to improve efficiency and potential for transition of non-core services to external service providers.
- Sale of Council owned assets that are surplus to need.
- Lobbying and representations to Government regarding inequities in road funding, reclassification of Dungog Shire Council's road network and the impost of unrateable land.

Other productivity improvements and cost containment strategies Council has implemented over the past several years include the following:

- Discussions have commenced in relation to potential strategic alliance options with Port Stephens and other Hunter Councils.
- Joint contract negotiations to realise savings through procurement efficiencies. Council has participated in regional contract negotiations as well as LG Procurement industry contracts.
- Managing general cost containment projects, e.g. asset rationalisation, overdue rates recovery reviews and employee overhead cost reviews have been undertaken. Council's workers compensation insurance premium is now 1.98% of total wages paid, compared with the Local Government average of 3.24%, realising a saving in excess of $65,000 per annum.
- Improving software and systems to realise productivity improvements within Council operations and provision of services, e.g. online mapping and web-based DA tracking.

Planning Assumptions

It is impossible to be precise about forward projections for individual line items and such information is not necessary for a useful Long Term Financial Plan. However, it is necessary to understand the calculation of outcomes for financial indicators in order to identify the drivers of variations in performance between years.

Council has identified the external and internal influences that could significantly impact on Council's future financial performance. The following features of the Long Term Financial Plan have been identified as risks and volatile factors.

Market driven planning assumptions

Population forecasts

Dungog Shire Council's population is currently estimated at 8,975 and this is projected to increase to 9,700 by 2031. Over the same period the number of households is projected to increase from 3,590 to 3,800.[18]

Financial modelling in scenario 2 Improvement Plan has included an increase in rates income resulting from growth in the number of ratepayers.

Cost and revenue increase assumptions

Factors applied to revenue and expenditure in the long term plan

The following planning assumptions are constant in all financial modelling scenarios. These factors reflect the low inflation environment in Australia.

Table 8 Index factors applied for financial modelling

Assumptions	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Years 7 to 10
Rates peg	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Annual Charges	2.25%	2.25%	2.25%	2.5%	2.5%	2.5%	2.5%
User charges and fees	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Other revenue	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Grants and contributions (operating)	1%	1%	1%	1.5%	1.5%	1.5%	1.5%
Grants and contributions (capital)	1%	1%	1%	1.5%	1.5%	1.5%	2%
Salaries and wages (incl. on costs)	2%	2.5%	2.75%	3%	3%	3%	3%
Materials and contracts	1.7%	1.8%	2%	2.2%	2.2%	2.2%	2.2%
Other expenses	1.7%	1.8%	2%	2.2%	2.2%	2.2%	2.2%
Investment interest rate	3%	3%	3%	3%	3%	3%	3%
Average interest rate on borrowings	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

18 NSW Department of Planning and Environment, *2016 NSW population and household projects,* http://www.planning.nsw.gov.au/research-and-demography/demography/population-projections

The following tables outline Council's planning assumptions by revenue and expenditure types. Included within the assumptions is a brief description as to how Council has determined this assumption and the external influences which impact the assumption.

Table 9 Specific revenue assumptions

Revenue	Assumption
Rate peg	2.3% as announced for the 2017-18 year, and 2.5% in all following years in accordance with assumptions provided to Council by IPART.[19]
Special rate variation (SRV) income	Scenario 2 provides for a permanent SRV of 15% for years 1 and 2, 10% for years 3, 4 and 5, and 6% for years 6 and 7. These figures include the rate peg.
Fees and charges	Fees and charges are indexed at 2.5% per annum based on the assumption that service levels will be maintained. Council is committed to all opportunities to increase user fees where possible.
Interest and investment income	Interest on investments is assumed at 3% in 2018-19 and for the life of the Long Term Financial Plan. Interest rates across the financial markets have continued to fall over the past twelve months; consistent with low returns received over the past 10 years. Interest has been calculated on the average balance of funds invested in each year of the financial model. The timing of capital expenditure will affect Council's investment income.
Operating grants and contributions	In previous years the Financial Assistance Grant, and other sources of Federal grant funding, have not kept pace with inflation, and therefore this model applies a low inflator to the levels of grants and contributions over the life of the plan. The ten year trend reflected in this model is for operating grants to grow at a slower rate than other income sources.
Capital grants and contributions	An assumption is made that Council will continue to receive capital grants and contributions from Federal and State sources, at a level consistent with previous years.

19 IPART, *Guidelines for the preparation of an application for a special variation to general income,* https://www.olg.nsw.gov.au/sites/default/files/OLG%20-%20Special%20Variation%20Guidelines_2.pdf

Table 10 Specific expenditure assumptions

Expense	Assumption
Depreciation	The 2016-17 depreciation rates for each class of assets are assumed to continue over the 10 year modelling period. Depreciation expense varies over the modelling period dependent on the investment in new assets vs asset renewal. All classes of assets will continue to be revalued over the coming years, including a revaluation for all transport assets that is currently being completed. As this work is completed, the accuracy of depreciation calculations will be improved.
Interest costs	An average interest rate of 4.5% per annum on existing and new borrowings has been allowed over the life of this model.
Operational costs (staff and materials and contracts)	The 2017-18 revised budget is used as the base year, and indexation is used to model the ten year planning period.
Employee costs	Increases in the first three years of 2%, 2.5% and 2.75%, followed by 3% per annum. Movement in employee costs is determined through industry wide award negotiations and market forces. Impacts affecting wages volatility include internal and external factors such as the rising cost of employment, skills shortages, staff turnover, attraction and retention of Council staff, an increase in superannuation benefits, maternity and paternity leave, award increases and changes in service levels.
Asset maintenance	Additional expenditure of $451,000, indexed annually has been allowed for the annual asset maintenance program in scenario 2.

Table 11 Capital income and expenditure assumptions

Capital	Assumption
Asset renewal	Asset renewal projections accommodate Council's asset management planning, with additional allowance in Scenario 2 to address infrastructure backlogs and assist Council with meeting asset renewal benchmarks. It is assumed that the projected amounts for asset renewal will be adequate to maintain assets at a standard that is safe. As Council's asset management planning continues to be developed, future revisions of these plans will continue to be incorporated in the Long Term Financial Planning model and will improve future financial forecasts.
New assets	Council has not budgeted for expenditure on new assets for the term of the planning period, instead focusing investment on asset renewal.
Proceeds from sale of assets	No allowance has been made for proceeds from the sale of assets.

Financial Modelling

Scenario 1: Base case

Introduction

This budget is based on the current operations of the Council, and models the effect of not implementing any special rate variation. In this scenario, Council maintains its income and expenditure levels based on the 2018-19 operational plan.

