Attachment 5
to
Item 101

Draft 2022-2032 Long-Term Financial Plan

Date of meeting: 14 June 2022
Location: Council Chambers
Time: 6:30 p.m.

HAWKESBURY CITY COUNCIL

RESOURCING STRATEGY:

LONG TERM FINANCIAL PLAN 2022 - 2032

Hawkesbury City Council

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INTRODUCTION

The Community Strategic Plan provides a vehicle for expressing long-term community aspirations. In order to achieve these aspirations, we need to ensure that there are adequate resources (money, assets and people).

The Resourcing Strategy consists of 3 components:

• Long-Term Financial Planning

• Workforce Management Planning

• Asset Management Planning.

The Resourcing Strategy is the point where we explain to our Hawkesbury community how we intend to perform all our functions, including implementing the strategies set out in the Community Strategic Plan. The Resourcing Strategy articulates how Council will allocate resources to deliver the objectives under its responsibility.

The Long-Term Financial Plan is a 10-year rolling plan that informs decision-making and demonstrates how the objectives of the Community Strategic Plan and commitments of the Delivery Program and Operational Plan will be resourced and funded. The Long Term Financial Plan captures financial implications of asset management and workforce planning. For example, by identifying how additional assets will be funded, or existing assets renewed or upgraded and what provisions are made for changes to service levels.

The Long Term Financial Plan is a tool to aid decision making, priority setting and problem solving. It is a guide for future action, to be reviewed and updated annually, and addresses:

• how council will survive future financial pressures

• opportunities for future income and economic growth

• whether council can afford what the community requests

• how council can achieve outcomes agreed with the community.

IMPACTS OF FIRES AND FLOODS ON OUR RESOURCING STRATEGY

Even as Council assists impacted residents and businesses with rebuilding their homes, business premises and farms, we continue to assess bridges, roads, buildings and riverbanks to ensure the safety of our community.

It is a fact that we had not recovered as a community from floods in 2020 and 2021, the bushfires of 2020/21 and the ever-present threat of COVID-19 Pandemic, when floods hit again in March 2022.

As this Long Term Financial Plan was being developed, Council engineers are continuing to assess the extent of the damage caused by the March 2022 flooding event. The damage to these assets will have an impact on all corporate plans, including the Asset Management Plan and this Long Term Financial Plan. Where applicable, these plans will be updated and provided back to the community for feedback.

The development of a Long Term Financial Plan (LTFP) is a requirement under the Integrated Planning and Reporting Framework (IP&R) and forms part of the Resourcing Strategy, also including the Workforce Management Plan (WMP) and the Asset Management Plan (AMP).

Over recent years, financial sustainability in local government has received heightened attention and has become a greater challenge to maintain due to:

- increased demand for services from the community
- the diversion of resources away from local government due to cost shifting
- constraints over major income streams due to rate pegging
- constraints over income streams subject to relatively static statutory fees
- dependence on grant income
- caps placed on development contributions
- ageing infrastructure and escalating expenditure required for asset maintenance and renewals
- natural disasters
- a range of reviews undertaken by the Independent Pricing and Regulatory Tribunal.

The LTFP is an important part of Council's strategic planning process. This is the point where long-term community aspirations and goals, outlined within the CSP, are tested against financial realities.

The LTFP provides a dynamic framework in which Council maintains financial sustainability in the delivery of its core functions and assists in measuring the performance of implementing objectives within the CSP. The LTFP also:

- establishes greater transparency and accountability of Council to the community
- provides an opportunity for early identification of financial issues and any likely impacts in the longer term
- provides a mechanism to address financial constraints as a whole,
- provides a 'big picture' on how various plans fit together,
- identifies the impact of decisions on other plans or strategies.

The LTFP spans a period of ten years and includes the following:

- background
- current financial performance
- projected financial performance in 2022/2023
- maintaining financial sustainability
- planning assumptions used to develop the Plan
- revenue and expenditure forecasts, including risk assessment
- consideration of asset management and its impact on the LTFP
- outline of potential scenarios
- projected financial statements and financial performance measures
- methods of monitoring financial performance
- methods and timings for subsequent reviews.

BACKGROUND

GEOGRAPHY AND DEMOGRAPHY

Council is a peri-urban council on the north-western periphery of the Metropolitan Region and is the largest local government area within Sydney. It straddles the divide between urban metropolitan councils to its east and rural councils to its west. While the southeast corner of the Local Government Area (LGA) is predominantly urban, the remainder of LGA forms a much larger rural hinterland. In comparison with adjoining metropolitan councils, Council has a relatively smaller, but growing, population of 68,009 persons spread over an area of 2,776km2. As a result, it is required to maintain a large asset holding serving a dispersed population.

The Hawkesbury is dominated by the Hawkesbury-Nepean River System and the escarpment of the Blue Mountains to its west. The topography of the area varies widely. 70% of the LGA is located in National Parks with significant world heritage values and riparian and wetland communities. The LGA contains substantial areas of bushland which are prone to bushfire while at the same time most of its urban areas are affected by flooding or flood evacuation constraints. The LGA also has a productive rural hinterland with more than three-quarters of its agricultural output exported beyond its borders. The Richmond RAAF Base is also located in the Hawkesbury.

These physical characteristics have impacted and continue to impact on the development of the Hawkesbury. The combination of topography, flooding, evacuation constraints, bushfire risk, airport noise, agricultural land and environmental values has meant that the majority of the LGA is ‘highly constrained’ with significant implications for future urban development.

In comparison with its neighbouring urban councils, the Hawkesbury has a large land area and road network but a relatively smaller and decentralised rating base. Council is required to provide core services and local facilities to outlying areas with small population catchments. Given that population density is an important driver of sustainability, these relative differentials result in higher per unit service costs and per-capita asset management costs. Each resident in the Hawkesbury has to support a relatively greater proportion of infrastructure assets. As an example, Council is required to maintain 16 metres of road length per resident in comparison to comparable figures of between three metres and nine metres in adjoining council areas.

CHALLENGES

Constraints on revenue growth arising from limited development potential, rate pegging and caps on statutory fees and charges together with escalating cost indices, cost shifting, and increasing compliance costs will mean that Council will continue to have a revenue shortfall resulting in a significant constraint on the ability to fund the maintenance and renewal of its assets and sustain current levels of service into the future.

Like many NSW councils, and due to some specific attributes Council faces a number of challenges in maintaining long-term financial sustainability.

The new rate-peg methodology including a growth factor presents low growth councils like Hawkesbury with the challenge of limited allowance for growth. For the 2022/2023 Council was granted a rate-peg increase of 0.7% plus a 0.1% allowance for growth. This new methodology is likely to disadvantage Council on an ongoing basis as the annual growth will continue to be minimal. Whilst development is in the pipeline for Vineyard, Glossodia and Redbank this growth will continue to be minimal when compared to growing LGA's including the Hills Council area and Camden.

Subsequent to the announced rate-peg, and in response to feedback from many NSW councils, the Office of Local Government has advised NSW councils that they may apply for a rate-peg for 2022/2023 equivalent to what they had in their Long Term Financial Plans in 2021/2022 or 2.5%, whichever is the lesser. The increase applied for can be for 2022/2023 only or a permanent increase.

Council had a 2.5% annual rate-peg assumed in its Long-Term Financial Plan. Accordingly, Council will be applying for a permanent 2.5% increase. If successful, this increase will generate an additional $0.7M in 2022/2023 and $8.2M over a ten-year period.

In addition to constraints imposed on general rates revenue Council, like many other councils, is now also facing potential constraints on other revenue streams as a result of reviews undertaken by the Independent Pricing and Regulatory Tribunal. These reviews include the Local Infrastructure Contributions System Review and the Domestic Waste Management Service Charges Review. Constraints on these revenue streams may place further pressure on already limited revenue base, and consequently the ability for Council to continue to deliver services and works in line with the community's expectations.

In addition to constraints on revenue, Council is faced with the added challenge of the need to significantly invest in emergency planning, management and resilience. Council requested the Minister for Local Government to amend legislative provisions to allow Council to levy an Emergency Management Charge to fund an increased investment in emergency planning, management and resilience. Unfortunately, Council's request was rejected, which means the additional investment will need to be funded from current levels of funding and diverting funds from other core Council services and works.

During the new four-year Delivery Program, there are a number of strategic challenges that will also need to be addressed, including:

- Redbank development
- Vineyard Precinct development
- Jacaranda development
- NSW Local Infrastructure Contributions Review
- IPART Review of Domestic Waste Management Service Charges
- NSW Waste & Sustainable Materials Strategy
- NSW Planning Reform Action Plan (including Planning Portal)
- IPART Review of Cemeteries (internment costs and pricing)

The Redbank, Vineyard and Jacaranda developments present a challenge in terms of uncertainty around the timing of development and the associated asset deliver and maintenance implications.

The various NSW State Government and IPART reviews and reforms currently underway or not yet finalised have impacted on the ability to accurately capture the applicable financial implications in Council's Budget and the Long-Term Financial Plan, as well as presenting challenges regarding the unknown future obligations that Council may be accountable to deliver against.

This LTFP has been prepared within the context of these challenges and includes sensitivity analysis regarding some of these challenges and other relevant variables.

CURRENT FINANCIAL PERFORMANCE

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

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

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

Capital expenditure is incurred on road works, footpaths, drainage, bridge construction, the sewer network, park improvement, recreation, building works, plant replacement program, and on other assets including library resources, and IT equipment.

