LONG TERM FINANCIAL PLAN
2021–2031

WILLOUGHBY
CITY COUNCIL

City of Diversity

Acknowledgement of Country

We acknowledge the traditional inhabitants of the land on which we stand, the Aboriginal People, their spirits and ancestors.

We acknowledge the vital contribution that Indigenous people and cultures have made and still make to the nation that we share, Australia.

Long Term Financial Plan 2021/22 to 2030/31

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1. Introduction and Purpose

The Long Term Financial Plan 2021/22 to 2030/31 (LTFP) reflects our financial capacity to deliver the strategies, initiatives and works identified in Willoughby City's *Community Strategic Plan: Our Future Willoughby*, the four-year *Delivery Program 2017-2022* and the annual Operational Plan and Budget.

The LTFP enables the community's vision for the future to be assessed against the financial and other resources available. It ensures that we have a financially sustainable long term plan and that we can manage financial risks and optimise opportunities while delivering the community's aspirations.

The LTFP expresses in financial terms our planned activities in the short, medium and long term and provides a framework for strategic decision making, problem identification and corrective action.

The objectives of the LTFP are to:

- Provide a transparent account of our financial position and forecasts to the community;
- Identify the financial risks and opportunities arising in the short, medium and long term;
- Measure the financial impacts of change through sensitivity testing of key assumptions;
- Model the financial effects of our other strategic plans and initiatives including other resourcing strategies (asset management and workforce management);
- Provide early warning of potential risks to our financial sustainability and provide a framework for decision making and corrective action;
- Provide a basis to make sound strategic decisions to best meet community expectations and aspirations.

2. Strategic Financial Objectives

Our Strategic Financial Objectives and Key Performance Indicators (KPIs) are driven by the overriding principle of financial sustainability. These objectives and Key Performance Indicators ensure alignment with Asset Management and Workforce strategies and drive the construction of the Long Term Financial Plan.

Figure 1 – Strategic Financial Objectives

Sustainability Principle	Objectives	Key Performance Indicators
Positive Operating Performance	• Modest surplus each year • Balanced Budget • Fully funded operating position including debt and depreciation	• Operating Performance Ratio >0% • Own Source Operating Revenue Ratio >60%
Strong Cash-flow	• Cash surplus each year • Restricted Cash and liabilities fully funded • Adequate working capital	• Unrestricted Current ratio > 1.5 • Rates and charges outstanding <5% • Cash Expense cover ratio >3 months
Asset Focus	• Alignment to Asset Management Strategy • Fully funded capital works program • Reduce and eliminate the asset backlog • Optimise returns from assets	• Asset Renewal Ratio > 1 • Asset Maintenance Ratio >1 • Infrastructure Backlog Ratio < 2% • Declining backlog • Improved return on investment
Manage Debt Levels	• Reduce debt levels over the medium term • Focus on intergenerational equity • Debt used only for assets with life over 20 years or projects with a payback under 7 years.	• Debt Service Cover Ratio > 2% • Debt Service Ratio <20%
Maintain and enhance service levels	• Delivery aligned to CSP and Delivery Program. • Prioritised spend to optimise outcomes • Measurable productivity improvements	• Operating expenditure per capita trends down (unless conscious service level improvements) • Service levels maintained or improved. • Individual business cases with positive outcomes

3. Financial Sustainability

This Long Term Financial Plan has been constructed in accordance with the overall principles of financial sustainability, the specific strategic financial objectives and the Office of Local Government (OLG) financial sustainability benchmarks. The plan finds us in a sustainable position at all times across its ten-year duration. The following sections highlight our performance against each of the strategic financial objectives:

3.1 Positive Operating Performance

Despite the negative impacts of Covid-19 on key revenue streams, the plan forecasts modest surpluses in all but one financial year. In 2022/23 we are forecasting a minor deficit (before grants and contributions) of $1.2 million due to the following negative impacts occurring in that financial year:

- The 7-year Infrastructure Levy ends in 2021/22. This results in a reduction of $3.3 million (net reduction of 4.12%) in Rates revenue in 2022/23 (equating to a real reduction of 6.12%).
- The Willoughby Leisure Centre pool closes for redevelopment in 2022/23 resulting in a net negative impact of $0.9 million.
- We are also forecasting that some revenue streams will still not have recovered fully from Covid-19 impacts.

Own source operating revenue continues to be well in advance of the OLG benchmark for every year of the plan (10-year average of 90.5% versus OLG benchmark of 60%). This indicates that we are highly self-sufficient and have very little dependence on external funding sources such as grants.

3.2 Strong Cash-flow

Cash-flow is forecast to remain strong throughout the LTFP. Working capital is forecast to be well above adequate throughout the plan, demonstrating a sustainable financial future.

The Unrestricted Current Ratio (UCR) measures the adequacy of working capital and the ability to satisfy obligations in the future. The UCR is forecast to perform significantly above the OLG benchmark with a 10-year average of 3.6x versus the OLG benchmark of 1.5x.

The Cash Expense Cover Ratio indicates the number of months we can continue paying for immediate expenses without additional cash inflow. This ratio is forecast to average 13.6 months against the OLG target of >3 months (noting though this ratio includes reserves held aside for specific purposes).

The Willoughby community have demonstrated an ongoing capacity and willingness to pay and the Rates and Annual Charges Outstanding percentage is forecast to remain well in front of the OLG benchmark. This underpins our strong cash-flow performance.

3.3 Manage Debt Levels

The Debt Service Cover Ratio measures the adequacy of operating cash to service our debt (interest, principal and lease payments). The Debt Service Cover Ratio average is 6.9%, well in advance of the OLG benchmark of >2%. This highlights our conservative debt levels.

No new loans are envisaged in the LTFP.

3.4 Asset Focus

The Asset Maintenance Ratio (which compares actual maintenance to required maintenance) is over the 100% OLG threshold in all years of the pan.

The Building and Infrastructure Asset Renewal (BIAR) Ratio will not meet the OLG target of 100% for six of the 10 years in the LTFP. The average BIAR over the term of the LTFP is 93%. This is primarily a result of mandated changes to depreciation calculations and does not represent an under-investment in asset renewal works.

3.4.1 Building and Infrastructure Asset Renewal Ratio inputs

The Building and Infrastructure Asset Ratio (BIAR) is calculated as:

$$\frac{\text{Annual Spend on Building and Infrastructure Asset Renewals}}{\text{Annual Depreciation on Building and Infrastructure Assets}}$$

The OLG target is >100%. The intent of the ratio is to ensure we are spending enough each year to replace the loss in service potential of the asset (depreciation). This ensures that assets remain in an adequate condition and that a backlog of required infrastructure asset renewals does not grow.

Annual Spend on Building and Infrastructure Asset Renewals

Our asset management specialists were closely engaged throughout the development of the LTFP, and advised on funding required to maintain and renew Council's building and infrastructure assets. This advice is based on extensive modelling of required work to ensure that assets meet the needs of the community. Council's asset management specialists have confirmed the LTFP's inclusion of $158.3 million for infrastructure assets, with a focus on renewal and upgrades of existing assets, is adequate to maintain current standards of service from Council's infrastructure asset portfolios.

Annual Depreciation on Building and Infrastructure Assets

In 2018/19 The Audit Office of NSW mandated that all councils adopt straight line depreciation. Council was directed to move from condition based depreciation (where Council's asset management specialists measured actual loss of service potential to calculate depreciation) to straight line depreciation. Depreciation increased from $12.8 million in 2017/18 to $16.3m in 2018/19 (a $3.5 million or 18% increase) as a result of this accounting change.

Straight line depreciation assumes that assets deteriorate at a consistent rate over their lifecycle. However, the condition of infrastructure assets typically deteriorates more slowly while assets are newer, with deterioration accelerating as assets get older. Hence, adopting a straight line method of accounting for asset deterioration typically overstates the non-cash depreciation expense that should be incurred by owners of diverse infrastructure asset portfolios with varying asset ages, such as councils. The requirement for Willoughby City Council to change to a straight line method of calculating its annual depreciation expense created a disconnect between depreciation expenses and the actual condition of Council's assets.

