

Long Term Financial Plan Assumptions

The Long Term Financial Model(s) use the current operating budget as its base point. It then uses a number of internal and market driven assumptions to project revenue and expenditure for the following ten years. A comprehensive analysis of all internal and external factors affecting those assumptions is undertaken as part of preparing the annual budget to ensure there is a level of confidence in the outcomes provided in the Long Term Financial Plan.

In preparing the 2012/13 Long Term Financial Plan, the following underpinning principles have been adopted:

- the range and standard of existing services offered to the community is maintained,
- Council's financial position remains secure and that Council's financial performance is within industry benchmarks,
- an uncommitted minimum working funds balance of \$1 million is maintained.

Population Growth

The expected population growth which will occur as a result of land releases in the South West Growth Areas will be the largest challenge this Council will face. Planning for this population increase has been difficult to date, as a result of:

- the effects of the economic downturn (GFC) on the housing market,

- the reluctance of State Agencies to provide detailed and accurate lot release projections,

Despite these difficulties, Council has determined that for the purposes of preparing its Long Term Financial Plan, population growth should be determined by Council's capacity to deliver on planning and development applications.

Council was able to secure funding from the Department of Planning to increase resourcing levels for the development planning and approval process up to June 2013. As a result of this funding, Council's capacity to assess development applications has increased to 1,000 per annum. This is an increase from 2011/12 of an additional 200 lots.

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Additional Dwellings	1,000	1,000	1,000	1,500	1,500
	2017/18	2018/19	2019/20	2020/21	2021/22
	1,500	1,500	1,500	2,000	2,000

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Population Projections	60,700	63,800	66,900	71,550	76,200
	2017/18	2018/19	2019/20	2020/21	2021/22
	80,850	85,500	90,150	96,350	102,550

It is envisaged that this capacity will increase in future years as Council recruits additional staff resources to manage urban land development.

Inflation (Consumer Price Index)

In determining the inflationary increase assumption for this Long Term Financial Plan, Council has used Access Economics Data which indicates that inflation projections for the next ten years will be as follows:

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Underlying Inflation	3.50%	2.80%	2.50%	2.50%	2.70%
	2017/18	2018/19	2019/20	2020/21	2021/22
	2.70%	2.30%	2.40%	2.80%	2.80%

This assumption has been applied across discretionary budget allocations where specific data modelling or specific internal assumptions cannot be determined or where the amounts are determined as immaterial (for example, general expense provisions within service centers). Applying this increase across Council's discretionary budget allocations ensures that Council's budget reflects projected movements in real dollar terms.

Interest Rate Movements

Council has used Access Economics 90 day commercial bank bill rate to determine forecast projections for interest on investments. Notwithstanding

this projection, Council has in recent years consistently achieved better returns than the official cash rate. As a result of this, an investment target of 0.5% above the projections provided by Access Economics has been used.

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Return on Investment	5.30%	5.40%	5.50%	5.60%	5.70%
	2017/18	2018/19	2019/20	2020/21	2021/22
	5.80%	5.40%	5.50%	5.50%	5.50%

Borrowing Costs

Borrowing cost projections have also been determined on the basis of Access Economics Data. The interest rate obtained within the Economic Outlook has been used in calculating the interest costs of Council's recurrent \$1.6 million loan borrowings.

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Borrowing Costs	7.40%	7.20%	6.90%	6.90%	7.00%
	2017/18	2018/19	2019/20	2020/21	2021/22
	7.00%	7.30%	6.90%	6.90%	7.00%

Revenue and Expenditure Assumptions

The following tables outline Council's financial assumptions by revenue and expenditure types. Also included is a brief description as to how Council has determined the assumption.