The following are extracts from the NSW Audit Offices' report on Council's General Purpose Financial Statements as at 30 June 2021:

INCOME STATEMENT

Operating result

	2021 $m	2020 $m	Variance %
Rates and annual charges revenue	67.0	62.1	7.9
Grants and contributions revenue	23.5	28.6	17.8
Operating result from continuing operations	(3.8)	16.6	122
Net operating result before capital grants and contributions	(16.1)	(1.9)	947

Council's operating deficit from continuing operations ($3.8 million including depreciation, amortisation and impairment for non-financial assets expense of $25.9 million) was $20.4 million lower than the 2019–20 net result of $16.6 million. This can largely be attributed to:

- decreases in other revenue and grants and contributions for capital purposes of $5.1 million
- increases in employee benefits and on-costs, materials and contracts expenses $4.1 million
- increase in depreciation, amortisation and impairment of non-financial assets of $3.8 million.

The net operating deficit before capital grants and contributions ($16.1 million) was $14.2 million lower than the 2019–20 result.

Rates and annual charges revenue ($67.0 million) increased by $4.9 million (7.9 per cent) in 2020–21, largely due to the rate peg and special rate variation in 2020–21.

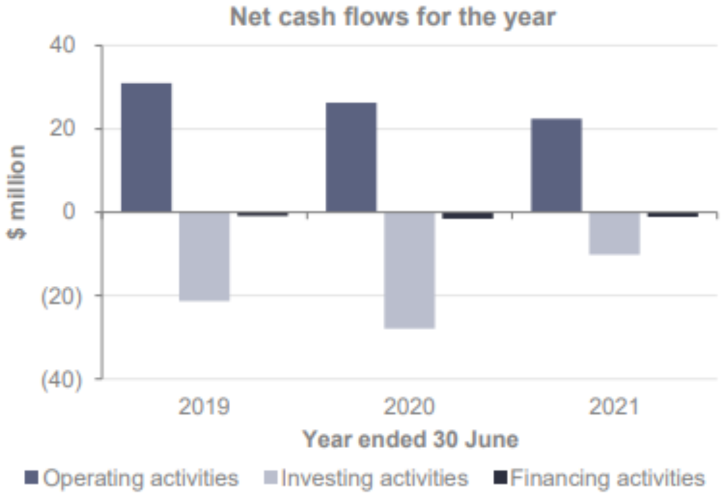
Grants and contributions revenue ($23.5 million) decreased by $5.1 million (17.8 per cent) in 2020–21 due to the decrease in non-cash developer contributions received in the current year.

STATEMENT OF CASH FLOWS

Cash flows from operating activities in 2020–21 slightly decreased by $4.0 million due to increased outflows in other payments, materials and contracts and employee costs exceeding the increases in rates and annual charges inflows.

Cash outflows from investing activities decreased due to inflow from term deposits and an increase in inflows from the sale of investments.

Cash flows from financing activities was minimal and remained relative stable compared to last year.



FINANCIAL POSITION

Cash and investments

Cash and investments	2021	2020	Commentary
	$m	**$m**	
Total cash, cash equivalents and investments	**66.0**	**63.5**	• Significant externally restricted funds include $16.9 million in general developer contributions and $10.7 million in the sewer fund • Significant internally restricted funds include $7.5 million for unspent work reserve, and $6.8 million for tip remediation and sullage.
Restricted cash and investments:			
• External restrictions	37.0	34.6	
• Internal restrictions	20.6	17.0	

Debt

Council has an overdraft facility in place as at 30 June 2021, with a drawdown limit of $800,000. There were no drawdown as at 30 June 2021. During the current and prior year, there were no defaults or breaches on any of the loans.

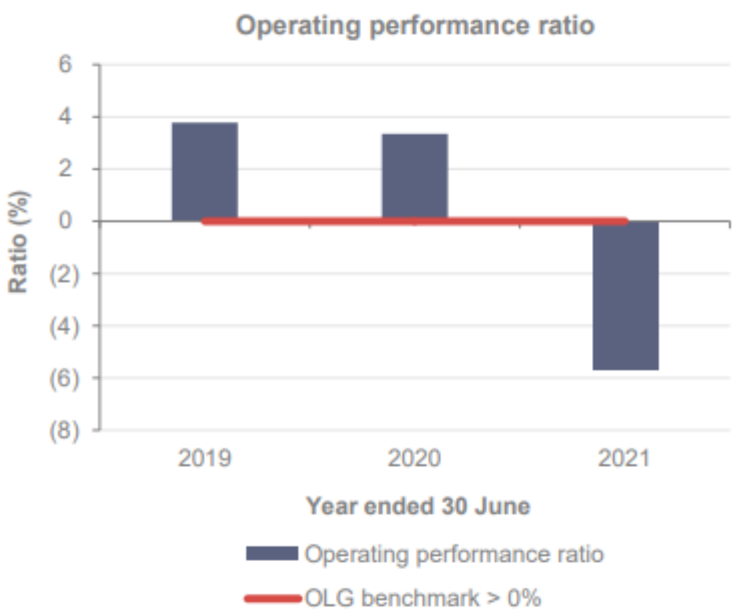
PERFORMANCE

Performance measures

Operating performance ratio

- Council did not meet the OLG benchmark for the current reporting period.
- The ratio declined from the previous year, predominantly as a result of the additional expenditure incurred in response to the March 2021 Flood Event and depreciation expense.

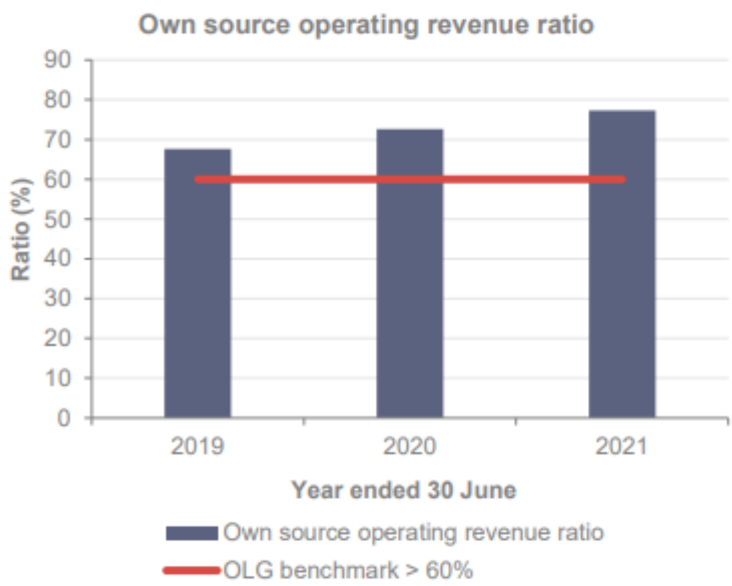
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.



Own source operating revenue ratio

- Council exceeded the OLG benchmark for the current reporting period.
- The ratio increased as a result of decreased capital grants and contributions and increased rates and charges, compared to the prior reporting period.

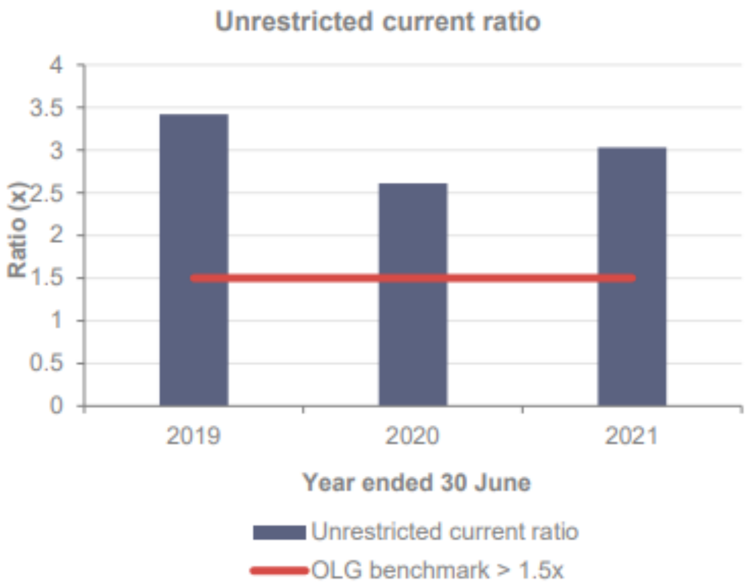
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

Council continues to exceed exceeded the OLG benchmark.

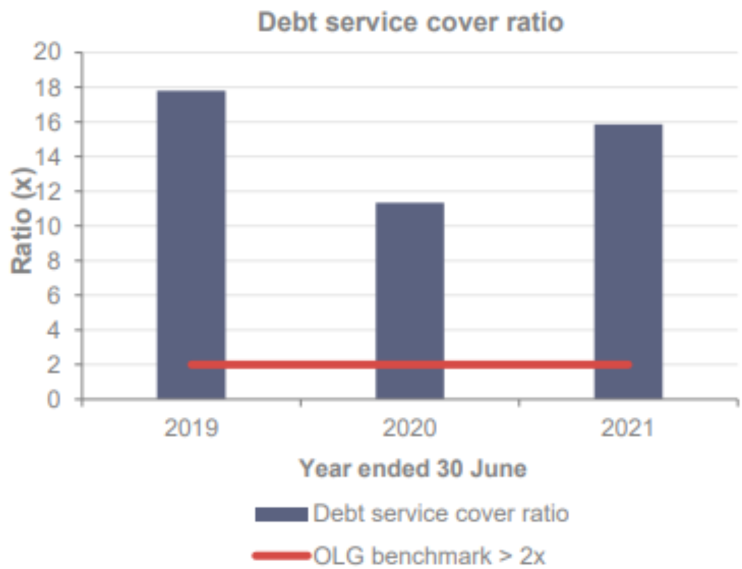
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council continues to exceed the OLG benchmark.

