Appendix 3: Scenario 3: Strategic

3.1 Introduction

The Standard Scenario of the LTFP shows the financial results of applying the following assumptions:

Income	Strategic
Rates	
Pegging factor applied 2021	2.0%
Ongoing peg factor beyond 2021	2.5%
New annual rates assessment	150
User fees and charges Annual factor	2.5%
Operating grants and Contributions Annual factor	2.5%
Other	
Cash investment returns	2.5%
Other income	2.5%
Rental income	3.0%
Airport dividend	Fixed Amount

Expenses	Strategic
Salaries and allowances	2.5%
Materials and contracts	2.5%
Capital spend over 10 years	$250m
Other expenses	2.5%
Enhanced services levels	Continually increase by $250k per year

3.2 Financial Results

In Scenario 3 the forecast underlying result is in deficit for six out of the ten years. The financial modelling suggests this Scenario is not financially sustainable due to the cumulative deficit which would require a review of service levels and infrastructure investment. The enhanced service levels of an increase of $250,000 per year is not financially sustainable.

3.3 Financial Statements

Scenario 3: Strategic – Income Statement

INCOME STATEMENT For the period ended 30 June	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000	2030 $'000	2031 $'000
Revenue										
Rates & Annual Charges	66,079	67,885	69,736	71,633	73,577	75,570	77,613	79,708	81,854	84,054
User Fees and Charges	48,272	50,117	51,507	53,339	54,711	56,625	58,082	59,575	61,607	63,190
Interest & Investment Revenue	1,243	1,382	1,224	1,209	935	955	992	1,053	1,079	1,141
Other Revenues	3,937	4,036	4,137	4,240	4,346	4,455	4,566	4,680	4,797	4,917
Operating Grants and Contributions	12,255	12,561	12,875	13,197	13,527	13,865	14,212	14,567	14,932	15,305
Capital Grants and Contributions	12,122	7,212	7,356	7,503	7,653	7,806	7,962	8,121	8,284	8,450
Gain on Sale of assets	3,750	250	250	250	250	250	250	250	250	250
Other Income - Rental Income	4,219	4,346	4,476	4,610	4,749	4,891	5,038	5,189	5,344	5,505
Other Income - Fair Value increment	835	1,177	1,212	1,248	1,286	1,324	1,364	1,405	1,447	1,490
Total Revenue	**152,713**	**148,965**	**152,772**	**157,229**	**161,035**	**165,742**	**170,079**	**174,548**	**179,594**	**184,302**
Operating Expenses										
Employee Benefits & On-Costs	54,158	56,509	57,505	59,289	61,147	62,744	64,396	66,106	67,880	69,717
Borrowing Costs	872	775	739	658	383	457	396	335	312	259
Materials & Services	46,761	47,565	49,004	51,129	51,991	53,540	55,129	57,507	58,426	60,137
Depreciation & Amortisation	18,247	18,814	19,564	20,217	20,760	21,175	21,474	22,064	22,234	22,721
Other Expenses	15,507	15,947	16,340	16,796	17,210	17,637	18,072	18,533	19,002	19,482
Total Operating Expenses	**135,545**	**139,609**	**143,151**	**148,088**	**151,491**	**155,555**	**159,468**	**164,546**	**167,854**	**172,315**
Operating Surplus / (Deficit)	**17,168**	**9,356**	**9,621**	**9,141**	**9,544**	**10,187**	**10,611**	**10,003**	**11,740**	**11,986**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**17,168**	**9,356**	**9,621**	**9,141**	**9,544**	**10,187**	**10,611**	**10,003**	**11,740**	**11,986**
Net Operating Result before Capital Grants	**5,046**	**2,145**	**2,265**	**1,638**	**1,891**	**2,381**	**2,649**	**1,881**	**3,456**	**3,537**
Adjustments for Underlying Result										
Gain on Sale of assets	(3,750)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Investment property fair value increases & royaltie	(1,488)	(1,511)	(1,555)	(1,600)	(1,646)	(1,694)	(1,743)	(1,793)	(1,845)	(1,898)
NAP Profit	(228)	(1,248)	(1,790)	(2,554)	(2,732)	(3,498)	(3,795)	(4,109)	(4,941)	(5,304)
Local election costs	600	-	-	650	-	-	-	750	-	-
NAP dividend	-	500	1,000	1,500	2,000	2,000	2,000	2,000	2,000	2,000
Underlying result	**180**	**(365)**	**(329)**	**(616)**	**(737)**	**(1,061)**	**(1,138)**	**(1,521)**	**(1,580)**	**(1,915)**

Long Term Financial Plan

2021 to 2031: **Our place. Our plan.**

PORT STEPHENS COUNCIL

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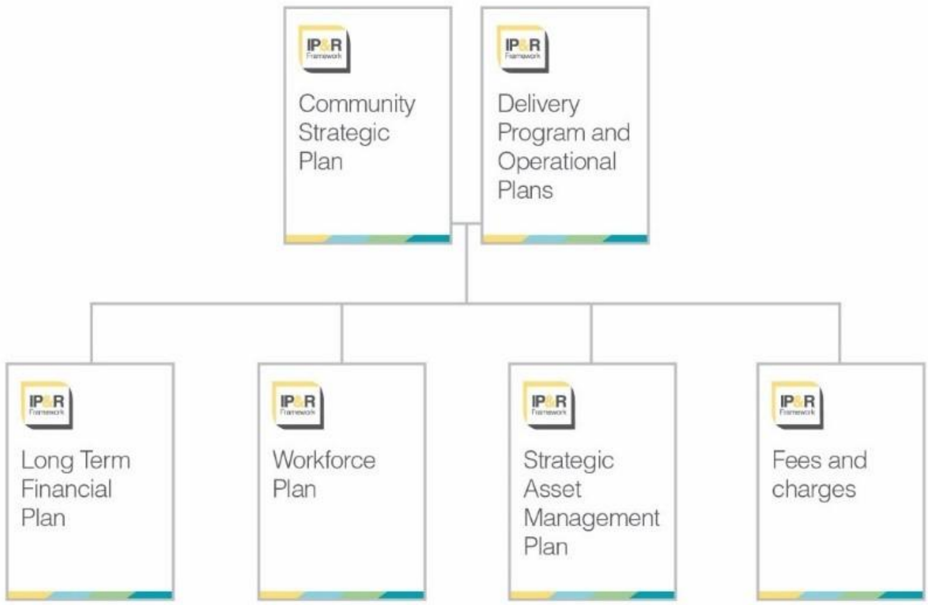
Integrated Plans and resourcing strategies



Contents

The Long Term Financial Plan 2021 to 2031 of Port Stephens Council has been prepared in accordance with Section 403 of the Local Government Act 1993.

Acknowledgement

Port Stephens Council acknowledges the Worimi People as the traditional custodians of the land of Port Stephens. We also pay our respect to Aboriginal Elders past, present and future.

1. Executive Summary

The Long Term Financial Plan 2021-2031 (LTFP) aligns the long term aspirations and goals of the Community Strategic Plan (CSP) with Council's financial ability to deliver these ambitions.

It provides a robust yet dynamic framework in which Council can review and assess its financial sustainability in conjunction with its core functions and responsibilities. The LTFP contains a set of long range financial projections based on a set of assumptions. It covers a 10 year period from 2021-2022 to 2030-2031.

The LTFP models 3 scenarios, each of which shows a specific financial outlook. The scenarios are cumulative, so that each scenario incorporates the assumptions and financial outcomes of the previous scenario(s). The scenarios can also be looked at in isolation. This iteration of the LTFP aims to model and inform residents on the outcomes of the various financial scenarios.

The **Standard Scenario** is the preferred option in setting the 2021-2022 operating and capital budget. This scenario maintains financial sustainability targets as set by Council without materially altering service levels. The Conservative Scenario is not financially suitable and demonstrates the need to take up the full rate peg in order to main current service levels. The Strategic Scenario is also not financially sustainable as it demonstrates the need to align funding sources or increase revenue streams if service levels are to be enhanced and the capital works programs expended.

The main assumptions used for each scenario is as follows:

Income	Conservative	Standard	Strategic
Rates			
Pegging factor applied 2021	1.5%	2.0%	2.0%
Ongoing peg factor beyond 2021	1.5%	2.0%	2.5%
New annual rates assessment	150	150	150
User fees and charges Annual factor	1.0%	2.0%	2.5%
Operating grants and Contributions Annual factor	1.5%	2.2%	2.5%
Other			
Cash investment returns	1.0%	2.0%	2.5%
Other income	1.0%	2.0%	2.5%
Rental income	2.0%	2.5%	3.0%
Airport dividend	Nil – first 3 years	Fixed Amount	Fixed Amount

Expenses	Conservative	Standard	Strategic
Salaries and allowances	1.5%	2.0%	2.5%
Materials and contracts	1.5%	2.0%	2.5%
Capital spend over 10 years	$200m	$225m	$250m
Other expenses	1.5%	2.0%	2.5%
Enhanced services levels	-	Permanent increase by $500k in the first year only	Continually increase by $250k per year

Projected Result	Conservative	Standard	Strategic
2021-2022	(1,025,006)	52,377	180,431
2022-2023	(1,698,937)	(490,302)	(364,670)
2023-2024	(2,718,074)	93,995	(329,488)
2024-2025	(1,888,843)	305,268	(615,628)
2025-2026	(1,904,932)	677,598	(737,119)
2026-2027	(2,117,621)	550,889	(1,061,041)
2027-2028	(2,083,729)	687,796	(1,138,274)
2028-2029	(2,359,970)	531,076	(1,521,193)
2029-2030	(2,278,996)	524,870	(1,579,731)
2030-2031	(2,483,168)	660,266	(1,915,065)

Assumptions for each respective scenario are for financial modelling purposes only and would require community consultation, Council endorsement and the necessary legislative approvals before implementation.

A summary of each scenario is as follows:

Scenario 1 – Conservative (less than authorised rate peg)

The future sustainability of Council is dependent upon generating sufficient funds to meet the costs of maintaining and renewing assets to deliver services.

In this scenario, budget parameters are set at conservative levels including a rate increase of 1.5%. The outcomes is that Council would not generate sufficient funds to continue providing current service levels or renew its assets when required.

<u>Covid-19 Assumption</u>

This scenario assumes no services are impacted due to COVID-19 infections however; the economic recovery is slow and prolonged and because of this no annual dividend from Newcastle Airport is possible.

Scenario 2 – Standard (authorised rate peg)

Under this scenario *(currently applied)*, financial sustainability is maintained however, it does identify a number of financial challenges that Council will need to review in the near future. The assumption of the authorised rate peg of 2.0% for 2021-2022 and estimated rate peg of 2.0% for the period of 2022 to 2030 has been used. Budget parameters are set based on a business as usual approach however does allow for an additional $500k to be invested in increased asset maintenance.

Covid-19 Assumption

This scenario assumes no services are impacted due to COVID-19 infections and the economic recovery is moderate as vaccines are delivered. The annual dividend from Newcastle Airport is based on a fixed allocation driven by cash reserves.

Scenario 3 – Strategic (authorised rate peg & increased service levels)

Under this scenario, budget parameters are set at levels designed to increase service levels including a rate increase of 2.5%, larger capital works program and enhanced service levels.

The outcomes from this scenario place financial sustainability under pressure due to increased service level costs without a compensating revenue source.

Covid-19 Assumption

This scenario assumes no services are impacted due to COVID-19 infections and the economic recovery is fast, back around pre Covid-19 levels. The annual dividend from Newcastle Airport is based on a fixed allocation driven by cash reserves.

2. Introduction

2.1 Purpose of the Long Term Financial Plan

The LTFP is a critical document that forms part of the NSW Government's Integrated Planning and Reporting (IP&R) framework required for all of local government. It is one of a number of resourcing strategies that also includes the Strategic Asset Management Plan (SAMP) and the Workforce Plan. These documents show how a council will deliver the community aspirations as outlined in the Community Strategic Plan (CSP) and spelt out in the Delivery Program and Operational Plans.

Council’s key objective when managing its financial resources is to remain financially sustainable and demonstrate our long term capacity to deliver the strategic objectives in the CSP, Delivery Program and Operational Plans.

The LTFP must:

- project financial forecasts for the Council for at least ten years;

- inform Council's decision-making during the finalisation of the CSP, development of the Delivery Program, delivery of priorities outlined in the SAMP; and
- be updated annually as part of the development of the Operational Plan.

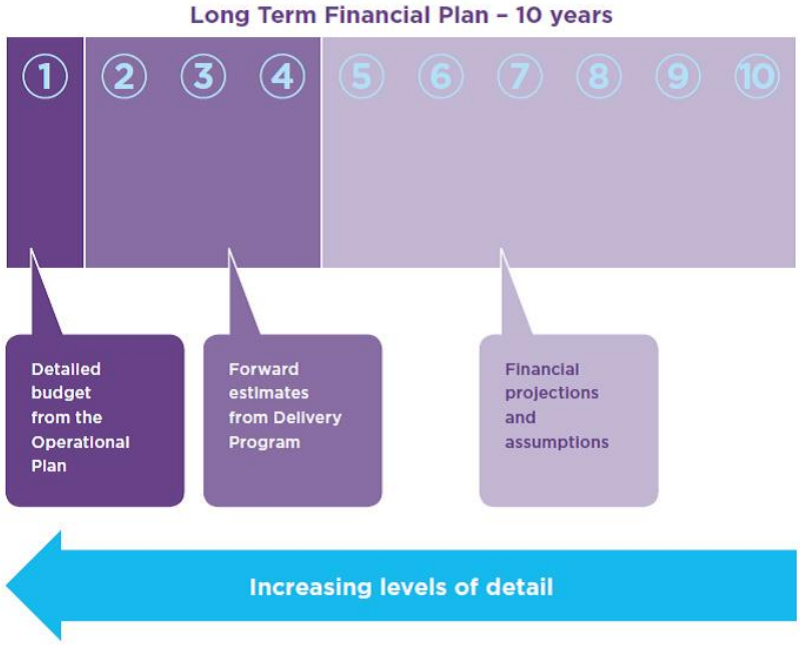
Council’s LTFP needs to ensure financial sustainability for Council and demonstrate our long term capacity to deliver the strategic objectives in the Community Strategic Plan, Delivery Program and Operational Plans.

The LTFP must be structured to include the following:

- projected income and expenditure, a balance sheet and cash flow statement;
- planning assumptions that were used in the Plan’s development;
- a sensitivity analysis which highlights the factors and assumptions most likely to impact on the Plan;
- financial modelling for at least three different scenarios, eg the planned scenario, an optimistic scenario and a conservative scenario; and
- methods of monitoring financial performance.

It is essential the LTFP adopted by Council provides a level of certainty to the community regarding Councils financially sustainable, but also demonstrates:

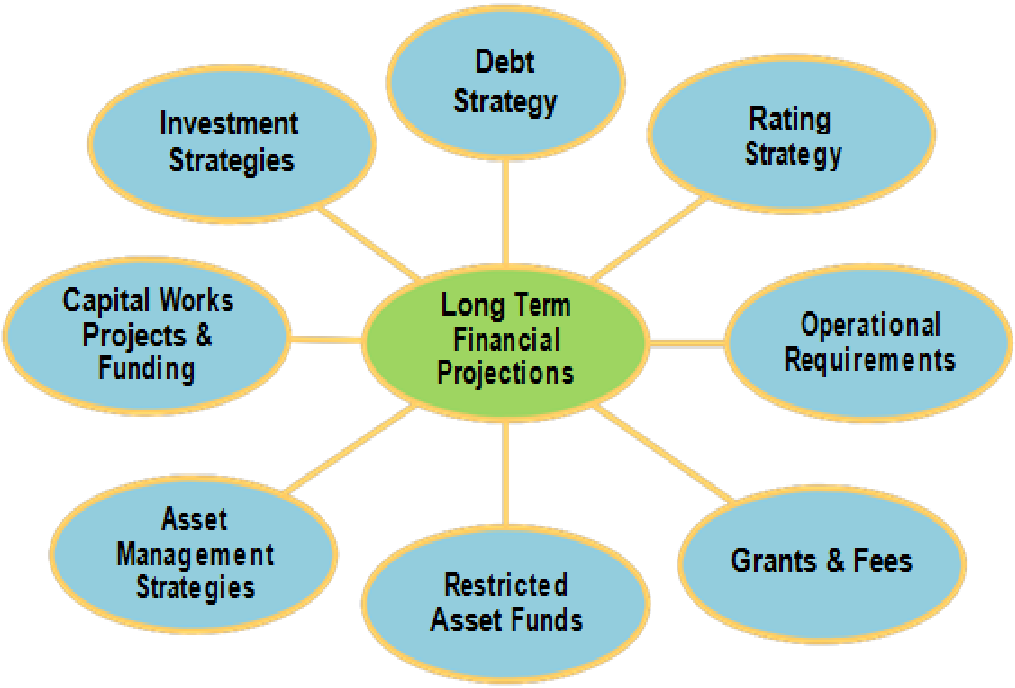
- an acceptable balance of meeting community expectation;
- sound financial management;
- the achievement of strategic objectives within any rate increases;
- outcomes that are clear and measurable; and
- have community and Council support.



In addition to acting as a resource plan, the LTFP further endeavours to:

- Establish a prudent and sound financial framework, combining and integrating financial strategies to achieve a planned outcome;
- Establish a financial framework against which Council's strategies, policies, and financial performance can be measured;
- Ensure that Council complies with sound financial management principles and plans for the long term financial sustainability of Council; and
- Enable Council to carry out its functions in a way that facilitates local communities to be strong, healthy and prosperous (Section 8B of the *Local Government Act 1993)*.

This LTFP represents a comprehensive development of long term financial projections by documenting and integrating the various financial strategies of Council. When combined, it produces the financial direction of Council as shown in the following diagram:



2.2 Objectives and Preferred Outcomes

The objectives of this LTFP are:

- An increased ability to fund asset renewal requirements;
- An enhanced funding level for capital works in general;
- Maintenance of Council's financial sustainability in the long term;
- Incorporation of rate and fee increases that are both manageable, sustainable and politically acceptable;
- Inclusion of investment and funding strategies which promote intergenerational equity;
- Demonstration of Council's ability to be Fit For The Future;
- Demonstration that external conditions are considered; eg changes in interest rates and population growth; and
- Thorough financial modelling to consider all financial alternatives.

Preferred Outcomes:

In preparing the LTFP, each of the above objectives has been addressed to achieve the following outcomes.

- maintaining the underlying operating surplus;
- reducing the infrastructure backlog to ensure Council infrastructure is maintained at a satisfactory level;
- achieving a financial structure where new assets or existing asset renewal needs are met from the base operating income of Council; and
- retention of service provision at present levels.