Revenue Budget Assumption	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Rates & Annual Charges										
Minister's Allowable Increase	3.60%	2.90%	2.70%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Supplementary Rate Income	\$755K	\$753K	\$775K	\$1.210M	\$1.246M	\$1.297M	\$1.346M	\$1.398M	\$1.920M	\$1.983M
<u>Comments:</u> Council was advised in December 2011 that IPART had determined a rate peg for 2012/13 of 3.60%. The rise of the Local Government Cost Index (net of the productivity factor) has been determined to be 3.20%. For future years, it has been considered prudent to assume that no significant increases will be approved without Council applying to IPART for a Special Rate Variation. Council has projected an annual rate increase of 3.00% per annum over this ten year plan. In addition to the Local Government Cost Index, the 2012/13 rate peg includes a carbon price advance of 0.4%. This advance will be reversed over the next two years (0.1% in 2013/14 and 0.3% in 2014/15) once the effect of the carbon price has flowed into the Local Government Cost Index. Additional income as a result of growth (supplementary rate income) has been calculated on Council's current capacity to approve development and building applications (Refer to Population Growth Assumption). Whilst rating income will increase significantly over this ten year plan, additional income will predominately be applied against the cost of service delivery and infrastructure maintenance in the growth areas of Camden.										
Domestic Waste Service Charge	4.00%	3.00%	5.00%	5.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Stormwater Levy Charge	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<u>Comments:</u> Council calculates its waste management service charges to ensure that its total income can fund the operating and maintenance costs associated with providing the service, including provisions for major plant replacement. The service charge increase has been projected as a result of Council's detailed long term financial modelling for the waste management function. The 2012/13 increase of 4.00% does not relate to the introduction of a Carbon Tax. As Council's waste contract is still under negotiation, any increase to the waste budget as a result of these negotiations and carbon pricing will be reviewed as part of the 2013/14 budget. Council introduced a Stormwater Management Levy in 2007/08. The charge consists of a \$20 levy against properties within the LGA which receive a stormwater management service. No increase has been projected in the current levy. Whilst revenues will increase as a result of growth, where more properties will attract the charge once rural properties are subdivided, the additional revenue can only be applied to expenditure which relates to stormwater management services.										

Revenue Budget Assumption	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Regulatory & Discretionary Fees										
Statutory Fees & Charges	Increase is not determined by Council – Increases are in accordance with relevant legislation									
Commercial Waste Fees	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Other Discretionary Fees	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Building & Development Income	12.50%	4.00%	7.00%	8.50%	6.50%	6.00%	6.50%	8.50%	9.00%	7.50%
<u>Comments:</u> Council does not generate a significant amount of income from discretionary fees. This is primarily a result of the need to balance revenue with the need to provide affordable and equitable services to residents (for example, the hire of community facilities and the use of sporting facilities). Whilst Council's Long Term Financial Plan projects increases in discretionary fees of 5.00% per annum, the increase is not applied to community facilities income, sporting ground hire income and leisure centre fees. Building and development income has been projected in line with expected development activity within new release areas including, Spring Farm, Elderslie, Oran Park and Turner Road. It is important to note that the level of income received from development activity is primarily dependent on the receipt of applications from developers, and as such income can fluctuate dramatically from one year to the next.										
Interest & Investment Revenue										
Return on Investment Portfolio	5.30%	5.40%	5.50%	5.60%	5.70%	5.80%	5.40%	5.50%	5.50%	5.50%
Investment Base Growth	4.00%	4.00%	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
<u>Comments:</u> Council has used Access Economics Business Outlook data to determine its long term projections on interest and investment revenues. As Council consistently performs above the official target cash rate, a performance factor of 0.50% has also been added. It is also anticipated that Council's investment base (pool of funds available for investment) will increase over the term of this plan.										

Revenue Budget Assumption	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Grants & Contributions for Operating Purposes										
Financial Assistance Grant	5.50%	5.85%	5.60%	5.60%	7.00%	6.60%	6.20%	6.20%	6.00%	7.00%
Other Grant Funding	3.00%	2.60%	2.50%	2.70%	2.70%	2.40%	2.30%	2.70%	2.70%	2.70%
<u>Comments:</u> <p>Council receives a number of operational grants from various Government agencies. The largest of these being the Financial Assistance Grant. This is a Federal “untied” grant which is distributed through the various states by the Local Government Grants Commission. There are two components of the grant, the “roads component” which is based on road types and road length throughout the LGA and the “General Equalisation component”, which is distributed according to a methodology taking into account revenue raising capacity and expenditure disabilities.</p> <p>In recent years, Council has begun to realise increases in the Financial Assistance Grant which reflects the unique growth factors associated with the south west growth area. Given the increase in population which will occur over the term of this plan, it is anticipated that these projected increases will continue.</p> <p>Council will continue to pursue grant funding opportunities as a means of diversifying its revenue sources and reducing its reliance on rate income. Grants (other grant funding) are assessed as they become available and supported by a range of complimentary funding sources (i.e. when matched funding is required) such as the Capital Works Reserve.</p>										
Other Revenues										
Underlying Inflation	3.50%	2.80%	2.50%	2.50%	2.70%	2.70%	2.30%	2.40%	2.80%	2.80%
<u>Comments:</u> <p>Other sources of revenue range from fines income, commissions and agency fees, contract works undertaken on behalf of state agencies and developers and miscellaneous sales. An increase in other revenue has been projected in line with inflation over the next ten years.</p>										