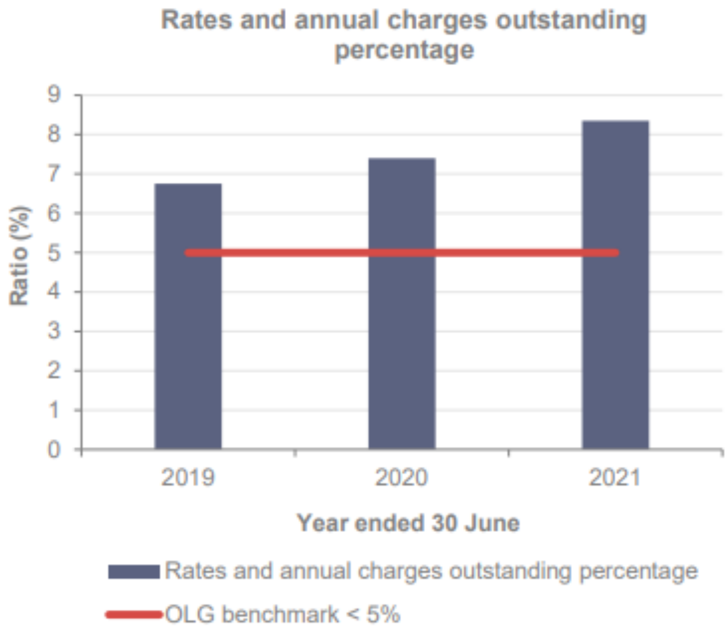
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding percentage

- Council did not meet the benchmark for rates and annual charges outstanding percentage.
- The ratio declined as a result of an increase in the amount of outstanding rates and annual charges.
- In response to the economic impacts of the COVID-19 Pandemic and March 2021 Flood, debt recovery action was reduced.

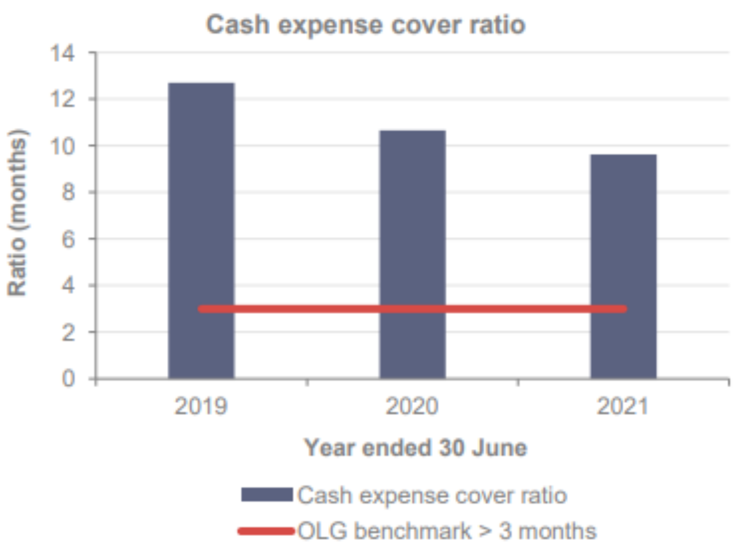
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metropolitan councils.



Cash expense cover ratio

Council continues to exceed the OLG benchmark.

This liquidity ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.



Infrastructure, property, plant and equipment renewals

Council's asset renewals have decreased from $15.2 million in the 2019–20 financial year to $10 million in the 2020–21 financial year. Asset renewals in 2021 primarily related to roads, which totalled $7.4 million.

PROJECTED FINANCIAL PERFORMANCE IN 2022/2023

The projected financial performance as included in the 2022/2023 Draft Operational Plan is as follows:

INCOME STATEMENT AND CAPITAL STATEMENT

($'000)	Original Budget 2021/2022	Draft Budget 2022/2023
Income from Continuing Operations		
REVENUE		
Rates and Annual Charges	(69,164)	(70,598)
User Charges and Fees	(6,954)	(7,044)
Other Revenue	(1,750)	(1,851)
Grants and Contributions provided for Operating Purposes	(8,446)	(10,765)
Grants and Contributions provided for Capital Purposes	(9,791)	(11,935)
Interest and Investment Income	(649)	(1,058)
Other Income	(3,030)	(3,106)
Total Income from Continuing Operations	**(99,784)**	**(106,357)**
EXPENSES FROM CONTINUING OPERATIONS		
Employee Benefits and On-Costs	32,592	34,807
Materials and Services	30,997	30,440
Borrowing Costs	358	522
Depreciation and Amortisation and Impairment	25,855	22,570
Other Expenses	5,238	5,197
Total Expenses from Continuing Operations	95,040	93,536
Net Operating Result for the Year	**(4,744)**	**(12,821)**
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	**5,047**	**(886)**
SOURCE OF CAPITAL FUNDING (EXCLUDING RESERVES)		
Proceeds from the sale of capital assets	(1,050)	(1,067)
Depreciation	(25,855)	(22,570)
Grants and Contributions - Capital	(9,791)	(11,935)
	(36,696)	**(35,572)**
APPLICATION OF CAPITAL FUNDING		
New Assets		
Land, Building and Land Improvements	50	5,300
Roads, Bridges, Footpaths and Drainage	22,166	1,991
Sewer Infrastructure	4,152	5,541
Parks Assets and Other Structures	714	2,128
Renewal of Assets		
Land, Building and Land Improvements	1,998	2,163
Roads, Bridges, Footpaths and Drainage	11,149	14,384
Sewer Infrastructure	2,480	525
Parks Assets and Other Structures	2,822	4,742
Other Assets	484	3,896
Plant and Equipment	3,474	3,021
	49,489	43,691
Net Capital Expenditure	**12,793**	**8,119**
Retained (surplus)/deficit from prior years		
Transfer from Reserves	(70,298)	(60,381)
Transfer (to) Reserves	52,458	53,148
	(17,840)	(7,233)
Retained (surplus)/deficit available for general funding purposes	-	-

FINANCIAL PERFORMANCE MEASURES

Performance Measure	Benchmark	2018/2019 Actual Result	2019/2020 Actual Result	2020/2021 Actual Result	2021/22 Original Budget	2022/23 Draft Budget
Operating Performance	0	0.024	0.003	-0.08	-0.06	0.002
Own Source Revenue	>60%	65.9%	70.3%	75.3%	80.0%	76.7%
Building and Infrastructure Asset Renewal	>100%	80.4%	68.4%	78.6%	84.1%	136.1%
Infrastructure Backlog	<2%	1.4%	0.8%	2.1%	1.7%	1.5%
Asset Maintenance	>100%	96.98%	104.11%	98.04%	108.5%	93.5%
Debt Service	>0%<20%	1.0%	4.7%	0.1%	4.1%	4.3%

PROJECTED FINANCIAL PERFORMANCE MEASURES EXPLAINED

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

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

An explanation of Council's projected performance against each ratio and what it means in terms of future sustainability is provided below.

Operating Performance Ratio – Council's Operating Performance Ratio (OPR) is projected to meet the benchmark in 2022/2023. This is due to a one-off grant included in operating revenue.

This ratio is a main indicator of Council's sustainability into the future and it is therefore critical that strategies are implemented to continue to meet this ratio.

Own Source Revenue Ratio – Council's Own Source Revenue Ratio is projected to continue to meet the relevant benchmark. This means that it is expected that a significant portion of Council's total revenue is revenue Council can generate itself and therefore has control over. Meeting this benchmark indicates that Council's reliance on other revenue sources such as grant funding, and consequently the risk associated with uncertainty, is limited.

Asset Renewal Ratio – Council's Asset Renewal Ratio is projected to meet the benchmark. In 2022/2023. This ratio is significantly impacted by the delivery of asset renewal impacted by flood restoration works.

Infrastructure Backlog Ratio – Council's Infrastructure Backlog Ratio is projected to continue to meet the benchmark in 2022/2023.

Asset Maintenance Ratio - Council's Asset Maintenance Ratio is projected to not meet the benchmark in 2022/2023.This is mainly as a result in delays in capital renewal arising from the impacts of natural disasters and the COVID-19 Pandemic in recent years. Additionally, flood damage has decreased the condition of a range of assets, requiring additional maintenance to be undertaken to remain safe and functional.

Debt Service Ratio – Council's Debt Service Ratio is projected to continue to be met. Council intends on borrowing $7million via an external loan in 2022/2023 to bring forwarded needed infrastructure renewal works. The loan will be secured by Council's income in accordance with Clause 23 of the Local Government (General) Regulation, 2021.

MAINTAINING FINANCIAL SUSTAINABILITY

Council's aim is to remain financially sustainable in the long term, whilst achieving the objectives of the CSP 2022-2041 through the Delivery Program 2022-2026. Council also aims to maintain service levels in line with the community's expectations and address its infrastructure requirements.