2.3 Financial Challenges

The challenge of financial sustainability is one faced by the majority of NSW councils and Port Stephens Council is not immune from this issue. Some of the financial challenges affecting Council over the last few years include:

- significant increases in utility prices (phone, water and electricity);
- increase in the Construction Industry Output Price Indexes;
- State and Federal Government cuts to operating grants and subsidies
- State and Federal Government cost shifting and increased compliance tasks;
- reduced investment income as a result of continued low interest rates;
- successive rate pegs below labour market increases.
- service restrictions due to COVID-19

Despite these challenges Council has been successful in developing strategies to remain financially sustainable. These strategies include:

- implementation of a Treasury model across each Group within Council;
- a rolling services review across all areas of Council; and
- ensuring adequate funding strategies are in place and adhered to.
- growing non rate revenue streams
- rationalising of land assets and commercial development

2.4 Sensitivity analysis

Long term financial plans are inherently uncertain given the lengthy period of time which they are required to cover and the assumptions that are required to be made. Some of these assumptions have a relatively limited impact if they are incorrect; others can have a major impact on future financial plans.

The three scenarios within the LTFP allow Council to model the potential impact of various assumptions and is a critical management tool.

Quarterly Budget Reviews provide the ability to regularly monitor the LTFP forecasts against actual activity, update assumptions and make amendments that have a permanent impact on the Plan.

Council also reviews and updates relevant sections and projections of the Long Term Financial Plan on an annual basis.

2.5 Key Assumptions

The LTFP and the financial models are based on a number of key assumptions.

Certainty of Revenue Streams

Projections of revenue streams over the next ten years are based on historic trends, planned pricing methodologies, known and recurrent grants, current statutory prices and the assumption of the continuation of annual rate pegging. Pricing methodologies are aimed to provide services in a sustainable manner, with the community's capacity to pay taken into consideration.

Due to the level of support received from the Financial Assistance Grant (FAG) program, any reduction in the overall available funds for distribution is likely to result in a diminished allocation to Council. This will have a direct impact on the level of works able to be delivered by Council.

A major risk contained within the LTFP for the Standard and Strategic scenarios relates to the assumed 2.0% rate peg limit for years 2 to 10. A 0.5% reduction, will have an impact of approximately $300K in revenue. This in turn will have a significant impact on the services and asset management functions that can be delivered.

None of the modelling includes land sales or royalties. This is due to the uncertainty of market expectations. If these transactions do occur they are adjusted for via the QBR process or in the baseline year which the LTFP is projected from.

Accuracy of Expenditure Estimates

Projections of operating expenditure over the next ten years is based on a combination of CPI assumptions, specific increases and one-off expenditure where known. In the case of infrastructure maintenance costs, expenditure required to maintain service levels is based on asset management projections. Capital expenditure estimates mainly relate to infrastructure renewal, based on the service levels required and Council's current asset condition data.

If any of the assumptions in relation to the projected expenditure vary, then Council has the opportunity to modify service provision and asset management practices in order to recover any negative impacts.

3. Other Resourcing Strategies

3.1 Workforce Plan

As employment costs are a large proportion of Council's operational expenditure, effective workforce planning and management is critical to long term financial sustainability.

The Workforce Plan assists Council plan its human resource requirements for the next three years and to ensure the necessary staff resources are in place when and where they are needed. An appropriate workforce is a critical element to successfully delivering each of Council's plans.

The Workforce Plan establishes Council's human resource hierarchy which informs the required level of employment remuneration in the LTFP. Council delivers a diverse range of more than 300 services which have been grouped into discrete service packages. They are delivered under the following organisation structure:

- Corporate Services Group responsible for internal service provision;
- Development Services Group responsible for enabling balanced growth;
- Facilities and Services Group responsible for external service delivery; and
- General Manager's Office responsible for provision of strategic leadership and governance.

In addition to outlining the resourcing requirements of the organisation, the Workforce Plan outlines a number of strategies that Council has or will implement in order to meet the challenges of providing appropriately qualified staff for today and the future.

The financial modelling suggests that each scenario would affect the Workforce Plan as follows:

Scenario 1 – Conservative

Under this scenario, there would be a need to review the human resource levels and strategies as outlined in the workforce plan due to financial constraints.

Scenario 2 – Standard

Under this scenario, there would be no change to the current human resource levels and strategies as outlined in the Workforce Plan however an extra $500k is put towards asset maintenance programs on an annual basis, which would potentially require additional recruitment or outsourcing.

Scenario 3 – Strategic

Under this scenario, additional funds are allocated to increasing service levels by 200k each year, which would potentially require additional recruitment, or outsourcing.

3.2 Strategic Asset Management Plan

Council is responsible for a large and diverse asset base. These assets include roads, bridges, footpaths, drains, libraries, childcare centres, halls, parks, sporting facilities, fleet, land and information communication technology-related assets.

Council's Strategic Asset Management Plan (SAMP) is a comprehensive record of Council's asset maintenance, renewal and construction of new infrastructure. It aims to prioritise works according to key factors such as asset condition and safety, community priority and efficient service delivery. The LTFP is dependent on information provided in the SAMP to develop long term financial plans to deliver actions articulated in the SAMP.

The *Local Government Act 1993* states:

The following principles of sound financial management apply to councils:

- Council spending should be responsible and sustainable, aligning general revenue and expenses.
- Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.
- Councils should have effective financial and asset management, including sound policies and processes for the following:
  - performance management and reporting;
  - asset maintenance and enhancement;
  - funding decisions; and
  - risk management practices.
- Councils should have regard to achieving intergenerational equity, including ensuring the following:
  - policy decisions are made after considering their financial effects on future generations;
  - the current generation funds the cost of its services.

Over time, Council has greatly increased its assets, which has consequently increased its depreciation, operation and maintenance costs and contributed to the ageing asset base.

Infrastructure assets are a significant part of Council's operations with depreciation alone accounting for around 14-15% of Council's annual operating budget.

In order to manage this asset base, strategies and plans have been developed and designed to address issues regarding asset life cycles and risk. These strategies and plans ensure that priorities are aligned to organisational objectives. Finance and expenditure should also be planned and controlled in line with these priorities. Resources should be used as effectively and efficiently as possible and technical levels of service that relate to compliance requirements in legislation should be maintained.

The SAMP ensures Council's infrastructure, buildings and other assets are managed to an appropriate standard. The SAMP highlights, based on condition ratings, when and what assets require replacement and forecasts how that can be achieved in a financially sustainable manner. Key issues within the SAMP affecting the LTFP include:

- ensuring an appropriate amount of asset maintenance expenditure is allocated;
- there is an appropriate mix between asset renewal and the construction of new assets in order to meet community needs; and
- asset renewal programs are prioritised based on condition ratings.

The SAMP also estimates the levels of depreciation required for assets based on asset age, obsolescence and condition rating. Any change to the SAMP estimates would have a significant impact on Council's operating result.

The financial modelling suggests that the SAMP would affect each scenario as follows:

Scenario 1 – Conservative

Under this scenario, there would be an increase in the asset backlog due to financial constraints affecting Council's ability to service and renew its asset base. As a result the capital works and maintenance schedules would have to be scaled back in order to maintain financial sustainability.

Scenario 2 – Standard

Under this scenario, there would be no change to the capital works program outlined in the SAMP. Securing grants or the ability to use developer contributions may bring forward some works within the schedule.

Scenario 3 – Strategic

Under this scenario there is a $25 million increase to the capital works program outlined in the SAMP across the 10 years. This is the only scenario out of the three scenarios that additional capital works will be undertaken, under this scenario Council will have an increased ability to renew its asset base. Securing grants or the ability to use developer contributions may bring forward some works within the schedule.

4. Planning Assumptions

Council's LTFP, associated scenarios and resulting financial models have been based on a number of key planning assumptions.

Service Levels

For the conservative and standard scenarios, the LTFP is based on the assumption that the current levels relating to services is maintained in line with the CSP within the limits of available funding. The range of services is based on those identified as part of the community consultation process undertaken when developing the CSP, the Delivery Program and Operational plan as adopted by Council.

Infrastructure

For all 3 scenarios the LTFP is based on the assumption that no major new capital works are undertaken in the next ten years other than those funded by Contribution Plans, Voluntary Planning Agreements and/or Reserves.

For new major works to be undertaken, existing planned asset renewal funding would need to be reallocated to those works or appropriate grant funding for the works being obtained.

Population Growth and Demographic changes

The LTFP is based on existing local government area (LGA) boundaries and the assumption that Council's projected population movement over the next ten years will not be significant. This may result in an increasingly older population placing increased pressure on existing infrastructure and services.

Economic Growth

The LTFP is based on moderate economic recovery for Council and the LGA as a result of COVID-19. However, as indicated in the CSP, Council will continue to focus on supporting business and local jobs through the tourism and economic strategies.

Interest Rates

The LTFP is based on stable interest rates and an investment portfolio reflecting projected income and expenditure. Interest rates during 2020/2021 were low due to reductions in the official cash rate. It is anticipated that rates will remain within 1-2% for the near future. Whilst it is recognised that interest rates will fluctuate over a ten year period, the financial modelling is based on an average constant interest rate over the LTFP timeframe.

COVID 19

All 3 scenarios assume that no services are closed as a result of COVID-19 infections with the level of economic recovery differing between the 3 scenarios.

5. Financial Position

The Balance Sheet discloses the assets, liabilities and equity of Council. The table below displays Council's reported Balance Sheet as at 30 June 2020.

Statement of Financial Position (Balance Sheet)	Actual 2020 $'000
Current Assets	
Cash & Investments	43,377
Receivables	8,406
Inventories & Other Assets	6,095
Total Current Assets	**57,878**
Non-Current Assets	
Receivables	172
Inventories & Other Assets	9,857
Infrastructure, Property, Plant, Equipment, Intangibles & ROU Assets	1,049,748
Investments using the equity method	540
Total Non-Current Assets	**1,060,317**
Total Assets	**1,118,195**
Current Liabilities	
Payables & Contract liabilities	16,401
Provisions	16,566
Borrowings & Lease liabilities	4,126
Total Current Liabilities	**37,093**
Payables & Contract liabilities	
Payables & Contract liabilities	3,280
Provisions	771
Borrowings & Lease liabilities	33,584
Total Non-Current Liabilities	**37,635**
Total Liabilities	**74,728**
Net Assets	1,043,467
Equity	**1,043,467**

As shown, Councils main assets and liabilities are:

- Cash & Investment
- Infrastructure, Property, Plant, Equipment, Intangibles & ROU Assets Borrowings & Lease Liabilities
- Provisions
- Trade Payables

The following discusses strategies, assumptions and risks in ensuring Council's balance sheet remains in a financially sustainable state.

5.1 Cash and Investments

Maintaining adequate cash levels and cash flow is vital in ensuring Council can deliver service to the community. Council has policies in place to ensure its portfolio is managed appropriately however there are challenges with such restrictions. Council is required by statute or other external conditions to restrict assets (predominately cash and investments) for specific purposes in future periods. These restrictions are called Externally Restricted Assets. In addition to external restrictions Council, like other councils in NSW, has also resolved to hold assets in the same way to fund works or expenses in future periods.

Where the decision to restrict assets is made by Council and is not required by legally enforceable external conditions, it is referred to as an Internally Restricted Asset. Internally Restricted Assets held by Council currently fall into five groups (a listing and overview of each restricted asset is attached):

- Net revenue streams held for specific purpose
- Provisions held as cash to meet possible or probable future expense
- Allocations for future projects
- Allocations for asset maintenance
- Investment

In relation to externally restricted reserves, the LTFP reflects projected reserve movements and balances as determined by the programs' respective ten year plans. Internally restricted reserves over the next ten years are projected in line with the expected timing of the specific expenditure the reserves are aimed at funding.

A large part of Council's cash restrictions is to fund future capital work projects. A listing and policy statement on Councils cash reserves can be found at Appendix 1.

Under all scenarios there is no intention to change the level of cash restrictions provided that restricting the cash does not create undue cash flow pressures.

5.2 Infrastructure, Property, Plant and Equipment

The Local Government Code of Accounting Practice and Financial Reporting states that comprehensive revaluations are to be undertaken on all assets at a minimum of every five years. Although historically the Office of Local Government (OLG) provided a fixed revaluation schedule, the OLG no longer mandates when each class of asset is subject to a comprehensive revaluation.

The financial modelling presented does not factor in any revaluation increases in any of the asset categories because of the difficulty in quantifying. Revaluations generally reflect the changes in market conditions or construction costs. As a result, revaluation increases can negatively impact on the rate of annual depreciation incurred, affecting Council's performance indicators.

A revaluation decrement can also indicate the decline in asset values, which can occur for a number of reasons. Decrements may indicate permanent impairment in the asset value and thus require a write down in its value. Such write downs have not been factored into any scenario.

Council also becomes liable for maintenance of assets and spaces provided and paid for by the developers of residential estates one year after they are created. There are a number of areas that have potential for future growth and potential for new residential estates to be built. Council may become liable for maintenance of assets and spaces provided by the developers of these residential estates.

At this stage these maintenance costs have not been quantified. When the costs are quantified, they will be included in future updates of the LTFP.

Future increases in the number of rate assessments has been estimated conservatively taking into consideration the environmental and conservation constraints placed on large scale residential and commercial developments in the Port Stephens LGA.

5.2.1 Fleet Management

Council is committed to ensuring that the current fleet of vehicles and machinery is appropriately maintained and replaced when economically feasible to do so. In line with the ten year fleet purchasing program, an annual sum of $2.2m, in addition to any operating surplus achieved out of the fleet business unit, is recommended to be set aside from general revenue, to the Fleet Fund.

5.2.2 Business technology

As part of Council's ongoing service delivery, an annual sum of $800,000 is made available from general revenue to the Business Technology Fund to provide an ongoing source of funds to ensure that Council's business technology is maintained at an appropriate level.

5.3 Debt Management (Borrowings)

5.3.1 Borrowing Strategies

Many NSW councils are debt averse and view the achievement of a low level of debt or even debt free status as a primary goal. Others see the use of loan funding as being a critical component of the funding mix to deliver much needed infrastructure to the community.

Council recognises that loan borrowings for capital works are an important funding source for local government and that the full cost of infrastructure should not be borne entirely by present day ratepayers but be contributed to by future ratepayers who will also benefit. This concept is frequently referred to as 'intergenerational equity'.

In combination, the financial sustainability ratios measure a council's ability to generate sufficient revenue to enable it to maintain asset renewal and maintenance at an optimum level and to use debt funding to spread the burden of the cost of long lived assets and its infrastructure backlog over a period of time to achieve intergenerational equity.

In this context, intergenerational equity means the consideration of the financial effects of Council decisions on future generations. Council’s financial management strategies are aimed at achieving equity between generations of ratepayers whereby the mechanisms to fund specific capital expenditure and operations take into account the ratepayers who benefit from the expenditure and therefore on a user pays basis who should pay for the costs associated with such expenditure. Funding long lived infrastructure assets works through a program of borrowings over a number of years achieves intergenerational equity.

Council will utilise loan funds to undertake capital works only when the asset is of a long term nature. The term of the loan will not exceed the useful life of the asset. A key performance measure of Council's debt strategy is the Debt Service Ratio.

5.3.2 Current Debt Portfolio

Historically, Council's policy regarding the use of loan funding was that loan funding is only available where the proposed expenditure will result in a future revenue stream that will fund the loan repayments. That is, its commercially focused activities such as the holiday parks, Newcastle Airport and the commercial property portfolio.

Council regularly reviews the loan portfolio for refinancing options where favourable outcomes are possible. During the 2020 financial year Council borrowed $12.5 million to construct a mixture of public infrastructure and commercially focused assets. This saw Councils debt reach its highest ever-unconsolidated level. During 2021 no new loans have been introduced as Council has focused on reducing debt levels.

The table below outlines Council's position in respect of all interest bearing liabilities and the break down between loan borrowings and other long term debt during the past eight financial years.

Debt type	30 June 2014 $'000	30 June 2015 $'000	30 June 2016 $'000	30 June 2017 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2020 $'000	30 June 2021 $'000*
Loan borrowings	20,497	16,768	13,422	15,308	17,581	13,278	20,997	17,708
Other long term debt	6,548	6,365	6,290	6,250	6,250	6,250	11,850	11,850
Total	**27,045**	**23,133**	**19,712**	**21,558**	**23,831**	**19,528**	**32,847**	**29,558**

*** Estimated figure**

5.3.3 Future loan strategies

Based on the current SAMP and delivery plan a loan has been factored in the year 2022 to fund the upgrade of Councils Depot & Admin building to the value of $10m. Proceeds from royalties will be used to repay the loan over a period of 20 years. A further $5m for public domain upgrades has been factored in for 2023 because of a notice of motion from Council. This loan will be repaid by an increase revenue received from SMART parking. No other new loans, which are directly related to Council, are scheduled under any scenario. However, loan funding will be assessed as a viable funding source for any new projects that are presented to Council.

Council's loan portfolio includes its consolidated portion of Newcastle Airport Partnership (NAP) and Greater Newcastle Aerotropolis Partnership (GNAP). Newcastle Airport is currently expanding which may require either entity to borrow funds in their own right to deliver infrastructure related projects. Any new debt would then be consolidated and displayed in Councils annual financial report.

5.4 Provisions

Council's main form of provision relates to that of accrued employee leave entitlements. The growth of leave provisions are expensed as they are earned by the employee however the cash outflow may not happen for a period of time. This can expose Council to large sum payments upon employees leaving the organisation. As part of the Workforce Plan, Council has policies in place to ensure employees cannot accrue excessive amounts of leave however there are certain entitlements where employees cannot be directed to reduce. These provisions include:

5.4.1 Vested sick leave

Staff employed by Council prior to or on 26 September 2000, who have not previously waived their right to this provision, continue to have an entitlement for the payment of unused sick leave arising out of the termination of employment. A provision for vested sick leave of $2,962,000 has been included as a liability in the balance sheets of each scenario in this Plan. For the purpose of the forecast, payments from the provision have been estimated when the eligible employee reaches the age of 65.

5.4.2 Long Service Leave liability

Long service leave entitlements are governed primarily by the *Long Service Leave Act 1955* and by conditions in the Port Stephens Council Enterprise Agreement 2018. Council has not actively required employees to take long service leave as it falls due however if the amount of liability becomes excessive it is likely that employees will be encouraged to keep balances within reasonable limits. A provision of $8,242,000 has been included as a liability in the balance sheets of each scenario in this plan. For the purpose of the forecast, payments from the provision have been estimated when the eligible employee reaches the age of 65.

5.4.3 Local Government Superannuation fund deficiency

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits.

Each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

Due to a fund deficiency, Council has been required to contribute additional funds to cover the deficiency between assets and accrued liabilities until it is rectified.

6. Financial Performance

Council generates revenue through the levying of general rates and annual charges, user fees, investment income, grants and other income sources.

The revenue generated from the various sources is used to deliver operational programs in line with the adopted CSP. Council's operating budgets are expended in maintaining the infrastructure in Port Stephens such as parks, recreational facilities, roads, bridges, community buildings and community facilities, and in delivering services in line with Council's adopted plans.

