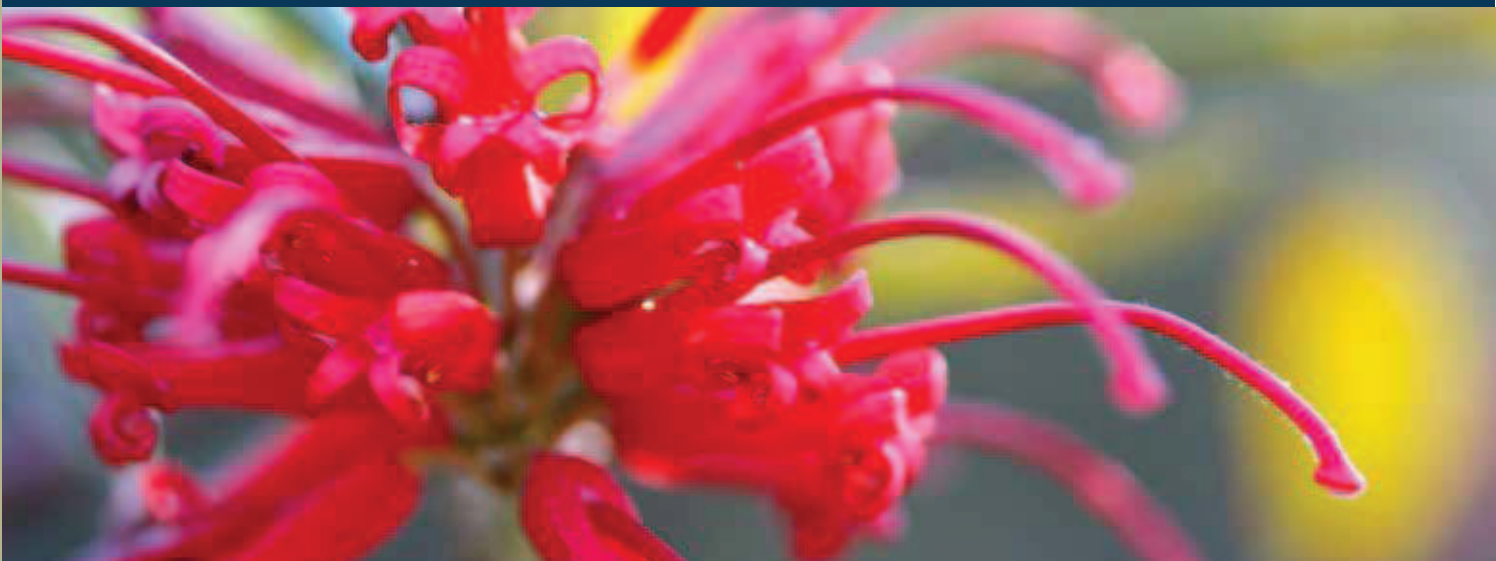




Long Term Financial Plan

Adopted May 2012



Red Lipstick, Amanda Goddard

OVERVIEW

A long term financial plan is one of the three key Resourcing Strategies required by the NSW Integrated Planning & Reporting legislation. Local government operations are vital to its community, and it is important that stakeholders can understand the financial implications arising from its Community Strategic Plan, Delivery Program and annual Operational Plan, and be assured that these plans are financially achievable and sustainable, before they are formally adopted.

Ku-ring-gai Council's Long Term Financial Plan (LTFP) recognises its current and future financial capacity, to continue delivering high quality services, facilities and infrastructure to the community while commencing new initiatives and projects to achieve the goals set down in its Community Strategic Plan (2030).

Financial planning over a 20 year time horizon is difficult and obviously relies on a variety of assumptions that will undoubtedly change during this period. The LTFP is therefore closely monitored, and regularly revised, to reflect these changing circumstances.

Council first adopted an LTFP on 4 December 2001 for a ten year period commencing 2002/03. Since that time it has been the core document used to guide all financial planning within Council and is the basis for annual budgets and the preparation of the Delivery Program and Operational Plan. Since 2009/10, the Plan has been extended to have a 20 year time horizon, principally to align with the time period of Council's Development Contributions Plans and the Community Strategic Plan.

Preparation of the LTFP is guided by the Integrated Planning and Reporting Guidelines for Local Government in NSW issued by the Division of Local Government.