The change to straight line depreciation calculation also distorted Council's BIAR ratio from 2018/19 onwards, and into the 10-year LTFP, giving a false impression that asset renewals are not adequately funded. As noted above, Council's asset management specialists have confirmed this is not the case.

3.5 Projected performance compared to OLG Benchmarks

Figure 2 compares our projected financial performance against the OLG benchmarks for each of the ten years of the plan.

Figure 2 – Projected OLG Ratios

STRATEGIC OBJECTIVE Financial Indicators	OLG Target	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	10 Year Average
POSITIVE OPERATING PERFORMANCE												
Operating Performance Ratio	> 0.00%	0.28%	-1.19%	0.09%	0.09%	1.89%	1.63%	1.81%	1.52%	2.10%	2.53%	1.08%
Own Source Operating Revenue Ratio	> 60%	90.77%	91.21%	91.43%	83.07%	90.77%	91.54%	91.59%	91.63%	91.66%	91.71%	90.54%
STRONG CASHFLOW												
Unrestricted Current Ratio	> 1.5x	4.22	3.77	3.39	3.25	3.45	3.63	3.72	3.52	3.50	3.57	3.60
Rates and charges outstanding percentage	< 5%	1.98%	2.04%	2.00%	1.96%	1.93%	1.89%	1.86%	1.82%	1.79%	1.75%	1.90%
Cash Expenses Coverage Ratio (months)	> 3 months	19.19	16.95	11.95	10.76	11.56	12.56	13.09	13.18	13.29	13.90	13.64
MANAGE DEBT LEVELS												
Debt Service Cover Ratio	> 2%	5.86%	5.68%	6.65%	6.66%	7.57%	7.38%	7.39%	7.19%	7.42%	7.71%	6.95%
ASSET FOCUS												
Buildings and Infrastructure Renewal Ratio	100%	135%	95%	110%	72%	62%	76%	87%	116%	101%	78%	93%
Asset Maintenance Ratio	100%	103%	101%	104%	103%	101%	103%	102%	103%	100%	102%	102%

4. Infrastructure Levy and Asset Assessment

The NSW Independent Pricing and Regulatory Tribunal (IPART) approved an Infrastructure Levy for Willoughby City Council over a seven-year period between 2015/16 and 2021/22. This Infrastructure Levy was required to address a $61.6 million infrastructure renewal gap (a backlog of works to bring the asset portfolio to a level determined acceptable by the community). This requirement was identified through community consultation and asset management analysis performed in 2013.

The infrastructure levy yields $20.2 million over the seven-year period (average of $2.9 million per year). This left $41.4 million to be funded by Council efficiencies and other revenue sources as committed in the infrastructure levy application.

The infrastructure levy has been used effectively for the purpose intended. Targeted expenditure has seen the infrastructure renewal gap (backlog) reduce from $61.6 million in 2013 to $10.2 million in 2020. The Infrastructure Backlog Ratio (the total backlog as a % of total infrastructure assets) is now 1.3%, well below the upper limit of the OLG benchmark of 2%. The 2020 Infrastructure Backlog Ratio of 1.3% compares to 5.0% in 2014.

As noted in the previous section, significant work has been done on strategic asset management plans and requirements for future infrastructure asset replacement spend. The LTFP includes all of these renewal expenditure forecasts, with no gaps or reduction.

Modelling of operating performance and cash flows undertaken during development of the LTFP shows infrastructure works can be funded without the need to renew Council's Infrastructure Levy beyond 2021/22.

As highlighted in the following sections, there are significant risks and threats to the LTFP. As with all long term plans, the LTFP is monitored and adapted as external and internal dependencies change. The sophistication of our strategic and operational asset management also continues to grow. This will move to a new level with the implementation of a consistent enterprise wide asset management system during 2021.

If the ongoing monitoring of the LTFP indicates it will be unsustainable using Council's existing resources, public consultation will take place to inform adjustments to Council's Integrated Planning and Reporting strategies.

5. Strengths, Weaknesses, Opportunities and Threats

5.1 Strengths

5.1.1 Current Financial Position

We have achieved and exceeded all six OLG financial sustainability benchmarks every year since 2014. The asset portfolio renewal backlog has reduced by $51.4 million over that time and the backlog is now only 1.3% of total asset value.

We have a strong balance sheet with $1.84 billion of total assets and $1.77 billion in net assets (assets less liabilities). Borrowing levels are conservative and sustainable and borrowing has been undertaken in alignment with the principle of intergenerational equity (the principle that costs of major infrastructure should be shared equitably across the generations that will benefit from this infrastructure). All liabilities are fully recognised and funded and there is minimal risk of loss in the asset portfolio. Any potential risks are adequately provided.

Future ambitions are largely supported by cash reserves held aside for those specific purposes. Of the $186 million in cash and investments held at 31 May 2021, $171 million (92%) is restricted for specific future purposes. The remaining $15 million exceeds our working capital requirements.

Our current and forecasted financial strength and sustainability places us in a sound position to face unanticipated shocks, and provides flexibility to make corrective adjustments to remain sustainable.

This financial resilience was demonstrated through the Covid-19 lock-down and recovery period, when despite losing $14m over a 15-month period, we were able to maintain adequate cash balances while still delivering high service levels.

5.1.2 Financial Management

We are very focused on achieving the strategic financial objectives. Careful planning, management and monitoring will ensure the current strong financial position is maintained and improved.

A number of processes and frameworks have been implemented to ensure we continue to make sound decisions and optimise financial and service delivery outcomes. These include a project prioritisation framework, risk management framework, a monthly scorecard measuring financial and other qualitative aspects of the business, a rigorous business planning process and regular Executive Leadership meetings to review results. Council receives regular updates and briefings on financial performance and forecasts.

5.1.3 Location and demography

Willoughby has a diverse population of over 82,000 residents and is home to a thriving commercial precinct ranging from global corporations and major retailers to small business. This provides a stable and growing mix of residential and commercial premises as a rating base. This diversity and Willoughby's location on one of the most significant transport hubs in NSW, generates significant visitor and tourist activity, resulting in opportunities for user pays revenue streams such as parking, entertainment, rent, street stalls etc.

In general, Willoughby ratepayers have proven capability and willingness to pay amounts due. This is reflected in the rates outstanding ratio which is close to the best in the state.

5.2 Weaknesses

5.2.1 Revenue constraints

Despite earning over $120 million in revenue, the majority of our revenue streams are regulated or restricted for purpose. This gives very little scope for revenue growth. Often the regulated increases on revenue streams, such as rates, do not keep pace with cost increases on expense items. At the time of writing, the NSW Government is pursuing reforms aimed, in part, at addressing these constraints. Any of those reforms that are passed into law will be reflected in the next revision of the LTFP.

For now, 48% ($54.2 million) of our income is earned from rates. Under the Local Government Act, rates are capped at a maximum permissible income. Cost of living adjustments to rates income (known as the rate peg) are determined by the Independent Pricing and Regulatory Tribunal (IPART) and historically have not kept pace with real increases in the cost of providing services.

Any increase above the rate peg requires an application to IPART following extensive consultation with the community on their willingness to pay more rates.

Other major income sources, such as income levied for Domestic Waste Management ($16.4 million or 14.4% of total revenue), the Environment Levy and the Stormwater Levy are “restricted for purpose”. This means that we can only levy charges equal to the cost of providing that service and cannot derive any margin to contribute to other services. Developer contributions are also restricted for purpose. The State Government are currently proposing reforms that will significantly reduce the future income earned from developer contributions.

Grant income is at the discretion of other levels of government and the political environment.

5.2.2 Slim cash surplus and majority of cash restricted for purpose

With a cash balance of $185.6 million at 31 May 2021 there is risk that decision makers and the public have an incorrect perception that we are cash rich and have substantial capacity to increase spend on specific initiatives or provide higher levels of service. In reality, over 92% of cash held is restricted for specific purposes (most of which are included in the LTFP). The actual cash surplus generated by the general fund on an annual basis is very slim and working capital is at adequate but not at excessive levels.