These funds are also required to deliver essential services to the community, including waste management services, and community and cultural services. Other services provided include city planning and support services. Apart from direct service delivery, Council also supports other bodies, including emergency services and recreational services by way of contributions and donations. Some expenditure items include employee costs, materials, contractors, legal expenses, utilities, contributions and insurance.

The tables below show Council's audited financial results for the 2019/2020 financial year.

Statement of Financial Performance (Income Statement)	Actual 2020 $'000
Income from continuing operations	
Rates and annual charges	58,812
User charges and fees	41,465
Interest and investment revenue	884
Other revenues	2,877
Rental Income	4,154
Grants and contributions	37,155
Net gains from the disposal of assets	-
Fair value increment on investment properties	13
Net Share in Joint Venture Interest	540
Total income from continuing operations	**148,900**
Expenses from continuing operations	
Employee benefits and on-costs	49,812
Borrowing costs	797
Materials and contracts	39,023
Depreciation and amortisation	17,073
Other expenses	17,558
Net loss from the disposal of assets	2,570
Revaluation decrement / impairment of IPP&E	-
Total expenses from continuing operations	**128,833**
Operating result from continuing operations	**20,067**
Net operating result for the year before grants and contributions provided for capital purposes	**(4,251)**

Potential Impacts on Income and Expenditure

The projected income and expenditure could be impacted by the following:

- variations in underlying planning assumptions;
- changes to legislation and/or relevant regulations;
- future Council resolutions;
- major unplanned projects; and
- service level reviews arising from a community consultation process.
- service shutdown due to COVID-19

Should any of the above situations arise resulting in an impact on the LTFP, it is envisaged that those impacts are taken into account in future annual reviews of the LTFP.

The following analysis provides additional information on each class of income and expenditure shown in the income statement as well as highlighting past trends. A clear statement on future trends and economic assumptions is provided to assist the user of this plan in interpreting the projected outcomes.

6.1 Income

6.1.1 Rates and charges

Ordinary Rates

Approximately 30-40% of Council's annual operating income (not including capital) is derived from the levying of rates and charges. The following table shows the historical trend of rate increases (peg) over the past few years.

Financial Year	Rate Peg	No. Assessments†	Ordinary Rate Yield
2012-2013	3.68%	32,037	$34,915,940
2013-2014	3.47%	32,128	$36,263,573
2014-2015	2.34%	32,324	$37,307,437
2015-2016	2.44%	32,671	$38,490,462
2016-2017	1.83%	33,199	$39,685,207
2017-2018	1.53%	33,608	$40,767,105
2018-2019	2.32%	33,748	$41,806,000
2019-2020	2.70%	34,290	$43,572,563
2020-2021	2.60%	34,500	$44,969,842
2021-2022*	2.00%	34,642	$46,068,062

* Estimated figures

Council's rating strategy and structure is reviewed every year as part of the annual Operational Plan process. Council's proposed rating structure provides for three different categories of ordinary rates: residential, farmland and business. The rate type applicable to a particular property is determined on the basis of the property's rating categorisation. All properties are categorised in accordance with the provisions set out in the *Local Government Act 1993*.

6.1.2 Comparison of rates with other councils

Comparison of rating between councils is affected by the rating and charging strategies they have each adopted. Some councils rely solely on the ordinary rate for rate income while others levy special rates and annual charges for specific purposes that supplement ordinary rate income.

Income from ordinary rates, special rates and drainage services are subject to State government rate pegging while domestic waste management service annual charges are limited to recovering the reasonable cost of providing those services.

Councils may choose a mix of ordinary and special rates and vary those from year to year, however the annual increase in total rate income from all rates is not to exceed the percentage specified by IPART each year. Council currently has no special rates.

The Office of Local Government (OLG) publishes annual comparative information on council rating, financial indicators, service costs and service performance. The information is separated into 11 groups of similar councils based on size and character. Port Stephens Council is placed within OLG's Group 5. The data published by the OLG indicates Councils ordinary rates are low compared with other Hunter Councils and other Group 5 Councils.

Rating assumptions

Scenario 1 and 2 of the LTFP are based on the assumption that Council's rating structure remains unchanged over the next ten years. Any changes in the rating structure would not impact on the total revenue but merely redistribute the income amongst the different categories and sub-categories thereof. Council's rating income or notional yield may be increased from one year to the next up to the rate-pegging limit as determined by the IPART. Apart from grants and contributions, the next largest funding source of the capital works programs is rates. Due to rate pegging, Council's ability to increase the scale of the capital works program or introduce new and enhanced services is restricted.

Scenario 1 – Conservative

Under this scenario, only a 1.5% rate increase has been applied.

Scenario 2 – Standard

Annual rate-pegging increases have been assumed at 2.0% for 2021/2022 based on the IPART's determination, and 2.0% each year for each consecutive year thereafter.

Scenario 3 – Strategic

Annual rate-pegging increases have been assumed at 2.0% for 2021/2022 based on the IPART's determination, and 2.5% each year for each consecutive year thereafter.

Domestic Waste Charges

Council's Domestic Waste Management Program is self-funded by way of an externally restricted reserve. The *Local Government Act 1993* limits annual domestic waste management charges to an amount sufficient to recover the costs of providing the service. As such, revenue from Council's annual domestic waste charges included in this LTFP is based on the projected full cost to provide the waste service over the next ten years. For the 2022 and 2023 financial years the projected charge per household is as follows:

Financial Year	Section 406 charge	Section 501 charge
2021-2022	$475.00	$105.00
2022-2023	$495.00	$118.50

It is to be noted that the projected increases in the domestic waste charges reflect increasing cost pressures within the waste services industry as well as projected increases in the Section 88 Waste and Environment Levy imposed on Council by NSW Government.

6.1.2 User charges and fees

For scenarios 2 and 3, user charges and fees have been modelled to increase by 2.5% per year for the life of this plan. This has been modelled off the inflation rate forecast by the Reserve Bank of Australia which is expected to be 2.5%.

6.1.3 Other income

Other income has been modelled to increase by between 2% and 3% per year for the life of this plan depending on the revenue stream. This income stream is less reliant on inflation therefore a more conservative increase has been used in comparison to the user charges and fees.

6.1.4 Grants and contributions

For scenarios 2 and 3, all operating grants and contributions with the exception of the Roads to Recovery Program grant have been modelled to increase by 2.2% per year for the life of this plan.

The NSW Government's Financial Assistance Grant program was paid in advance (50%) prior to the start of the 2018 financial year. It is expected that the payment schedule will revert back to being paid within the financial year that it relates. The Federal Government's Roads to Recovery Program reverted back to 2013-2014 levels of funding from 2021 and beyond.

Operating grants are quite unpredictable and if a grant has been received in one year there is no guarantee that it will be received again in the following year. Even though the modelling of future operating grants is contained in this plan if a significant number of operating grants are no longer received then the levels of service provided may need to be decreased.

The only capital grants or contributions that have been modelled in the LTFP are those grants confirmed for the immediate financial year, Section 7.11 Developer Contributions and dedicated subdivisions. Any un-forecasted capital grants or contributions that are received would be applied to the Capital Works Plus Program attached to the SAMP.

6.1.5 Interest income

The level of interest income is dependent on the forecasted cash levels in conjunction with an estimated rate of return. The rate of return has been linked to the expected rate of inflation set for each scenario.

6.2 Expenditure

6.2.1 Employee benefits

6.2.1.1 Port Stephens Council Enterprise Agreement

The Port Stephens Council Enterprise Agreement (EA) applies to all employees of Port Stephens Council. A new agreement is under negotiation with a starting date of 1 July 2020. An increase factor has been assumed for the life of the plan tied to the rate peg that has been applied for that scenario. The projected expenditure is based on the current staff establishment.

6.2.1.2 Compulsory Superannuation Guarantee rates increase

The Federal government has changed the phasing of the increases in the Superannuation Guarantee rate as per the table below. The impact of this change has been factored into all three scenarios of the LTFP.

Year	Rate
2021-2022	10.00%
2022-2023	10.50%
2023-2024	11.00%
2024-2025	11.50%
2025-2026	12.00%

An increase of 0.5% in in the superannuation guarantee rates equates to approximately $250,000 each year.

6.2.1.3 Learning and development

Council's Workforce Plan identifies future skill and workforce requirements.

Council provides extensive learning and development opportunities and there are education and training opportunities for people of all ages. A yearly learning and development expenditure of $318,000 has been included in the other expenses in the income statement of each scenario in this Plan.

6.2.1.4 Workers compensation

Council places a high priority on workplace safety, commitment to performing safety observations, reporting near misses and implementing many safe workplace policies, Workers Compensation premiums have been increasing in recent years due to significant one off claims. Whilst Council will maintain a strong commitment to worker safety and wellbeing, premiums have been modelled off known levels increasing with inflation. Increases in the premium beyond inflation will require a review of insurance strategies and service levels to ensure financial sustainability is maintained. Any reductions in the premium that does occur due to claims history will benefit Councils operating budget.

6.2.2 Borrowing costs

Council has taken advantage of a declining cash rate over the past two years by installing the majority of its loan portfolio at fixed interest rates. This allows for borrowing costs to be forecasted accurately using existing loan schedules, which remains the same across all three scenarios as well as providing security against impending cash rate increases. Council benchmarks the performance of its loans portfolio against the Reserve Bank of Australia's national average lending rate for large business.

6.2.3 Materials and contracts

The LTFP assumes that budgets are sufficient in order to meet service level expectations. Therefore material and contractor costs have been increased based on the Local Government Cost Index (LGCI) and Consumer Price Index (CPI) thereafter. An additional amount (between $560,000 and $750,000) has been made available every four years to allow for the outsourcing of local government elections.

6.2.4 Depreciation

Council's major non-cash operating expense is depreciation. Council infrastructure, property, plant, and equipment are depreciated using various methods which are specific to the asset category. These methods include, condition based, consumption based, straight line and diminishing value.

Condition based depreciation methods rely upon a known correlation between the physical characteristics of the asset (for example, cracking, rutting, roughness, oxidisation) and the relevant remaining useful life.

Consumption-based depreciation is based on measuring the level of the asset’s remaining service potential after taking into account both holistic and component specific factors. It relies upon the determination of a pattern of consumption consistent with the asset’s residual value and path of transition through the various stages of an asset’s lifecycle.

The straight line method of depreciation ensures that there will be no major peaks or troughs in depreciation expense from year to year as this method ensures a uniform rate of depreciation of infrastructure, property, plant and equipment.

The diminishing value method provides for a higher depreciation charge in the first year of an asset’s life and gradually decreasing charges in subsequent years. It is based on the assumption that the asset loses most of its value as soon as it is put into use and the rate of depreciation then reduces over time.

For each scenario the growth in depreciation expense is linked to the annual investment in infrastructure, property, plant and equipment. The depreciation expense ignores the effect of any asset revaluation that is mandatory.

6.3 Other factors

6.3.1 Newcastle Airport Partnership & Greater Newcastle Aerotropolis Partnership

Under the Australian Accounting Standards, Council is required to consolidate and report on its 50% proportionate ownership of Newcastle Airport Partnership (NAP) & Greater Newcastle Aerotropolis Partnership (GNAP). The consolidation process requires the net profit to be included in the income statement and any related transactions eliminated; e.g. the annual dividend. To calculate Council's underlying result the NAP & GNAP profit is deducted and the dividend received from NAP is added back.

Covid-19 has required NAP and GNAP to use a significant proportion of cash reserves. As a result, no dividend has been factored in under any scenario for 2022. Scenario 1 models no dividend until 2025 whilst Scenario's 2 & 3 model a fixed dividend allocation from 2023 onwards.

7. Financial Performance Indicators

7.1 Fit For The Future

The NSW Government's Fit For The Future (FFTF) Program aims to improve the strength and effectiveness of local government in providing services and infrastructure for the community. It is intended to ensure that councils will be financially sustainable into the future and more capable of being strategic partners with other levels of government. The FFTF Program requires councils to demonstrate that they have the capacity to generate sufficient income to fund the expenditure needed to deliver core services and maintain community assets to a satisfactory standard.

The table below shows Council's current performance against the NSW State Government's FFTF Program and have been taken from the 2019/2020 audited financial results.

Ratio	Benchmark	Actual 2020	Benchmark Met
Operating Performance Ratio (OPR)	>0%	(1.76)%	No
Own Source Revenue Ratio	>60%	74.63%	Yes
Debt Service Cover Ratio	>2x	2.49x	Yes
Asset Renewal Ratio	>=100%	157.37%	Yes
Infrastructure Backlog Ratio	<2%	1.73%	Yes
Asset Maintenance Ratio	>100%	98.93%	No

7.2 Additional Performance Monitoring

In addition to the annual FFTF Framework, Council also uses other financial performance indicators on a monthly and quarterly basis. These indicators are intended to be indicative of the financial health and good business management practices at Council.

The endorsed annual budgets aim to achieve identified financial indicator benchmarks. Consequently, budget control and monitoring is paramount for Council achieving the outcomes of the LTFP. Budgets are monitored internally on an on-going basis. Monthly financial reports are reported to senior management and Quarterly Budget Reviews are reported to Council every 3 months to inform on the progress against the adopted budgets.

Each of the following indicators is used in reviewing the reasonableness and financial sustainability of each scenario modelled.

Operating performance ratio

Definition	This ratio measures a council's achievement of containing operating expenditure within operating revenue. Ratio = Operating revenue excluding capital grants and contributions – operating expenses / operating revenue excluding capital grants and contributions.
Analysis	The Code of Accounting Practice and Financial Reporting uses a benchmark for the operating performance ratio of greater than 0%.

Own source operating revenue ratio

Definition	It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue. Ratio = rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions).
Analysis	NSW Treasury Corporation uses a benchmark for the Own Source Revenue Ratio of greater than 60%.

Debt service cover ratio

Definition	This ratio measures the availability of cash to service debt including interest, principal and lease payments. Ratio = operating results before interest and depreciation (EBITDA) / principal repayments (from the Statement of Cash Flows) + borrowing interest costs (from the Income Statement).
Analysis	Council uses a benchmark for the Debt Service Cover Ratio of greater than zero.

Asset Renewal Ratio

Definition	The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.
Analysis	Performance of less than 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Infrastructure Backlog

Definition	The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability
Analysis	TCorp adopted a benchmark of less than 2% to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Asset Maintenance Ratio

Definition	The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council. The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.
Analysis	Performance of less than 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Underlying Surplus

Definition	The underlying surplus is a key measure of Council's true operating result. The calculation involves subtracting income and expenditure transactions that are abnormal in nature (eg disaster recovery efforts) and or as a result of a timing difference (eg capital grants).
Analysis	Performance of less than 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Cash expense cover ratio

Definition	This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow. Ratio = current year's cash and cash equivalents / total expenses – depreciation – interest costs.
Analysis	NSW Treasury Corporation uses a benchmark for the cash expense ratio of greater than three.

Rates and annual charges outstanding

Definition	Used to assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.
Analysis:	The Office of Local Government states a maximum of 5% for metropolitan councils and 10% for all other councils.

The performance indicators for each scenario are projected in conjunction with the primary financial statements as appendices to the LTFP.

8. Financial Modelling Assumptions and Results

The LTFP is structured as a series of 'scenarios', each of which shows a specific financial outlook. Each of the scenarios relates to particular Council plans or policies. The scenarios are cumulative so that each scenario incorporates the assumptions and financial outcomes of the previous scenarios. The scenarios can also be looked at in isolation.

This iteration of the LTFP presents financial forecasts associated with the following scenarios:

Income	Conservative	Standard	Strategic
Rates			
Pegging factor applied 2021	1.5%	2.0%	2.0%
Ongoing peg factor beyond 2021	1.5%	2.0%	2.5%
New annual rates assessment	150	150	150
User fees and charges Annual factor	1.0%	2.0%	2.5%
Operating grants and Contributions Annual factor	1.5%	2.2%	2.5%
Other			
Cash investment returns	1.0%	2.0%	2.5%
Other income	1.0%	2.0%	2.5%
Rental income	2.0%	2.5%	3.0%
Airport dividend	Nil – first 3 years	Fixed Amount	Fixed Amount

Expenses	Conservative	Standard	Strategic
Salaries and allowances	1.5%	2.0%	2.5%
Materials and contracts	1.5%	2.0%	2.5%
Capital spend over 10 years	$200m	$225m	$250m
Other expenses	1.5%	2.0%	2.5%
Enhanced services levels	-	Permanent increase by $500k in the first year only	Continually increase by $250k per year

Projected Result	Conservative	Standard	Strategic
2021-2022	(1,025,006)	52,377	180,431
2022-2023	(1,698,937)	(490,302)	(364,670)
2023-2024	(2,718,074)	93,995	(329,488)
2024-2025	(1,888,843)	305,268	(615,628)
2025-2026	(1,904,932)	677,598	(737,119)
2026-2027	(2,117,621)	550,889	(1,061,041)
2027-2028	(2,083,729)	687,796	(1,138,274)
2028-2029	(2,359,970)	531,076	(1,521,193)
2029-2030	(2,278,996)	524,870	(1,579,731)
2030-2031	(2,483,168)	660,266	(1,915,065)

There are many factors that can affect Councils ability to meet all benchmarks which are outside of its control. Some of these factors include:

- Changes to State and Federal government policies;
- Natural disasters;
- Economic downturn;
- Cost shifting; and
- Low level rate pegging.

If any of these factors were to occur it would affect Councils forecasting and benchmarks. In turn this would require a of service levels to ensure Council remains financially sustainable. The base point used for modelling is the December Quarterly Budget Review for the financial year ended 30 June 2021.

The following information provide more detail on each financially model scenario.

Scenario 1 – Conservative

The Conservative Model represented in Scenario 1 reflects Council's financial position over a ten year period. The basis for the scenario is adopting an assumed 1.5% rate peg. The financial modelling indicates that the performance indicators of Council will not be met which would require a reduction in expenditure on infrastructure assets, or reducing services delivered to the community.

In summary, based on Council's projected income and expenditure over a ten year period, based on existing services and existing service levels, this will mean that Council has a funding gap in regard to its infrastructure funding. Council will therefore need to restrict the level of asset maintenance and renewal in line with funding available. This would be at the cost of rapidly deteriorating assets, therefore pushing the cost to the community potentially resulting in compromised safety and increased residents' dissatisfaction.

The main assumptions underpinning the Conservative model are as follows:

- rating income indexed by 1.5% from 2021/2022 onwards;

- fees and charges indexed by 1.0%;
- current service levels maintained (non-infrastructure asset services);
- materials and contracts expenditures indexed by 1.5%;
- employee costs indexed by 1.5%;
- infrastructure asset maintenance costs based on asset planning models; and
- infrastructure asset renewal costs based on funding available after all other service levels have been maintained.