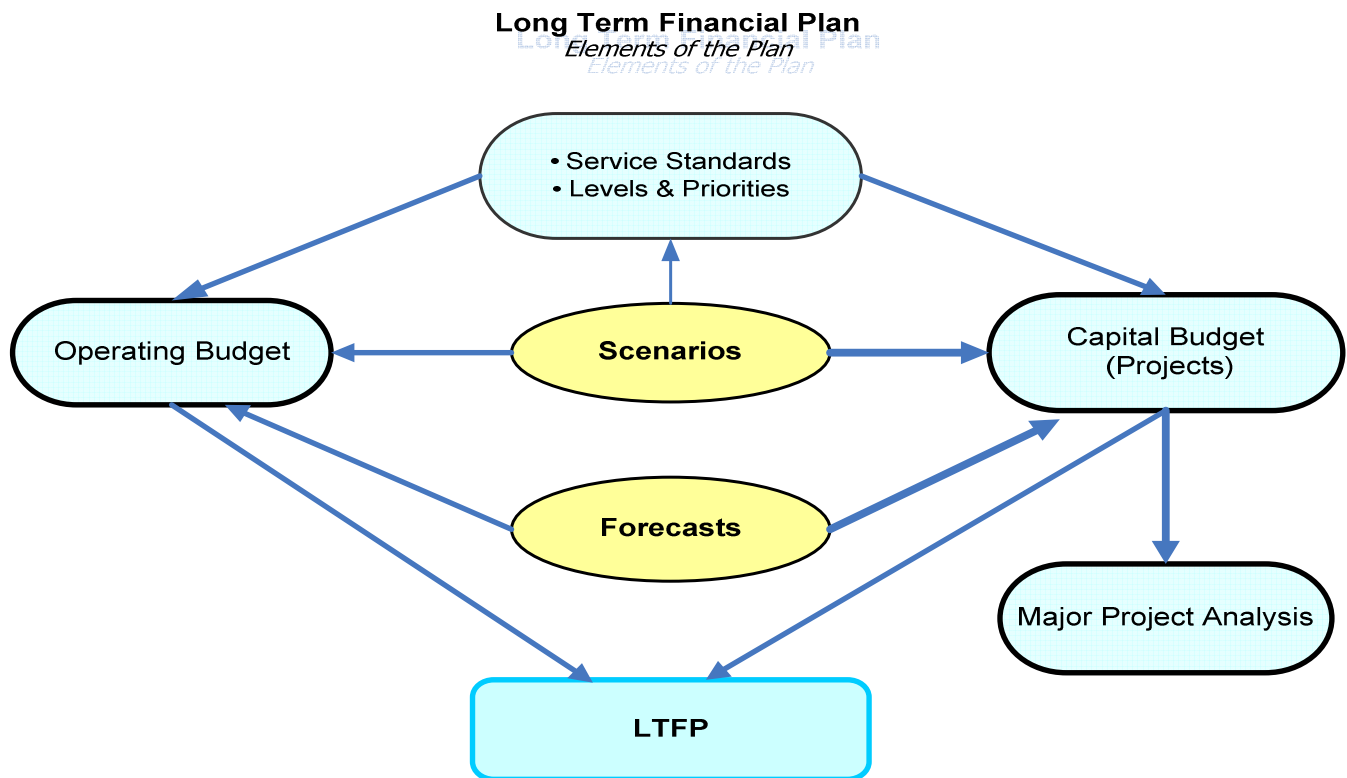
The LTFP includes:

- projected income and expenditure
- balance sheet
- cash flow statement
- planning assumptions used to develop the plan
- sensitivity analysis – highlight factors most likely to affect the plan
- financial modelling for different scenarios – planned/optimistic/conservative
- methods of monitoring financial performance

The 20 Year LTFP contains a core set of assumptions. These assumptions are based on CPI forecasts, interest rate expectations, employee award increases, loan repayment schedules, special price forecasts for certain Council specific items, planned asset sales and other special income and costs.

The diagram below illustrates the link between the main elements of the LTFP: service standards, levels and priorities, Capital and Operating budget, major project analysis and assumptions and scenarios.

Long Term Financial Plan – Elements of the Plan



LONG TERM FINANCIAL PLAN PRINCIPLES

Council's overall guiding principle is to maintain a very healthy financial position, underpinned by a sound income base and commitment to control and delivery of services, facilities and infrastructure demanded by the community in an effective and efficient manner.

The LTFP puts these principles into action in specific ways:

1. Maximise funds available for projects to upgrade or renew infrastructure by:

- Maximising the operating profit before capital items
- Prioritizing the use of Council cash reserves
- Borrowing in accordance with policy
- Timing project expenditure over a longer period and linking to funds availability

2. Satisfy applied tests of financial sustainability:

- Target a minimum working capital of 4.5% of revenue as recommended by Council's external auditors. Working capital is determined by taking net current assets less internally and externally restricted reserves and adding those current liabilities to be funded from the next year's budget. Essentially, working capital is a measure of Council's liquidity and ability to meet its obligations as they fall due. This will allow for unforeseen expenditure or reductions in revenue or other accounting adjustments.
- Maximum debt service ratio of 4% in any one year (industry green light benchmark less than 10%). During the current planning period, this test will not be satisfied due to
 - The LIRS (Local Infrastructure Renewal Scheme) loan, and
 - The special loan for the Services Relocation Strategy which will have major

repayments of principle, in excess of required minimums, timed to co-inside with asset sales.