Revenue Budget Assumption	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Grants & Contributions for Capital Purposes										
Section 94 Developer Contributions	\$3.7M	\$3.8M	\$4.0M	\$4.0M	\$4.2M	\$4.2M	\$4.5M	\$4.5M	\$4.7M	\$4.7M
Roads to Recovery Program	\$370,100	\$370,100	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Comments:</u> <p>The major sources of capital revenue are Section 94 Developer Contributions (cash) and S80A Infrastructure dedications (non-cash) under the Environmental Planning and Assessment Act. Predicting the amount of revenues received from these two sources is extremely difficult as they are essentially market driven and depend on the timing of subdivision release and asset handover to Council. The dedication of assets are non-cash entries and therefore the value of the dedication has little impact on Council's Long Term Financial Plan. The life cycle costs associated with the assets dedicated are factored into Council's Long Term Financial Plan once the assets have been identified and funding becomes available. Section 94 Developer Contributions are cash payments which are restricted for the purpose of which the funds were collected.</p> <p>Council has not assumed a continuation of the "Roads to Recovery Program" beyond the current approved five year program.</p>										
Loan Borrowings										
Recurrent Loan Borrowings	\$1.6M	\$1.6M	\$1.6M	\$1.6M	\$1.6M	\$1.6M	\$1.6M	\$1.6M	\$1.6M	\$1.6M
Local Infrastructure Renewal Scheme	\$0	\$2.0M	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Central Administration Building	\$0	\$0	\$10.8M	\$12.6M	\$0	\$0	\$0	\$0	\$0	\$0
<u>Comments:</u> <p>This plan assumes that Council will need to continue its loan borrowing program of \$1.6 million per annum. The loan income is used to partially fund Council's infrastructure renewal program for road assets. Council's total loan liability as at 30 June 2012 is \$19.5 million.</p> <p>This Plan also includes an increase in the level of loan borrowings to fund stage one of the new Central Administration Building. This project has been considered by Council as essential for future service demand as our community continues to grow as a result of land release in the south west growth centre. It is anticipated that the construction will commence in 2014/15. The projected construction cost of Stage 1 (approx. \$28 million) will be funded through a range of sources including internal reserves, potential land sales and loan borrowings (est. \$23.4 million). The use of loans to fund these works will also ensure that the cost of the new administration building is shared by existing and future residents.</p>										

Expenditure Budget Assumption	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Employee Costs & Overheads										
Industry Award Increase	3.25%	3.25%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Staff Performance Mgmt System	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Superannuation Statutory Scheme	9.00%	9.25%	9.50%	10.00%	10.50%	11.00%	11.50%	12.00%	12.00%	12.00%
Workers Comp Target (% Wages)	4.50%	4.25%	4.10%	4.00%	3.90%	3.80%	3.70%	3.60%	3.50%	3.50%

Comments:

Council currently employs 301 full time equivalent staff. As a result of recent improvements to Council's budget position, a total of six additional positions have been included in the 2012/13 budget. These positions are considered high priority positions and are consistent with Council's adopted Workforce Plan. The positions will assist in areas where services are under pressure to keep up with demands and represent a combination of operational and technical staff.

Aside from the significant increase in staff that Council will require over the next ten years to plan and manage for growth, a number of assumptions are used to project future employment costs, including award increase projections and performance management increases.

This plan reflects the increases identified within the Local Government Award and the subsequent changes to work related allowances and conditions of employment. Council also includes a provision for increases under the staff performance management system of 1.50% per annum which is based upon historical evidence.