Under this Model, Council will not to generate sufficient revenue to renew infrastructure assets at the rate they are deteriorating. This Model demonstrates that based on current budget settings, Council may face an on-going sustainability challenge.

Under this Scenario, service rationalisation, such as closing down community facilities to obtain cost reductions, is highly likely to be required to ensure ongoing financial sustainability. In addition, the ongoing funding shortfall will result in continuing deterioration of the condition of the community infrastructure and therefore reduce service levels. For example, roads currently in a fair condition would slip into a poor condition if the optimal asset management intervention is not funded.

This Model places the Port Stephens Council financial sustainability in its current form at risk, and is therefore not the optimal long term model to pursue.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Capital Budget Statement, Balance Sheet and Cash Flow Statement and the resulting Sustainability Measures are included as Appendix 2: Conservative Model.

Scenario 2 – Standard

The Standard Model represented in Scenario 2 reflects Council's financial position over a ten year period based on all the FFTF indicators attempting to be met. The basis for the scenario is adopting an assumed full 2.0% rate peg along with other normal economic factors.

Under this scenario Council will attempt to reduce its infrastructure backlog and continue to renew infrastructure assets at the rate they are deteriorating provided sufficient funding levels are maintained.

Under this scenario Council can maintain its financial sustainability in its current form. This Model identifies however that there is minimal room to offer additional or enhanced service levels. Doing so without a compensating revenue increase or expenditure decrease would create financial stress on Council resources. This model would not be able to address any residents' expectations on increased service levels or fast tracking of asset renewal.

The main assumptions underpinning the Standard Model are as follows:

- rating income indexed by estimated rate pegging of 2.0% from 2021/2022 onwards;
- fees and charges indexed by 2.0%;
- current service levels maintained (non-infrastructure asset services);
- materials and contracts expenditures indexed by 2.0%;
- employee costs indexed by 2.0%;
- infrastructure asset maintenance costs based on asset planning models; and
- infrastructure asset renewal costs based on funding available after all other service levels have been maintained.

Under this scenario Council will attempt to reduce its infrastructure backlog and continue to renew infrastructure assets at the rate they are deteriorating provided sufficient funding levels are maintained. A once off permanent increase of $500,000 has been provided for to increase asset service levels in this scenario.

This Model also attempts to meet all the benchmarks over the set timeframe with a view that continued improvement program strategies will be delivered.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Balance Sheet and Cash Flow Statement and the resulting Sustainability Measures are included commencing on page 40.

Scenario 3 – Strategic

The Strategic Model represented in Scenario 3 reflects Council's financial position over a ten year period based on all the FFTF indicators attempting to be met. The basis for the scenario is adopting an assumed full 2.0% rate peg.

Under this scenario Council will attempt to reduce its infrastructure backlog and continue to renew infrastructure assets at the rate they are deteriorating provided sufficient funding levels are maintained. An additional $250,000 increase each year to enhancing service level of assets has been provided in this scenario.

This model does address residents' expectations on increased service levels, however under this scenario Council cannot maintain its financial sustainability in its current form. This Model identifies that providing enhanced levels of service without a compensating revenue increase or expenditure decrease would create financial stress on Council resources.

The main assumptions underpinning the Strategic Model are as follows:

- rating income indexed by estimated rate pegging of 2.5% from 2022/2023 onwards;
- fees and charges indexed by 2.5%;
- service levels increased by $200,000 per year (non-infrastructure asset services);
- materials and contracts expenditures indexed by 2.5%;

- employee costs indexed by 2.5%;
- infrastructure asset maintenance costs based on asset planning models; and
- infrastructure asset renewal costs based on funding available after all other service levels have been maintained.

This Model also attempts to meet all the benchmarks over the set timeframe with a view that continued improvement program strategies will be delivered.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Balance Sheet and Cash Flow Statement and the resulting Sustainability Measures are included as Appendix 3: Strategic Model.

9. Financial Statements – Standard Scenario

9.1 Standard Scenario – Income Statement

INCOME STATEMENT For the period ended 30 June	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000	2030 $'000	2031 $'000
Revenue										
Rates & Annual Charges	66,079	67,554	69,058	70,592	72,157	73,753	75,381	77,041	78,735	80,463
User Fees and Charges	48,272	50,117	51,507	53,339	54,711	56,475	57,778	59,114	60,984	62,401
Interest & Investment Revenue	1,237	1,189	1,110	1,162	1,019	1,124	1,251	1,405	1,539	1,709
Other Revenues	3,919	3,997	4,077	4,158	4,242	4,326	4,413	4,501	4,591	4,683
Operating Grants and Contributions	12,214	12,482	12,757	13,038	13,325	13,618	13,917	14,223	14,536	14,856
Capital Grants and Contributions	12,122	7,212	7,356	7,503	7,653	7,806	7,962	8,121	8,284	8,450
Gain on Sale of assets	3,750	250	250	250	250	250	250	250	250	250
Other Income - Rental Income	4,219	4,346	4,476	4,610	4,749	4,891	5,038	5,189	5,344	5,505
Other Income - Fair Value increment	835	1,177	1,212	1,248	1,286	1,324	1,364	1,405	1,447	1,490
Total Revenue	**152,647**	**148,323**	**151,803**	**155,900**	**159,390**	**163,567**	**167,354**	**171,250**	**175,711**	**179,808**
Operating Expenses										
Employee Benefits & On-Costs	53,894	55,244	56,682	58,212	59,826	61,340	62,898	64,504	66,163	67,872
Borrowing Costs	872	775	739	658	383	457	396	335	312	259
Materials & Services	47,073	48,153	48,366	49,983	50,320	51,326	52,353	54,150	54,468	55,557
Depreciation & Amortisation	18,247	18,773	19,481	20,091	20,589	20,956	21,206	21,743	22,059	22,286
Other Expenses	15,507	15,869	16,182	16,552	16,878	17,212	17,550	17,910	18,274	18,645
Total Operating Expenses	**135,594**	**138,814**	**141,449**	**145,495**	**147,995**	**151,292**	**154,403**	**158,643**	**161,275**	**164,618**
Operating Surplus / (Deficit)	**17,053**	**9,509**	**10,353**	**10,405**	**11,395**	**12,275**	**12,951**	**12,607**	**14,436**	**15,190**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**17,053**	**9,509**	**10,353**	**10,405**	**11,395**	**12,275**	**12,951**	**12,607**	**14,436**	**15,190**
Net Operating Result before Capital Grants	**4,931**	**2,297**	**2,998**	**2,902**	**3,742**	**4,469**	**4,989**	**4,485**	**6,152**	**6,740**
Adjustments for Underlying Result										
Gain on Sale of assets	(3,750)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Investment property fair value increases & royaltie	(1,485)	(1,840)	(1,888)	(1,938)	(1,989)	(2,042)	(2,096)	(2,152)	(2,209)	(2,267)
NAP Profit	(244)	(1,198)	(1,765)	(2,559)	(2,825)	(3,626)	(3,955)	(4,303)	(5,169)	(5,563)
Local election costs	600	-	-	650	-	-	-	750	-	-
NAP dividend	-	500	1,000	1,500	2,000	2,000	2,000	2,000	2,000	2,000
Underlying result	**52**	**(490)**	**94**	**305**	**678**	**551**	**688**	**531**	**525**	**660**

9.2 Standard Scenario – Balance Sheet

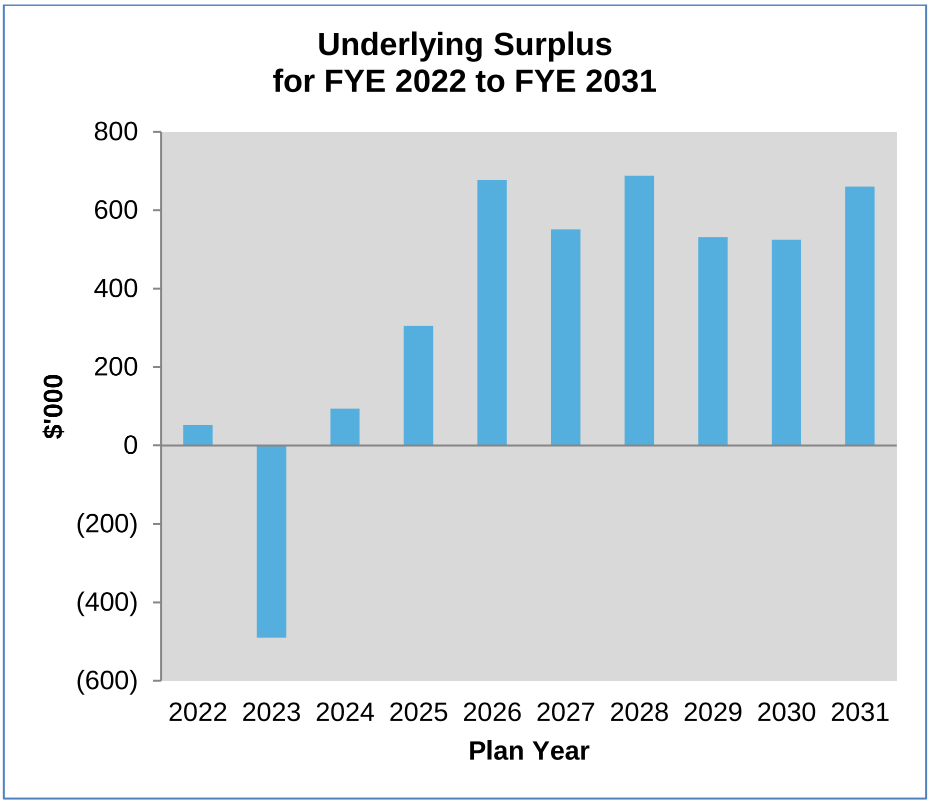
As at 30 June:	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000	2030 $'000	2031 $'000
ASSETS										
Current Assets										
Cash and Cash Equivalents	23,705	19,767	22,372	15,205	20,464	26,836	34,501	41,225	49,731	62,733
Investments	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852
Receivables	10,157	10,515	10,832	11,197	11,519	11,885	12,208	12,538	12,926	13,272
Inventories & Other	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095
Total Current Assets	**66,809**	**63,229**	**66,151**	**59,349**	**64,930**	**71,667**	**79,655**	**86,710**	**95,603**	**108,952**
Non Current Assets										
Infrastructure, Property, Plant & Equipment	1,043,926	1,058,022	1,061,618	1,065,003	1,068,243	1,071,396	1,074,775	1,078,031	1,081,310	1,081,789
Right of Use Asset	2,662	2,386	1,593	811	3,762	3,004	2,248	2,501	1,714	958
Investments using Equity Method	540	540	540	540	540	540	540	540	540	540
Inventories & Other	10,257	10,665	11,081	11,506	11,939	12,380	12,831	13,290	13,759	14,237
Investment Properties	39,220	40,396	41,608	42,856	44,142	45,466	46,830	48,235	49,682	51,173
Intangibles	5,890	5,354	4,906	4,532	4,222	3,965	3,755	3,583	3,446	3,336
Total Non Current Assets	**1,102,495**	**1,117,363**	**1,121,346**	**1,125,248**	**1,132,848**	**1,136,752**	**1,140,979**	**1,146,181**	**1,150,451**	**1,152,035**
Total Assets	**1,169,303**	**1,180,592**	**1,187,497**	**1,184,597**	**1,197,778**	**1,208,419**	**1,220,634**	**1,232,891**	**1,246,054**	**1,260,986**
LIABILITIES										
Current Liabilities										
Trade & Other Payables	15,473	15,668	15,706	15,997	16,058	16,239	16,423	16,747	16,804	17,000
Lease liabilities	747	819	847	773	709	742	694	779	814	770
Borrowings	4,020	3,063	13,867	2,044	2,072	2,099	1,882	1,822	1,552	1,189
Provisions	13,035	13,560	13,545	14,217	14,646	14,725	15,713	15,709	16,027	16,910
Total Current Liabilities	**33,275**	**33,110**	**43,965**	**33,031**	**33,484**	**33,804**	**34,712**	**35,056**	**35,197**	**35,871**
Non Current Liabilities										
Trade & Other Payables	2,189	1,644	1,098	553	7	0	0	0	0	0
Lease liabilities	1,915	1,566	746	38	3,053	2,263	1,554	1,723	900	189
Borrowings	32,159	34,096	20,229	18,184	16,113	14,014	12,132	10,310	8,758	7,569
Provisions	1,751	2,653	3,582	4,509	5,444	6,386	7,332	8,291	9,252	10,222
Total Non Current Liabilities	**38,013**	**39,959**	**25,655**	**23,283**	**24,617**	**22,663**	**21,018**	**20,324**	**18,910**	**17,980**
Total Liabilities	**71,288**	**73,068**	**69,620**	**56,315**	**58,101**	**56,467**	**55,731**	**55,380**	**54,108**	**53,851**
Net Assets	**1,098,015**	**1,107,524**	**1,117,877**	**1,128,283**	**1,139,677**	**1,151,952**	**1,164,904**	**1,177,511**	**1,191,946**	**1,207,135**
EQUITY										
Accumulated Surplus	694,798	704,307	714,661	725,067	736,461	748,735	761,687	774,295	788,730	803,918
Asset Revaluation Reserves	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217
Total Equity	**1,098,015**	**1,107,524**	**1,117,878**	**1,128,284**	**1,139,678**	**1,151,952**	**1,164,904**	**1,177,512**	**1,191,947**	**1,207,135**

9.3 Standard Scenario – Statement of Cash flows

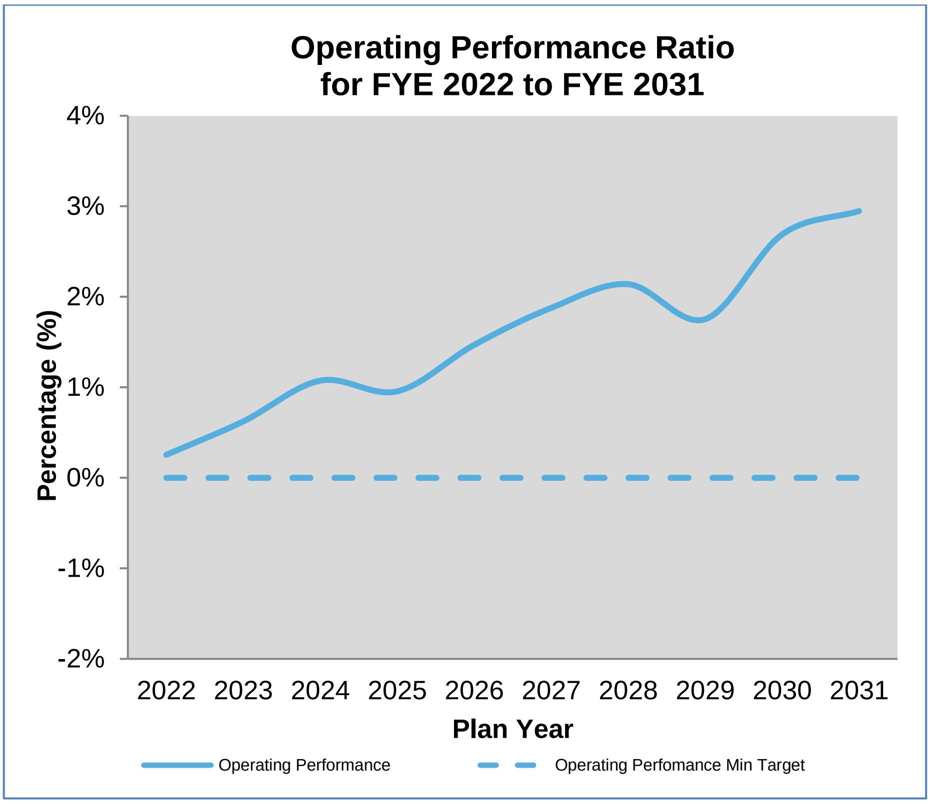
CASHFLOW STATEMENT										
For the period ended 30 June	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Cash Flows from Operating Activities	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Receipts:										
Rates & Annual Charges	64,640	67,195	68,741	70,227	71,834	73,387	75,058	76,711	78,348	80,115
User Charges & Fees	48,272	50,117	51,507	53,339	54,711	56,475	57,778	59,114	60,984	62,401
Interest & Investment Revenue Received	1,237	1,189	1,110	1,162	1,019	1,124	1,251	1,405	1,539	1,709
Grants & Contributions	21,735	17,041	17,407	17,780	18,162	18,552	18,950	19,357	19,773	23,306
Other Income - Rental Income	4,219	4,346	4,476	4,610	4,749	4,891	5,038	5,189	5,344	5,505
Other	3,919	3,997	4,077	4,158	4,242	4,326	4,413	4,501	4,591	4,683
Payments:										
Employee Benefits & On-Costs	(52,134)	(56,672)	(57,597)	(59,810)	(61,191)	(62,361)	(64,832)	(65,460)	(67,442)	(69,725)
Materials & Contracts	(47,679)	(47,802)	(47,859)	(49,729)	(49,835)	(51,500)	(52,538)	(54,473)	(54,525)	(55,754)
Borrowing Costs	(872)	(775)	(739)	(658)	(383)	(457)	(396)	(335)	(312)	(259)
Other	(18,633)	(13,823)	(15,286)	(13,809)	(15,128)	(14,791)	(13,328)	(15,414)	(15,487)	(14,488)
Net Cash provided (or used in) Operating Activities	**24,704**	**24,813**	**25,837**	**27,272**	**28,181**	**29,645**	**31,395**	**30,595**	**32,813**	**37,495**
Cash Flows from Investing Activities										
Receipts:										
Sale of Real Estate Assets	-	-	-	-	-	-	-	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	3,750	250	250	250	250	250	250	250	250	250
Payments:										
Purchase of Investment Securities										
Purchase of Real Estate Assets	(400)	(408)	(416)	(424)	(433)	(442)	(450)	(459)	(469)	(478)
Purchase of Infrastructure, Property, Plant & Equipment	(27,602)	(28,418)	(18,768)	(19,125)	(19,489)	(19,860)	(20,239)	(20,625)	(21,019)	(21,421)
Purchase of Intangible Assets	(400)	(408)	(416)	(424)	(433)	(442)	(450)	(459)	(469)	(478)
Net Cash provided (or used in) Investing Activities	**(24,652)**	**(28,984)**	**(19,350)**	**(19,724)**	**(20,105)**	**(20,493)**	**(20,890)**	**(21,294)**	**(21,706)**	**(22,127)**
Cash Flows from Financing Activities										
Payments:										
New Borrowings	10,000	5,000								
Repayment of leases principal	(28)	(747)	(819)	(847)	(773)	(709)	(742)	(694)	(779)	(814)
Repayment of Borrowings & Advances	(3,380)	(4,020)	(3,063)	(13,867)	(2,044)	(2,072)	(2,099)	(1,882)	(1,822)	(1,552)
Net Cash Flow provided (used in) Financing Activities	**6,592**	**233**	**(3,882)**	**(14,714)**	**(2,817)**	**(2,780)**	**(2,841)**	**(2,576)**	**(2,601)**	**(2,366)**
Net Increase/(Decrease) in Cash & Cash Equivalents	**6,644**	**(3,939)**	**2,605**	**(7,166)**	**5,259**	**6,372**	**7,665**	**6,724**	**8,506**	**13,002**
plus: Cash - beginning of year	17,061	23,705	19,767	22,372	15,205	20,464	26,836	34,501	41,225	49,731
Cash - end of the year	**23,705**	**19,767**	**22,372**	**15,205**	**20,464**	**26,836**	**34,501**	**41,225**	**49,731**	**62,733**
plus: Investments - end of the year	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852
Total Cash & Investments - end of the year	**50,557**	**46,619**	**49,224**	**42,057**	**47,316**	**53,688**	**61,353**	**68,077**	**76,583**	**89,585**
Less restricted Cash (NAL)	(17,251)	(17,637)	(17,820)	(6,452)	(6,720)	(7,805)	(9,232)	(11,017)	(13,675)	(16,734)
Cash, Cash Equivalents & Investments - end of the year	**33,307**	**28,981**	**31,404**	**35,606**	**40,596**	**45,883**	**52,121**	**57,060**	**62,908**	**72,851**