Components included in model for Scenario 1

- Council's revenue growth is constrained by the decisions of external agencies, including State and Federal government grants for Council operations and capital expenditure, as well as IPART's annual rates determination.
- Council is restricted in applying for some State and Federal grant programs as eligibility requirements for these grants include a requirement for Council to match the incoming grant 50/50.
- No significant changes to income or expenditure over the life of the plan. The low base level of asset maintenance and renewal is continued for the life of the plan.
- There is an annual funding shortfall of $1.7 million for the required infrastructure asset maintenance expense.
- Scenario 1 is predicated on the idea that no significant changes will occur in terms of the level and nature of services provided by Council, the amount of funding required for the maintenance, replacement and renewal of assets or the general environment in which council operates. It shows what happens if no action is taken to improve performance against the key performance ratios.
- Under both scenarios, Council undertakes a range of productivity improvements that are being monitored and reported as part of Council's Improvement Plan. These productivity improvements may be non-financial, and Council has not reduced its budget or modelled targeted financial savings associated with this action plan. The focus of these improvements is on improved productivity and any efficiency savings are likely to lead to non-financial benefits, and improvements in Council's services.

Summary and assessment – Scenario 1

As displayed in the key performance measures in the following table (and in the financial statements) Dungog Shire Council does not meet many of the performance measure benchmarks over the planning period. Council's Operational Performance Ratio, indicating operating expenses are lagging significantly behind operating rating revenues, of -17.5 is the worst of all NSW councils according to data provided by the NSW Office of Local Government.

Council's annual operating deficit averages around 11% per annum, and the immaterial levels of unrestricted cash available as working funds are not improved. Council does not have the resources to respond quickly to opportunities or risks as they arise; however, a very low debt ratio indicates there is some capacity to borrow. This borrowing capacity is limited over time because Council's focus will increasingly be interrupted to respond to the risks faced in relation to its failing infrastructure. The infrastructure backlog grows over the life of the planning period, reaching 17% by 2028. At that time, Council will only be funding the renewal of community infrastructure at a rate of 28% per annum, causing a continuous cycle of further deterioration.

This scenario presents a continuation of a 'status quo' or 'do nothing' situation where Council delivers existing services and continues to invest at the current levels in asset renewals. Based on this scenario Council cannot be considered to be financially sustainable, with operating deficits ever year, and increasing its infrastructure backlog to a point that will be unacceptable in terms of community expectations, good governance and fiscal responsibility.

Table 12 Scenario 1 (Base case) Performance measures

Special Rate start and end year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/2028
Operating Results (Surplus) before Capital Grants (achieve and maintain a positive operating balance)	(2,687)	(2,505)	(2,389)	(2,288)	(2,169)	(2,056)	(1,927)	(1,800)	(1,661)	(1,554)
Operating Performance Ratio	-17.3%	-15.7%	-14.6%	-13.6%	-12.5%	-11.5%	-10.4%	-9.5%	-8.5%	-7.7%
Own Source Revenue Ratio	50.82%	51.53%	52.24%	52.77%	53.35%	53.87%	54.40%	54.90%	55.43%	55.88%
Own Source Revenue Ratio including FAGs (target is more than 60%)	63.44%	63.96%	64.49%	64.89%	65.32%	65.71%	66.13%	66.53%	66.96%	67.32%
Asset Renewal ratio	92%	60%	29%	37%	26%	35%	27%	35%	26%	28%
Infrastructure Backlog ratio (target to maintain at less than 2%)	6.7%	7.4%	8.7%	9.8%	11.1%	12.2%	13.5%	14.6%	15.8%	17.0%
Asset Maintenance ratio (target to maintain 3 year average at 100%)	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%
Debt Service Ratio (target is to maintain at less than 20%)	1.50%	1.41%	1.32%	1.23%	1.15%	1.07%	0.91%	0.00%	0.00%	0.00%
Real Operating expenditure per capita	$2,070	$2,095	$2,130	$2,168	$2,209	$2,249	$2,293	$2,336	$2,386	$2,436

Table 13 Scenario 1 (base case) Capital works program

Capital expenditure	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2028 Budget
Building and Infrastructure ($'000)										
New assets	-	-	-	-	-	-	-	-	-	
Asset renewals	4,956	3,282	1,591	2,079	1,490	2,029	1,593	2,106	1,558	1,718
Other assets ($'000)										
New assets	-	-	-	-	-	-	-	-	-	-
Asset renewals	869	1,106	864	1,083	1,015	1,365	844	865	881	900

Scenario 2: Improvement Plan

Introduction

The modelling in this scenario is based on the implementation of critical financial initiatives designed to correct the financial position of Council.

- Increase revenue with a proposed tapered Special Rates Variation commencing in 2019-20 at 15% for 2 years, then 10% for 3 years, followed by 6% for 2 years.
- Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- Additional annual budget for Council's infrastructure maintenance program of $450,000 per annum, increasing annually.
- Additional annual budget for community infrastructure renewal, with a focus on roads and bridges. On average an additional $4.8 million per annum.

Components included in model for Scenario 2

- Council takes action to increase its revenue base by applying to IPART for a Special Rates Variation, and by borrowing funds in order to leverage capital grant funding that requires a 50:50 co-contribution.
- The Special Rate Variation is tapered so that the annual increase is decreased over the 7 years from 2019-20 to 2025-26. The cumulative increase in rates is 97.8% over 7 years, including the cumulative increase of 18.9% from the rate peg increase. After applying the special rates variation, the additional income included in Council's rates base is $4.5 million by 2025-26.
- Council continues its program to renew its timber bridge infrastructure, with a ten year program totalling $12.8 million. The program is funded through $3.7 million capital grants, $6.8 million borrowings and $2.3 million cash reserves. Council will renew 26 load limited timber bridges, to be replaced by new structures in either concrete or steel. The significant cost of maintenance associated with timber bridge assets will be reduced and the bridge infrastructure upgrades will address the need to have load limits, thereby providing economic benefit to the region's agricultural sector.
- Council continues its program to renew road and building infrastructure, with an investment of $31 million in additional roads renewal and $3,000,000 in additional building renewal. These additional amounts are in addition to scenario 1 asset renewal, for the ten year (10) planning period.
- There is an increase to the roads maintenance budget to reduce the gap between required annual maintenance and funded annual maintenance by 25%. The additional annual maintenance budget is $451,000 in the first year, and there is still a funding gap of $1.4 million per annum for required annual maintenance.
- Similar to scenario 1, Council undertakes a range of productivity improvements that are being monitored and reported as part of Council's Improvement Plan. These productivity improvements may be non-financial and Council has not reduced its budget or modelled targeted financial savings associated with this action plan. The focus of these improvements is on improved productivity, and any efficiency savings are likely to lead to non-financial benefits and improvements in Council's services.