The incorrect perception that we are cash rich may lead to a lack of discipline in decision making or views that we are not spending adequately on asset or service levels or that there is abundant cash to expand or subsidise service levels. Throughout the duration of the LTFP, cash reserves and the overall cash balance will reduce significantly as restricted cash is used for the projects it was intended for.

5.2.3 Declining interest rates on investments

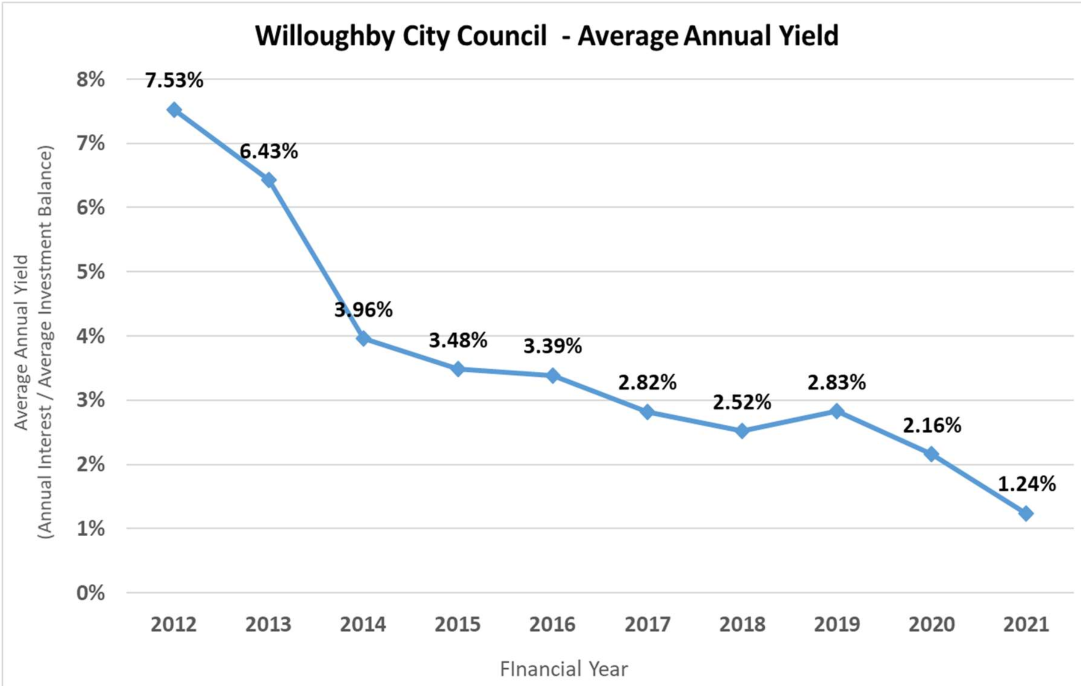
Our conservative policy for investments is consistent with the *Local Government Act 1993*, Local *Government Regulation 2005* and the *Ministerial Investment Order 2011* which limits investment to secure interest bearing instruments with Authorised Deposit Taking Institutions (ADIs). In addition, the need to maintain liquidity means most investments have 12-24 month maturities, negating the opportunity to lock in higher rates when they were historically available.

This means our investments are exposed to current market conditions in Australia. For the past nine years there has been a steady decline in interest rates on investments. Term deposit rates have dropped from around 7.5% in 2012 to current rates being offered at around 0.4-0.6%. The Reserve Bank of Australia guidance indicates that interest rates will not rise for 18-24 months, meaning continued low returns on investments.

Given we have around $150 million invested at any time, this has a direct negative impact on revenue. A 1% reduction in interest rates has a $1.5 million impact on the bottom line.

Figure 3 shows the downward trend in average yield (Total annual interest divided by Average investment balance) since 2012.

Figure 3 – Average annual yield trend



5.2.4 Fixed rate debt

Our loan debt originated when market interest rates were much higher. The majority of these loans (primarily related to The Concourse) were fixed at those higher rates for between 15 and 40 years (on the principle of intergenerational equity). Refinancing opportunities are under continual review but break costs (compensation to banks for changing the length or rate of the loan) on the existing loans are prohibitively high. For example, settling the $30 million CPI linked loan early would incur an additional $14.9 million in break costs.

The disparity between high interest rates on loans payable and low interest rates on investments places further strain on achieving a surplus.

No new loans are forecast for the duration of the LTFP.

5.3 Opportunities

5.3.1 Optimise Property portfolio

We hold a very large property portfolio including operational land valued at $450 million and buildings valued at $335 million. Based on benchmarking, there may be significant opportunity to increase returns from these property holdings.

A Property Strategy has been adopted by Council. The aim is to optimise the property portfolio without impacting the amenity enjoyed by the community. There are no plans for wholesale property disposals.

5.3.2 Efficiencies arising from improved corporate IT systems

A project is currently underway to replace and enhance ageing Information Technology (IT) systems supporting critical functions including finance, payroll, human resources, asset management, customer service, rating and land information. Current systems are old and lack integration, driving numerous manual processes and restricting measurement and reporting.

Replacement of the core IT systems provides the opportunity to modernise and automate numerous business processes and create an integrated single source of truth. The system is also expected to deliver vastly enhanced measurement and business intelligence leading to better fact based decision making, increased accountability and improved customer experience. These benefits provide the opportunity for significantly improved efficiencies and financial outcomes that will positively impact our long term financial sustainability.

Finance, payroll and human resources modules were successfully implemented in 2020. These are already providing enhanced business intelligence, integration and automation. Asset management is planning to go live in 2021, followed by customer service, rating and land information.

5.3.3 Recent Transport initiatives

For a long time, Willoughby has been one of the busiest transport hubs in Sydney due to its easy accessibility and locality. This has recently been significantly enhanced with Chatswood being the major interchange for the new North West Metro rail system. Increased transport options make Willoughby even more accessible to workers and businesses and is anticipated to generate a significant increase in economic activity from visitors and from businesses relocating to Willoughby. This opportunity is supplemented by forecasts that commercial office space is in limited supply in other areas (impacts of Covid-19 on these forecasts are unknown).

The increased economic activity afforded by new transport options will assist our financial position through more user pay revenue and a likely increase in development, driving higher development revenue and developer contributions. It will also cause cost pressures and careful planning will be required.

5.4 Threats

5.4.1 Ongoing impacts of Covid-19

Over the past 15 months we have lost $14 million of revenue ($5 million in 2019/20 and $9 million in 2020/21) as a direct result of the Covid-19 pandemic. This loss is from various revenue streams including mandated rental relief, other business support packages, loss of user charges and fees from closed venues, changes in consumer behaviours and generally subdued economic and development activity. It has become clear that a pandemic can have a profound and lasting effect on financial performance and sustainability.

Given sporadic outbreaks and the resultant lockdowns, the ongoing impact of Covid-19 and potential restrictions is unpredictable and creates significant financial uncertainty. In addition, there is no way to predict whether the behavioural changes arising from the 2020 lockdown and restriction period (such as working from home) will be permanent or temporary.

These Covid-19 factors will continue to be a threat to the assumptions underpinning the LTFP.

5.4.2 Exposure to supply issues

Over the past two years we have experienced a number of supply issues. This includes but is not limited to Covid-19, the worldwide shortage of silicon chips and shipping containers, and Australia's relationship with some countries.

At the time of writing, we are experiencing delays in the delivery of items such as IT equipment and plant and fleet. We are also anticipating price increases and potential delays in some areas such as building materials (these aspects are already being felt by other industries).

Some of these issues have resolved but many appear structural and likely to continue into the future. If these supply side issues remain or worsen, there is significant risk to project timelines, costs of services, or inflation.

5.4.3 State and Federal Government Impacts

The legislative structure where local government is subordinate to the State Government introduces a number of threats to our financial performance.

Along with all local governments, we have seen an increase in cost shifting (where costs previously borne by other levels of government have been "shifted" to local governments). Examples of cost shifting include increases in the waste management levy, increases in the emergency services and parking levies and proposals to increase the cost of elections. The failure to fully reimburse councils for mandatory pensioner rebates, reduced funding for library services and the imposition of pool safety compliance responsibilities are other examples. These cost shifting activities are not foreseeable and further increases will have a direct and negative impact on existing forecasts in the LTFP.