9.4 Standard Scenario – Graphs

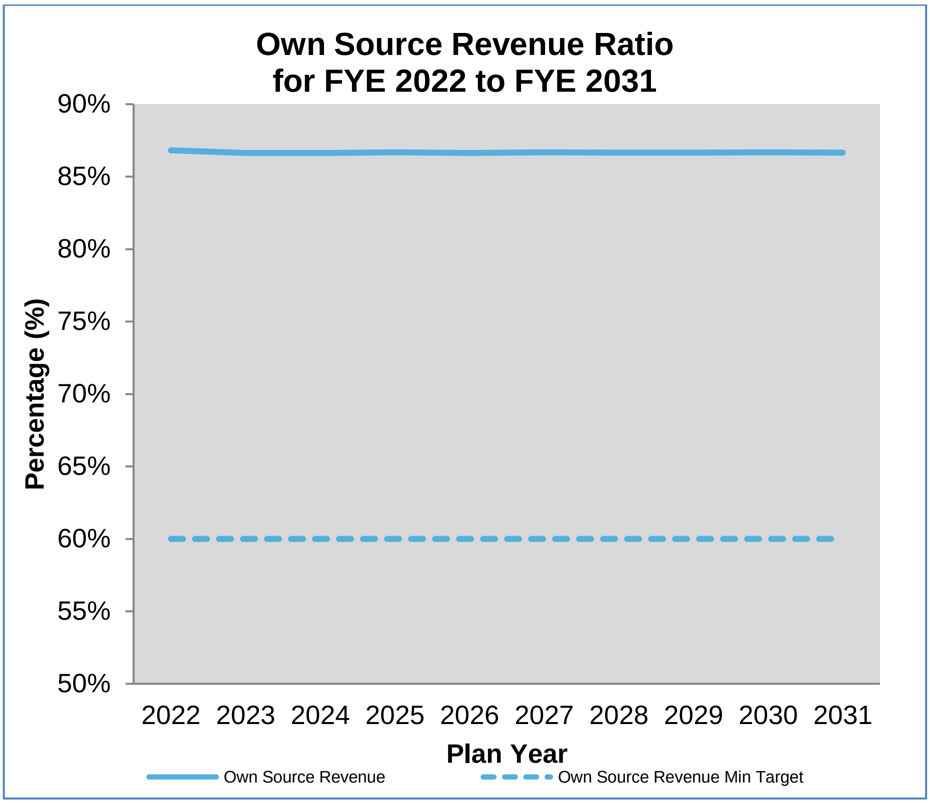
Standard Scenario Graph – Underlying Surplus



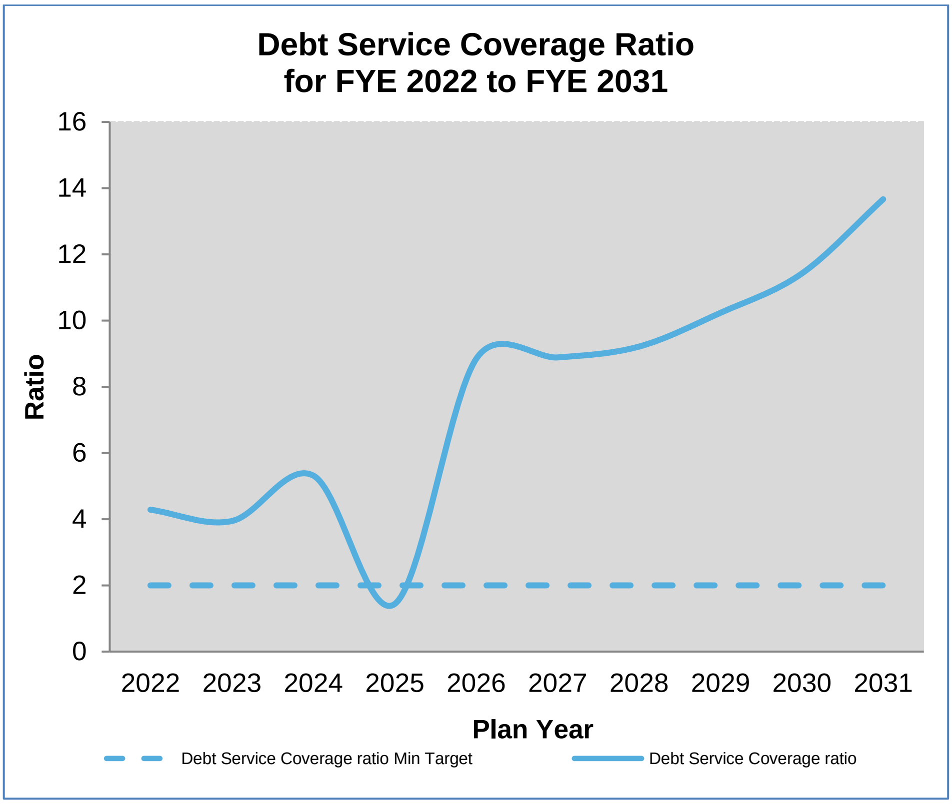
Standard Scenario Graph - Operating Performance Ratio



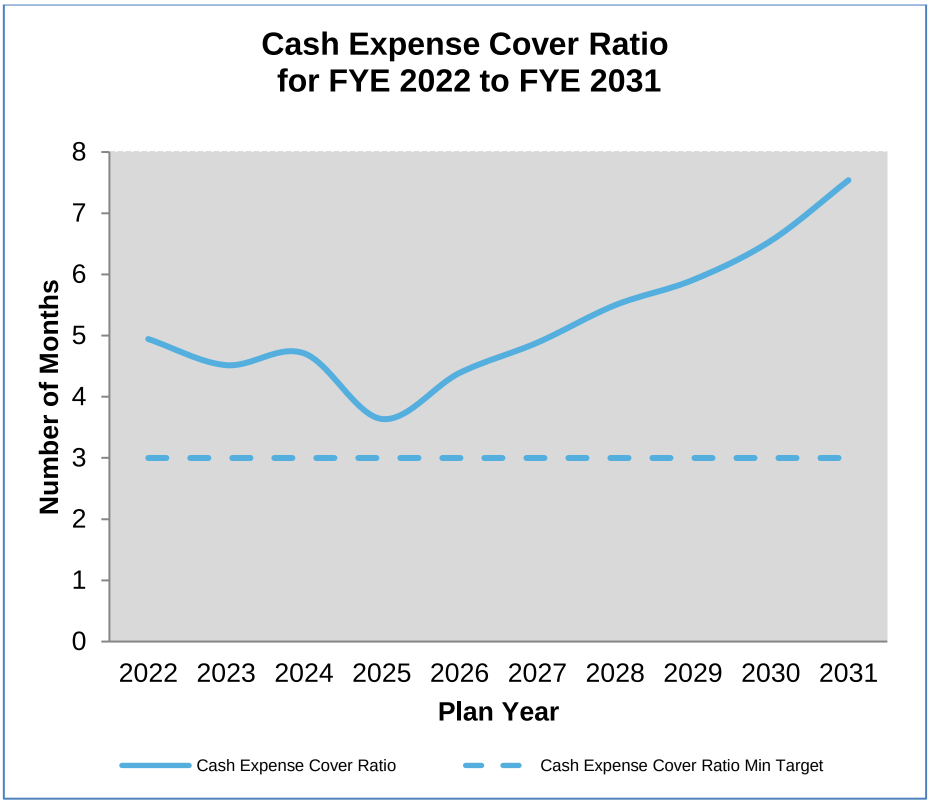
Standard Scenario Graph – Own Source Revenue Ratio



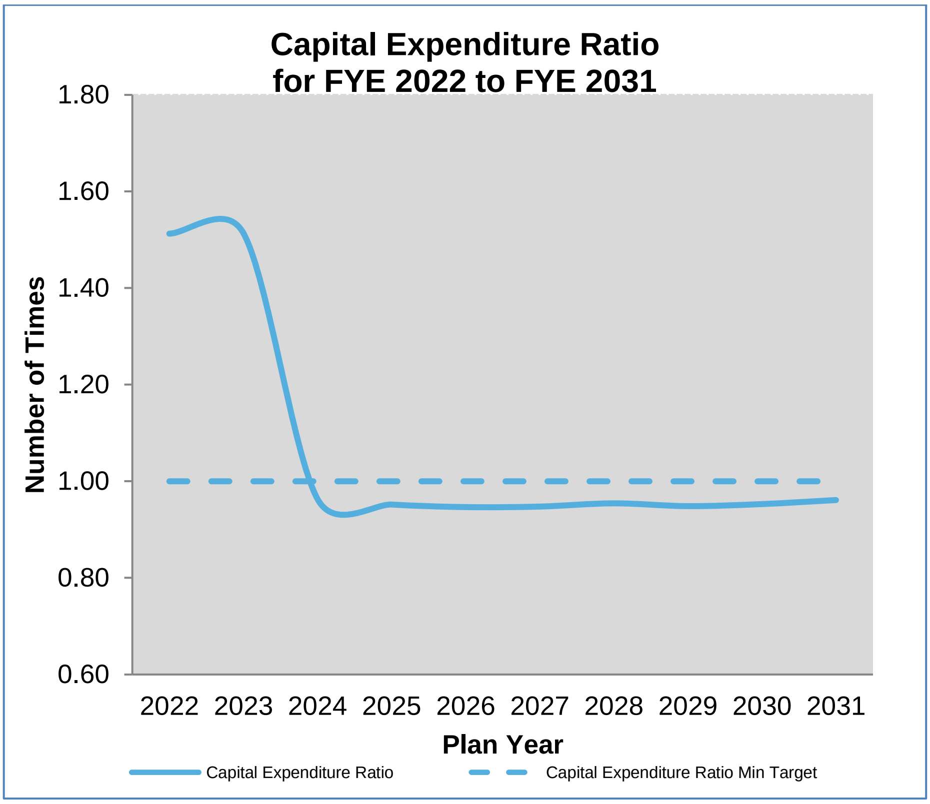
Standard Scenario Graph – Debt Service Coverage Ratio



Standard Scenario Graph - Cash Expense Cover Ratio



Standard Scenario Graph - Capital Expenditure Ratio



Appendices

Appendix 1: Statement of Restricted Cash

Councils in NSW have traditionally operated with Restricted Asset funds that are amounts of money set aside for specific purposes in later years. In general, these funds do not have bank accounts of their own but are a theoretical split up of the accumulated cash surplus that a council has on hand.

Background

Local government will continue into the foreseeable future to be challenged by a tightening cash position through increasing demands for cash for daily operations, restricted rate income levels, increasing demands for expenditure on new infrastructure and the maintenance and rehabilitation of existing infrastructure. Port Stephens Council is certainly subject to these same pressures, exacerbated by high growth in population and development activity, significant environmental responsibilities and an added responsibility as a quality tourist destination.

A strategic financial response to these pressures is necessary for Port Stephens Council to remain a sustainable community leader.

Objective

Council will from time to time decide, or be required by legislation, to set aside funds for specific purposes for which clear guidelines are set to ensure Council's cash position and investment portfolio are adequate and managed responsibly.

Principles

- Council is the custodian of financial and built assets on behalf of the Port Stephens community;
- Council provides works, services and facilities to the community through limited financial means;
- Council is required to operate within the framework and supporting guidelines of:
    - *Local Government Act 1993;*
    - Local Government Code of Accounting Practice and Financial Reporting;
    - Local Government Asset Accounting Manual;
    - Australian Accounting Standards.
- A strategic financial plan and associated policies are required to support Council's service delivery and asset management strategies, ensuring long term financial viability.

Statement

- Council will set aside funds as required by specific legislation. These funds will be managed and accounted for so as to comply with the relevant legislation;
- Council will also from time to time set aside additional funds for Council's specific purposes;
- Restricted funds will be reported in the Annual Financial Statements and reviewed annually against the specified requirements of each fund;
- Restricted funds will be reviewed quarterly against the annual budget by the Section Manager accountable for that fund;
- Each specific fund shall be approved by Council and must be supported by a statement which outlines the following:
  - Purpose of Restricted Funds;
  - Source of funds;
  - The apportionment of interest earned on cash held for that fund;
  - A specific statement including targets, sinking funds, timeframes for accumulation and expenditure of funds;
  - Accountability for the collection, management and expenditure of that fund;
  - Relevant legislation or Council Minute supporting the creation of the fund;
- Creation of all restricted funds shall be in accordance with this policy;
- Expenditure of Restricted Funds shall be in strict accordance with the approved budget, and expenditure shall not exceed funds available without specific Council Resolution;
- Budgeting for the expenditure of profits from land development activities will only occur after the physical receipt of sale proceeds by Council; and
- All Restricted Funds are to be 100% cash backed.

Related Council policies

- Cash Investment Policy
- Property Investment Policy
- Community Groups Loans Policy
- Land Acquisition and Divestment Policy

Review date

Review of this policy will be undertaken 12 months after the date of its adoption by Council. Should amendments to the relevant legislation occur within that 12 month period, review will take place as near as possible to the commencement of such amendments.

Relevant legislative provisions

- *Local Government Act (NSW) 1993*
- *Code of Accounting Practice and Financial Reporting*
- *Environmental Planning and Assessment Act (NSW) 1979*
- *Crown Lands Act (NSW) 1989*
- *Department of Lands – Crown Lands Caravan Park Policy (April 1990)*

Implementation responsibility

Financial Services Section

Definitions

Externally Restricted Funds refers to those funds which have an external restriction, whether by statute or otherwise, which governs the management of money held within the fund.

Internally Restricted Funds refers to those funds which Council has resolved to set up, to hold monies for specific purposes. The operation of such funds is solely governed by Council.

Internal Pooling refers to those monies transferred within Council to cover identified projects, where the money is to be repaid to the restricted fund from a specified source. Internal pooling is subject to specific Council approval and must demonstrate that the pooling of monies for the project will not be unreasonably, over a period of time, prejudice to other future projects.

The following section outlines what restricted assets Council currently holds, their purpose and recommendations for their future.

Nature and purpose of current restricted assets

The more material current restricted asset funds held by Port Stephens Council are:

- Deposits, retentions and bonds;
- Bonds held for developers' works;
- Section 7.11 & 7.12 developer contributions;
- Specific purpose unexpended grants;
- Domestic waste management;
- Crown Reserves;
- Employee leave entitlements;
- Capital asset restricted asset/asset rehabilitation;
- Drainage restricted assets;
- Election restricted assets;
- Business technology fund;
- Newcastle Airport Partnership;
- Fleet;
- Section 355c committees;
- Unexpended loan funds;
- Community loans;

- Parking meters;
- Commercial properties;
- Other waste;
- Sustainable energy and water;
- Roads/environmental special rate;
- Administration building;
- Ward funds.

Deposits, retentions and bonds

Purpose	An external restriction is placed on deposits, retentions and bonds held by Council.
Source of Funds	Any person or company that has paid a deposit, retention monies or bond to Council.

Bonds held for developers' works

Purpose	An external restriction is placed on bonds held by Council.
Source of Funds	Any developer that has paid a bond to Council.

Section 7.11 & 7.12 developer contributions

Purpose	Section 7.11 & 7.12 of the *Environmental Planning & Assessment Act 1979* enables Council to levy contributions because of development. These contributions are essential in providing quality facilities and services to an expanding local population. The Act requires Council to set these funds aside to be used specifically for the provision of these facilities and services.
Source of Funds	Developer contributions as levied in accordance with Council's adopted Section 7.11 Plan.

Specific purpose unexpended grants

Purpose	An external restriction is placed on grant funding that has been received for a specific purpose that has not been spent by the end of the financial year.
Source of Funds	Grant funding that is for a specific purpose is provided to Council from various sources.

Domestic waste management

Purpose	By virtue of Section 496 of the *Local Government Act 1993* (as amended), Council must levy a separate charge for domestic waste management services, which include garbage and recycling services. Under the legislation Council cannot finance these services from ordinary rates so the charge must be

	sufficient to recover reasonable costs of providing these services. Council is obliged to set these funds aside and use them for their specific purpose.
Source of Funds	Domestic Waste Services & Management Levy.

Crown Reserves

Purpose	Net profits from Holiday Parks and parking meters on Crown Land are retained for reinvestment back into Holiday Parks or other assets on Crown Land.
Source of Funds	Surplus from the Holiday Parks on Crown Land.

Employee leave entitlements

Purpose	To provide funds for employee leave entitlements which have been accrued but not yet paid.
Source of Funds	General revenue.

Capital restricted assets/asset rehabilitation

Purpose	This restricted asset is to set aside monies for major capital works projects.
Source of Funds	Various sources.

Drainage restricted assets

Purpose	This restricted asset is to set aside funds to fund drainage works.
Source of Funds	Various sources.

Election restricted assets

Purpose	To provide funds for the Local Government Elections which are conducted every four years.
Source of Funds	Funds provided annually from general revenue.

Business technology fund

Purpose	This restricted asset is to fund the information technology needs of Council.
Source of Funds	General revenue.

Newcastle Airport Partnership

Purpose	To set aside Council's share of Newcastle Airport Partnership's cash, cash equivalents and investments.
Source of Funds	Newcastle Airport Partnership.

Fleet

Purpose	To provide funds for the purchase of fleet assets.
Source of Funds	General revenue.

Section 355c committees

Purpose	Section 355(c) of *the Local Government Act, 1993* allows Council to delegate certain functions. A section 355(c) Committee is an entity of Port Stephens Council and as such is subject to the same legislation, accountability and probity requirements as Council. Funds are set aside for Section 355(c) purposes.
Source of Funds	Various sources.