Summary and assessment – Scenario 2

As displayed in the key performance measures in the following table, Dungog Shire Council improves on all of the performance measure benchmarks over the planning period.

Council receives additional rates revenue which improves the bottom line, generating an operating surplus by the 4th year from 2022-23. This indicates that Council has become financially sustainable and has some financial capacity to respond quickly to opportunities or risks as they arise. As a small rural council, Dungog Shire will always remain dependent on grant funding from other levels of government. However, in Scenario 2 it has generated additional revenues from within the local government area, reducing its level of dependence, and meets the Government's criteria for "own source funding." Council has a low level of manageable borrowings that have been used to fund infrastructure renewal programs. The infrastructure backlog reduces over the life of the planning period, reaching 2.6% by 2028. However, it has not generated adequate revenue to fund 100% of the required asset maintenance and this presents a risk to its ability to provide long term affordable community infrastructure at a satisfactory level of service.

Table 14 Scenario 2 (Improvement Plan)

Special Rate start and end year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/2028
Operating Results (Surplus) before Capital Grants (achieve and maintain a positive operating balance)	(3,081)	(2,282)	(1,362)	(698)	88	925	1,483	2,021	2,191	2,366
Operating Performance Ratio	-19.7%	-13.6%	-7.5%	-3.7%	0.4%	4.2%	6.5%	8.4%	8.9%	9.4%
Own Source Revenue Ratio	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Own Source Revenue Ratio including FAGs (target is more than 60%)	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Asset Renewal ratio	160%	165%	93%	99%	97%	117%	112%	139%	144%	121%
Infrastructure Backlog ratio (target to maintain at less than 2%)	5.5%	5.3%	5.4%	5.3%	5.2%	4.8%	4.5%	3.7%	2.8%	2.6%
Asset Maintenance ratio (target to maintain 3 year average at 100%)	74%	74%	73%	73%	72%	72%	71%	71%	70%	69%
Debt Service Ratio (target is to maintain at less than 20%)	-0.03%	0.41%	0.64%	1.99%	0.63%	1.98%	1.33%	1.37%	0.64%	1.58%
Real Operating expenditure per capita	$2,126	$2,163	$2,207	$2,249	$2,294	$2,339	$2,387	$2,437	$2,491	$2,545

Table 15 Scenario 2 (Improvement Program) Capital works program

Capital expenditure	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2028 Budget
Building and Infrastructure ($'000)										
New assets	-	-	-	-	-	-	-	-	-	
Asset renewals	8,656	8,982	5,141	5,579	5,540	6,779	6,643	8,356	8,858	7,526
Other assets ($'000)										
New assets	-	-	-	-	-	-	-	-	-	-
Asset renewals	869	1,106	864	1,083	1,015	1,365	844	865	881	1,207

Performance Measurement

We have used the 'Fit for the Future' criteria to measure performance for the two scenarios modelled in this plan. The following graphs compare the outcomes of the two scenarios against the benchmark. These graphs show the three year average ratios to produce a better long term picture of the financial sustainability trend.