All aspects of our operations are heavily regulated and highly sensitive to State or Federal legislative changes. Legislative changes can have a material impact on our financial position or the viability of a service or services. Recent changes to child care staffing ratios, the *Crown Land Management Act 2016* and changes to parking regulations are examples of this sensitivity.

Into the future, the following changes are likely to present threat to our financial sustainability:

- NSW Government *Waste and Sustainable Materials Strategy 2041*.
- Proposed legislative changes reducing developer contributions.
- Further changes and increases to the Fire and Emergency Services Levy.

Another threat arising from other levels of government is increased regulation, leading to increased costs and resource drain on local governments. Recent examples of increased compliance burdens include taxable payments reporting, one touch payroll and the potential transfer of responsibility for fire and emergency services levy billing.

Recently the Federal Government has consistently changed the timing of when the Financial Assistance Grant (FAG) is paid. This impacts cash management and makes surplus levels inconsistent.

5.4.4 Impact of closed borders on growth and workforce

Willoughby's population is expected to increase from 82,753 in 2021 to 91,848 by 2036 (an 11% increase). While population growth leads to increased costs, it is also positive as it leads to increased economic activity, development, employment and increased user charges and fees.

In recent years, much of our population growth has been through migration. This migration not only adds to the diversity of our city, but also provides valuable professional skills.

Population growth forecasts are now at risk due to the Covid-19 related closure of borders with no fixed date for reopening. This is likely to lead to subdued economic growth, potentially lower development and lower user charges and fees revenue. It will also reduce the positive impact on Rates revenue if legislation is passed to link Rates to population growth.

The absence of new skilled migrants will also lead to skills shortages and potentially an inability for us to secure the workforce skills we need for the future. We are already seeing high competition and skills shortages in some roles. Labour shortages may lead to higher labour costs in coming years.

5.4.5 Increase in natural disasters and damage to infrastructure

The past five to ten years have seen an increase in the incidence and severity of natural disasters across the state and the country. Recent events include bushfires, floods, storm and drought.

We have been fortunate compared to some local government areas but did sustain significant damage through two major storms in 2019 and 2020. These events led to significant infrastructure damage and significant clean-up costs.

In addition to storms and potential bushfire events, parts of our city are also prone to flood events. The likely increase in the frequency and magnitude of natural disasters in the future poses a threat to our financial plans through un-forecast costs. Our financial strengths will help us withstand the impacts of increased natural disasters.

6. Capital Expenditure – Major Projects and Asset Expenditure

6.1 Major Project Summary

Figure 4 shows the major projects included in the Long Term Financial Plan. These projects are aligned to Willoughby City's *Community Strategic Plan: Our Future Willoughby* and the *Delivery Program 2017-2022*.

Figure 4 – Summary of major projects included in LTFP

Major Project Name	Total Project ($'m)
Gore Hill Indoor Sports Complex	57.6
Willoughby Leisure Centre Refurbishment	22.7
Affordable Housing (Abbott Road)	10.7
Water Management	9.6
Concourse Compliance Upgrade	8.7
Streetscape Upgrades	7.9
Victor Street Customer Service Centre and Refurbishment	4.2
Laneways Upgrades	2.7
Artarmon Bowling Club	2.3
Solar Power Systems	2.1
Northbridge Bowling Club Refurbishment	1.4
Dougherty Community Centre - Building Renewal and Refurbishment	1.0
Chatswood Park	0.9
Gross Pollutant Traps	0.4
Total Major Project Spend	**132.1**

6.2 Core Infrastructure Asset Spend.

In addition to the $132.1 million expenditure on major projects, we will spend $158.3 million on core infrastructure assets (an average of $15.8 million per year).

In line with our Asset Management Strategy, the focus of this expenditure will be on renewal and upgrade of existing assets as shown in Figure 5.

Figure 5 – Focus on Asset Renewals

Assets by Spend Type	10 Year Total Spend ($'m)
Renewals and Upgrades to existing assets	132.1
New Assets	26.2
Total	**158.3**

Asset expenditure will be targeted on major infrastructure categories such as transport, drainage and open space as shown in Figure 6.

Figure 6 – Asset expenditure by Asset Category

Spend by Asset Category	10 Year Total Spend ($'m)
Roads and Traffic Management	33.7
Buildings	34.1
Stormwater and Drainage	20.9
Footpaths	12.7
Plant and Equipment	11.1
Parks	10.2
Sporting Fields	8.2
Car Parks	6.7
Playgrounds	5.3
Kerb and Gutter	5.3
Bushland	4.1
Retaining Walls	2.2
Other Structures	1.9
Bridges	0.9
Office Equipment & Furniture and Fittings	0.8
Total	**158.3**

7. Financial Statements – Base Case

7.1 Income Statement

Income Statement	Year -1 ACTUAL R2019/20 $'000's	Year 0 Forecast R2020/21 $'000's	Year 1 Forecast 2021/22 $'000's	Year 2 Forecast 2022/23 $'000's	Year 3 Forecast 2023/24 $'000's	Year 4 Forecast 2024/25 $'000's	Year 5 Forecast 2025/26 $'000's	Year 6 Forecast 2026/27 $'000's	Year 7 Forecast 2027/28 $'000's	Year 8 Forecast 2028/29 $'000's	Year 9 Forecast 2029/30 $'000's	Year 10 Forecast 2030/31 $'000's
Incomes from continuing operations												
Revenue:												
Rates and Annual Charges	67,824	69,368	71,015	69,014	70,316	71,637	72,984	74,358	75,759	77,187	78,644	80,174
User Charges and Fees	16,305	13,093	15,946	14,712	16,183	18,245	19,530	19,944	20,246	20,601	20,867	21,186
Investment Revenues	3,567	2,186	1,148	1,261	1,611	1,795	2,018	2,299	2,587	2,823	3,089	3,440
Rental & Venue Hire Revenues	10,939	11,960	12,620	13,309	14,226	14,439	14,656	14,875	15,098	15,325	15,555	15,788
Other Revenues	7,040	5,093	5,426	5,671	5,758	5,847	8,652	8,810	8,970	9,091	9,213	9,337
Grants & Contributions - Operating	7,257	6,231	6,278	6,177	6,263	6,382	7,503	6,627	6,754	6,884	7,015	7,148
Grants & Contributions - Capital	25,299	6,208	4,531	3,858	3,883	16,472	4,491	4,510	4,529	4,549	4,595	4,616
Fair Value increment on investment property	3,498	1,000	1,000	0	0	0	0	0	0	0	0	0
Other Income:												
Proceeds from Disposal of Assets	457	443	443	456	470	484	498	513	529	544	561	578
Profit from Interests in Joint Ventures & Associates												
Total Income from Continuing Operations	**142,186**	**115,582**	**118,406**	**114,459**	**118,709**	**135,300**	**130,331**	**131,936**	**134,472**	**137,005**	**139,539**	**142,268**
Expenses from continuing operations												
Expenses:												
Employee Costs	42,083	41,752	44,496	44,566	45,974	47,431	48,402	49,370	50,357	51,364	52,392	53,439
Materials and Contracts	34,292	36,494	34,747	34,064	35,039	36,302	39,022	39,446	40,215	41,526	41,669	42,188
Borrowing Costs	1,571	1,519	1,615	1,567	1,559	1,562	1,566	1,568	1,570	1,571	1,546	1,507
Depreciation & Amortisation	17,308	16,814	16,815	16,957	17,093	17,431	18,138	18,274	18,409	18,544	18,680	18,819
Other Expenses	13,559	13,030	14,719	14,299	14,587	15,512	15,845	16,181	16,526	16,906	17,273	17,650
WDV of Assets sold	407	312	312	321	331	341	351	362	372	384	395	407
WDV of Assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Interest and Investment losses	528	350	725	0	0	0	0	0	0	0	0	0
Loss from Interests in Joint Ventures & Associates	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses from Continuing Operations	**109,748**	**110,271**	**113,428**	**111,775**	**114,583**	**118,579**	**123,323**	**125,201**	**127,450**	**130,295**	**131,954**	**134,010**
Net Operating Surplus/ (Deficit) for the year	**32,437**	**5,312**	**4,978**	**2,684**	**4,127**	**16,721**	**7,008**	**6,735**	**7,022**	**6,710**	**7,585**	**8,257**
Net Operating Surplus/(Deficit) before Grants & contributions provided for capital purposes	**7,138**	**(897)**	**447**	**(1,174)**	**244**	**249**	**2,517**	**2,225**	**2,493**	**2,160**	**2,990**	**3,641**