Unexpended loan funds

Purpose	To restrict the use of cash which has been borrowed externally for a specific purpose but not yet spent.
Source of Funds	Funds borrowed from banks.

Community loans

Purpose	To provide loan funds for community recreational groups to assist with major asset upgrades on Council owned property.
Source of Funds	General revenue.

Parking meters

Purpose	This restricted asset is to set aside funds that are collected from parking meters on Council land to fund future works.
Source of Funds	General revenue.

Commercial properties

Purpose	To set aside net proceeds received from commercial investment property and property development to fund future commercial investments.
Source of Funds	Surplus from investment property portfolio

Other waste

Purpose	To set aside the net proceeds from the Salamander Waste Transfer Station to fund future works.
Source of Funds	General revenue.

Sustainable energy and water

Purpose	To provide a pool of funds that could be used to attract further funding for sustainable developments on Council owned properties.
Source of Funds	General revenue.

Roads/environmental special rate

Purpose:	To set aside revenue received from the roads and environmental special rate for those specific purposes.
Source of Funds:	General revenue.

Administration Building

Purpose	To provide funds for future upgrade and improvement works to the Administration Building.
Source of Funds	General revenue.

Ward funds

Purpose	To provide an annual allocation of funds to assist Councillors to provide facilities in each ward under section 356 of the local government Act.
Source of Funds	General revenue allocation and an allocation of net proceeds from the sale of commercially developed property.

Appendix 2: Scenario 1: Conservative

2.1 Introduction

Scenario 1 of the LTFP shows the financial results of applying the following assumptions:

Income	Conservative
Rates	
Pegging factor applied 2021	1.5%
Ongoing peg factor beyond 2021	1.5%
New annual rates assessment	150
User fees and charges Annual factor	1.0%
Operating grants and Contributions Annual factor	1.5%
Other	
Cash investment returns	1.0%
Other income	1.0%
Rental income	2.0%
Airport dividend	Nil – first 3 years
Expenses	**Conservative**
Salaries and allowances	1.5%
Materials and contracts	1.5%
Capital spend over 10 years	$200m
Other expenses	1.5%
Enhanced services levels	-

2.2 Financial Results

In Scenario 1 the forecast underlying result is regularly in deficit resulting in a substantial loss over the 10 years. The financial modelling suggests this Scenario is not financially sustainable due to the cumulative deficit which would require a review of service levels and infrastructure investment.

2.3 Financial Statements

Scenario 1: Conservative – Income Statement

INCOME STATEMENT										
For the period ended 30 June	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue										
Rates & Annual Charges	65,379	66,512	67,662	68,829	70,014	71,216	72,437	73,675	74,933	76,209
User Fees and Charges	47,526	48,658	49,280	50,316	50,858	51,911	52,471	53,036	54,108	54,692
Interest & Investment Revenue	1,225	671	613	630	544	576	617	668	706	758
Other Revenues	3,881	3,920	3,959	3,999	4,039	4,079	4,120	4,161	4,203	4,245
Operating Grants and Contributions	12,117	12,299	12,484	12,671	12,861	13,054	13,250	13,448	13,650	13,855
Capital Grants and Contributions	12,122	7,212	7,356	7,503	7,653	7,806	7,962	8,121	8,284	8,450
Gain on Sale of assets	3,750	250	250	250	250	250	250	250	250	250
Other Income - Rental Income	4,199	4,324	4,454	4,588	4,725	4,867	5,013	5,164	5,319	5,478
Other Income - Fair Value increment	826	784	800	816	832	849	866	883	901	919
Total Revenue	**151,025**	**144,630**	**146,857**	**149,602**	**151,775**	**154,609**	**156,986**	**159,407**	**162,353**	**164,855**
Operating Expenses										
Employee Benefits & On-Costs	53,630	54,708	55,837	57,020	58,250	59,189	60,157	61,155	62,188	63,253
Borrowing Costs	872	775	739	658	383	457	396	335	312	259
Materials & Services	47,073	47,170	47,878	49,246	49,325	50,065	50,816	52,328	52,352	53,137
Depreciation & Amortisation	18,247	18,773	19,480	20,054	20,514	20,843	21,051	21,547	21,618	22,002
Other Expenses	15,507	15,792	16,024	16,311	16,550	16,795	17,041	17,306	17,570	17,839
Total Operating Expenses	**135,329**	**137,218**	**139,957**	**143,288**	**145,022**	**147,350**	**149,461**	**152,671**	**154,040**	**156,490**
Operating Surplus / (Deficit)	**15,696**	**7,412**	**6,900**	**6,313**	**6,753**	**7,259**	**7,524**	**6,736**	**8,313**	**8,365**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**15,696**	**7,412**	**6,900**	**6,313**	**6,753**	**7,259**	**7,524**	**6,736**	**8,313**	**8,365**
Net Operating Result before Capital Grants	**3,574**	**200**	**(456)**	**(1,190)**	**(900)**	**(547)**	**(438)**	**(1,385)**	**29**	**(85)**
Adjustments for Underlying Result										
Gain on Sale of assets	(3,750)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Investment property fair value increases & royaltie	(1,470)	(1,109)	(1,128)	(1,148)	(1,167)	(1,187)	(1,208)	(1,228)	(1,250)	(1,271)
NAP Profit	21	(540)	(884)	(1,452)	(1,588)	(2,133)	(2,188)	(2,246)	(2,808)	(2,878)
Local election costs	600	-	-	650	-	-	-	750	-	-
NAP dividend	-	-	-	1,500	2,000	2,000	2,000	2,000	2,000	2,000
Underlying result	**(1,025)**	**(1,699)**	**(2,718)**	**(1,889)**	**(1,905)**	**(2,118)**	**(2,084)**	**(2,360)**	**(2,279)**	**(2,483)**

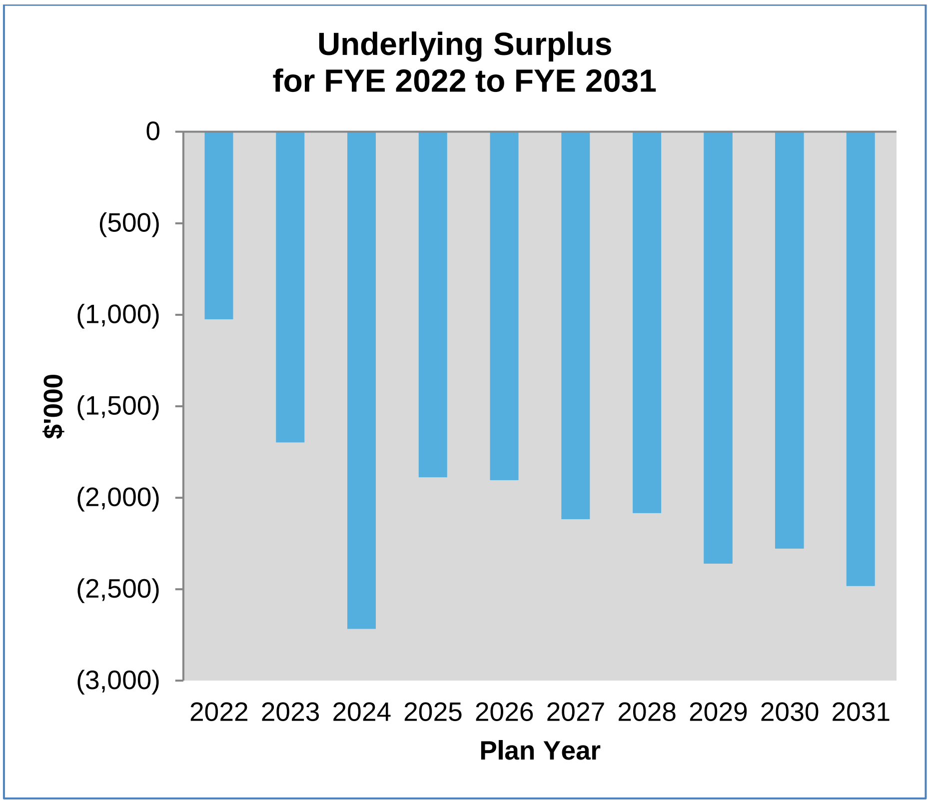
Scenario 1: Conservative – Balance Sheet

STATEMENT OF FINANCIAL POSITION As at 30 June:	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000	2030 $'000	2031 $'000
ASSETS										
Current Assets										
Cash and Cash Equivalents	22,438	16,642	18,411	9,725	13,015	17,097	22,146	25,957	31,200	40,537
Investments	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852
Receivables	10,002	10,247	10,443	10,682	10,873	11,118	11,316	11,516	11,769	11,976
Inventories & Other	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095
Total Current Assets	**65,387**	**59,836**	**61,801**	**53,353**	**56,835**	**61,162**	**66,408**	**70,420**	**75,916**	**85,460**
Non Current Assets										
Infrastructure, Property, Plant & Equipment	1,043,926	1,058,014	1,059,485	1,060,658	1,061,599	1,062,361	1,063,257	1,063,935	1,064,739	1,062,440
Right of Use Asset	2,662	2,386	1,593	811	3,762	3,004	2,248	2,501	1,714	958
Investments using Equity Method	540	540	540	540	540	540	540	540	540	540
Inventories & Other	10,257	10,663	11,075	11,493	11,918	12,349	12,786	13,230	13,681	14,138
Investment Properties	39,211	39,996	40,796	41,612	42,444	43,293	44,158	45,042	45,943	46,861
Intangibles	5,890	5,352	4,901	4,522	4,206	3,942	3,723	3,543	3,396	3,276
Total Non Current Assets	**1,102,486**	**1,116,951**	**1,118,389**	**1,119,636**	**1,124,468**	**1,125,489**	**1,126,714**	**1,128,792**	**1,130,012**	**1,128,214**
Total Assets	**1,167,874**	**1,176,787**	**1,180,190**	**1,172,989**	**1,181,303**	**1,186,651**	**1,193,122**	**1,199,211**	**1,205,928**	**1,213,674**
LIABILITIES										
Current Liabilities										
Trade & Other Payables	15,473	15,491	15,618	15,864	15,879	16,012	16,147	16,419	16,423	16,565
Lease liabilities	747	819	847	773	709	742	694	779	814	770
Borrowings	4,020	3,063	13,867	2,044	2,072	2,099	1,882	1,822	1,552	1,189
Provisions	12,996	13,481	13,398	13,983	14,318	14,260	15,081	14,939	15,104	15,803
Total Current Liabilities	**33,237**	**32,854**	**43,731**	**32,664**	**32,977**	**33,113**	**33,804**	**33,959**	**33,893**	**34,328**
Non Current Liabilities										
Trade & Other Payables	2,189	1,644	1,098	553	7	0	0	0	0	0
Lease liabilities	1,915	1,566	746	38	3,053	2,263	1,554	1,723	900	189
Borrowings	32,159	34,096	20,229	18,184	16,113	14,014	12,132	10,310	8,758	7,569
Provisions	1,716	2,557	3,417	4,266	5,116	5,966	6,813	7,663	8,508	9,355
Total Non Current Liabilities	**37,979**	**39,863**	**25,489**	**23,041**	**24,289**	**22,243**	**20,499**	**19,696**	**18,167**	**17,114**
Total Liabilities	**71,216**	**72,717**	**69,220**	**55,705**	**57,266**	**55,356**	**54,303**	**53,655**	**52,060**	**51,441**
Net Assets	**1,096,658**	**1,104,070**	**1,110,970**	**1,117,284**	**1,124,037**	**1,131,296**	**1,138,820**	**1,145,556**	**1,153,869**	**1,162,233**
EQUITY										
Accumulated Surplus	693,441	700,853	707,754	714,068	720,821	728,079	735,603	742,340	750,653	759,016
Asset Revaluation Reserves	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217
Total Equity	**1,096,658**	**1,104,070**	**1,110,971**	**1,117,285**	**1,124,038**	**1,131,296**	**1,138,820**	**1,145,557**	**1,153,870**	**1,162,233**

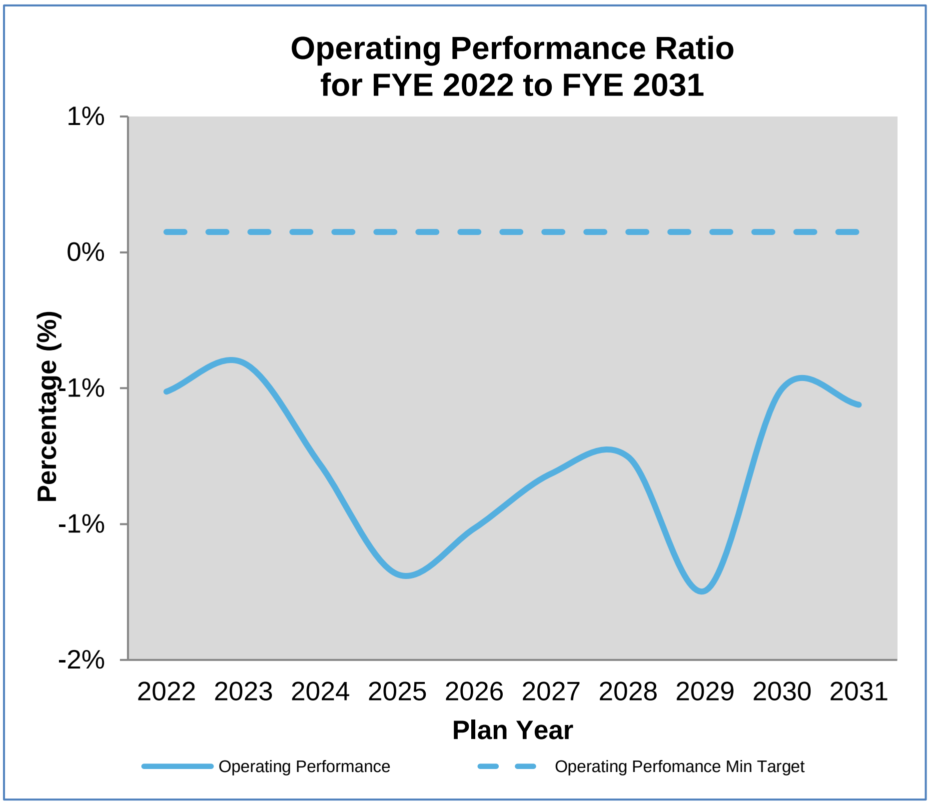
Scenario 1: Conservative – Statement of Cash Flows

CASHFLOW STATEMENT										
For the period ended 30 June	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Cash Flows from Operating Activities	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Receipts:										
Rates & Annual Charges	64,094	66,267	67,466	68,590	69,822	70,971	72,239	73,475	74,680	76,001
User Charges & Fees	47,526	48,658	49,280	50,316	50,858	51,911	52,471	53,036	54,108	54,692
Interest & Investment Revenue Received	1,225	671	613	630	544	576	617	668	706	758
Grants & Contributions	21,639	16,858	17,133	17,414	17,699	17,988	18,283	18,582	18,887	22,304
Other Income - Rental Income	4,199	4,324	4,454	4,588	4,725	4,867	5,013	5,164	5,319	5,478
Other	3,881	3,920	3,959	3,999	4,039	4,079	4,120	4,161	4,203	4,245
Payments:										
Employee Benefits & On-Costs	(51,797)	(56,034)	(56,613)	(58,453)	(59,435)	(59,982)	(61,823)	(61,865)	(63,197)	(64,799)
Materials & Contracts	(47,679)	(46,642)	(47,460)	(48,947)	(48,794)	(50,191)	(50,951)	(52,600)	(52,356)	(53,279)
Borrowing Costs	(872)	(775)	(739)	(658)	(383)	(457)	(396)	(335)	(312)	(259)
Other	(18,778)	(14,303)	(15,226)	(13,987)	(15,250)	(14,928)	(13,452)	(15,404)	(15,430)	(14,406)
Net Cash provided (or used in) Operating Activities	**23,437**	**22,944**	**22,868**	**23,492**	**23,824**	**24,835**	**26,120**	**24,882**	**26,606**	**30,736**
Cash Flows from Investing Activities										
Receipts:										
Sale of Real Estate Assets	-	-	-	-	-	-	-	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	3,750	250	250	250	250	250	250	250	250	250
Payments:										
Purchase of Investment Securities										
Purchase of Real Estate Assets	(400)	(406)	(412)	(418)	(425)	(431)	(437)	(444)	(451)	(457)
Purchase of Infrastructure, Property, Plant & Equipment	(27,602)	(28,410)	(16,642)	(16,878)	(17,117)	(17,360)	(17,607)	(17,857)	(18,111)	(18,369)
Purchase of Intangible Assets	(400)	(406)	(412)	(418)	(425)	(431)	(437)	(444)	(451)	(457)
Net Cash provided (or used in) Investing Activities	**(24,652)**	**(28,972)**	**(17,216)**	**(17,465)**	**(17,716)**	**(17,972)**	**(18,231)**	**(18,495)**	**(18,762)**	**(19,033)**
Cash Flows from Financing Activities										
Payments:										
New Borrowings	10,000	5,000								
Repayment of leases principal	(28)	(747)	(819)	(847)	(773)	(709)	(742)	(694)	(779)	(814)
Repayment of Borrowings & Advances	(3,380)	(4,020)	(3,063)	(13,867)	(2,044)	(2,072)	(2,099)	(1,882)	(1,822)	(1,552)
Net Cash Flow provided (used in) Financing Activities	**6,592**	**233**	**(3,882)**	**(14,714)**	**(2,817)**	**(2,780)**	**(2,841)**	**(2,576)**	**(2,601)**	**(2,366)**
Net Increase/(Decrease) in Cash & Cash Equivalents	**5,377**	**(5,796)**	**1,769**	**(8,687)**	**3,290**	**4,083**	**5,048**	**3,811**	**5,244**	**9,337**
plus: Cash - beginning of year	17,061	22,438	16,642	18,411	9,725	13,015	17,097	22,146	25,957	31,200
Cash - end of the year	**22,438**	**16,642**	**18,411**	**9,725**	**13,015**	**17,097**	**22,146**	**25,957**	**31,200**	**40,537**
plus: Investments - end of the year	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852
Total Cash & Investments - end of the year	**49,290**	**43,494**	**45,263**	**36,577**	**39,867**	**43,949**	**48,998**	**52,809**	**58,052**	**67,389**
Less restricted Cash (NAL)	(16,985)	(17,224)	(17,536)	(5,072)	(4,114)	(3,719)	(3,391)	(3,133)	(3,445)	(3,832)
Cash, Cash Equivalents & Investments - end of the year	**32,305**	**26,271**	**27,728**	**31,505**	**35,753**	**40,231**	**45,606**	**49,676**	**54,608**	**63,557**