- Achieve an operating surplus, before capital income items, which is sufficient to fund capital expenditure requirements. This surplus average 5% of revenue over the medium term.
- Maintain a minimum level of internal discretionary cash reserves (excluding liability cash reserves) of 10% of revenue
- Maintain a minimum level of s94 Development Contribution reserves of \$5m
- Only capital items to be funded from cash reserves
- Proceeds of asset sales returned to reserves for expenditure on new assets or major asset refurbishment

3. Borrowing and Debt Strategy

- Borrowings are considered as a source of funding for:
 - Building or purchase of infrastructure assets where a detailed cash flow analysis shows that full funding costs can be recovered over the life of the asset
 - Economic investments where a new asset or service decreases existing costs or provides new revenue in excess of their funding costs (positive NPV)
 - In an emergency
- As borrowings are usually the highest cost source of funds:
 - All possible internal funding sources are considered and used first (including re-allocation of funds from lower priority projects or operating items)
 - The proposed project is re-timed to match internal funds availability

SCENARIO PLANNING

The LTFP incorporates planning for many foreseen scenarios in two categories:

- **Major Project Proposals** - these are usually new initiatives with a capital cost in excess of \$500,000 and have uniquely identifiable incremental costs and revenues resulting from the decision to proceed with the project. The LTFP produces cases for Council and senior management consideration showing the impact on overall financial sustainability of including the project(s) or not. The community benefits of the projects are also quantified where possible and/or subjectively assessed.
- **Optimistic Likely and Pessimistic scenarios.** To mitigate forecasting assumption error, the LTFP is primarily based on likely forecasts of costs and revenues, but both pessimistic and optimistic forecasts can be alternatively considered. This process also identifies areas for more exact estimation.

LONG TERM FINANCIAL PLAN FRAMEWORK

The LTFP quantifies the cost of Council's services for the next 20 years. A portfolio of all project proposals and commitments has been developed, including estimates of costs and funding sources to determine current and future funding requirements. This project portfolio has been linked to the LTFP.

The plan contains a series of assumptions. The operating budget is based on Council's 2011/12 actual results. Years two (2) to twenty (20) are calculated by extrapolating the budgets across each of the remaining years using these assumptions and planned changes to service provision. Major assumptions using the first 4 years of the 2012/13 to 2032/33 LTFP are shown in the following table.