Council's LTFP is based on the continued implementation of a number of financial sustainability strategies commenced in 2017/2018 and service sustainability reviews undertaken in line with the requirements of the Integrated Planning and reporting Framework:

- improve strategic capacity
- continuous improvement in financial position
- meeting all the sustainability ratios over the LTFP period
- addressing the infrastructure backlog
- intergenerational equity through the use of debt financing
- aiming for progressive increased level of funding for asset maintenance and renewal and optimal asset intervention methods
- aiming for progressively achieving full cost recovery for the provision of services
- maintaining a fair and equitable rating structure
- maintaining affordability of Council's services
- considering revenue generating opportunities
- maintaining or improving service levels in all service areas.
- Undertaking service reviews

ADDITIONAL REVENUE

The on-going financial sustainability of Council requires additional revenue to be available to renew and maintain infrastructure assets as required and to be able to sustain current service levels meeting the community's expectations.

A number of revenue generating strategies can be applied to inject an on-going increased revenue stream to sustain the required asset management funding and maintain service levels in line with the community's expectations.

Borrowings Program – A borrowings program has been incorporated to be undertaken over a period of time with the primary aim of targeting road renewal and the delivery of an enhanced program of asset maintenance and renewal. The availability of loan funds will enable works to be brought forward, therefore bringing assets to satisfactory standard sooner resulting in increased community satisfaction and facilitating optimal asset intervention methods. The use of debt financing results in costs being spread over a number of years, therefore achieving inter-generational equity. A Borrowings Program of any magnitude is dependent on the availability of additional funding to service the debt.

Rate-Peg increase to 2.5% – The rate-peg amount excluding the population growth factor of 0.7% has raised significant concern for many NSW councils, especially low growth councils like this Council. In acknowledgement of this concern, the Office of Local Government have recently advised councils that they can apply to IPART to increase the rate peg.

A permanent increase, if approved, would generate an additional \$0.7M for 2022/2023 with a total additional \$8.2M over 10 years. Should Council opt for the increase on a temporary basis, this will generate \$0.7M for 2022/2023 only. The additional income from the special variation is required to maintain service levels included in Council's Long-Term Financial Plan in line with community expectations and maintaining financial sustainability in accordance with the relevant benchmarks.

Whilst the Draft 2022/2023 Operational Plan has been based on a 0.8% rate-peg increase, this was only achieved through a reduction in real terms in funding available to provided Council services. This low rate-peg, if not addressed, will continue to have an adverse impact on Council's ability to deliver services and works in line with the community's expectation whilst remaining financially sustainable.

Stormwater Management Charge - The continuation of a Stormwater Management Charge of $25 per property would generate funding to enable maintenance and renewal works relating to stormwater infrastructure. This strategy will generate $542K in 2022/2023 that will be invested in the management of stormwater asset management.

Drainage Management Charge – The continuation of the Drainage Management Charge of $30 per property applicable to the Redbank development to recover ongoing maintenance and renewal costs, and legislative obligations in regard to the drainage infrastructure in this area. Funding collected under this charge will be applied specifically to works and maintenance in the collection area. This strategy will generate $28K in 2022/2023.

Return on Businesses - This strategy is aimed at ensuring that Council receives a return on assets invested in non-core services operating as a business. Council operates a Waste Management Facility and a Sewerage Program. An annual dividend payment based on a 12% rate of return on the value of those assets has been implemented. This strategy generates $621,000 each year.

Property Strategy – This strategy is aimed at undertaking a comprehensive review of Council's property and asset holdings with a view to rationalising under-utilised and/or under–performing assets. The Strategy will also look at strategic investment opportunities.

CONTAINMENT OF COSTS AND EFFICIENCY IMPROVEMENTS

Council is continually seeking cost savings and efficiencies through on-going process improvements, increased use of technology, best value for money procurement processes, resource sharing and partnerships.

A number of areas where a specific targeted approach to cost reductions and efficiency improvements can be applied are outlined below.

Service Sustainability Review – During 2021/2022 an external consultant was engaged to facilitate a service sustainability review. The review identified a number of process improvements and revenue generating initiatives that are now being prioritised for implementation over the next few years. The financial outcome of these initiatives has not been taken into consideration in this LTFP but will be included in future reviews of the Plan once financial benefits can be quantified with confidence.

Review of Operations – A review of current service models and resourcing of operational activities including roads, parks and waste will identify areas to be investigated for potential efficiencies to reduce the cost per unit of works and consequently be able to deliver more works with available funding. The financial outcome of these initiatives has not been taken into consideration in this LTFP but will be included in future reviews of the Plan once financial benefits can be quantified with confidence.

Service Reviews – In accordance with the requirements of the Integrated Planning and Reporting Framework, over the next four years Council will select a number of areas to be subject to a service review. The financial outcome of these initiatives has not been taken into consideration in this LTFP but will be included in future reviews of the Plan once financial benefits can be quantified with confidence.

Project Management Framework – Council is in the process of implementing an organization wide Project Management Framework. The objective of the Framework is to ensure projects are delivered in a consistent and cost effective manner, within a robust governance framework.

ASSET MANAGEMENT PLANS

Council commenced the process of undertaking condition audits to inform a major review of its Asset Management Plans. When completed, these Plans will support asset management modelling and consequently the development of asset maintenance and renewal scenarios that can be supported within the LTFP.

In light of the March 2021 and the March 2022 floods impacting significantly on Council's asset network, the progress of undertaking condition audits, and consequently the review of Asset Management Plans has also been impacted. Council is still in the process of fully understanding the extent of the damage caused by the most recent flood. The extent of external funding and the standard at which infrastructure will be restored is also unknown.

Consequently, this LTFP is somewhat limited in its ability to take into consideration the current condition of Council's assets, the likely condition after flood restoration works have been carried out, and the infrastructure maintenance and renewals requirements and the associated funding.

It is envisaged that future reviews of the LTFP will better reflect the link to Asset Management Plans.

CAPACITY BUILDING

Council will continue to work in partnership with other councils and other levels of government to support its strategic capacity. This LTFP includes continued participation in the Western City Parkland initiative, Resilient Sydney Partnership and WSROC.

ELEMENTS OF THE PLAN

STRATEGIC PLANNING ASSUMPTIONS

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

SERVICE LEVELS

The LTFP is based on the assumption that the current service levels relating to services are maintained within the limits of available funding. Funding allocation has been guided by community feedback received through the Community Survey.

INFRASTRUCTURE

The LTFP is based on the assumption that no major new capital works are undertaken in the next ten years other than those funded by Grants, Contribution Plans, Voluntary Planning Agreements and/or Reserves. Capital projects proposed to be undertaken in 2022/2023 are mainly focused on asset renewal, flood recovery and grant funded works.

POPULATION GROWTH AND DEMOGRAPHIC CHANGES

The LTFP is based on the existing local government area boundaries and the assumption that Council's projected population movement over the next ten years will not be significant. This may result in an increasingly older population placing increased pressure on existing infrastructure and services. The growth factor used in this LTFP is 0.1% in line with the growth factor used by IPART when determining the applicable rate-peg for this Council.

Council currently has some development areas – Redbank at North Richmond, Jacaranda Ponds at Glossodia, Pitt Town development area and the Vineyard development area. Due to uncertainties around timing and the status of planning documents at this time, the impact of growth in Pitt Town and Glossodia has not been included in this LTFP. Some growth relating to the Redbank development has been included.

It is to be noted that new capital works required as a result of a new development, would be funded through developer contributions by way of Developer Contribution Plans or Voluntary Planning Agreements. Any additional demands on existing assets and services would be funded through an increased rates base and special rates aimed at covering additional costs specific to the development area. It is noted that a $16.5M loan has been drawn down under the Low Loan Cost Initiative to accelerate the provision of infrastructure in the Vineyard Development area.

The impacts of these developments will continue to be factored in future reviews of the LTFP.

REVENUE FORECASTS

GENERAL RATES

Council's rating strategy and structure is reviewed every year as part of the annual Operational Plan process. The LTFP is based on the rating structure as incorporated within the 2022/2023 Draft Operational Plan.

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

The LTFP is based on the assumption that Council's rating structure remains unchanged over the next ten years. Any changes in the rating structure would not impact on the total revenue but merely redistribute the income amongst the different categories and sub-categories thereof. Council's rating income or notional yield may be increased from one year to the next up to the rate-pegging limit as determined by IPART.

The LTFP includes three scenarios in regard to rates revenue. Scenario 1 is based on an increase of 0.8% in rates revenue in 2022/2023 and then an annual increase of 2.5% in future years. Scenarios 2 and 3 are based on an increase of 2.5% in rates revenue in 2022/2023, with the same increase continuing in future years.

DOMESTIC WASTE CHARGES

Council's Domestic Waste Management Program is self-funded by way of an externally restricted reserve. The Local Government Act 1993 limits annual domestic waste management charges to an amount sufficient to recover the costs of providing the service.

IPART has undertaken a review of domestic waste charges applicable to councils in NSW and has made some recommendations including the potential application of a limit on income, similar to the general rates rate peg, and the suggestion of a "basket of goods" that would be considered as expenses incurred in the provision of the domestic waste service, and therefore recoverable through the charge. Recommendations in an earlier version of this review also included options in regard to the shortfall in the amount being able to be recouped through the domestic waste management charge being recoverable through general rates. As no final decision has been made at the time of preparing this LTFP, the Plan includes the impact of a number of scenarios in regard to domestic waste management charges.

SEWERAGE CHARGES

In accordance with legislative requirements, Council maintains an externally restricted reserve for the Sewerage Program. All funds received through annual sewerage charges are quarantined to fund on-going program operational costs, and asset renewal and replacement. This LTFP has been prepared on a consolidated basis including the sewerage function, but financial performance measures are based on General funds only, excluding the sewerage function.