Figure 1 Operating Surplus before Capital Grants and Contribution

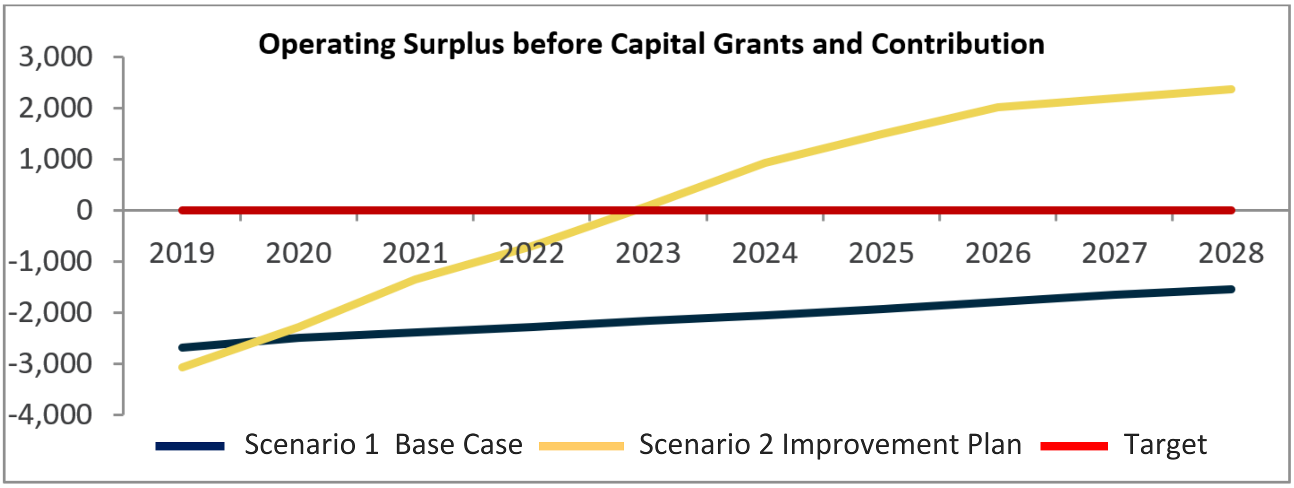


Figure 2 Operating Performance Ratio

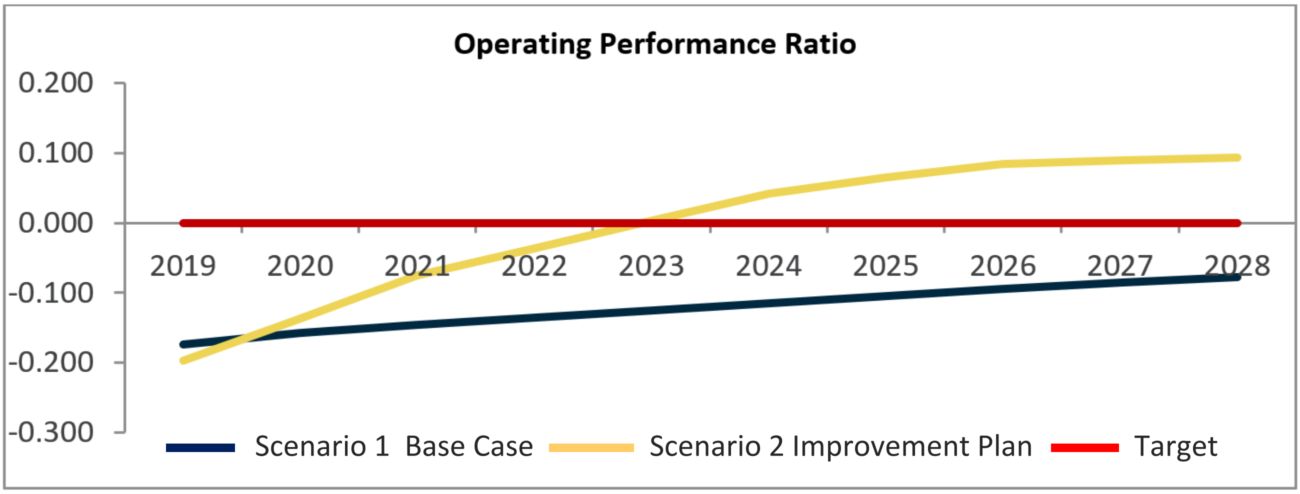


Figure 3 Own Source Revenue Ratio

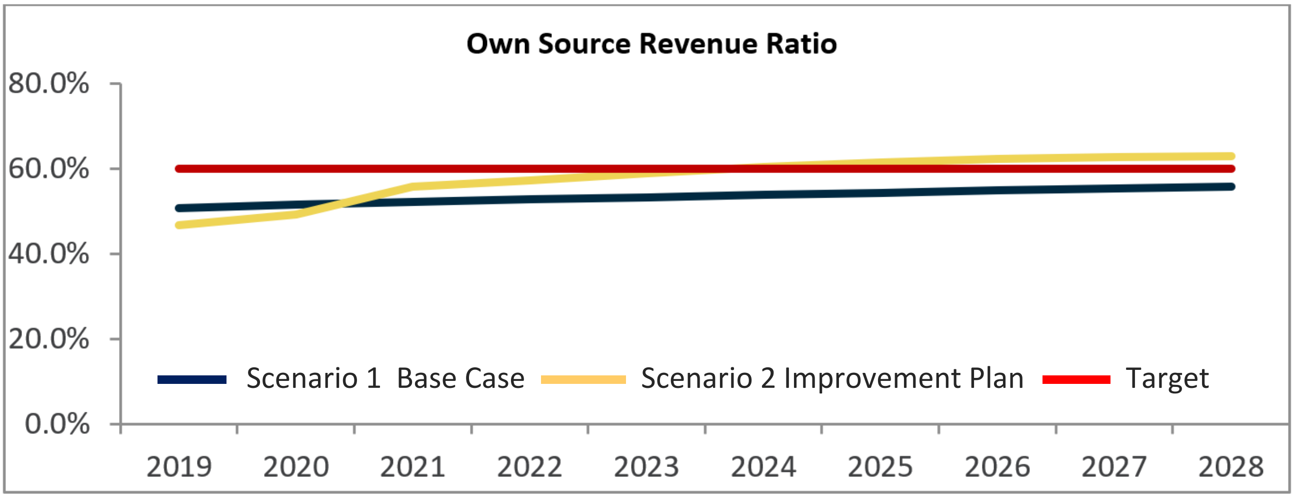


Figure 4 Building and Infrastructure asset renewal ratio

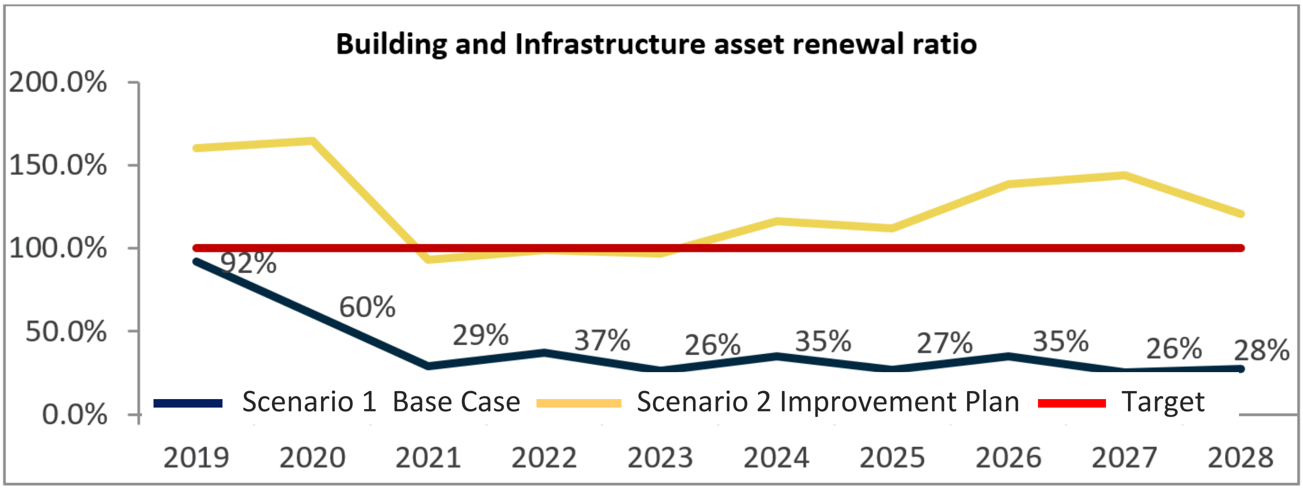


Figure 5 Building and Infrastructure backlog ratio

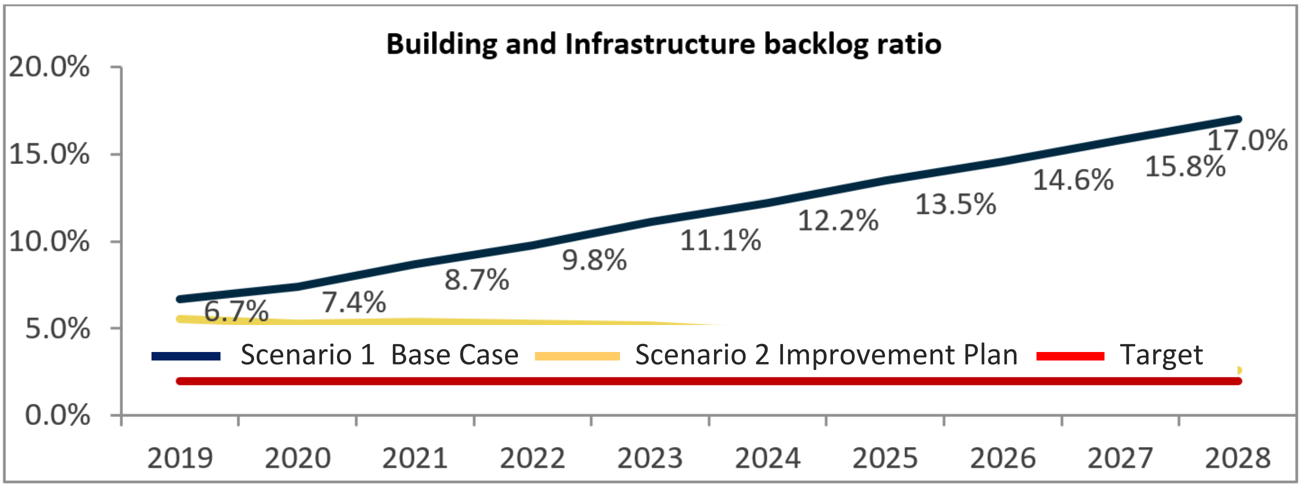


Figure 6 Asset Maintenance Ratio

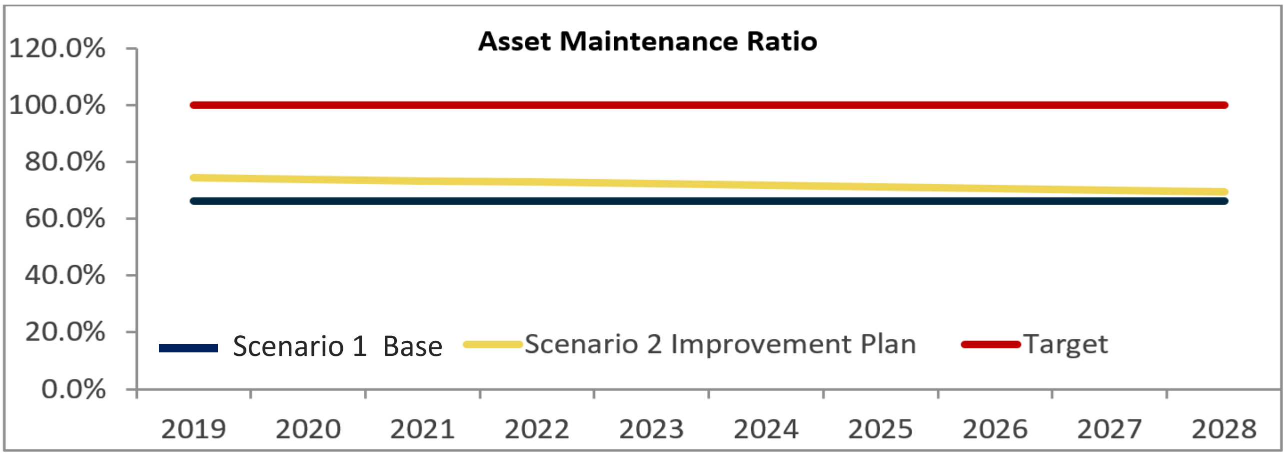


Figure 7 Real Operating Expenditure per Capita