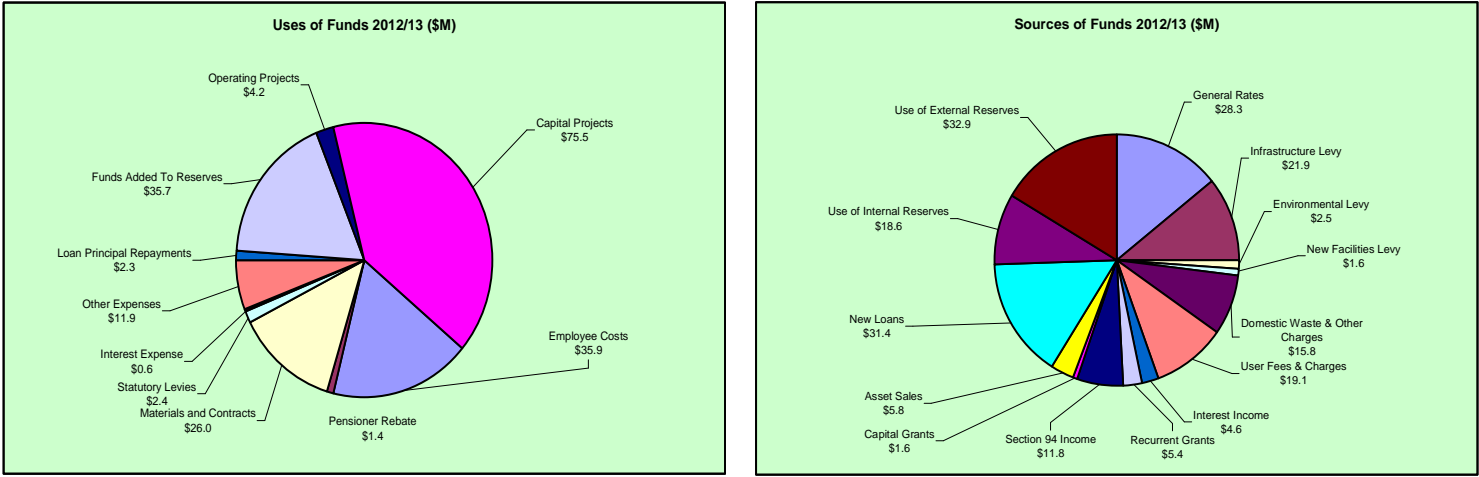
LTFP FORECASTS AND ASSUMPTIONS

	Budget 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15	Projected 2015/16
FORECASTS - ACCESS ECONOMICS					
CPI (Underlying - Fin Year)	2.1%	2.8%	3.0%	2.6%	2.5%
CPI (ABS NSW Underlying Calendar Year Ending)	1.8%	2.5%	2.9%	2.9%	2.5%
Average Weekly Ordinary Time Earnings	4.6%	4.5%	5.1%	4.9%	5.2%
BBSW - 90 Day	4.6%	4.5%	5.1%	4.9%	5.2%
NEW LOANS	3,782,000	31,368,000	1,577,000	0	0
COUNCIL INCOME - ASSUMPTIONS					
Environmental Levy (special rate renewal)	2,416,000	2,511,000	2,609,000	2,721,000	2,843,000
Infrastructure Levy (special rate renewal)	2,313,400	2,384,300	2,477,300	2,583,800	2,700,100
Rates					
Rates Pegging Forecast	2.8%	3.6%	3.2%	3.6%	3.8%
Rates Growth (enhanced by 0.5% from Rates Restructure)	0.7%	0.7%	0.7%	0.7%	0.7%
Total Rates Change	3.5%	4.3%	3.9%	4.3%	4.5%
Domestic Waste Price Increase	5.0%	5.0%	5.0%	5.0%	4.0%
Pensioner Rebate Growth	1.7%	1.7%	1.7%	1.7%	1.7%
Stormwater Management Charge (rates growth only)	0.7%	0.7%	0.7%	0.7%	0.7%
User Fees & Charges (average 80% of rates change - except statutory rates)	2.8%	3.6%	3.0%	2.9%	3.0%
Trade Waste - Annual Charges (DWM increase rate)	5.0%	5.0%	5.0%	5.0%	4.0%
Interest Income - Rate (BBSW)	4.6%	5.5%	5.1%	4.9%	5.2%
Interest On Overdue Rates (= Rates Growth)	3.5%	4.3%	3.9%	4.3%	4.5%
Recurrent Grants (CPI)	2.1%	2.8%	3.0%	2.6%	2.5%
RTA Grants (Flat)	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Grants (CPI)	2.1%	2.8%	3.0%	2.6%	2.5%
Assets Sales					
B2 Land	0	4,074,200	7,740,900	0	0
West Pymble Aquatic Centre	0	1,738,200	0	0	0
To fund new works in 2010 Contributions Plan (specific assets not defined)	0	0	0	2,218,000	2,842,000
Services Relocation Project	0	0	0	12,274,300	13,699,300
Total Asset sales	0	5,812,400	7,740,900	14,492,300	16,541,300
COUNCIL EXPENDITURE - ASSUMPTIONS					
Labour Costs (Award to 2013/14 then 1.4% < Avg Weekly Earnings)	2.15%	3.75%	3.25%	2.70%	2.20%
Workers Compensation (= Emp Costs)	2.15%	3.75%	3.25%	2.70%	2.20%
Super - new scheme compulsory increase phased in. [Old Scheme employees at set rates]	9.00%	9.25%	9.50%	10.00%	10.50%
Training (CPI)	2.1%	2.8%	3.0%	2.6%	2.5%
VG Fees (IPART Decision)	5.6%	6.1%	6.1%	2.6%	2.5%
Street Lighting Charges (IPART Decision)	8.9%	6.9%	5.8%	2.6%	2.5%
Building Electricity Charges (IPART & Carbon tax allowance)	11.4%	10.6%	3.0%	2.6%	2.5%
Operating Expenses (CPI -unless special forecast applies)	2.1%	2.8%	3.0%	2.6%	2.5%
Materials & Contracts & Project Costs (ABS Infrastructure index forecast)	2.5%	3.9%	3.8%	3.4%	3.4%
Water Charges (IPART Determination)	1.6%	2.8%	3.0%	2.6%	2.5%
Fire Levy (CPI)	2.1%	2.8%	3.0%	2.6%	2.5%
Planning Levy (CPI from 2012/13)	0.0%	2.8%	3.0%	2.6%	2.5%
Loan Rate (200 bps over 90 BBSW)	5.80%	7.50%	7.10%	6.90%	7.20%

HIGHLIGHTS OF THE 2012/13 TO 2031/32 LTFP

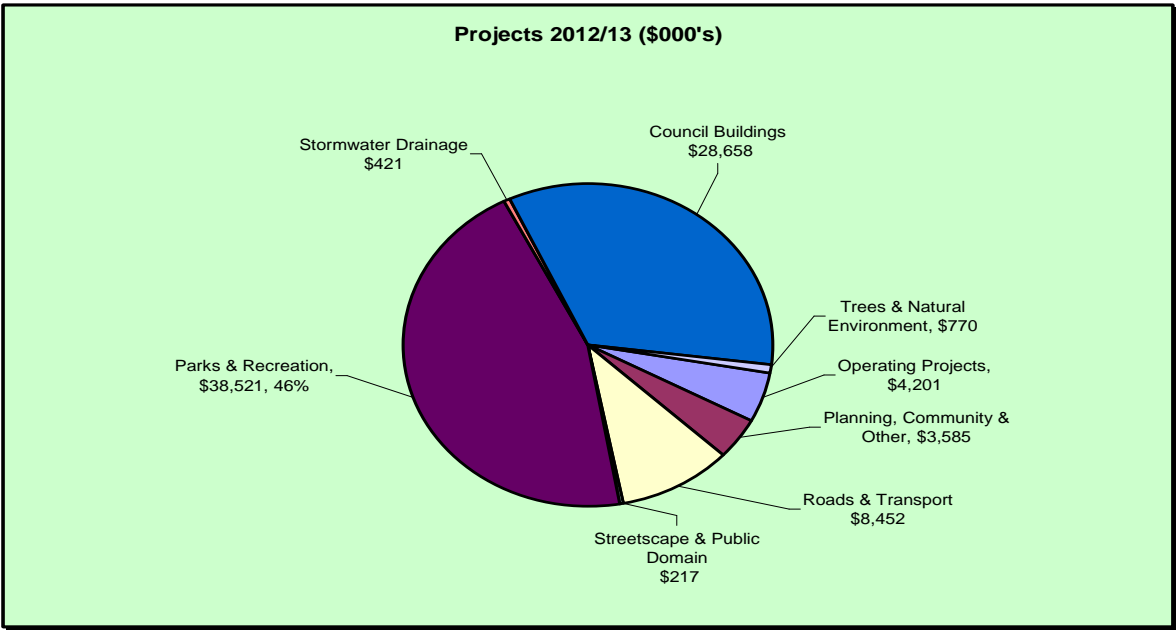
1. Funding Sources and Use of Funds

The sources and applications of funds for 2012/13 are shown in the following charts:



2. Capital Projects Expenditure by Category

Capital and Other major Project Expenditure 2012/13 is shown in the following chart



3. Major Initiatives for 2012/13

Council considers a range of available projects competing for resources each year and evaluates major ones based on their financial sustainability and potential contribution to Community needs. During 2012/13 the following projects will be commenced or progressed:

- **Local Infrastructure Renewal Scheme (LIRS)** – this initiative, funded by loans at subsidised interest rates, will allow the renewal and upgrade of Council's main library and many Public Toilet amenity buildings.
- **Purchase of a New Operational Building** – allows staff to be relocated to provide increased space for Community activities
- **Re-construction of the west Pymble Aquatic Centre** – upgrades this facility to provide indoor swimming and a new gymnasium and other facilities
- **Enhanced asset renewal program (phase 1)** - funded through enhanced rates income following a change in Council's rates structure which maximises new rates income from property growth. This program is planned to increase in value each year due to the compound benefits of extra rates growth
- **The Waste Sustainability Improvement Payment Program (WASIP)** – will provide a range of new environmental project initiatives funded by payments received from the State Government following improved recycling of domestic waste
- **Development and Sale of Residential Land** - this Council initiative will achieve the sale of the first phase of 10 housing blocks developed on land partly owned by Council and previously reserved for a freeway.
- **North Turramurra Recreation Area Project** – this project will enhance the North Turramurra Golf course and provide new playing fields for a range of other sports
- **Operations Depot** – complete construction of these new buildings

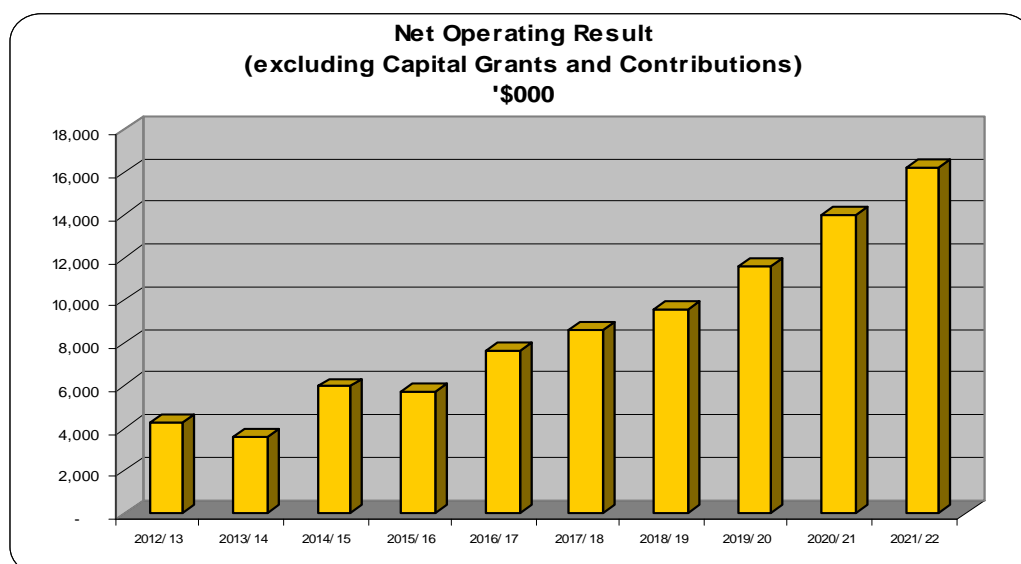
4. Detailed Information produced by Council's LTFFP

Council's LTFFP plans all the facilities and services Council intends to supply over a long term 20 year timeframe. The following tables list some of its detailed outputs for 10 years which form the basis of the Delivery Program and Operational Plan.