SULLAGE CHARGES

Council maintains an internally restricted reserve to fund its Sullage Program. All funds received in relation to sullage charges are quarantined to fund the operational cost of running the Program, as well as provide for a contingency to manage any external shocks.

The revenue from annual sullage charges included in this LTFP reflects funding required ensuring the sustainability of the Sullage Program over the next ten years, taking into account the expected demand for the service. Council will be undertaking a review of this function to ascertain the most cost-effective service delivery model and the most appropriate fee charging methodology.

STORMWATER MANAGEMENT SERVICE AND DRAINAGE MANAGEMENT CHARGES

Council maintains an externally restricted reserve to fund its Stormwater Management Program. All funds received in relation to stormwater management charges are quarantined to fund the provision of an enhanced program to deliver new stormwater infrastructure and fund the ongoing renewal, maintenance and monitoring costs of this additional infrastructure. The revenue from annual stormwater charges included in this LTFP reflects funding that can be generated, in line with legislation over the next ten years.

It is to be noted that the proposed drainage management charge of $30 per property applicable to the Redbank development area will not generate sufficient revenue on an ongoing basis to fund the necessary standard of maintenance in the area. If this charge is not reviewed in future years, funds will need to be reallocated from other services and works to fund ongoing maintenance in this area.

INTEREST ON INVESTMENTS

Council's investment portfolio consists of term deposits, on-call accounts and a TCorp Growth Fund. The portfolio size varies from one year to another as reflected in the cash flow statement applicable to the different scenarios modelled. All Council's investments are made in accordance with the Minister's Order and Council's adopted Investment Policy.

As there is a high-risk element relating to interest income due to interest rates being subject to external market fluctuations, interest rates have been maintained at a conservative level.

USER CHARGES, FEES AND OTHER REVENUE

Council generates in the vicinity of $9 million each year through User Charges, Fees and Other Revenue. Activities subject to user fees and charges include Building and Development Activities, Animal Management, Parking Patrol, Pool Income and Rental Income. The revenue projections relating to these items are based on appropriate assumptions regarding increases in statutory fees, recent trends, expected trends, cost recovery and local and general economic conditions over the next ten years.

GRANTS AND CONTRIBUTIONS

Council receives a significant amount of funding each year from other levels of government through operating and capital grants and contributions. Council's financial planning approach with regards to grants and contributions has generally been that known, regular and certain grants are budgeted for, while one-off grants and contributions are accounted for in Council's budgets when certain to be received.

In line with this approach, the LTFP mainly reflects known and certain grants, which are budgeted to increase slightly or remain static. The main grants included are the Financial Assistance Grant (FAG), Regional Roads funding and the Roads to Recovery Grant. Recent significant grants including the LRCI grants, Bush Fire grants and the Liveability grant have been removed from budgeted grants in future years.

NET GAINS FROM DISPOSAL OF ASSETS

This LTFP assumes that all assets are disposed at their written down value.

RESTRICTED ASSETS

Council has a number of internally and externally restricted reserves aimed at quarantining funds in line with legislative requirements or for specific uses in the future. In relation to externally restricted reserves, the LTFP reflects projected reserve movements and balances as determined by the programs' respective ten-year plans. Internally restricted reserves over the next ten years are projected in line with the expected timing of the specific expenditure the reserves are aimed at funding.

EXPENDITURE FORECASTS

STAFF COSTS

The LTFP assumes annual increase in staff costs of 3% including an allowance for an award increase of 2.5%, step progressions, superannuation increases in line with the current legislation, and potential changes to the current staff establishment.

BORROWING COSTS

The LTFP includes debt servicing costs for current borrowings under the Local Infrastructure Renewal Program, the Low-Cost Loans Initiative, and Council's Infrastructure Renewal Borrowing Program.

MATERIALS AND CONTRACTS

Financial projections relating to materials and contracts have been based on a combination of service levels requirements, asset management requirements, predicted CPI increases, known specific increases and one-off expenditure if known. The increased costs being observed as a result of the COVID-19 Pandemic and the conflict in Ukraine have also been taken into consideration in this LTFP.

OTHER EXPENSES

Financial projections relating to other expenses have been based on a combination of service levels requirements, predicted CPI increases, specific increases and one-off expenditure if known.

DEPRECIATION

Depreciation estimates in outer years has been based on an increase of 1.75% on the written down value of assets. Condition audits, future asset revaluations, and actual maintenance and renewal expenditure undertaken will have an impact on Council's infrastructure assets useful lives and consequently impact on depreciation charges and Council's operating result.

RISK ASSESSMENT

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

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

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

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

CERTAINTY OF REVENUE STREAMS

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

A major risk contained within the LTFP relates to the assumed 2.5% rate peg limit for years 2 to 10. Any reduction will have an impact on the services and asset management functions that can be delivered.

ACCURACY OF EXPENDITURE ESTIMATES

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

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

ASSET MANAGEMENT

The review of Asset Plans as referred to earlier will have a significant impact on future reviews of this LTFP. As referred to earlier, recent floods had a significant impact on the condition of Council's infrastructure assets network. Ascertaining the condition and standard of Council's infrastructure assets network will be critical in determining optimal infrastructure maintenance and renewal strategies and timing of associated works. It is envisaged that the review of the Asset Plans will incorporate other strategies including, but not limited to:

- asset rationalisation and review of asset growth strategies
- more efficient use and operation of assets by turning them into income producing opportunities
- choosing optimal cost strategies over high-cost asset strategies
- demand management
- evaluation of service levels and standards
- continuing the focus on capital spending on renewal, rather than new infrastructure
- cost/benefit analysis on the services being provided.

It is envisaged that future long term financial plans would incorporate the results of pursuing some of the above strategies.

POTENTIAL SCENARIOS AND FINANCIAL MODELS

Council's Long-Term Financial Plan has been reviewed. The reviewed Long-Term Financial Plan is based on the Draft 2022-2026 Delivery Program. Sensitivity analysis has been undertaken regarding a number of matters that can significantly impact on Council's ability to maintain its current service levels and financial sustainability in future years.

A critical assumption in Council's Long-Term Financial Plan is the allowable increase in rating income from one year to the next (rate-peg). The rate-peg announced for 2022/2023 for Council is 0.8%. However Council can apply under the Program announced by IPART to increase this rate-peg to 2.5%. The difference between the two levels is $0.7M for 2022/2023, and $8.2M over a period of ten years. The level of rating income will be a major driver of services, programs and works delivered by Council over the next ten years, and Council's capacity to maintain financial sustainability.

The inflation rate is another variable that will have a significant impact on the Long-Term Financial Plan. For 2022/2023 an inflation factor of 1.7% has been included in budget estimates. Based on recent economic trends it is likely that the inflation factor will be higher for 2022/2023 and future years. It is further noted that over recent months significant cost escalations are being observed in particular in regard to imported goods and materials and associated contracts. These escalations can be attributed to the ongoing impact of COVID-19 and more recently the conflict in Ukraine.

Another issue that is currently a concern for many councils is IPART's review of the Domestic Waste Management Service Charges. Depending on the outcome of the review councils could potentially be faced with a limit on income that can be raised to fund the cost of providing the domestic waste service. As the costs to provide the service are likely to continue to increase more than proposed increases allowed in regard to income, the shortfall will place significant pressure not only on this service but will require reductions in other services to maintain an adequate domestic waste service.

In 2022/2023 Council will be undertaking a number of service reviews in line with the Integrated Planning and Reporting Requirements. The outcome of these reviews is unknown at the time of reviewing the Long-Term Financial Plan, and will be built in the future years' reviews. For the purpose of sensitivity analysis only, the funding for a service that is very important to parts of our community and that comes at a significant cost to Council has been included as a variable when modelling the various scenarios.

This LTFP includes assumptions and financial modelling for three potential scenarios:

- Pessimistic Model
- Likely Model
- Optimistic Model

SCENARIO 1 – PESSIMISTIC MODEL

This scenario is based on the following assumptions:

- Rate-Peg of 0.8% in 2022/2023 and 2.5% from 2023/2024 onwards
- Inflation Rate of 3.5%
- Domestic Waste Charges limited to 1.1% annual increase and no rebalancing from General Fund allowed (recoupment of the shortfall in funding resulting from limit on income through an increased general rates peg)
- Lower Portland Ferry service retained but no longer funded by NSW State Government

Under this scenario, Council will experience ongoing Deficits from $1.3M in 2023/2024 to $2.9M in 2031/2032. The gap between recurrent income and recurrent expenditure will grow each year. This financial performance is attributable to a low rate-peg in 2022/2023 and compounded each year with increases in income not being adequate to address the increasing expenditure. Council will not meet the Operating Performance Ratio each year over the next 10 years after 2022/2023 and would not be considered as being a financially sustainable council, with the ratio deteriorating over time from a positive 0.002 projected for 2022/2023 to a negative 0.036 in 2031/2032.

Capital expenditure on asset renewal will drop as an annual average, with asset renewal expenditure dropping from $22M in 2022/2023 to $15M in 2031/2032. The asset renewal ratio will drop well below the benchmark of 100% in most years from 2023/2024, and down to 68% by 2031/2032. This reduction will be required to maintain a balanced budget position overall. The infrastructure backlog will grow to 4.5% in 2031/2032, and not meeting the benchmark each year from 2026/2027. Asset maintenance will generally be maintained not too much lower than the benchmark as reactive maintenance increases in lieu of optimal asset renewal intervention strategies.