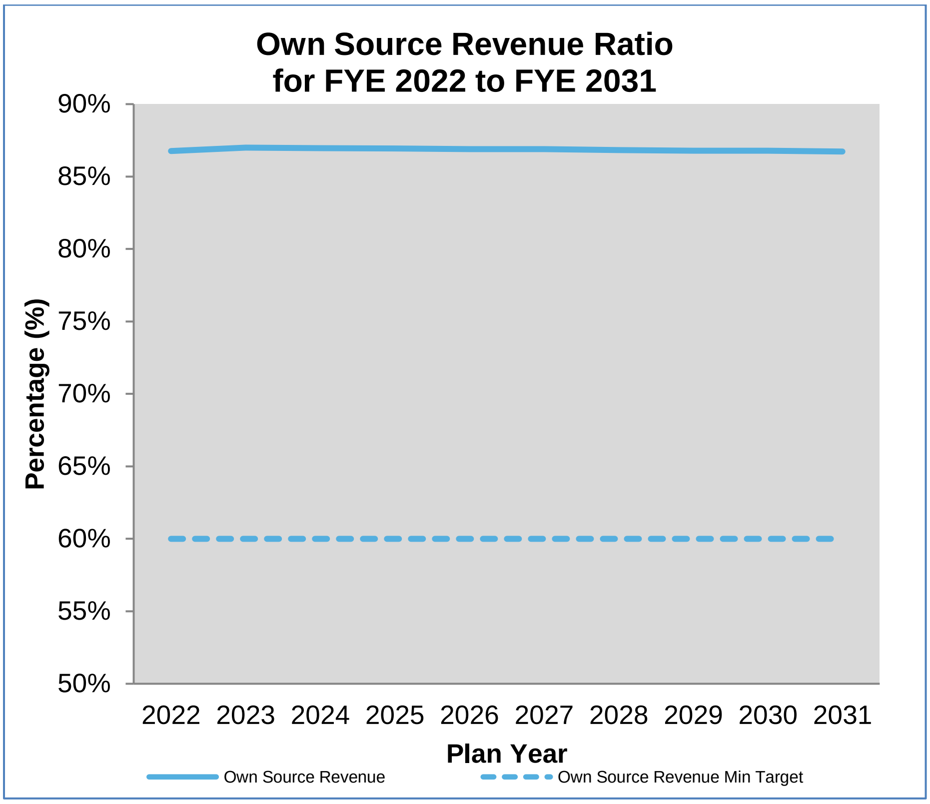
Scenario 1: Conservative Graph - Underlying Surplus



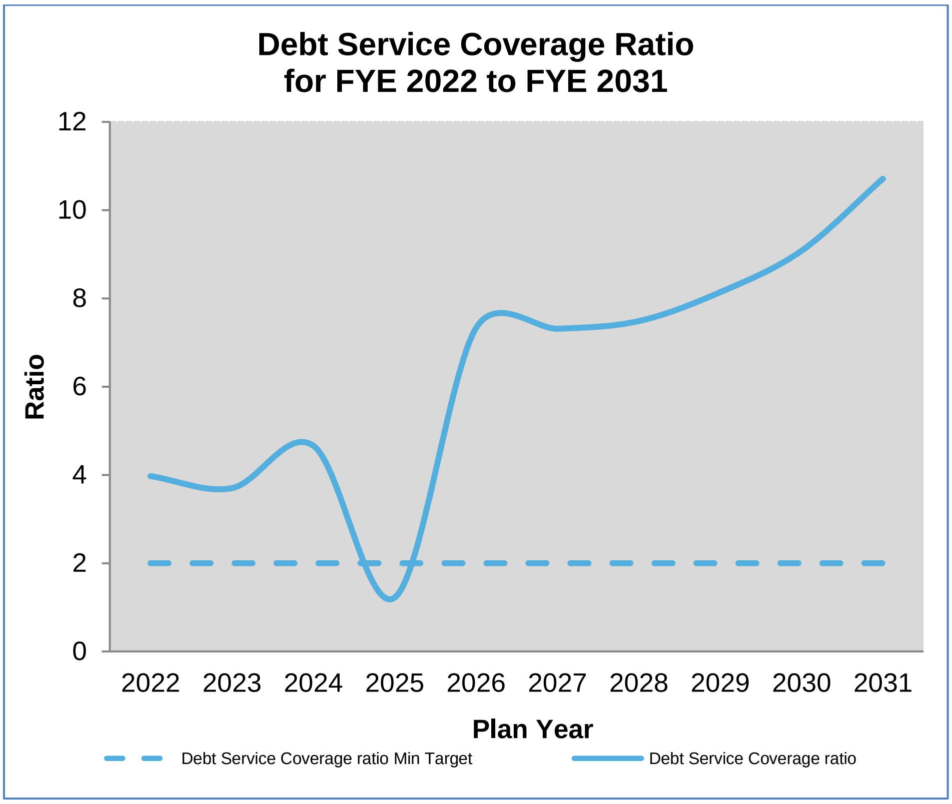
Scenario 1: Conservative Graph - Operating Performance Ratio



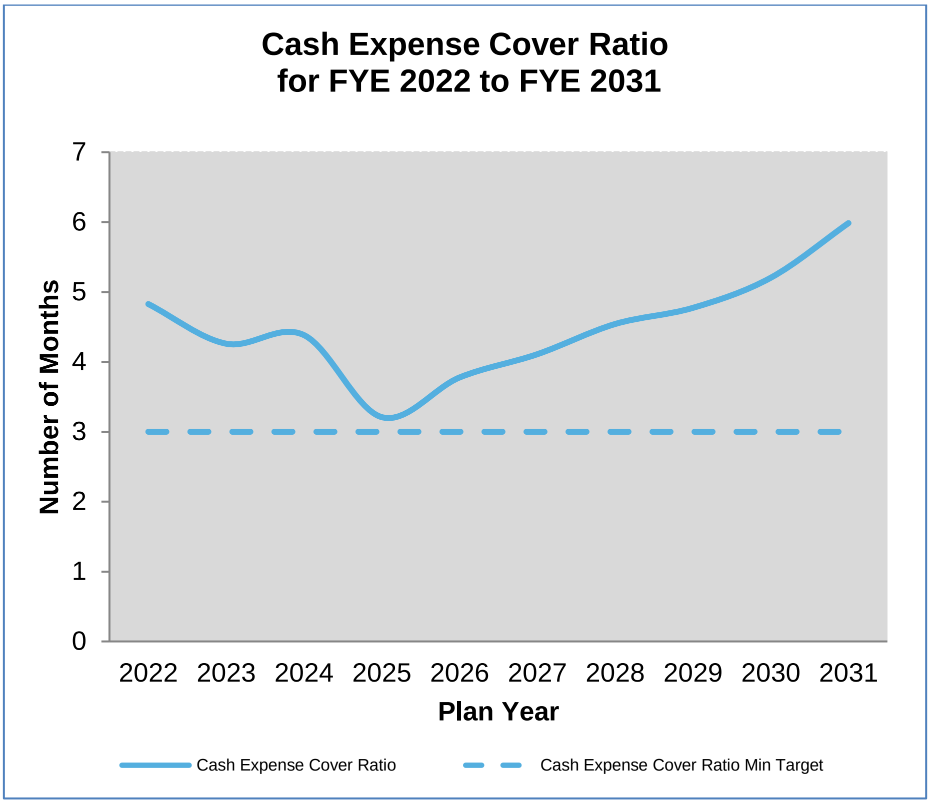
Scenario 1: Conservative Graph - Own Source Revenue Ratio



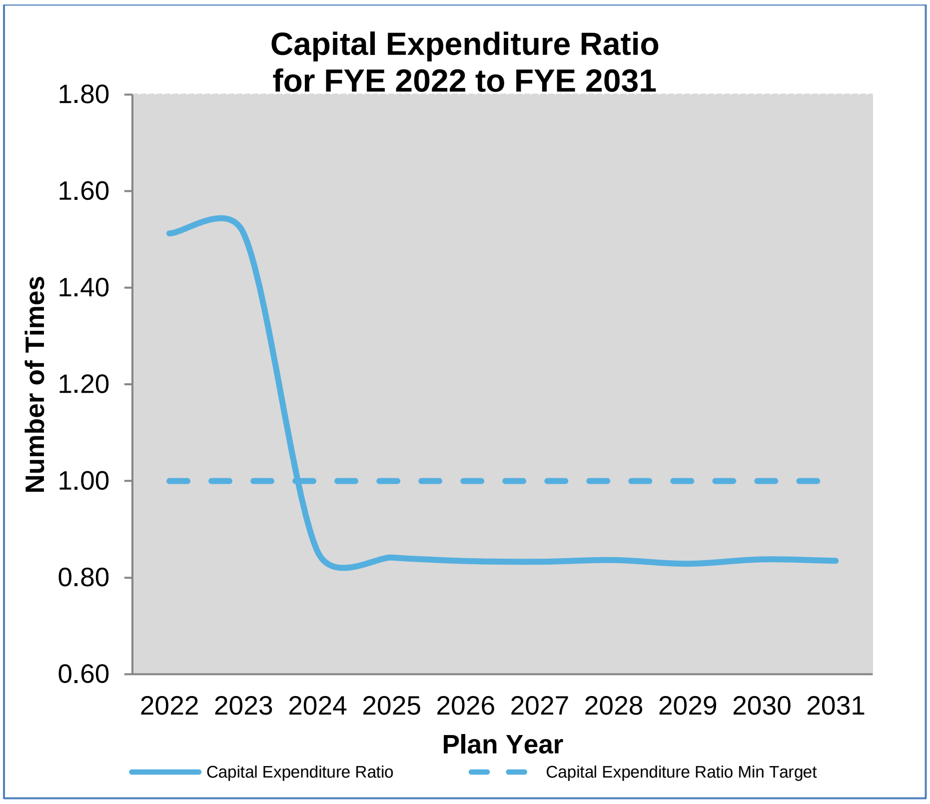
Scenario 1: Conservative Graph - Debt Service Coverage Ratio



Scenario 1: Conservative Graph - Cash Expense Cover Ratio



Scenario 1: Conservative Graph - Capital Expenditure Ratio



Appendix 3: Scenario 3: Strategic

3.1 Introduction

The Standard Scenario of the LTFP shows the financial results of applying the following assumptions:

Income	Strategic
Rates	
Pegging factor applied 2021	2.0%
Ongoing peg factor beyond 2021	2.5%
New annual rates assessment	150
User fees and charges Annual factor	2.5%
Operating grants and Contributions Annual factor	2.5%
Other	
Cash investment returns	2.5%
Other income	2.5%
Rental income	3.0%
Airport dividend	Fixed Amount

Expenses	Strategic
Salaries and allowances	2.5%
Materials and contracts	2.5%
Capital spend over 10 years	$250m
Other expenses	2.5%
Enhanced services levels	Continually increase by $250k per year

3.2 Financial Results

In Scenario 3 the forecast underlying result is in deficit for six out of the ten years. The financial modelling suggests this Scenario is not financially sustainable due to the cumulative deficit which would require a review of service levels and infrastructure investment. The enhanced service levels of an increase of $250,000 per year is not financially sustainable.

3.3 Financial Statements

Scenario 3: Strategic – Income Statement

INCOME STATEMENT For the period ended 30 June	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000	2030 $'000	2031 $'000
Revenue										
Rates & Annual Charges	66,079	67,885	69,736	71,633	73,577	75,570	77,613	79,708	81,854	84,054
User Fees and Charges	48,272	50,117	51,507	53,339	54,711	56,625	58,082	59,575	61,607	63,190
Interest & Investment Revenue	1,243	1,382	1,224	1,209	935	955	992	1,053	1,079	1,141
Other Revenues	3,937	4,036	4,137	4,240	4,346	4,455	4,566	4,680	4,797	4,917
Operating Grants and Contributions	12,255	12,561	12,875	13,197	13,527	13,865	14,212	14,567	14,932	15,305
Capital Grants and Contributions	12,122	7,212	7,356	7,503	7,653	7,806	7,962	8,121	8,284	8,450
Gain on Sale of assets	3,750	250	250	250	250	250	250	250	250	250
Other Income - Rental Income	4,219	4,346	4,476	4,610	4,749	4,891	5,038	5,189	5,344	5,505
Other Income - Fair Value increment	835	1,177	1,212	1,248	1,286	1,324	1,364	1,405	1,447	1,490
Total Revenue	**152,713**	**148,965**	**152,772**	**157,229**	**161,035**	**165,742**	**170,079**	**174,548**	**179,594**	**184,302**
Operating Expenses										
Employee Benefits & On-Costs	54,158	56,509	57,505	59,289	61,147	62,744	64,396	66,106	67,880	69,717
Borrowing Costs	872	775	739	658	383	457	396	335	312	259
Materials & Services	46,761	47,565	49,004	51,129	51,991	53,540	55,129	57,507	58,426	60,137
Depreciation & Amortisation	18,247	18,814	19,564	20,217	20,760	21,175	21,474	22,064	22,234	22,721
Other Expenses	15,507	15,947	16,340	16,796	17,210	17,637	18,072	18,533	19,002	19,482
Total Operating Expenses	**135,545**	**139,609**	**143,151**	**148,088**	**151,491**	**155,555**	**159,468**	**164,546**	**167,854**	**172,315**
Operating Surplus / (Deficit)	**17,168**	**9,356**	**9,621**	**9,141**	**9,544**	**10,187**	**10,611**	**10,003**	**11,740**	**11,986**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**17,168**	**9,356**	**9,621**	**9,141**	**9,544**	**10,187**	**10,611**	**10,003**	**11,740**	**11,986**
Net Operating Result before Capital Grants	**5,046**	**2,145**	**2,265**	**1,638**	**1,891**	**2,381**	**2,649**	**1,881**	**3,456**	**3,537**
Adjustments for Underlying Result										
Gain on Sale of assets	(3,750)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Investment property fair value increases & royaltie	(1,488)	(1,511)	(1,555)	(1,600)	(1,646)	(1,694)	(1,743)	(1,793)	(1,845)	(1,898)
NAP Profit	(228)	(1,248)	(1,790)	(2,554)	(2,732)	(3,498)	(3,795)	(4,109)	(4,941)	(5,304)
Local election costs	600	-	-	650	-	-	-	750	-	-
NAP dividend	-	500	1,000	1,500	2,000	2,000	2,000	2,000	2,000	2,000
Underlying result	**180**	**(365)**	**(329)**	**(616)**	**(737)**	**(1,061)**	**(1,138)**	**(1,521)**	**(1,580)**	**(1,915)**

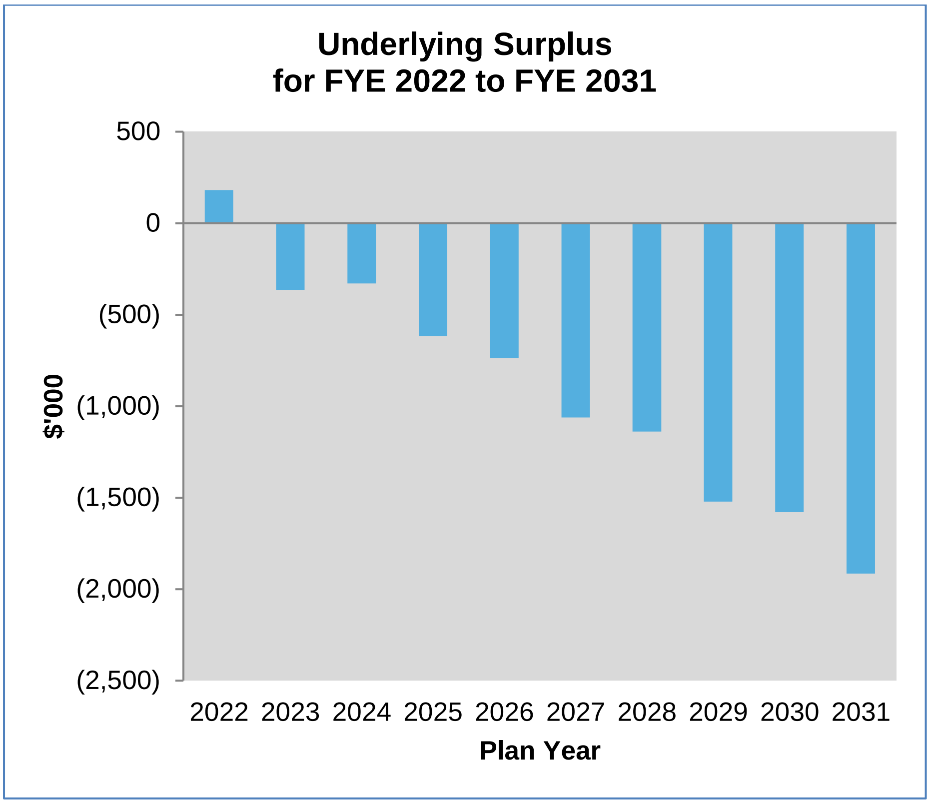
Scenario 3: Strategic – Balance Sheet

STATEMENT OF FINANCIAL POSITION										
As at 30 June:	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ASSETS										
Current Assets										
Cash and Cash Equivalents	21,332	14,982	14,389	3,451	4,233	5,711	8,141	9,212	11,661	18,199
Investments	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852
Receivables	10,161	10,556	10,912	11,317	11,682	12,106	12,491	12,885	13,339	13,755
Inventories & Other	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095	6,095
Total Current Assets	**64,440**	**58,485**	**58,248**	**47,715**	**48,862**	**50,764**	**53,579**	**55,044**	**57,947**	**64,901**
Non Current Assets										
Infrastructure, Property, Plant & Equipment	1,046,426	1,062,989	1,069,161	1,075,235	1,081,282	1,087,362	1,093,793	1,100,230	1,107,024	1,110,952
Right of Use Asset	2,662	2,386	1,593	811	3,762	3,004	2,248	2,501	1,714	958
Investments using Equity Method	540	540	540	540	540	540	540	540	540	540
Inventories & Other	10,257	10,667	11,087	11,518	11,960	12,412	12,876	13,351	13,839	14,338
Investment Properties	39,220	40,396	41,608	42,856	44,142	45,466	46,830	48,235	49,682	51,173
Intangibles	5,890	5,356	4,912	4,543	4,238	3,989	3,786	3,624	3,497	3,399
Total Non Current Assets	**1,104,995**	**1,122,334**	**1,128,901**	**1,135,503**	**1,145,924**	**1,152,773**	**1,160,074**	**1,168,483**	**1,176,296**	**1,181,361**
Total Assets	**1,169,434**	**1,180,820**	**1,187,149**	**1,183,218**	**1,194,786**	**1,203,537**	**1,213,653**	**1,223,526**	**1,234,243**	**1,246,262**
LIABILITIES										
Current Liabilities										
Trade & Other Payables	15,417	15,562	15,821	16,203	16,358	16,637	16,923	17,351	17,517	17,825
Lease liabilities	747	819	847	773	709	742	694	779	814	770
Borrowings	4,020	3,063	13,867	2,044	2,072	2,099	1,882	1,822	1,552	1,189
Provisions	13,073	13,834	13,683	14,417	14,900	14,981	16,001	15,996	16,328	17,255
Total Current Liabilities	**33,257**	**33,278**	**44,218**	**33,437**	**34,039**	**34,459**	**35,501**	**35,948**	**36,211**	**37,040**
Non Current Liabilities										
Trade & Other Payables	2,189	1,644	1,098	553	7	0	0	0	0	0
Lease liabilities	1,915	1,566	746	38	3,053	2,263	1,554	1,723	900	189
Borrowings	32,159	34,096	20,229	18,184	16,113	14,014	12,132	10,310	8,758	7,569
Provisions	1,785	2,750	3,751	4,757	5,781	6,823	7,875	8,953	10,040	11,146
Total Non Current Liabilities	**38,047**	**40,055**	**25,823**	**23,532**	**24,954**	**23,099**	**21,561**	**20,985**	**19,698**	**18,904**
Total Liabilities	**71,304**	**73,333**	**70,041**	**56,969**	**58,993**	**57,558**	**57,062**	**56,933**	**55,910**	**55,944**
Net Assets	**1,098,130**	**1,107,486**	**1,117,107**	**1,126,249**	**1,135,792**	**1,145,979**	**1,156,591**	**1,166,593**	**1,178,333**	**1,190,319**
EQUITY										
Accumulated Surplus	694,913	704,269	713,891	723,033	732,576	742,762	753,374	763,377	775,117	787,102
Asset Revaluation Reserves	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217	403,217
Total Equity	**1,098,130**	**1,107,486**	**1,117,108**	**1,126,250**	**1,135,793**	**1,145,979**	**1,156,591**	**1,166,594**	**1,178,334**	**1,190,319**