A. The Ten Year Financial Forecast – Projected Income Statement

Ku-Ring-Gai Council - Long Term Financial Plan Summary										
Projected Income Statement										
OPERATING RESULT (\$'000's)	Budget 2012/13	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20	Projected 2020/21	Projected 2021/22
OPERATING INCOME										
General Rates	28,261	29,363	30,626	32,004	33,348	34,715	36,104	37,548	39,050	40,612
Infrastructure Levy - Council	19,466	20,239	21,109	22,059	22,985	23,928	24,885	25,880	26,915	27,993
Infrastructure Levy (special rate)	2,384	2,477	2,584	2,700	2,814	2,929	3,046	3,168	3,295	3,426
Environmental Levy	2,511	2,609	2,721	2,843	2,963	3,084	3,208	3,336	3,469	3,608
New Facilities Levy	1,585	1,647	1,718	0	0	0	0	0	0	0
Pensioner Rebates	-1,445	-1,476	-1,493	-1,525	-1,555	-1,587	-1,618	-1,651	-1,685	-1,717
Dom. Waste & Other Ann. Charges	15,777	16,555	17,395	18,202	18,794	19,160	19,585	20,016	20,453	20,895
User Charges, Fees & Other	19,129	19,972	21,548	22,453	24,080	24,843	25,604	26,386	27,184	28,005
Interest	4,575	3,976	3,948	4,237	4,694	5,349	6,129	7,024	8,093	8,985
Operating Grants & Contributions	5,414	5,533	5,640	5,746	5,855	5,966	6,079	6,195	6,314	6,436
TOTAL OPERATING INCOME	97,657	100,895	105,796	108,719	113,978	118,387	123,022	127,902	133,088	138,243
OPERATING EXPENSES										
Employee Costs	35,857	37,145	38,401	39,637	41,120	42,788	44,608	45,636	46,732	47,855
Materials & Contracts	26,001	26,941	27,808	28,696	29,591	30,514	31,467	32,449	33,463	34,508
Statutory Levies	2,408	2,480	2,544	2,608	2,673	2,740	2,808	2,879	2,951	3,024
Interest Charges	576	958	790	629	481	369	312	254	197	136
Other Operating Expenses	11,885	12,293	12,601	12,917	13,241	13,573	13,915	14,266	14,626	14,995
Depreciation & Amortisation	16,675	17,496	17,692	18,505	19,234	19,787	20,367	20,777	21,124	21,509
TOTAL OPERATING EXPENSES	93,402	97,313	99,836	102,992	106,340	109,771	113,477	116,261	119,093	122,027
Operating Result ex. Capital Items	4,255	3,582	5,960	5,727	7,638	8,616	9,545	11,641	13,995	16,216
CAPITAL INCOME & OPERATING PROJECTS										
Plus: S94 Development Contributions	11,817	16,214	16,609	17,024	17,449	17,317	16,973	16,801	17,221	17,651
Plus: Capital Grants & Contributions	1,574	1,573	1,284	6,790	8,546	4,504	1,350	1,395	1,590	1,488
Plus: Gain (Loss) on Asset Disposal	5,812	7,741	12,274	13,699	0	0	0	0	0	0
Plus: Asset Sales - 2010 CP Works	0	0	2,218	2,842	3,496	5,972	6,122	6,275	9,647	9,889
Less: Operating Projects Expense	4,201	3,724	3,414	3,766	3,404	3,126	3,231	4,420	5,222	4,590
OPERATING RESULT	19,257	25,386	34,931	42,316	33,725	33,283	30,759	31,692	37,231	40,654

A.1. Net Operating Result (excluding Capital Grants & Contributions)



B. The Ten Year Financial Forecast - Projected Balance Sheet

Ku-Ring-Gai Council - Long Term Financial Plan Summary										
Projected Balance Sheet										
Projected Balance Sheet (\$'000)	Budget 2012/13	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20	Projected 2020/21	Projected 2021/22
ASSETS										
Current Assets										
Cash & Cash Equivalents	4,200	4,400	4,500	4,600	4,800	4,900	5,100	5,300	5,400	5,500
Investments	31,844	36,054	34,044	36,842	42,097	48,451	55,969	64,362	75,039	80,305
Receivables	7,798	8,022	8,438	8,747	9,204	9,543	9,908	10,296	10,714	11,116
Inventories	224	224	224	224	246	271	298	328	361	397
Other	425	411	399	389	381	375	371	368	366	366
Total Current Assets	44,492	49,111	47,605	50,803	56,728	63,540	71,646	80,653	91,880	97,684
Non-Current Assets										
Investments	36,054	40,821	38,546	41,714	47,663	54,857	63,369	72,871	84,960	90,922
Receivables	208	208	208	208	208	208	208	208	208	208
Infrastructure, Property, Plant & Equip	955,224	970,418	995,216	1,014,910	1,034,276	1,051,819	1,064,092	1,075,336	1,087,152	1,113,753
Intangible Assets	763	910	812	922	797	697	617	552	501	460
Total Non-Current Assets	992,249	1,012,356	1,034,782	1,057,754	1,082,944	1,107,581	1,128,286	1,148,967	1,172,821	1,205,343
TOTAL ASSETS	1,036,741	1,061,467	1,082,387	1,108,557	1,139,672	1,171,121	1,199,931	1,229,620	1,264,701	1,303,027
LIABILITIES										
Current Liabilities										
Payables	21,242	13,176	15,077	14,520	14,994	15,009	14,441	14,594	15,021	17,943
Borrowings	2,599	14,321	16,559	1,785	776	803	756	813	874	939
Provisions	10,041	10,367	10,647	10,881	11,142	11,410	11,672	11,940	12,227	12,521
Total Current Liabilities	33,882	37,864	42,283	27,186	26,912	27,221	26,869	27,347	28,122	31,403
Non-Current Liabilities										
Interest Bearing Liabilities	36,048	23,304	6,745	4,961	4,184	3,382	2,625	1,813	939	0
Provisions	284	293	301	308	315	323	330	338	346	354
Total Non-Current Liabilities	36,332	23,597	7,046	5,269	4,499	3,705	2,955	2,151	1,285	354
TOTAL LIABILITIES	70,214	61,461	49,329	32,455	31,411	30,926	29,824	29,498	29,407	31,757
Net Assets	966,527	1,000,007	1,033,058	1,076,102	1,108,261	1,140,195	1,170,107	1,200,123	1,235,294	1,271,270
EQUITY										
Council Equity Interest	966,527	1,000,007	1,033,058	1,076,102	1,108,261	1,140,195	1,170,107	1,200,123	1,235,294	1,271,270
Minority Equity Interest	0	0	0	0	0	0	0	0	0	0
Total Equity	966,527	1,000,007	1,033,058	1,076,102	1,108,261	1,140,195	1,170,107	1,200,123	1,235,294	1,271,270