Cashflow remains satisfactory throughout the ten-year period as a result of borrowings amounting to $25M undertaken between 2022/2023 and 2024/2025. Unrestricted funds will drop significantly and at this stage are projected to be $0.4M in deficit as at 2031/32. This is unlikely to occur as a result in changes in the timing of development and increased capital expenditure to be funded by reserves that will be ascertained as part of the review of Asset Management Plans to be undertaken.

Based on this scenario, and based on existing services and existing service levels, Council is likely to have a funding gap in regard to its infrastructure funding. Council will therefore need to restrict the level of asset maintenance and renewal in line with funding available. Whilst Council could continue to balance its annual budget year on year, this would be at the cost of rapidly deteriorating assets, therefore pushing the cost to the community potentially resulting in compromised safety and increased residents' dissatisfaction.

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

This Model places the Hawkesbury's continuing existence in its current form at risk and is therefore not the optimal long term model to pursue.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Capital Budget Statement, Balance Sheet and Cash Flow Statement and the resulting Financial Performance Measures are included as Attachment 2 – Pessimistic Model.

SCENARIO 2 – LIKELY MODEL

This scenario is based on the following assumptions:

- Rate-Peg of 2.5% in 2022/2023 and onwards
- Inflation Rate of 3.5%
- Domestic Waste Charges not limited to 1.1% annual increase and rebalancing from General Fund not allowed (recoupment of the shortfall in funding due to prescribed allowable basket of goods, through an increased general rates peg)
- Lower Portland Ferry service retained and funded by NSW State Government

Under this scenario, Council will continue to have a positive Operating Performance Result, with minor surpluses of under $1M being maintained each year. These results will, however, only be achieved if Council is granted the rate-peg increase of 2.5% in 2022/2023. The Operating Performance ratio benchmark will just be met each year, which means that under this scenario there is no allowance for adverse variations in the various assumptions underpinning this LTFP. Whilst based on projections of this ratio continuing to meet the benchmark Council is considered to be able to remain financially sustainable, it is important to note this position is very susceptible to change to Council no longer being financially sustainable in the long term.

Capital expenditure on new assets and asset renewal will drop as an annual average, with asset renewal expenditure dropping from $22M in 2022/2023 to $17M in 2031/2032. The asset renewal ratio will drop below the benchmark of 100% from 2026/2027, and down to 78% by 2031/2032. This reduction will be required to maintain a balanced budget position overall. The infrastructure backlog will grow to 2.9% in 2031/2032, and not meeting the benchmark each year from 2029/2030. Asset maintenance will generally meet the benchmark as reactive maintenance increases in lieu of optimal asset renewal intervention strategies.

Cashflow remains satisfactory throughout the ten-year period as a result of borrowings amounting to $25M undertaken between 2022/2023 and 2024/2025. Unrestricted funds will drop significantly, but remain positive, over the ten-year period.

Based on this scenario, and based on existing services and existing service levels, Council is likely to have a funding gap in regard to its infrastructure funding in outer years. Council may therefore need to restrict the level of asset renewal in line with funding available. Whilst Council could continue to balance its annual budget year on year, this would be at the cost of deteriorating assets, therefore pushing the cost to the community potentially resulting in compromised safety and increased residents' dissatisfaction.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Capital Budget Statement, Balance Sheet and Cash Flow Statement and the resulting Financial Performance Measures are included as Attachment 3 – Likely Model.

SCENARIO 3 – OPTIMISTIC MODEL

This scenario is based on the following assumptions:

- Rate-Peg of 2.5% in 2022/2023 and onwards
- Inflation Rate of 2.5%
- Domestic Waste Charges not limited to 1.1% annual increase and rebalancing from General Fund allowed (recoupment of the shortfall in funding due to prescribed allowable basket of goods through an increased general rates peg)
- Lower Portland Ferry service retained and funded by NSW State Government

Under this scenario, Council will continue to have a positive Operating Performance Result, with minor surpluses of in the vicinity of $1M being maintained each year, growing to a surplus of $1.7M in 2031/2032. These results will, however, only be achieved if Council is granted the rate-peg increase of 2.5% in 2022/2023, and inflation is maintained at 2.5%. These projections have a minor allowance for adverse variations in assumptions underpinning this LTFP. The Operating Performance ratio benchmark will be met each year and Council is considered to be able to remain financially sustainable.

Capital expenditure on new assets and asset renewal will drop slightly in later years, with asset renewal expenditure dropping from $22M in 2022/2023 to $18M in 2031/2032. The asset renewal ratio will drop to 83% by 2031/2032. This reduction will be required to maintain a balanced budget position overall. The infrastructure backlog will not be met in the last two years of this LTFP, projected to be at just below the benchmark at 2.4% in 2031/2032. Asset maintenance will either meet or be just under the benchmark in all years.

Cashflow remains satisfactory throughout the ten-year period as a result of borrowings amounting to $25M undertaken between 2022/2023 and 2024/2025. Unrestricted funds will drop significantly, but remain positive, over the ten-year period.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Capital Budget Statement, Balance Sheet and Cash Flow Statement and the resulting Financial Performance Measures are included as Attachment 4 – Optimistic Model.

MONITORING FINANCIAL PERFORMANCE

MANAGEMENT REPORTING

The annual budget adopted by Council each financial year is subject to rigorous monitoring during the year. Council's Managers are required to review their respective actual financial results against monthly targets and provide explanations for variances above the threshold and comment on the planned corrective action if required. The monthly variance reports are reviewed by Council's Leadership Team.

QUARTERLY BUDGET REVIEWS

Council is required to review its annual budget position on a quarterly basis. A Quarterly Budget Review Statement is prepared including any budget variations required and submitted for Council adoption. The Quarterly Budget Reviews assist in maintaining financial projections in line with actual results on an ongoing basis during the financial year and provide a realistic platform on which future budgets are based.

ANNUAL BUDGETING PROCESS

Each year Council undertakes a rigorous process to prepare its budget estimates for the following year. The process involves budget submissions by each respective Manager, and a comprehensive review by Council's Leadership Team. The allocation of funds is based on service levels, Council Resolutions, Councillor input, continued implementation of financial sustainability strategies, asset renewal priorities and continuous improvement. The annual budget prepared for each respective financial year forms the basis upon which future years within the LTFP are reviewed.

REVIEWING THE PLAN

The LTFP is reviewed on an annual basis to ensure assumptions underpinning the Plan are still relevant and to reflect the latest financial results, the impacts of any Council resolutions and changes in trends.

ATTACHMENT 1 – SUSTAINABILITY MEASURES EXPLAINED

OPERATING PERFORMANCE RATIO

$$\frac{\text{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\text{Total continuing operating revenue (exc. capital grants and contributions)}}$$

DESCRIPTION AND RATIONALE FOR CRITERIA

- TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.
- Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.
- The Operating Performance Ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

DESCRIPTION AND RATIONALE FOR BENCHMARK

- TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even.

OWN SOURCE REVENUE RATIO

$$\frac{\text{Total continuing operating revenue less all grants and contributions}}{\text{Total continuing operating revenue inclusive of capital grants and contributions}}$$

DESCRIPTION AND RATIONALE FOR CRITERIA

- Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.
- Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

DESCRIPTION AND RATIONALE FOR BENCHMARK

- TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.
- It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

BUILDING AND INFRASTRUCTURE ASSET RENEWAL RATIO

$$\frac{\textbf{Asset renewals (building and infrastructure)}}{\textbf{Depreciation, amortisation and impairment (building and infrastructure)}}$$

DESCRIPTION AND RATIONALE FOR CRITERIA

- The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.
- This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

DESCRIPTION AND RATIONALE FOR BENCHMARK

- Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

INFRASTRUCTURE BACKLOG RATIO

Estimated cost to bring assets to a satisfactory condition

Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets

DESCRIPTION AND RATIONALE FOR CRITERIA

- The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.
- It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.
- This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

DESCRIPTION AND RATIONALE FOR BENCHMARK

- High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.
- TCorp adopted a benchmark of less than two per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

ASSET MAINTENANCE RATIO

$$\frac{\textbf{Actual asset maintenance}}{\textbf{Required asset maintenance}}$$

DESCRIPTION AND RATIONALE FOR CRITERIA

- The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.
- The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

DESCRIPTION AND RATIONALE FOR BENCHMARK

- The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

DEBT SERVICE RATIO

$$\frac{\textbf{Cost of debt service (interest expense and principal repayments)}}{\textbf{Total continuing operating revenue (exc. capital grants and contributions)}}$$

DESCRIPTION AND RATIONALE FOR CRITERIA

- Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.
- Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.
- Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.
- Council's effectiveness in this area is measured by the Debt Service Ratio.