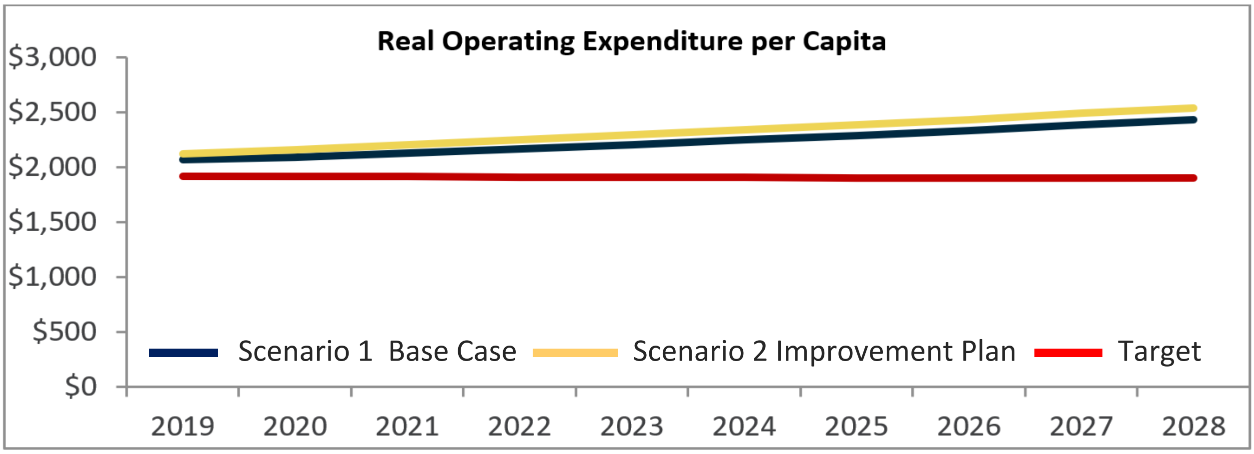
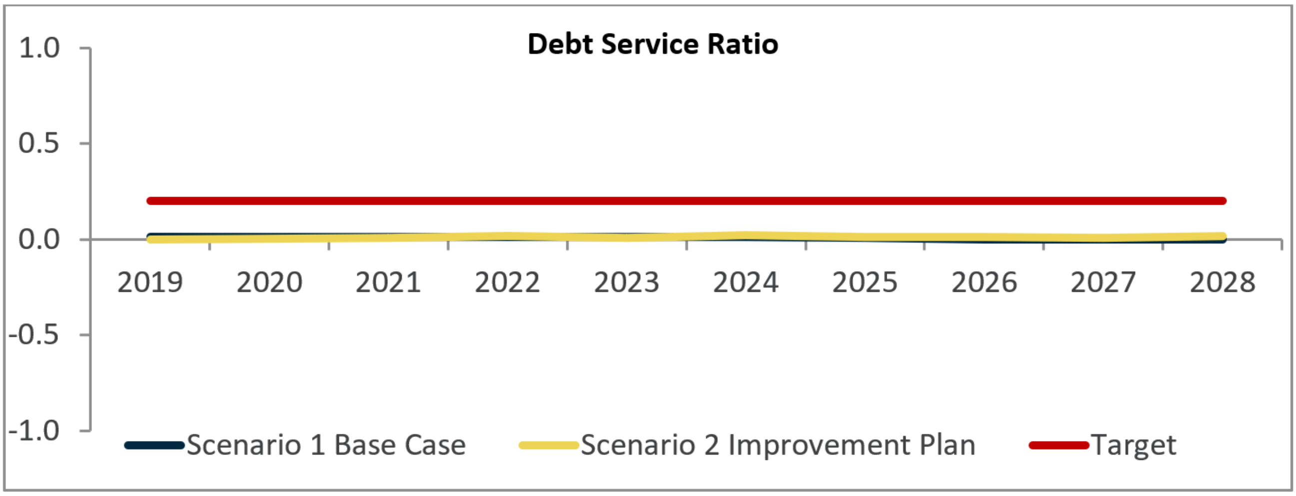


Figure 8 Debt Service Ratio



Risks and Sensitivity Analysis

Long Term Financial Plans are inherently uncertain. They contain a wide range of assumptions about interest rates and the potential effect of inflation on revenues and expenditures. Some of these assumptions will have a relatively limited impact if they are wrong. Others can have a major impact on future financial plans. The following analysis is provided to identify those matters that may have a moderate to significant impact on the results.