C. Key Financial Indicators

Council's financial performance and position is measured against the following performance indicators:

- ▼ Operating balance ratio (net operating result (excluding capital items) as a percentage of operating revenue.
 - ▼ *To assess Council's ability to fund operations including asset renewals/upgrades (and depreciation).*
- ▼ Unrestricted current ratio (the unrestricted current assets divided by unrestricted current liabilities.)
 - ▼ *The ability to meet short term financial obligations such as loans, payroll and leave entitlements (measures liquidity)*
- ▼ Rates and annual charges ratio (rates and annual charges divided by total revenue)
 - ▼ *To assess the degree of Council's dependence upon revenue from rates and annual charges and to assess the security of Council's income*
- ▼ Debt service ratio (net debt service cost divided by revenue from continuing operations)
 - ▼ *To assess the impact of loan principal and interest repayment on the discretionary revenue of Council*
- ▼ *Broad liabilities ratio* (total debt plus cost to clear infrastructure backlogs divided by operating revenue
 - ▼ *To assess the impact of total debt plus infrastructure backlog (Special Schedule 7) relative to total operating revenue*

- ▼ Building & Infrastructure Renewal ratio (asset renewals expenditure divided by depreciation, amortisations & impairment expenses)
 - ▼ *To assess the rates at which assets are renewed relative to the rate at which they are depreciated(consumed)*

The projected key financial indicators for the next 10 years are presented in the table below

Description	Target	Budget 2012/13	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20	Projected 2020/21	Projected 2021/22
Operating Balance Ratio (%)	>4.0%	4.4%	3.6%	5.6%	5.3%	6.7%	7.3%	7.8%	9.1%	10.5%	11.7%
Unrestricted Current Ratio	>1.50x	1.20 : 1	1.30 : 1	1.76 : 1	2.92 : 1	3.30 : 1	3.65 : 1	4.17 : 1	4.61 : 1	5.11 : 1	4.87 : 1
Rates & Annual Charges Ratio (%)		58.7%	56.5%	54.9%	52.2%	56.7%	58.6%	60.3%	60.4%	60.2%	60.2%
Debt Service Ratio (%)	<4.0%	3.8%	5.2%	15.8%	16.5%	2.0%	1.0%	0.3%	0.2%	0.1%	0.1%
Broad Liabilities Ratio (%)		190%	175%	152%	130%	134%	134%	132%	127%	122%	117%
Building & Infrastructure Renewal Ratio (%)	> 1.00	2.4%	0.9%	1.3%	1.2%	1.6%	1.6%	1.0%	1.0%	1.3%	1.4%

D. Summary of Borrowings

One of the major underlying principles incorporated into Council's Long Term Financial Plan is the Borrowing and Debt Strategy. As per this Strategy Council considers borrowings as a source of funding for:

- Building or purchase of infrastructure assets where a detailed cash flow analysis shows that full funding costs can be recovered over the life of the asset
- Economic investments where a new asset or service decreases existing costs or provides new revenue in excess of their funding costs (positive NPV)
- In an emergency

Using this strategy, the LTFP identifies a permissible level of borrowing in each year and sets a required level of borrowing below this level. This is a borrowing level that the Plan regards as sustainable, principally because

- sources of debt repayment have been identified and modelled into overall cash flows, and
- the Debt Service Ratio (DSR) is within Council's target band of less than 4%.

Maintaining a maximum Debt Service Ratio of 4% in any one year is one of the key financial sustainability tests applied by the LTFP. During the current planning period, this test will not be satisfied due to Council borrowing for the LIRS (Local Infrastructure & renewal Scheme) loan, and the special loan for the Services Relocation Strategy which will have major repayments of principle, in excess of required minimums, timed to co-inside with asset sales.