7.2 Balance Sheet

	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
BALANCE SHEET	**ACTUAL R2019/20 $'000's**	**Forecast R2020/21 $'000's**	**Forecast 2021/22 $'000's**	**Forecast 2022/23 $'000's**	**Forecast 2023/24 $'000's**	**Forecast 2024/25 $'000's**	**Forecast 2025/26 $'000's**	**Forecast 2026/27 $'000's**	**Forecast 2027/28 $'000's**	**Forecast 2028/29 $'000's**	**Forecast 2029/30 $'000's**	**Forecast 2030/31 $'000's**
Current Assets												
Cash and cash equivalents (Available)	6,861	17,117	16,973	15,957	20,646	17,523	17,343	19,108	20,746	22,649	23,887	24,043
Investments (Reserves)	169,051	150,666	136,810	117,717	73,012	77,570	85,899	92,613	98,193	99,315	102,233	110,219
Receivables	4,791	4,599	5,010	4,979	5,244	5,497	5,958	6,043	6,116	6,191	6,258	6,330
Inventories	27	27	27	27	27	27	27	27	27	27	27	27
Other	853	853	853	853	853	853	853	853	853	853	853	853
Non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Total Current Assets	**181,583**	**173,262**	**159,673**	**139,533**	**99,782**	**101,470**	**110,079**	**118,644.1**	**125,935**	**129,035**	**133,257**	**141,472**
Non-Current Assets												
Receivables	51	51	51	51	51	51	51	51	51	51	51	51
Infrastructure, Property, Plant & Equipment	1,568,926	1,582,794	1,600,511	1,623,199	1,670,193	1,679,951	1,675,978	1,673,939	1,673,268	1,677,192	1,679,536	1,678,478
Investments accounted for using the equity method	0	0	0	0	0	0	0	0	0	0	0	0
Investments Property	89,628	90,628	91,628	91,628	91,628	91,628	91,628	91,628	91,628	91,628	91,628	91,628
Intangible Assets	2,238	2,238	2,238	2,238	2,238	2,238	2,238	2,238	2,238	2,238	2,238	2,238
Right of Use assets	711	711	711	711	711	711	711	711	711	711	711	711
Other	997	997	997	997	997	997	997	997	997	997	997	997
Total Non-Current Assets	**1,662,551**	**1,677,419**	**1,696,136**	**1,718,824**	**1,765,818**	**1,775,576**	**1,771,603**	**1,769,564**	**1,768,893**	**1,772,817**	**1,775,161**	**1,774,103**
TOTAL ASSETS	**1,844,134**	**1,850,681**	**1,855,809**	**1,858,356**	**1,865,600**	**1,877,046**	**1,881,682**	**1,888,208.5**	**1,894,828**	**1,901,853**	**1,908,418**	**1,915,575**
Current Liabilities												
Payables	19,739	21,808	22,182	22,907	26,780	22,134	20,546	21,007	21,432	22,461	22,316	21,940
Lease liabilities	279	279	279	279	279	279	279	279	279	279	279	279
Borrowings	1,379	1,361	1,413	1,465	1,260	1,305	1,352	1,401	1,452	1,504	1,558	1,578
Provisions	11,827	12,303	12,713	13,261	13,706	14,322	14,827	15,492	16,047	16,766	17,377	18,154
Total Current Liabilities	**33,224**	**35,751**	**36,587**	**37,911**	**42,025**	**38,040**	**37,004**	**38,178.8**	**39,210**	**41,010**	**41,530**	**41,950**
Non-Current Liabilities												
Payables	0	0	0	0	0	0	0	0	0	0	0	0
Lease liabilities	393	393	393	393	393	393	393	393	393	393	393	393
Borrowings	38,546	37,202	35,738	34,221	33,165	31,815	30,416	28,966	27,464	25,907	24,294	22,697
Provisions	518	569	624	680	739	800	863	929	997	1,069	1,143	1,220
Total Non-Current Liabilities	**39,457**	**38,165**	**36,755**	**35,294**	**34,297**	**33,007**	**31,672**	**30,288**	**28,854**	**27,369**	**25,830**	**24,309**
TOTAL LIABILITIES	**72,681**	**73,916**	**73,342**	**73,205**	**76,322**	**71,047**	**68,676**	**68,467**	**68,065**	**68,379**	**67,360**	**66,260**
NET ASSETS	**1,771,453**	**1,776,764**	**1,782,467**	**1,785,151**	**1,789,278**	**1,805,999**	**1,813,007**	**1,819,742**	**1,826,764**	**1,833,474**	**1,841,058**	**1,849,316**
EQUITY												
Accumulated Surplus	1,052,745	1,070,652	1,090,211	1,111,987	1,160,819	1,172,982	1,171,662	1,171,682	1,173,125	1,178,712	1,183,379	1,183,650
Asset Revaluation Reserve	555,446	555,446	555,446	555,446	555,446	555,446	555,446	555,446	555,446	555,446	555,446	555,446
Other Reserves	163,261	150,666	136,810	117,717	73,012	77,570	85,899	92,613	98,193	99,315	102,233	110,219
TOTAL EQUITY	**1,771,452**	**1,776,764**	**1,782,467**	**1,785,151**	**1,789,277**	**1,805,999**	**1,813,006**	**1,819,741**	**1,826,764**	**1,833,473**	**1,841,058**	**1,849,315**