DESCRIPTION AND RATIONALE FOR BENCHMARK

- As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than zero and less than or equal to 20 per cent.
- Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

ATTACHMENT 2 – PESSIMISTIC MODEL PROJECTIONS

Pessimistic Model - Income Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Income										
Rates & Annual Charges	70,598	72,733	74,931	77,010	79,146	81,302	83,624	85,978	88,423	90,898
User Charges & Fees	7,044	7,572	8,044	8,414	8,713	9,017	9,332	9,658	9,994	10,341
Other Revenue	1,851	1,948	1,979	2,046	2,116	2,190	2,299	2,338	2,418	2,500
Grants & Contributions - Operating	10,765	7,976	7,823	8,008	8,203	8,428	8,982	8,820	9,047	9,294
Grants & Contributions - Capital	11,935	11,882	11,315	11,347	11,380	14,620	14,655	14,692	14,588	14,697
Interest & Investment Income	1,058	1,112	1,171	1,115	1,120	1,097	1,148	1,221	1,178	1,182
Other Income	3,106	3,215	3,328	3,444	3,565	3,689	3,818	3,952	4,090	4,234
Total Income from Continuing Operations	**106,357**	**106,438**	**108,591**	**111,385**	**114,242**	**120,344**	**123,859**	**126,660**	**129,738**	**133,146**
Expenses										
Employee Costs	34,807	35,881	36,910	38,005	39,119	40,311	41,444	42,658	43,908	45,195
Materials & Services	30,440	30,232	31,413	32,685	34,219	35,670	38,158	39,561	41,406	43,414
Borrowing Costs	522	1,019	1,323	1,449	1,457	1,385	1,309	1,198	1,085	969
Depreciation & Amortisation	22,570	23,365	23,650	23,789	23,939	24,171	24,299	24,360	24,442	24,560
Other Expenses	5,197	5,391	5,593	5,803	6,022	6,249	6,485	6,730	6,985	7,251
Total Expenses from Continuing Operations	**93,536**	**95,889**	**98,890**	**101,731**	**104,756**	**107,786**	**111,695**	**114,508**	**117,827**	**121,389**
Net Operating Result for the Year	**12,821**	**10,548**	**9,702**	**9,655**	**9,486**	**12,558**	**12,163**	**12,152**	**11,911**	**11,757**
Net Operating Result before Capital Items	**886**	**(1,334)**	**(1,614)**	**(1,693)**	**(1,894)**	**(2,063)**	**(2,492)**	**(2,540)**	**(2,677)**	**(2,940)**

Pessimistic Model - Capital Budget Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Net Operating Result (excl. Capital Grants)	886	(1,334)	(1,614)	(1,693)	(1,894)	(2,063)	(2,492)	(2,540)	(2,677)	(2,940)
Capital Funding and Expenditure										
Source of Capital Funding (excluding reserves)										
Proceeds from the sale of capital assets	1,067	552	345	833	605	252	703	395	570	934
Depreciation	22,570	23,365	23,650	23,789	23,939	24,171	24,299	24,360	24,442	24,560
Grants & Contributions provided for Capital Purposes	11,935	11,882	11,315	11,347	11,380	14,620	14,655	14,692	14,588	14,697
	35,573	35,799	35,310	35,969	35,924	39,043	39,657	39,447	39,599	40,191
Application of Capital Funding										
New Assets	14,959	25,777	5,747	3,131	6,898	8,295	12,751	11,852	10,225	13,492
Renewal of Assets	21,814	12,424	20,553	17,689	15,409	13,501	12,277	14,095	11,801	15,138
Other Assets	3,896	702	4,908	702	2,221	724	739	834	771	2,485
Plant & Equipment	3,021	2,930	1,227	2,773	1,920	1,556	3,532	1,509	2,961	3,153
	43,691	41,833	32,435	24,296	26,449	24,076	29,299	28,290	25,758	34,268
Net Capital Expenditure	(8,118)	(6,034)	2,875	11,674	9,475	14,968	10,358	11,156	13,841	5,923
Net Reserve Transfers & Capital Movements	7,233	7,368	(1,262)	(9,981)	(7,581)	(12,905)	(7,866)	(8,616)	(11,164)	(2,983)
Retained surlplus/(deficit) available for general funding purposes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Pessimistic Model - Balance Sheet

$'000	DRAFT Budget 2022/2023	PROJECTED 2023/2024	PROJECTED 2024/2025	PROJECTED 2025/2026	PROJECTED 2026/2027	PROJECTED 2027/2028	PROJECTED 2028/2029	PROJECTED 2029/2030	PROJECTED 2030/2031	PROJECTED 2031/2032
Current Assets										
Cash & Cash Equivalents	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Investments	43,634	41,030	49,838	60,212	65,645	74,051	77,714	81,103	87,589	87,533
Receivables	17,014	17,518	17,975	18,439	18,909	19,549	20,179	20,768	21,344	21,923
Inventories	311	321	333	344	356	369	382	395	409	423
Other	1,359	1,407	1,456	1,507	1,560	1,615	1,671	1,730	1,790	1,853
	65,818	63,776	73,101	84,003	89,971	99,083	103,446	107,496	114,632	115,232
Non-Current Assets										
Investments	4,277	4,542	4,807	5,072	5,337	5,602	5,867	6,132	6,397	6,662
Infrastructure Property, Plant & Equipment	1,536,487	1,551,323	1,553,973	1,551,005	1,549,373	1,546,999	1,547,728	1,549,315	1,546,899	1,550,970
Investment Property	40,068	40,083	40,323	40,467	40,620	40,764	40,912	41,063	41,218	41,378
Intangible Assets	674	774	945	1,045	1,145	1,245	1,345	1,524	1,624	1,724
Other	14,492	17,457	22,837	25,234	28,518	30,301	33,622	35,239	38,146	42,591
	1,595,998	1,614,179	1,622,885	1,622,823	1,624,993	1,624,911	1,629,473	1,633,273	1,634,285	1,643,324
TOTAL ASSETS	**1,661,815**	**1,677,955**	**1,695,986**	**1,706,826**	**1,714,964**	**1,723,993**	**1,732,919**	**1,740,769**	**1,748,917**	**1,758,556**
Current Liabilities										
Payables	15,111	15,467	15,837	16,222	16,625	17,044	17,490	17,953	18,437	18,944
Borrowings	3,078	3,654	4,230	4,650	4,875	4,966	5,057	4,098	3,539	3,539
Provisions	11,019	11,349	11,690	12,040	12,401	12,773	13,157	13,551	13,958	14,377
	29,208	30,470	31,757	32,913	33,901	34,783	35,704	35,603	35,934	36,859
Non-Current Liabilities										
Payables	2,237	2,315	2,396	2,480	2,567	2,657	2,749	2,846	2,945	3,048
Borrowings	28,951	32,946	36,365	37,178	35,033	30,885	26,647	22,548	19,431	16,314
Provisions	11,478	11,822	12,177	12,542	12,918	13,306	13,705	14,116	14,540	14,976
	42,666	47,083	50,938	52,200	50,518	46,848	43,102	39,510	36,916	34,338
TOTAL LIABILITIES	**71,873**	**77,554**	**82,695**	**85,113**	**84,419**	**81,631**	**78,806**	**75,113**	**72,850**	**71,198**
NET ASSETS	**1,589,942**	**1,600,402**	**1,613,291**	**1,621,713**	**1,630,545**	**1,642,362**	**1,654,113**	**1,665,656**	**1,676,066**	**1,687,359**
Equity										
Accumulated Surplus	508,924	519,384	532,273	540,695	549,527	561,344	573,094	584,638	595,048	606,341
IPPE Revaluation Reserve	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018
TOTAL EQUITY	**1,589,942**	**1,600,402**	**1,613,291**	**1,621,713**	**1,630,545**	**1,642,362**	**1,654,113**	**1,665,656**	**1,676,066**	**1,687,359**

Pessimistic Model - Cashflow Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Cash Flows from Operating Activities										
Receipts										
Rates & Annual Charges	67,068	69,096	71,184	73,160	75,189	77,237	79,443	81,679	84,002	86,353
User Charges & Fees	6,974	7,496	7,963	8,330	8,626	8,927	9,239	9,562	9,894	10,237
Investment & Interest Revenue Received	793	847	906	850	855	832	883	956	913	917
Grants & Contributions	21,565	18,865	18,182	18,388	18,604	21,896	22,455	22,337	22,453	22,792
Other	4,908	5,111	5,254	5,435	5,623	5,820	6,057	6,228	6,443	6,666
Payments										
Employee Benefits & On-Costs	(33,763)	(34,805)	(35,803)	(36,865)	(37,945)	(39,102)	(40,201)	(41,379)	(42,591)	(43,839)
Materials & Contracts	(30,136)	(29,930)	(31,099)	(32,358)	(33,877)	(35,313)	(37,776)	(39,165)	(40,992)	(42,980)
Borrowing Costs	(689)	(686)	(771)	(807)	(783)	(719)	(653)	(567)	(481)	(418)
Other Expenses	(5,145)	(5,337)	(5,537)	(5,745)	(5,962)	(6,186)	(6,420)	(6,663)	(6,916)	(7,178)
Net Cash provided (or used in) Operating Activities	31,574	30,657	30,279	30,388	30,330	33,391	33,026	32,987	32,725	32,550
Cash Flows from Investing Activities										
Receipts										
Sale of Infrastructure, Property, Plant & Equipment	1,067	552	345	833	605	252	703	395	570	934
Payments										
Purchases of Infrastructure, Property, Plant & Equipment	(39,322)	(37,650)	(29,192)	(21,866)	(23,804)	(21,668)	(26,369)	(25,461)	(23,183)	(30,841)
Net Cash provided (or used in) Investing Activities	(38,254)	(37,098)	(28,847)	(21,033)	(23,199)	(21,416)	(25,667)	(25,067)	(22,613)	(29,907)
Cash Flows from Financing Activities								(4,760)	(2,307)	(9,601)
Receipts										
Prcoeeds from Borrowings & Advances	7,000	7,000	11,000	5,000	2,500	750	750	0	0	0
Payments										
Repayment of Borrowings & Advances	(3,587)	(3,163)	(3,625)	(3,980)	(4,198)	(4,320)	(4,446)	(4,531)	(3,626)	(2,699)
Net Cash provided (or used in) Financing Activities	3,413	3,837	7,375	1,020	(1,698)	(3,570)	(3,696)	(4,531)	(3,626)	(2,699)
Net Increase / (Decrease) in Cash & Cash Equivalents	(3,267)	(2,603)	8,807	10,375	5,433	8,405	3,663	3,389	6,486	(55)
plus: Cash, Cash Equivalents & Investments - beginning of year	50,400	47,134	44,530	53,338	63,712	69,145	77,551	81,214	84,603	91,089
Cash & Cash Equivalents - end of year	**47,134**	**44,530**	**53,338**	**63,712**	**69,145**	**77,551**	**81,214**	**84,603**	**91,089**	**91,033**