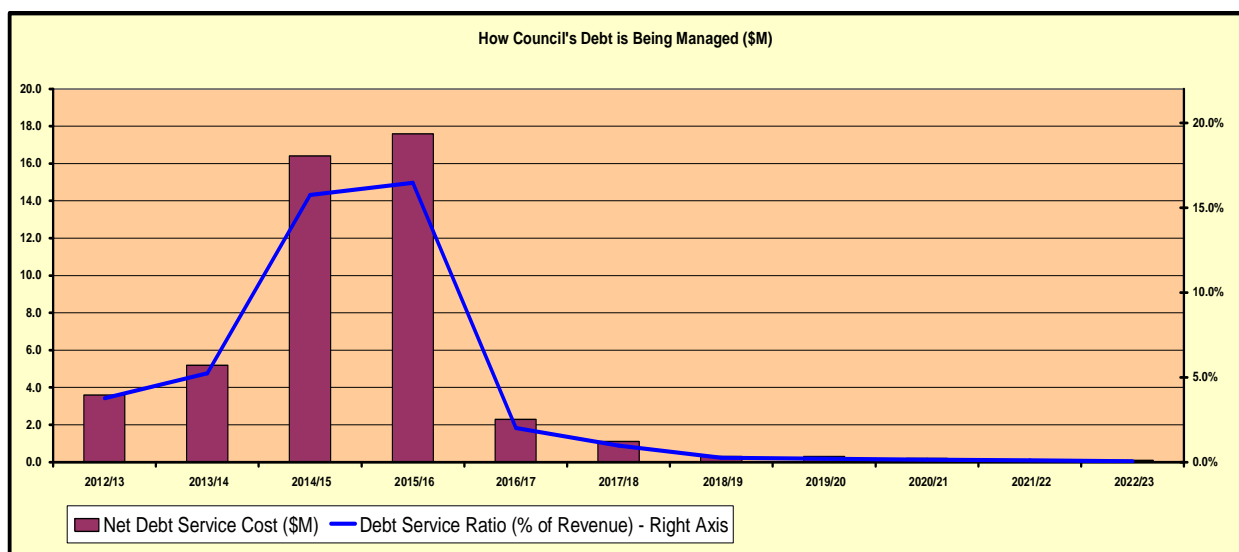
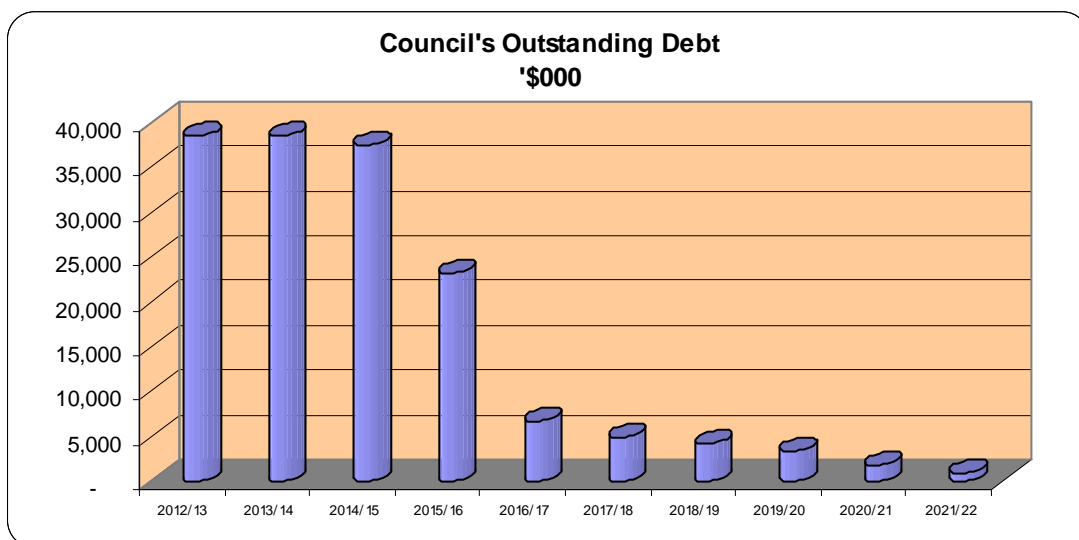
Due to the above borrowings Council's Debt Service Ratio will exceed the sustainable borrowing level of 4% in 2014/15 and 2015/16, after which the ratio level will fall below 4%. The Debt Service Ratio for the next 10 years is provided in the table below:

BORROWINGS SUMMARY ('\$000)

Financial Year	Proposed Borrowings	Principal Repayments	Net Borrowing(-) or Repayment(+)	Debt Service Ratio		
				Interest Component	Principle Repayment	Total
2012/2013	\$31,368	\$2,254	-\$29,114	1.4%	2.3%	3.7%
2013/2014	\$1,577	\$2,599	\$1,022	2.6%	2.6%	5.2%
2014/2015	\$0	\$14,321	\$14,321	2.0%	13.7%	15.7%
2015/2016	\$0	\$16,559	\$16,559	1.0%	15.5%	16.5%
2016/2017	\$0	\$1,785	\$1,785	0.4%	1.6%	2.0%
2017/2018	\$0	\$776	\$776	0.3%	0.7%	1.0%
2018/2019	\$0	\$803	\$803	0.3%	0.0%	0.3%
2019/2020	\$0	\$756	\$756	0.2%	0.0%	0.2%
2020/2021	\$0	\$813	\$813	0.1%	0.0%	0.1%
2021/2022	\$0	\$874	\$874	0.1%	0.0%	0.1%
TOTAL	\$32,945	\$41,540	\$8,595			

C.1 Council's Outstanding Debt

The following charts illustrate Council's projected outstanding debt and the Net debt service cost for the next 10 years.





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