7.3 Cash-flow Statement

CASH FLOW STATEMENT	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	ACTUAL	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	R2019/20	R2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's	$'000's
Cash flow from operating activities												
Receipts:												
Rates and Annual Charges	67,530	69,368	71,015	69,014	70,316	71,637	72,984	74,358	75,759	77,187	78,644	80,174
User Charges and Fees	16,894	13,286	15,534	14,744	15,918	17,991	19,068	19,859	20,173	20,526	20,801	21,114
Interest & Investment Revenues	4,641	2,186	1,148	1,261	1,611	1,795	2,018	2,299	2,587	2,823	3,089	3,440
Grants & Contributions	31,243	12,440	10,809	10,035	10,146	22,854	11,994	11,136	11,283	11,433	11,610	11,764
Other	27,572	17,053	18,046	18,981	19,984	20,286	23,307	23,685	24,068	24,416	24,768	25,125
Payments:												
Employee Costs & oncosts	(41,538)	(41,225)	(44,031)	(43,962)	(45,470)	(46,753)	(47,834)	(48,639)	(49,733)	(50,575)	(51,707)	(52,586)
Materials and Contracts	(40,346)	(34,424)	(34,373)	(33,340)	(31,166)	(40,949)	(40,610)	(38,986)	(39,790)	(40,497)	(41,815)	(42,563)
Borrowing Costs	(1,576)	(1,869)	(1,615)	(1,567)	(1,559)	(1,562)	(1,566)	(1,568)	(1,570)	(1,571)	(1,546)	(1,507)
Other	(20,210)	(13,030)	(14,719)	(14,299)	(14,587)	(15,512)	(15,845)	(16,181)	(16,526)	(16,906)	(17,273)	(17,650)
Net cash inflow from operating activities	**44,210**	**23,784**	**21,814**	**20,866**	**25,193**	**29,787**	**23,517**	**25,964**	**26,251**	**26,836**	**26,572**	**27,311**
Cash flow from investing activities												
Receipts												
Sale of investment securities	62,500	18,385	13,856	19,093	44,705	0	0	0	0	0	0	0
Sale of infrastructure, property, plant & equipment	457	443	443	456	470	484	498	513	529	544	561	578
Proceeds from sale of assets held for resale	0	0	0	0	0	0	0	0	0	0	0	0
Payments:												
Purchase of infrastructure, property, plant & equipment	(18,776)	(30,994)	(34,844)	(39,965)	(64,418)	(27,530)	(14,516)	(16,597)	(18,111)	(22,851)	(21,418)	(18,168)
Purchase of Investment Property	(209)											
Purchase of investment securities	(82,024)	0	0	0	0	(4,558)	(8,328)	(6,715)	(5,579)	(1,122)	(2,918)	(7,986)
Purchase of Intangible assets	(2,238)											
Deferred debtors and advances made	0											
Contribution paid to JV & Assoc.												
Net cash outflow from investing activities	**(40,291)**	**(12,166)**	**(20,545)**	**(20,417)**	**(19,244)**	**(31,604)**	**(22,346)**	**(22,798)**	**(23,161)**	**(23,429)**	**(23,775)**	**(25,577)**
Cash flow from financing activities												
Proceeds from new borrowings	0	0	0	0	0	0	0	0	0	0	0	0
Repayment of borrowings & advances	(1,779)	(1,361)	(1,413)	(1,465)	(1,260)	(1,305)	(1,352)	(1,401)	(1,452)	(1,504)	(1,558)	(1,578)
Repayment of Finance Lease liabilities	(440)	0	0	0	0	0	0	0	0			
Net cash (outflow)/inflow from financing activities	**(2,219)**	**(1,361)**	**(1,413)**	**(1,465)**	**(1,260)**	**(1,305)**	**(1,352)**	**(1,401)**	**(1,452)**	**(1,504)**	**(1,558)**	**(1,578)**
Net increase/(decrease) in cash held	1,700	10,257	(145)	(1,016)	4,689	(3,122)	(181)	1,765	1,638	1,902	1,238	156
Cash assets at beginning of reporting period	5,161	6,861	17,117	16,973	15,957	20,646	17,523	17,343	19,108	20,746	22,649	23,887
Cash assets at end of reporting period	**6,861**	**17,117**	**16,973**	**15,957**	**20,646**	**17,523**	**17,343**	**19,108**	**20,746**	**22,649**	**23,887**	**24,043**
Plus: Investment on hand at end of year	**169,051**	**150,666**	**136,810**	**117,717**	**73,012**	**77,570**	**85,899**	**92,613**	**98,193**	**99,315**	**102,233**	**110,219**
Cash & Investment at end of year	**175,912**	**167,783**	**153,782**	**133,674**	**93,658**	**95,094**	**103,241**	**111,721**	**118,939**	**121,964**	**126,120**	**134,262**

7.4 General Fund – Funding Statement

	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	ACTUAL	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
CASH (GENERAL FUND) BUDGET STATEMENT	**R2019/20**	**R2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
	$'000's	**$'000's**	**$'000's**	**$'000's**	**$'000's**	**$'000's**	**$'000's**	**$'000's**	**$'000's**	**$'000's**	**$'000's**	**$'000's**
Revenues												
Rates and Annual Charges	67,824	69,368	71,015	69,014	70,316	71,637	72,984	74,358	75,759	77,187	78,644	80,174
User Charges and Fees	16,305	13,093	15,946	14,712	16,183	18,245	19,530	19,944	20,246	20,601	20,867	21,186
Investment Revenues	3,567	2,186	1,148	1,261	1,611	1,795	2,018	2,299	2,587	2,823	3,089	3,440
Other Revenues	17,979	17,053	18,046	18,981	19,984	20,286	23,307	23,685	24,068	24,416	24,768	25,125
Grants & Contributions - Operating	7,257	6,231	6,278	6,177	6,263	6,382	7,503	6,627	6,754	6,884	7,015	7,148
Grants & Contributions - Capital	25,299	6,208	4,531	3,858	3,883	16,472	4,491	4,510	4,529	4,549	4,595	4,616
Proceeds from Disposal of Assets	457	443	443	456	470	484	498	513	529	544	561	578
New borrowings	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Reserves	19,159	23,721	27,403	31,413	57,263	8,320	5,672	7,793	9,423	13,818	12,056	7,430
Internal Revenues	6,430	6,979	6,992	7,097	7,203	7,311	7,420	7,531	7,644	7,758	7,875	7,993
Total Revenue	**164,277**	**145,283**	**151,801**	**152,968**	**183,175**	**150,930**	**143,424**	**147,260**	**151,539**	**158,582**	**159,469**	**157,690**
Expenses												
Employee Costs	42,083	41,752	44,496	44,566	45,974	47,431	48,402	49,370	50,357	51,364	52,392	53,439
Materials and Contracts	34,292	36,494	34,747	34,064	35,039	36,302	39,022	39,446	40,215	41,526	41,669	42,188
Borrowing Costs	1,571	1,519	1,615	1,567	1,559	1,562	1,566	1,568	1,570	1,571	1,546	1,507
Other expenses	13,559	13,030	14,719	14,299	14,587	15,512	15,845	16,181	16,526	16,906	17,273	17,650
Interest and Investment losses	0	0	0	0	0	0	0	0	0	0	0	0
Debt Redemption	1,780	1,379	1,391	1,467	1,262	1,307	1,354	1,403	1,454	1,506	1,560	1,580
Transfers to reserves	40,331	11,126	13,547	12,320	12,558	12,878	14,001	14,508	15,003	14,941	14,973	15,416
Capital Expenditure	18,776	30,994	34,844	39,965	64,418	27,530	14,516	16,597	18,111	22,851	21,418	18,168
Internal Expenses	6,430	6,979	6,992	7,097	7,203	7,311	7,420	7,531	7,644	7,758	7,875	7,993
Total Expenses	**158,823**	**143,273**	**152,351**	**155,346**	**182,600**	**149,833**	**142,125**	**146,604**	**150,879**	**158,425**	**158,706**	**157,942**
CASH BUDGET SURPLUS/(DEFICIT)	**5,454**	**2,010**	**(550)**	**(2,378)**	**575**	**1,097**	**1,298**	**656**	**660**	**157**	**763**	**(251)**
CASH BUDGET SURPLUS/(DEFICIT) AFTER ADJ 50% LSL ACCRUAL	**6,083**	**2,680**	**268**	**(1,543)**	**1,426**	**1,965**	**2,184**	**1,559**	**1,582**	**1,097**	**1,721**	**726**

8. Planning Assumptions

8.1 Assumptions - Inflation

A number of indices used in the LTFP are based on the Reserve Bank of Australia (RBA) Consumer Price Index (CPI) inflation forecast of 1-2% from the April 2021 Statement of Monetary Policy. The April 2021 RBA forecast was for forward years' inflation at 1.5%. This 1.5% compares to a 1.1% increase in the CPI over the 12 months to the March 2021 quarter.

Figure 7 – Inflation escalation assumptions

Inflation										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
RBA forecast inflation rate - April 2021 (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

8.2 Assumptions – Revenue

8.2.1 Rates Income

Rates account for 48% of total revenue. The 2021/22 ordinary rate escalation is based on IPART's rate peg direction on 8 September 2020. Subsequent years are based on a conservative estimate of the Local Government Cost index and historical increases granted by IPART.

The infrastructure levy concludes in 2021/22 resulting in a net reduction in the rating base of 4.12% in 2022/23.

Figure 8 – Rates income escalation assumptions

Rates Revenue										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Ordinary Rates (%)	2.00	-4.12	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00

8.2.2 Annual Charges – Domestic Waste Management Charge

The Domestic Waste Management charge represents 14% of total revenue.

The *Local Government Act 1993* requires that Domestic Waste Management charges must reflect the actual cost of providing those services. Section 504(3) stipulates that charges cannot exceed the reasonable costs to council of providing those services.

Costs of waste disposal (particularly recyclable material) over the past three years have been volatile due to China's "green sword" policy (banning import of recyclable material) and a lack of local alternatives. Following several years with no increase, the adopted budget for 2021-22 contains a 3% increase in the domestic waste management charge. This was to cater for increases in recent years and anticipated increases in future years.