Other assumptions relating to employee costs which are included in this plan include:

- No change is expected in existing employee working hours.
- No significant impact is expected through the introduction of the Federal Government Paid Parental Leave Scheme.
- New employees are included within this plan with the expectation that they will be employed at Step 4 of the Performance Management System, which is based on historical evidence.
- Council's ageing workforce is expected to impact its workers compensation premium, however this additional cost is expected to be offset through preventative strategies outlined within the workforce plan.
- Council has modelled future superannuation expenditure based on the Federal Government's budget announcement to increase the statutory contribution rate from 9.00% to 12.00% incrementally by 2019/20.
- The impact of the shortfall in the defined benefits superannuation scheme

Expenditure Budget Assumption	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Borrowing Costs										
Interest Rate – Loan Borrowing	7.40%	7.20%	6.90%	6.90%	7.00%	7.00%	7.30%	6.90%	6.90%	7.00%
LIRS – Discount Rate	0.00%	(3.00%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<p><u>Comments:</u></p> <p>As at 30 June 2012 Council has a loan liability of \$19.5 million. This includes an interest free loan from the NSW State Government of \$11.8 million to fund the upgrade of Lodges Road and Hilder Street in Elderslie. Although assessed annually Council has a re-current borrowing program of \$1.6 million to fund its road reconstruction program. This plan includes the continuation of this borrowing program. Interest rates have been sourced from Access Economics.</p> <p>The debt servicing cost associated with the construction of a new central administration building will not have an impact on Council's budget until 2015/16. Council has considered the impact of this borrowing on its debt service ratio and is satisfied that its level of debt is within the recommended levels for a developing Council.</p> <p>The repayment of the NSW State Government loan (\$11.8 million) will not have a material impact on Council's debt servicing until 2013/14 as the repayment terms are a balloon payment over ten years. The debt servicing (principal) required to fund the general fund component of this loan repayment (\$3.8 million) has been factored into the Long Term Financial Plan. The balance of debt servicing required is funded from restricted assets (Section 94) and therefore has no impact on the LTFP.</p>										
Materials & Contracts										
Underlying Inflation	3.50%	2.80%	2.50%	2.50%	2.70%	2.70%	2.30%	2.40%	2.80%	2.80%
Local Government Cost Index	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
<p><u>Comments:</u></p> <p>Projected increases in materials & contracts costs are generally in line with inflation over the ten years of this plan.</p> <p>Whilst Council expects significant increases in the cost of road materials, fuel and waste disposal costs, these increases will be partially mitigated by technology improvements, the implementation of cost reduction strategies and continued improvement in procurement processes.</p> <p>The recent development by IPART of a Local Government Cost Index (LGCI) will become an important assumption in future plans, however given that the Index has only recently been developed, a similar increase to inflation has been included within this plan as the basis of future LGCI increases.</p> <p>Provisions for the maintenance, operational and renewal costs of new assets (full life cycle costing) have been identified through Council's Asset Management Plans.</p>										

Expenditure Budget Assumption	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Depreciation & Amortisation										
Projected Depreciation Cost	\$15.1M	\$15.6M	\$16.0M	\$17.5M	\$19.3M	\$20.5M	\$21.0M	\$21.7M	\$22.1M	\$22.6M
<u>Comments:</u> <p>All Council's assets have now been revalued to fair value in accordance with the staged implementation advised by the DLG. The Long Term Financial Plan has incorporated the subsequent impact of revaluations and as a result includes a significantly higher level of depreciation expense than that shown in previous budgets.</p> <p>The Long Term Financial Plan also includes the projected depreciation cost of new assets which are dedicated to Council through the development process (through Section 94 & Voluntary Planning Agreements) and new works which have been identified within Council's Proposed Capital Works Program. The depreciation methodology which Council employs can be found in Note 1 of the General Purpose Financial Reports. Generally depreciation is a non-cash figure and has a zero impact on Council's cash budget. For external reporting purposes depreciation is an expense as it measures asset consumption. Depreciation expense is required to determine the asset renewal ratio, although in a fair value environment where revaluations are required every 5 years it may not be the best measure of an organisations consumption of assets.</p>										
Other Expenses										
Street Lighting	17.00%	11.10%	13.60%	10.90%	12.80%	12.00%	12.00%	13.80%	10.10%	12.90%
Utility Costs	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Insurance Premiums	5.00%	5.00%	7.00%	5.00%	5.00%	10.00%	5.00%	5.00%	5.00%	10.00%
<u>Comments:</u> <p>Other expenses primarily relate to street lighting, utility costs, insurances, statutory charges and other program expenditure. A range of assumptions have been used in determining appropriate increases in these costs. These assumptions include inflationary pressures, IPART Determinations and general service increases (or asset expansion) which is expected as a result of urban development.</p> <p>With respect to statutory charges (payments to other levels of Government) projected costs are based on historical increases. This is a result of increases above inflation over the past several years. Examples of statutory payments include election costs, emergency services levy and the waste disposal levy.</p>										