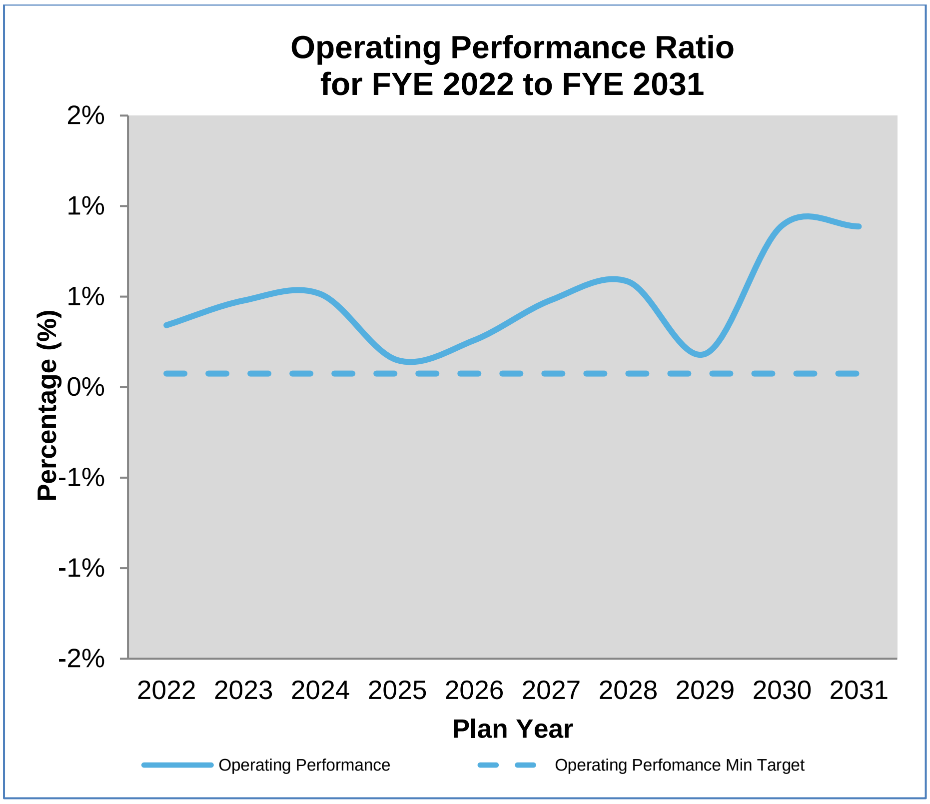
Scenario 3: Strategic – Statement of Cash Flows

CASHFLOW STATEMENT										
For the period ended 30 June	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Cash Flows from Operating Activities	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Receipts:										
Rates & Annual Charges	64,636	67,489	69,380	71,228	73,213	75,146	77,229	79,313	81,400	83,637
User Charges & Fees	48,272	50,117	51,507	53,339	54,711	56,625	58,082	59,575	61,607	63,190
Interest & Investment Revenue Received	1,243	1,382	1,224	1,209	935	955	992	1,053	1,079	1,141
Grants & Contributions	21,776	17,120	17,525	17,940	18,365	18,800	19,245	19,701	20,168	23,754
Other Income - Rental Income	4,219	4,346	4,476	4,610	4,749	4,891	5,038	5,189	5,344	5,505
Other	3,937	4,036	4,137	4,240	4,346	4,455	4,566	4,680	4,797	4,917
Payments:										
Employee Benefits & On-Costs	(52,471)	(58,235)	(58,355)	(61,029)	(62,655)	(63,866)	(66,469)	(67,178)	(69,301)	(71,749)
Materials & Contracts	(47,310)	(47,164)	(48,717)	(50,966)	(51,600)	(53,812)	(55,415)	(57,935)	(58,592)	(60,446)
Borrowing Costs	(872)	(775)	(739)	(658)	(383)	(457)	(396)	(335)	(312)	(259)
Other	(18,600)	(13,402)	(15,132)	(13,587)	(14,984)	(14,820)	(13,369)	(15,594)	(15,717)	(14,744)
Net Cash provided (or used in) Operating Activities	**24,831**	**24,913**	**25,306**	**26,327**	**26,696**	**27,916**	**29,503**	**28,468**	**30,475**	**34,948**
Cash Flows from Investing Activities										
Receipts:										
Sale of Real Estate Assets	-	-	-	-	-	-	-	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	3,750	250	250	250	250	250	250	250	250	250
Payments:										
Purchase of Investment Securities										
Purchase of Real Estate Assets	(400)	(410)	(420)	(431)	(442)	(453)	(464)	(475)	(487)	(500)
Purchase of Infrastructure, Property, Plant & Equipment	(30,102)	(30,926)	(21,426)	(21,939)	(22,464)	(23,002)	(23,554)	(24,120)	(24,700)	(25,294)
Purchase of Intangible Assets	(400)	(410)	(420)	(431)	(442)	(453)	(464)	(475)	(487)	(500)
Net Cash provided (or used in) Investing Activities	**(27,152)**	**(31,496)**	**(22,017)**	**(22,550)**	**(23,097)**	**(23,657)**	**(24,232)**	**(24,821)**	**(25,425)**	**(26,043)**
Cash Flows from Financing Activities										
Payments:										
New Borrowings	10,000	5,000								
Repayment of leases principal	(28)	(747)	(819)	(847)	(773)	(709)	(742)	(694)	(779)	(814)
Repayment of Borrowings & Advances	(3,380)	(4,020)	(3,063)	(13,867)	(2,044)	(2,072)	(2,099)	(1,882)	(1,822)	(1,552)
Net Cash Flow provided (used in) Financing Activities	**6,592**	**233**	**(3,882)**	**(14,714)**	**(2,817)**	**(2,780)**	**(2,841)**	**(2,576)**	**(2,601)**	**(2,366)**
Net Increase/(Decrease) in Cash & Cash Equivalents	**4,270**	**(6,350)**	**(593)**	**(10,938)**	**782**	**1,478**	**2,430**	**1,071**	**2,449**	**6,538**
plus: Cash - beginning of year	17,061	21,332	14,982	14,389	3,451	4,233	5,711	8,141	9,212	11,661
Cash - end of the year	**21,332**	**14,982**	**14,389**	**3,451**	**4,233**	**5,711**	**8,141**	**9,212**	**11,661**	**18,199**
plus: Investments - end of the year	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852	26,852
Total Cash & Investments - end of the year	**48,184**	**41,834**	**41,241**	**30,303**	**31,085**	**32,563**	**34,993**	**36,064**	**38,513**	**45,051**
Less restricted Cash (NAL)	(17,234)	(17,661)	(17,857)	(6,473)	(6,635)	(7,579)	(8,833)	(10,410)	(12,826)	(15,610)
Cash, Cash Equivalents & Investments - end of the year	**30,950**	**24,173**	**23,384**	**23,830**	**24,450**	**24,984**	**26,160**	**25,654**	**25,687**	**29,441**

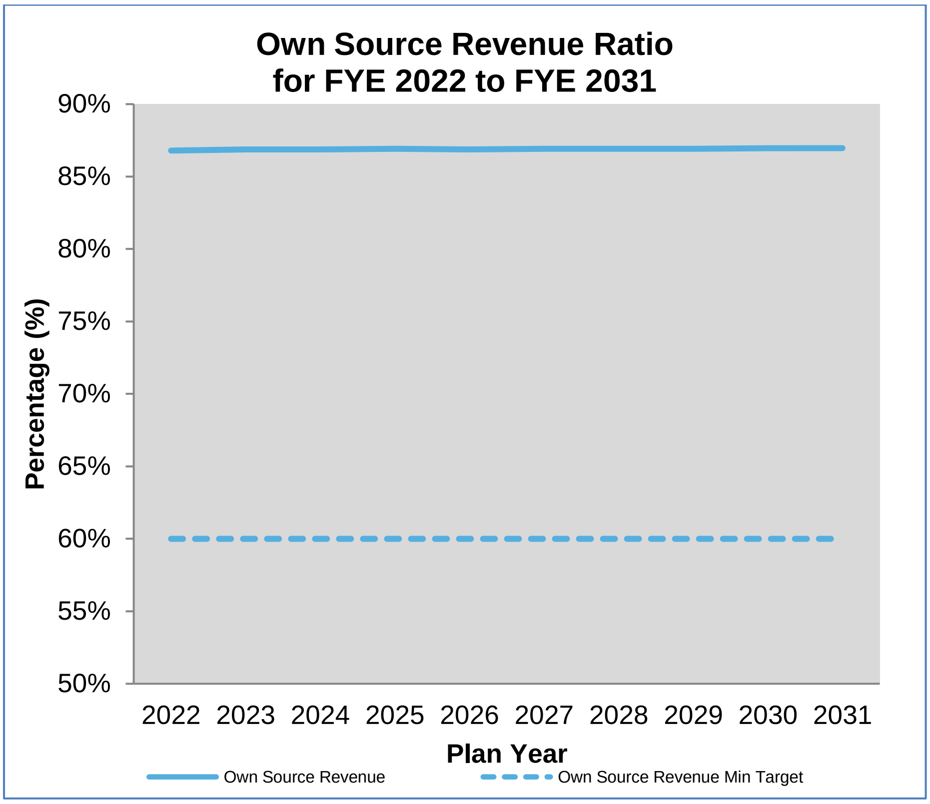
Scenario 3: Strategic Graph - Underlying Surplus



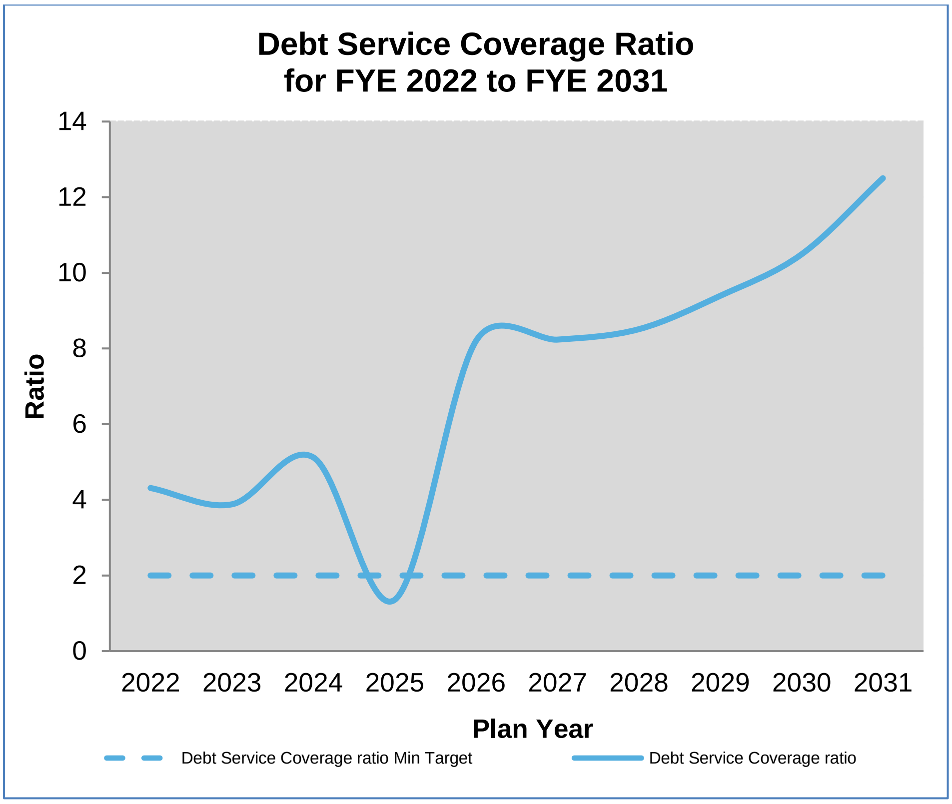
Scenario 3: Strategic Graph - Operating Performance Ratio



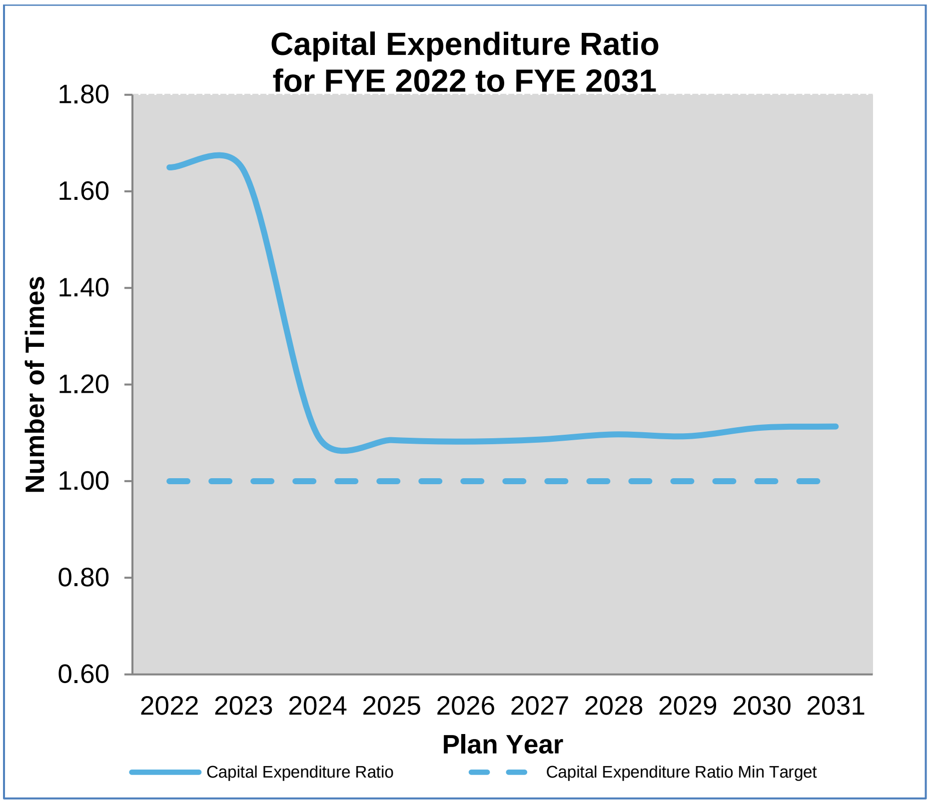
Scenario 3: Strategic Graph - Own Source Revenue Ratio



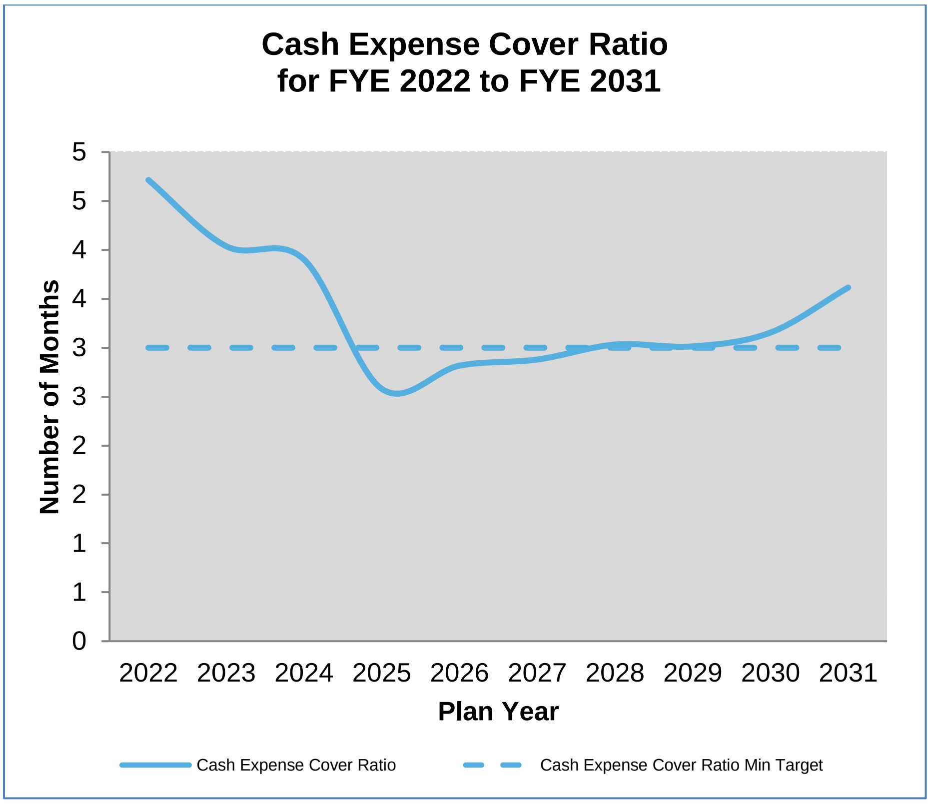
Scenario 3: Strategic Graph - Debt Service Coverage Ratio



Scenario 3: Strategic Graph - Capital Expenditure Ratio



Scenario 3: Strategic Graph - Cash Expense Cover Ratio



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Author	Financial Services Section Manager		
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1.0	21/1/2020	Financial Services Section Manager	First draft.
2.0	21/2/2020	Financial Services Section Manager	Final draft.
3.0	12/1/2021	Financial Services Section Manager	Minor amendments relating to dates applied.
4.0		Financial Services Section Manager	

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