Both collection and disposal costs are anticipated to increase in the coming years as a result of a new NSW Government *Waste and Sustainable Materials Strategy 2041*. To cater for these increased costs, the LTFP models a modest annual increase. We have a sufficient domestic waste management reserve to cater for any shortfall in the short term if costs increase by more than expected. The cost base and future cost forecasts will be examined each year prior to setting the domestic waste management charge.

Figure 9 – Annual charges escalation assumptions

Domestic Waste Management Charge										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Domestic Waste Management Revenue (%)	3.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50

8.2.3 User Charges and Fees

User charges and fees make up 15% of total revenue. A significant proportion of user fees and charges are expected to increase by inflation. Exceptions include:

- Outdoor paid parking which will increase by 10% in 2021/22 following over 6 years without any increase.
- Childcare fees which will increase by 26% across the first two years of the LTFP. This is to remove existing discounts to market and allow pricing to be consistent with benchmarks.

Where possible, the LTFP reflects:

- The increasing volume of service usage
- The increasing or decreasing cost of providing the service and appropriate fee recovery
- Market comparatives
- Statutory mandates related to regulated fees

The following fees were severely impacted by Covid-19. Volumes have started to recover following Covid-19 restrictions. There is an assumption within the LTFP that the volumes on these revenue streams will return to pre Covid-19 levels by 2023/24:

- Paid indoor Parking
- Childcare
- Compliance
- Building permits

Beyond 2023/24, the assumptions on these revenue streams contribute around $900k of increased revenue compared to 2021-22.

Figure 10 – User charges and fees escalation assumptions

User Charges and Fees										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Paid parking (%)	0-10	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Planning and building regulation fees (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Non Domestic Waste Management (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Child Care (%)	20.00	6.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Other Fees and Charges (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

8.2.4 Interest Revenue

Our investments are made in accordance with the *Local Government Act 1993*, the *Local Government (General) Regulation 2005*, the *Ministerial Investment Order* issued in 2011, the *Office of Local Government Investment Policy Guidelines 2010* and the *Willoughby City Council Investment Policy* adopted in September 2018.

Interest rates have declined significantly since 2010-11 and the forecast from the Reserve Bank of Australia (RBA) is that interest rates likely to remain at historical lows until 2023/24 (though recent economic activity has been strong). The LTFP assumes existing low rates will continue for the next 2 years and then increase in 2023/24 in line with the RBA forecast. The LTFP then assumes a modest 0.1% (10 basis point) increase in yields for each year following 2023/24. Interest rates will need to be monitored closely throughout the plan.

Figure 11 – Interest revenue escalation assumptions

Interest Revenue										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Interest rate on investments (%)	0.64	0.70	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.80

8.2.5 Other Income

Other income represents 17% of total revenue. Over half of this revenue is rental income from leasing of our properties. There are opportunities arising from renegotiation of existing leases and rent review clauses in existing leases. Conversely, increased competition may impact lease income through higher vacancy rates and rentals will need to be monitored closely to assess the market post Covid-19. This uncertainty results in the escalation rate for leases being consistent with CPI at 1.5%.

Figure 12 – Other income escalation assumptions

Other Income										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Rental / Lease Income (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Other Revenue (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

8.2.6 Grants and Contributions Revenue

Both operating and capital grants are assumed to increase by the inflation rate. Operating grants account for 5% of total revenue. The LTFP assumes consistent receipt of the current amounts adjusted for inflation. The review of the funding approach for Financial Assistance Grant (FAG) creates uncertainty. Timing of the payment of the FAG (and therefore when revenue is recognised) has been inconsistent in recent years.

Capital grants and contributions vary significantly from year to year and are difficult to forecast accurately. One material item in the LTFP is a $12 million grant we are seeking for the Gore Hill Indoor Sports Complex in 2024-25.

8.3 Assumptions - Expenses

8.3.1 Employee Costs

Employee costs account for 39% of total operating expenditure. The LTFP factors in predicted award increases at 2.0% for all full time equivalent staff, consistent with recent years and slightly higher than predicted inflation. Total staff costs fluctuate between 2022/23 due to increases and decreases in casual staff costs related to the refurbishment and temporary closure of the Willoughby Leisure Centre.

Employee superannuation guarantee expenses have been linked to Federal Government legislative requirements based on 10% in 2020-21 and then indexed by 0.5% per annum until 2025-26 to meet the Federal Government's legislated 12%.

Figure 13 – Employee costs escalation assumptions

Employee Costs										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Salary and Wages (%)	2.00%	0.16%	3.16%	3.17%	2.00	2.00	2.00	2.00	2.00	2.00
Employee Superannuation (%)	10.00	10.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00

8.3.2 Borrowing Costs

Borrowing costs in the LTFP are based on the specific loan repayment schedules for each of the existing loan commitments. No new borrowings are envisaged in the LTFP.

8.3.3 Materials and Contracts

Materials and Contracts account for 31% of total operating costs.

Escalations for Raw Materials and contractor and consulting costs have been set in line with inflation at 1.5%.

Specific forecasts have been prepared for waste disposal and collection costs which are anticipated to increase significantly in 2020/21 and 2021/22 following increased prices for recycling (impacting disposal costs), and the State Government's *Waste and Sustainable Materials Strategy 2041* (impacting collection costs).

Figure 14 – Materials and contracts expense escalation assumptions

Material and Contracts										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Raw materials and consumables (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Contractor and consultancy costs (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Garbage disposal costs (%)	16.95	2.86	2.92	2.92	2.92	2.92	2.92	2.92	2.92	2.92
Garbage Collection Costs (%)	6.90	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Other materials and contracts (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

8.3.4 Depreciation

Depreciation in the LTFP is based on the existing mix of asset classes and is adjusted in future years by the new additions and disposals for each asset class.

8.3.5 Other expenses

Other expenses account for 13% of total expenditure. It includes items such as electricity and heating, street lighting, insurance and the Fire and Emergency Services Levy.

The Fire and Emergency Services Levy escalation has been set at 6.2% for 2021-22 and then 5% per annum based on messages from the State Government that increases are imminent.

Utilities and have been aligned to CPI. Other expenses have been set at between 0% and CPI depending on expense type. We have set 0% escalation on certain discretionary items to encourage focus on business improvement, efficient service delivery and fiscal discipline.

Figure 15 – Other expenses escalation assumptions

Other Expenses										
Projected Year	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Utilities Expense (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Fire and Emergency Services Levy (%)	6.20	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Other expenses (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

9. Scenario and Sensitivity Analysis

9.1 Sensitivity Analysis – Introduction and Purpose

The assumptions listed in the previous sections are our current informed estimate based on a range of reliable internal and external sources. Long Term Financial Plans are however inherently uncertain as they contain a wide range of assumptions which are largely outside of our control. For this reason, our Long Term Financial Plan models the impacts to our financial position if trends worsen.

The following sections show graphically the impact on the projected surplus and cash balances if specific negative trends occur. They review the 10 year surplus and cash positions for three scenarios. These are the Scenario 1 (Base case underpinning our Long Term Financial Plan), Scenario 2 (employee costs or materials and contract costs increasing at 0.5% above the base case each year) and Scenario 3 (employee costs or materials and contract costs increasing at 1.0% above the base case each year).

9.2 Employee Costs

Employee Costs (Figures 16 and 17) models the impact of a 0.5% and 1% increase in employee costs over and above the escalation used in the base case.