Risks

The major risk for Council relates to its revenues and the key assumptions which underpin this Long Term Financial Plan model. The major risks relate to:

Rates revenue

1. A risk of lower than expected rates cap increases.
2. A risk that IPART may not approve in full Council's application for a special variation.

Other revenues such as fees and charges and operating grants

3. The risk that government grant assistance diminishes or does not grow at the assumed rate. Any government policy decisions to reduce the relative value of operating grants would significantly impact Council's road asset maintenance and renewal program.
4. Lower than expected growth in other revenues.

Capital grants

5. Council has modelled a program of timber bridge renewal in Scenario 2 of this plan, with an assumption that includes $3.7 million capital grant funding for a total timber bridge renewal program of $12.8 million over 10 years. If a higher level of government grant funding is received, Council's infrastructure program may be accelerated and extended, to further reduce the infrastructure backlog and will have a positive impact on operating expenses.

Operating expenditure

6. Materials and contracts account for approximately 30% of projected annual expenditure which is reflective of the level of community infrastructure that Council maintains. Considerable pressure is placed on the cost of materials and contracts due to rising raw material costs including fuel and freight. Fuel and energy are subjected to pressure from oil prices and market fluctuations. Should unplanned major increases in cost indexes be experienced it will impact Council's operating expenses.

Interest rates on new borrowings

7. Increases in the cost of financing over the assumed interest rates used in this model.

Other costs

8. It is assumed that mandated requirements on Council will remain unchanged over the planning period. If there is an increase in Council's legal and regulatory obligations this is likely to subsequently increase annual operating expenses.

Sensitivity analysis

The sensitivities and potential impact as outlined in the following paragraphs relate to the financial projections contained in this Long Term Financial Plan.

Rates revenue

1. Each 1% change in ordinary rates revenue will result in a $57,000 change in total rates revenue under scenario 1 and $58,000 under scenario 2 for the 2019-20 year. If this change continued for each year in the ten year planning period, the cumulative impact would be a change in annual revenue of $606,000 under scenario 1 and $1,000,000 under scenario 2, by 2027-28.

Other revenues such as fees and charges and grants

2. Revenue from operating grants is $5.4 million in 2018-19 which is approximately 35% of Council's total operating income (excluding capital). Each 1% change represents $54,000 in the first year.

Operating expenditure

3. Employee costs and other operating expenditure (materials and contracts and other) comprise $12 million for 2018-19. A 1% movement in these costs represents $121,000.

Interest rates on new borrowings

4. New borrowings are utilised in scenario 2. A 1% increase on the interest expense for new borrowings would increase Council's total cost of borrowings by $479,000 over the ten year life of this Long Term Financial Plan.

Changes to the revenue or expenditure assumptions could have a material effect on the financial projections in the Long Term Financial Plan. However, Council believes the assumptions used are robust. A regular review of the modelling will ensure that Council is able to react and plan for any changes in costs and revenues over the term of this plan.

Conclusion

In this Long Term Financial Plan, Council has outlined two scenarios.

- Scenario 1 is the Base Case or ‘do nothing’ option. It models the continuation of the level of funding for Council’s services as currently provided within the 2018-19 operating plan. Scenario 1 is an unsustainable financial situation and will result in the continuing deterioration of community infrastructure.

- Scenario 2 is the Improvement Plan and proposes to increase revenue with a Special Rates Variation commencing in 2019-20 at 15% for 2 years, then 10% for 3 years, followed by 6% for 2 years. Under Scenario 2, Council increases its investment in infrastructure maintenance and renewal and becomes financially sustainable over time.

The Financial Statements contained in the following pages of this plan set out the financial performance, financial position and cashflows projected for the next ten years.

The format of the financial statements is standard across NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and legislative requirements set down by the Office of Local Government.

Scenario 1: Financial Statements

Income Statement - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Income from continuing operations											
Rates and annual charges	7,461	7,700	7,888	8,080	8,282	8,489	8,702	8,919	9,142	9,371	9,605
User charges and fees	1,235	1,266	1,298	1,330	1,363	1,397	1,432	1,468	1,505	1,543	1,581
Interest and investment revenue	486	586	753	905	1,086	1,248	1,448	1,647	1,871	2,066	2,305
Other revenues	870	892	914	937	961	985	1,009	1,034	1,060	1,087	1,114
Grants and contributions - Operating	5,490	5,545	5,601	5,685	5,770	5,857	5,944	6,034	6,124	6,216	6,309
Grants and contributions - Capital	4,228	4,270	4,313	4,378	4,443	4,510	4,600	4,692	4,786	4,882	4,979
Share of interest in joint ventures	8	8	9	9	9	9	10	10	10	10	10
Total Income	**19,778**	**20,268**	**20,775**	**21,324**	**21,914**	**22,495**	**23,145**	**23,804**	**24,499**	**25,174**	**25,904**
Expenses from continuing operations											
Employee benefits and oncosts	4,588	4,703	4,832	4,977	5,126	5,280	5,438	5,602	5,770	5,943	6,121
Borrowing costs	52	44	36	28	20	11	4	-	-	-	-
Materials and contracts	5,705	5,808	5,924	6,055	6,188	6,324	6,463	6,605	6,751	6,899	7,051
Depreciation and amortisation	6,137	6,162	6,237	6,313	6,404	6,481	6,580	6,674	6,778	6,883	6,991
Other expenses	1,754	1,786	1,822	1,862	1,903	1,945	1,987	2,031	2,076	2,121	2,168
Total Expenses	**18,237**	**18,503**	**18,851**	**19,234**	**19,640**	**20,041**	**20,472**	**20,911**	**21,374**	**21,846**	**22,331**
Net Operating Result	**1,541**	**1,765**	**1,924**	**2,090**	**2,274**	**2,454**	**2,673**	**2,892**	**3,124**	**3,328**	**3,572**
Net operating result before grants and contributions provided for capital purposes	**(2,687)**	**(2,505)**	**(2,389)**	**(2,288)**	**(2,169)**	**(2,056)**	**(1,927)**	**(1,800)**	**(1,661)**	**(1,554)**	**(1,407)**