Figure 16 – Employee Cost increase - Impact on Surplus before Capital Revenue

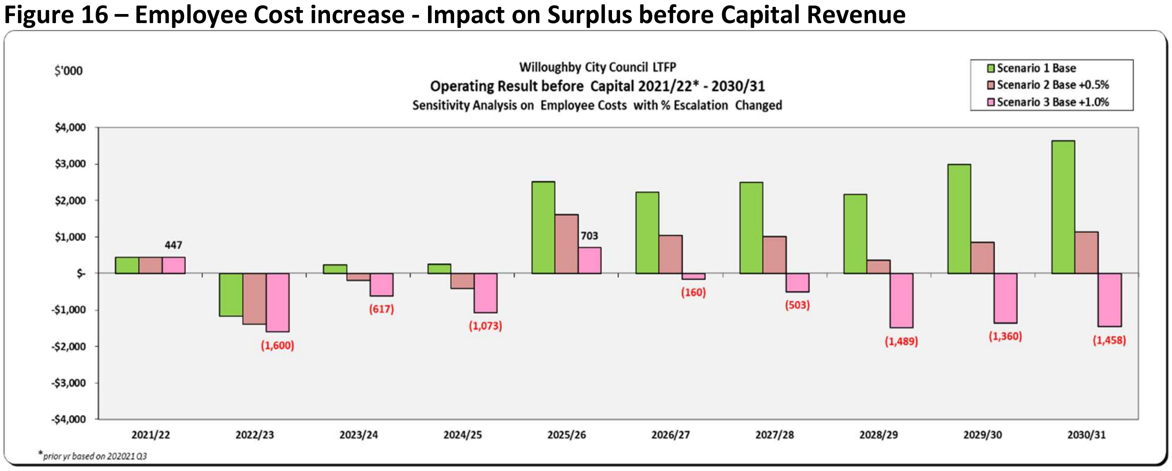
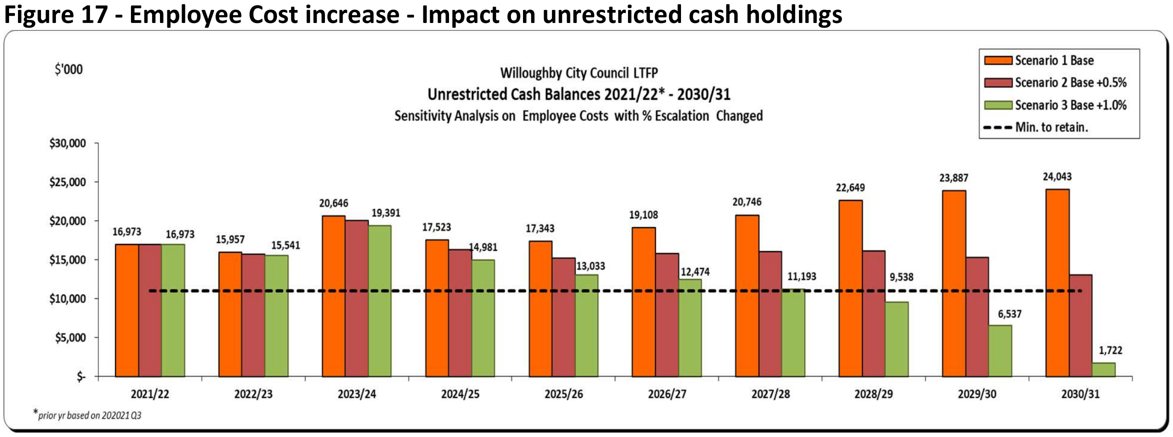


Figure 17 - Employee Cost increase - Impact on unrestricted cash holdings



At a 0.5% increase each year above our assumed employee award increase we would be in deficit for three years of the LTFP and would then return to surplus for 2025-26 onward (Figure 16, purple bars). At a 0.5% annual increase over and above our assumed award would result in us retaining adequate working capital balances (Figure 17, brown bars).

At a 1.0% annual increase each year above our assumed employee award increase, we would be in deficit for eight of the 10 years of the LTFP (Figure 16, pink bars). A 1% annual increase in employee costs above our assumed award would also see our working capital drop to below adequate levels in the last four years of the plan (Figure 17, green bars). Council uses a range of methods to contain employee costs, including contributing to negotiations for awards covering our employees, managing Workplace Health and Safety (WHS) to minimise injury claim costs, leadership development to promote high workforce productivity, management of excess leave, and salary benchmarking.

9.3 Inflation on Materials and Contracts

Inflation of Materials and Contracts (Figures 18 and 19) models the impact of a 0.5% and 1% increase in inflation (Consumer Price Index) over and above the escalation used in the base case:

Figure 18 – Material and Contracts Cost increase - Impact on Surplus before Capital Revenue:

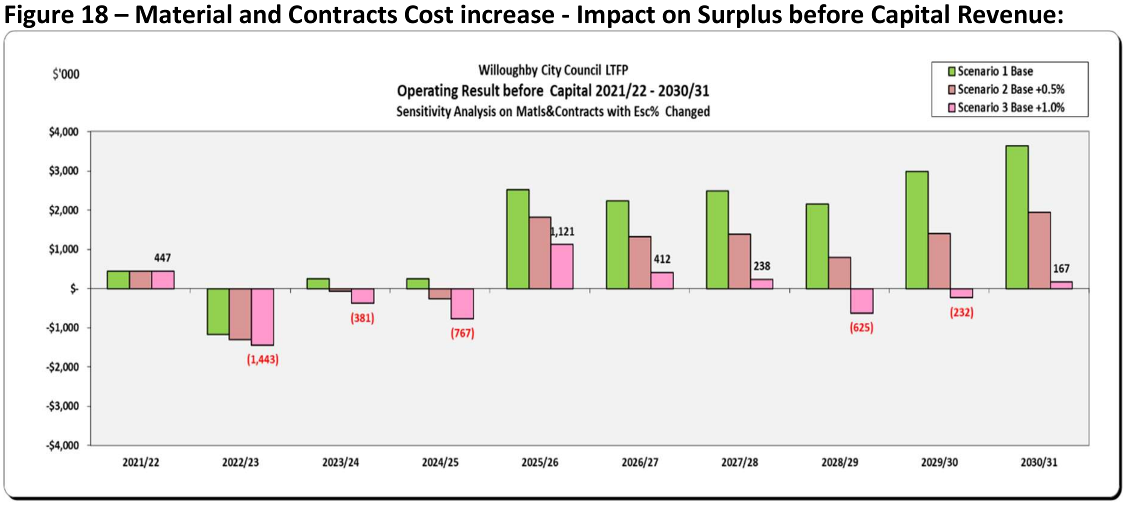
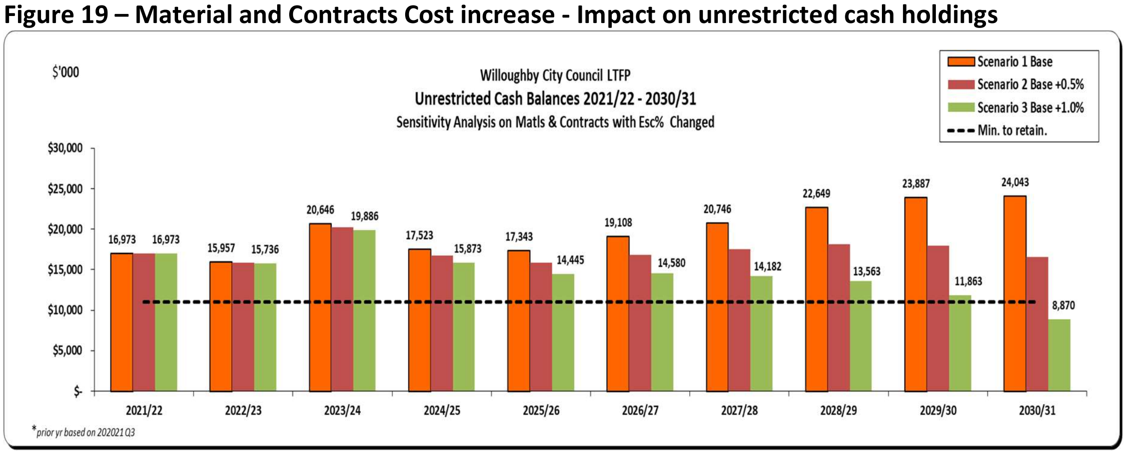


Figure 19 – Material and Contracts Cost increase - Impact on unrestricted cash holdings



A 0.5% annual increase above our CPI assumptions would see us record three years of minor deficits (Figure 18, purple bars). At 0.5% above CPI unrestricted cash and working capital would remain at adequate levels (Figure 19, brown bars).

At a 1% increase in inflation over above our CPI assumptions, five out of ten years would be in deficit (Figure 18, pink bars) and working capital balances would be low in the last years of the LTFP (Figure 19, green bars). We would take corrective action before this point. It is also likely that the rate peg and resulting revenue would be adjusted upward to compensate for the higher materials and contracts cost base.

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