Statement of Financial Position - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current assets											
Cash and investments	16,193	19,549	25,092	30,179	36,198	41,584	48,262	54,885	62,378	68,879	76,827
Receivables	2,168	2,235	2,290	2,346	2,405	2,465	2,527	2,590	2,654	2,721	2,789
Inventories	782	796	812	829	848	866	885	905	925	945	966
Other	18	18	18	18	18	18	18	18	18	18	18
Total current assets	**19,160**	**22,598**	**28,212**	**33,372**	**39,468**	**44,933**	**51,692**	**58,398**	**65,975**	**72,563**	**80,600**
Non-current assets											
Infrastructure, property, plant and equipment	297,650	299,895	303,167	307,524	312,024	316,688	321,498	326,464	331,582	336,856	342,290
Joint venture investments	71	71	71	71	71	71	71	71	71	71	71
Total non-current assets	**297,721**	**299,966**	**303,238**	**307,595**	**312,095**	**316,759**	**321,569**	**326,535**	**331,653**	**336,927**	**342,361**
Total Assets	**316,881**	**322,563**	**331,450**	**340,967**	**351,563**	**361,692**	**373,260**	**384,933**	**397,628**	**409,490**	**422,961**
Current liabilities											
Payables	1,426	1,455	1,489	1,526	1,564	1,604	1,644	1,685	1,728	1,771	1,816
Borrowings	181	181	181	181	181	165	-	-	-	-	-
Provisions	2,410	2,459	2,516	2,579	2,643	2,710	2,778	2,848	2,919	1,870	1,917
Total current liabilities	**4,016**	**4,096**	**4,185**	**4,286**	**4,389**	**4,478**	**4,422**	**4,533**	**4,647**	**3,641**	**3,733**
Non-current liabilities											
Borrowings	889	708	527	346	165	-	-	-	-	-	-
Provisions	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036
Total non-current liabilities	**3,925**	**3,744**	**3,563**	**3,382**	**3,201**	**3,036**	**3,036**	**3,036**	**3,036**	**3,036**	**3,036**
Total Liabilities	**7,941**	**7,840**	**7,748**	**7,668**	**7,590**	**7,514**	**7,458**	**7,569**	**7,683**	**6,677**	**6,769**
NET ASSETS	**308,939**	**314,724**	**323,701**	**333,299**	**343,974**	**354,177**	**365,802**	**377,364**	**389,945**	**402,813**	**416,192**
Equity											
Accumulated surplus	133,501	135,266	137,190	139,280	141,555	144,009	146,681	149,574	152,698	156,026	159,598
Revaluation reserves	175,438	179,457	186,511	194,019	202,419	210,169	219,121	227,791	237,247	246,787	256,593
TOTAL EQUITY	**308,939**	**314,724**	**323,701**	**333,299**	**343,974**	**354,177**	**365,802**	**377,364**	**389,945**	**402,813**	**416,192**

Statement of Cash Flows - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash flows from operating activities											
Receipts:											
Rates and annual charges	7,461	7,700	7,888	8,080	8,282	8,489	8,702	8,919	9,142	9,371	9,605
User charges and fees	1,181	1,199	1,243	1,274	1,305	1,337	1,371	1,405	1,440	1,476	1,513
Investment revenue and interest	486	586	753	905	1,086	1,248	1,448	1,647	1,871	2,066	2,305
Grants and contributions	9,718	9,815	9,914	10,062	10,213	10,366	10,544	10,726	10,910	11,098	11,288
Other	878	900	923	946	970	994	1,019	1,044	1,070	1,097	1,124
Payments:											
Employee benefits and on-costs	(4,623)	(4,653)	(4,776)	(4,914)	(5,062)	(5,214)	(5,370)	(5,532)	(5,698)	(6,992)	(6,074)
Materials and contracts	(5,632)	(5,793)	(5,907)	(6,035)	(6,168)	(6,303)	(6,442)	(6,583)	(6,728)	(6,876)	(7,027)
Borrowing costs	(52)	(44)	(36)	(28)	(20)	(11)	(4)	-	-	-	-
Other	(1,754)	(1,786)	(1,822)	(1,862)	(1,903)	(1,945)	(1,987)	(2,031)	(2,076)	(2,121)	(2,168)
Net cash provided (or used) in operating activities	**7,662**	**7,925**	**8,180**	**8,429**	**8,704**	**8,961**	**9,280**	**9,594**	**9,932**	**9,119**	**10,567**
Cash flows from investing activities											
Payments:											
Purchase of infrastructure, property, plant and equipment	(5,825)	(4,388)	(2,456)	(3,162)	(2,504)	(3,394)	(2,437)	(2,971)	(2,439)	(2,618)	(2,619)
Net cash provided (or used) in investing activities	**(5,825)**	**(4,388)**	**(2,456)**	**(3,162)**	**(2,504)**	**(3,394)**	**(2,437)**	**(2,971)**	**(2,439)**	**(2,618)**	**(2,619)**
Cash flows from financing activities											
Payments:											
Loan repayments	(181)	(181)	(181)	(181)	(181)	(181)	(165)	-	-	-	-
Net cash provided (or used) in financing activities	**(181)**	**(181)**	**(181)**	**(181)**	**(181)**	**(181)**	**(165)**	**-**	**-**	**-**	**-**
Net increase / (decrease) in cash	1,656	3,356	5,543	5,087	6,019	5,386	6,678	6,624	7,493	6,501	7,948
Cash at the beginning of the year	9,536	11,193	14,549	20,092	25,179	31,198	36,584	43,262	49,885	57,378	63,879
Cash at the end of the year	**11,193**	**14,549**	**20,092**	**25,179**	**31,198**	**36,584**	**43,262**	**49,885**	**57,378**	**63,879**	**71,827**

Scenario 2: Financial Statements

Income Statement - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Income from continuing operations											
Rates and annual charges	7,525	8,551	9,636	10,491	11,433	12,467	13,183	13,941	14,328	14,727	15,136
User charges and fees	1,235	1,266	1,298	1,330	1,363	1,397	1,432	1,468	1,505	1,543	1,581
Interest and investment revenue	519	557	709	801	948	1,052	1,223	1,344	1,485	1,608	1,823
Other revenues	870	892	914	937	961	985	1,009	1,034	1,060	1,087	1,114
Grants and contributions - Operating	5,490	5,545	5,601	5,685	5,770	5,857	5,944	6,034	6,124	6,216	6,309
Grants and contributions - Capital	6,028	6,088	4,323	4,387	4,453	4,520	4,610	4,703	4,797	4,893	4,990
Share of interest in joint ventures	8	8	9	9	9	9	10	10	10	10	10
Total Income	**21,675**	**22,908**	**22,489**	**23,640**	**24,937**	**26,287**	**27,412**	**28,533**	**29,309**	**30,082**	**30,965**
Expenses from continuing operations											
Employee benefits and oncosts	4,588	4,703	4,832	4,977	5,126	5,280	5,438	5,602	5,770	5,943	6,121
Borrowing costs	93	166	214	221	226	231	236	244	254	263	272
Materials and contracts	6,156	6,285	6,423	6,577	6,736	6,903	7,073	7,252	7,438	7,623	7,796
Depreciation and amortisation	6,137	6,163	6,238	6,315	6,406	6,484	6,585	6,681	6,785	6,876	6,929
Other expenses	1,754	1,786	1,822	1,862	1,903	1,945	1,987	2,031	2,076	2,121	2,168
Total Expenses	**18,729**	**19,102**	**19,528**	**19,951**	**20,397**	**20,843**	**21,320**	**21,810**	**22,323**	**22,826**	**23,286**
Net Operating Result	**2,947**	**3,806**	**2,961**	**3,689**	**4,540**	**5,444**	**6,092**	**6,723**	**6,986**	**7,257**	**7,679**
Net operating result before grants and contributions provided for capital purposes	**(3,081)**	**(2,282)**	**(1,362)**	**(698)**	**87**	**924**	**1,482**	**2,020**	**2,190**	**2,364**	**2,688**

Statement of Financial Position - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current assets											
Cash and investments	17,288	18,582	23,633	26,702	31,591	35,051	40,779	44,790	49,492	53,590	60,781
Receivables	2,184	2,447	1,198	1,295	1,402	1,519	1,602	1,689	1,735	1,783	1,832
Inventories	782	796	812	829	848	866	885	905	925	945	966
Other	18	18	18	18	18	18	18	18	18	18	18
Total current assets	**20,271**	**21,843**	**25,661**	**28,845**	**33,859**	**37,455**	**43,284**	**47,402**	**52,170**	**56,336**	**63,597**
Non-current assets											
Infrastructure, property, plant and equipment	301,350	309,361	316,372	324,518	333,440	343,321	353,762	365,681	378,705	390,024	398,741
Joint venture investments	71	71	71	71	71	71	71	71	71	71	71
Total non-current assets	**301,421**	**309,432**	**316,443**	**324,589**	**333,511**	**343,392**	**353,833**	**365,752**	**378,776**	**390,095**	**398,812**
Total Assets	**321,692**	**331,275**	**342,104**	**353,433**	**367,370**	**380,847**	**397,117**	**413,153**	**430,946**	**446,431**	**462,409**
Current liabilities											
Payables	1,479	1,512	1,548	1,588	1,629	1,672	1,716	1,762	1,809	1,857	1,904
Borrowings	181	181	181	181	181	165	-	-	-	-	-
Provisions	2,410	2,459	2,516	2,579	2,643	2,710	2,778	2,848	2,919	1,870	1,917
Total current liabilities	**4,070**	**4,152**	**4,244**	**4,347**	**4,453**	**4,547**	**4,494**	**4,609**	**4,728**	**3,727**	**3,821**
Non-current liabilities											
Borrowings	2,709	4,318	4,851	4,590	5,107	4,826	5,518	5,337	5,955	5,722	6,372
Provisions	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036
Total non-current liabilities	**5,745**	**7,354**	**7,887**	**7,626**	**8,143**	**7,862**	**8,554**	**8,373**	**8,991**	**8,758**	**9,408**
Total Liabilities	**9,815**	**11,506**	**12,131**	**11,973**	**12,596**	**12,409**	**13,048**	**12,982**	**13,719**	**12,485**	**13,229**
NET ASSETS	**311,877**	**319,769**	**329,972**	**341,460**	**354,774**	**368,438**	**384,069**	**400,171**	**417,227**	**433,946**	**449,180**
Equity											
Accumulated surplus	135,029	138,835	141,796	145,485	150,025	155,468	161,561	168,283	175,270	182,526	190,205
Revaluation reserves	176,848	180,933	188,177	195,975	204,749	212,970	222,508	231,888	241,958	251,420	258,974
TOTAL EQUITY	**311,877**	**319,769**	**329,972**	**341,460**	**354,774**	**368,438**	**384,069**	**400,171**	**417,227**	**433,946**	**449,180**

Statement of Cash Flows - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash flows from operating activities											
Receipts:											
Rates and annual charges	7,525	8,551	9,636	10,491	11,433	12,467	13,183	13,941	14,328	14,727	15,136
User charges and fees	1,165	1,003	2,547	1,233	1,256	1,280	1,350	1,381	1,458	1,495	1,532
Investment revenue and interest	519	557	709	801	948	1,052	1,223	1,344	1,485	1,608	1,823
Grants and contributions	11,518	11,633	9,923	10,072	10,223	10,377	10,555	10,736	10,921	11,109	11,300
Other	878	900	923	946	970	994	1,019	1,044	1,070	1,097	1,124
Payments:											
Employee benefits and on-costs	(4,623)	(4,653)	(4,776)	(4,914)	(5,062)	(5,214)	(5,370)	(5,532)	(5,698)	(6,992)	(6,074)
Materials and contracts	(6,029)	(6,266)	(6,403)	(6,555)	(6,713)	(6,879)	(7,048)	(7,226)	(7,411)	(7,595)	(7,770)
Borrowing costs	(93)	(166)	(214)	(221)	(226)	(231)	(236)	(244)	(254)	(263)	(272)
Other	(1,754)	(1,786)	(1,822)	(1,862)	(1,903)	(1,945)	(1,987)	(2,031)	(2,076)	(2,121)	(2,168)
Net cash provided (or used) in operating activities	**9,105**	**9,773**	**10,524**	**9,992**	**10,927**	**11,901**	**12,688**	**13,413**	**13,824**	**13,064**	**14,632**
Cash flows from investing activities											
Payments:											
Purchase of infrastructure, property, plant and equipment	(9,525)	(10,088)	(6,006)	(6,662)	(6,554)	(8,144)	(7,487)	(9,221)	(9,739)	(8,733)	(8,091)
Net cash provided (or used) in investing activities	**(9,525)**	**(10,088)**	**(6,006)**	**(6,662)**	**(6,554)**	**(8,144)**	**(7,487)**	**(9,221)**	**(9,739)**	**(8,733)**	**(8,091)**
Cash flows from financing activities											
Receipts:											
New loans	1,639	1,609	533	-	517	-	692	-	618	-	650
Payments:											
Loan repayments	-	-	-	(261)	-	(297)	(165)	(181)	-	(233)	-
Net cash provided (or used) in financing activities	**1,639**	**1,609**	**533**	**(261)**	**517**	**(297)**	**527**	**(181)**	**618**	**(233)**	**650**
Net increase / (decrease) in cash	1,219	1,294	5,051	3,069	4,890	3,460	5,727	4,011	4,702	4,098	7,191
Cash at the beginning of the year	11,068	12,288	13,582	18,633	21,702	26,591	30,051	35,779	39,790	44,492	48,590
Cash at the end of the year	**12,288**	**13,582**	**18,633**	**21,702**	**26,591**	**30,051**	**35,779**	**39,790**	**44,492**	**48,590**	**55,781**