Pessimistic Model – Financial Performance Measures

Performance Measure	Benchmark	Draft Budget 2022/2023	Projected 2023/2024	Projected 2024/2025	Projected 2025/2026	Projected 2026/2027	Projected 2027/2028	Projected 2028/2029	Projected 2029/2030	Projected 2030/2031	Projected 2031/2032
Operating Performance	**0%**	0.002	-0.024	-0.028	-0.029	-0.030	-0.031	-0.035	-0.035	-0.035	-0.036
Own Source Revenue	**>60%**	76.7%	79.5%	80.6%	80.8%	81.1%	78.9%	79.0%	79.6%	80.0%	80.2%
Asset Renewal	**>100%**	136.1%	66.9%	108.4%	94.5%	79.1%	71.0%	68.2%	71.0%	64.7%	67.9%
Infrastructure Backlog	**≤ 2%**	1.5%	1.9%	1.8%	1.9%	2.2%	2.6%	3.1%	3.5%	4.0%	4.5%
Asset Maintenance	**>100%**	93.5%	94.2%	101.9%	100.6%	96.9%	95.0%	94.4%	95.0%	93.7%	94.4%
Debt Service	**>0%<20%**	4.3%	4.5%	5.1%	5.3%	5.4%	5.3%	5.2%	5.1%	4.9%	3.3%

ATTACHMENT 3 – LIKELY MODEL PROJECTIONS

Likely Model - Income Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Income										
Rates & Annual Charges	70,598	73,697	76,138	78,472	80,873	83,305	85,916	88,479	91,141	93,842
User Charges & Fees	7,044	7,572	8,044	8,414	8,713	9,017	9,332	9,658	9,994	10,341
Other Revenue	1,851	1,948	1,979	2,046	2,116	2,190	2,299	2,338	2,418	2,500
Grants & Contributions - Operating	10,765	8,476	8,323	8,508	8,703	8,928	9,482	9,320	9,547	9,794
Grants & Contributions - Capital	11,935	11,882	11,315	11,347	11,380	14,620	14,655	14,692	14,588	14,697
Interest & Investment Income	1,058	1,114	1,176	1,125	1,135	1,119	1,179	1,260	1,229	1,243
Other Income	3,106	3,215	3,328	3,444	3,565	3,689	3,818	3,952	4,090	4,234
Total Income from Continuing Operations	**106,357**	**107,904**	**110,304**	**113,357**	**116,485**	**122,870**	**126,682**	**129,701**	**133,006**	**136,651**
Expenses										
Employee Costs	34,807	35,881	36,910	38,005	39,119	40,311	41,444	42,658	43,908	45,195
Materials & Services	30,440	29,652	30,694	32,104	33,668	35,236	37,549	39,138	41,037	43,050
Borrowing Costs	522	1,019	1,323	1,449	1,457	1,385	1,309	1,198	1,085	969
Depreciation & Amortisation	22,570	23,366	23,650	23,789	23,939	24,171	24,299	24,360	24,442	24,560
Other Expenses	5,197	5,391	5,593	5,803	6,022	6,249	6,485	6,730	6,985	7,251
Total Expenses from Continuing Operations	**93,536**	**95,309**	**98,171**	**101,150**	**104,204**	**107,353**	**111,086**	**114,085**	**117,457**	**121,025**
Net Operating Result for the Year	**12,821**	**12,594**	**12,133**	**12,206**	**12,280**	**15,517**	**15,595**	**15,616**	**15,549**	**15,626**
Net Operating Result before Capital Items	**886**	**712**	**818**	**859**	**900**	**896**	**940**	**924**	**961**	**928**

Likely Model - Capital Budget Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Net Operating Result (excl. Capital Grants)	886	712	818	859	900	896	940	924	961	928
Capital Funding and Expenditure										
Source of Capital Funding (excluding reserves)										
Proceeds from the sale of capital assets	1,067	552	345	833	605	252	703	395	570	934
Depreciation	22,570	23,366	23,650	23,789	23,939	24,171	24,299	24,360	24,442	24,560
Grants & Contributions provided for Capital Purposes	11,935	11,882	11,315	11,347	11,380	14,620	14,655	14,692	14,588	14,697
	35,572	35,800	35,310	35,970	35,924	39,044	39,657	39,447	39,599	40,191
Application of Capital Funding										
New Assets	14,959	25,777	5,747	3,131	6,898	8,295	12,751	11,852	10,225	13,492
Renewal of Assets	21,814	14,254	22,541	19,560	17,271	15,266	14,239	15,893	13,568	16,922
Other Assets	3,896	702	4,908	702	2,221	724	739	834	771	2,485
Plant & Equipment	3,021	2,930	1,227	2,773	1,920	1,556	3,532	1,509	2,961	3,153
	43,691	43,663	34,423	26,166	28,310	25,841	31,261	30,089	27,526	36,053
Net Capital Expenditure	(8,119)	(7,864)	887	9,804	7,613	13,203	8,396	9,358	12,074	4,139
Net Reserve Transfers & Capital Movements	7,233	7,152	(1,705)	(10,663)	(8,514)	(14,100)	(9,336)	(10,283)	(13,035)	(5,067)
Retained surlplus/(deficit) available for general funding purposes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Likely Model - Balance Sheet

$'000	DRAFT Budget 2022/23	PROJECTED 2023/2024	PROJECTED 2024/2025	PROJECTED 2025/2026	PROJECTED 2026/2027	PROJECTED 2027/2028	PROJECTED 2028/2029	PROJECTED 2029/2030	PROJECTED 2030/2031	PROJECTED 2031/2032
Current Assets										
Cash & Cash Equivalents	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Investments	43,633	41,349	50,706	61,846	68,281	77,928	83,112	88,193	96,562	98,592
Receivables	17,015	17,591	18,116	18,642	19,173	19,872	20,561	21,205	21,832	22,462
Inventories	311	321	333	344	356	369	382	395	409	423
Other	1,359	1,407	1,456	1,507	1,560	1,615	1,671	1,730	1,790	1,853
	65,817	64,169	74,111	85,840	92,870	103,283	109,225	115,022	124,093	126,830
Non-Current Assets										
Investments	4,277	4,542	4,807	5,072	5,337	5,602	5,867	6,132	6,397	6,662
Infrastructure Property, Plant & Equipment	1,536,487	1,553,153	1,557,791	1,556,693	1,556,923	1,556,313	1,559,004	1,562,389	1,561,740	1,567,595
Investment Property	40,068	40,083	40,323	40,467	40,620	40,764	40,912	41,063	41,218	41,378
Intangible Assets	674	774	945	1,045	1,145	1,245	1,345	1,524	1,624	1,724
Other	14,493	17,458	22,837	25,235	28,519	30,301	33,622	35,239	38,146	42,591
	1,595,999	1,616,009	1,626,703	1,628,511	1,632,543	1,634,225	1,640,749	1,646,347	1,649,126	1,659,950
TOTAL ASSETS	**1,661,815**	**1,680,178**	**1,700,814**	**1,714,351**	**1,725,413**	**1,737,508**	**1,749,974**	**1,761,369**	**1,773,219**	**1,786,780**
Current Liabilities										
Payables	15,111	15,462	15,824	16,204	16,600	17,015	17,456	17,914	18,395	18,898
Borrowings	3,078	3,654	4,230	4,650	4,875	4,966	5,057	4,098	3,539	3,539
Provisions	11,019	11,349	11,690	12,040	12,401	12,773	13,157	13,551	13,958	14,377
	29,208	30,465	31,744	32,894	33,877	34,755	35,669	35,564	35,891	36,813
Non-Current Liabilities										
Payables	2,237	2,315	2,396	2,480	2,567	2,657	2,749	2,846	2,945	3,048
Borrowings	28,951	32,946	36,365	37,178	35,033	30,885	26,647	22,548	19,431	16,314
Provisions	11,478	11,822	12,177	12,542	12,918	13,306	13,705	14,116	14,540	14,976
	42,666	47,083	50,938	52,200	50,518	46,848	43,102	39,510	36,916	34,338
TOTAL LIABILITIES	**71,873**	**77,548**	**82,682**	**85,094**	**84,395**	**81,602**	**78,771**	**75,074**	**72,808**	**71,152**
NET ASSETS	**1,589,942**	**1,602,630**	**1,618,132**	**1,629,257**	**1,641,018**	**1,655,905**	**1,671,203**	**1,686,296**	**1,700,412**	**1,715,629**
Equity										
Accumulated Surplus	508,924	521,612	537,114	548,239	560,000	574,887	590,185	605,278	619,394	634,611
IPPE Revaluation Reserve	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018
TOTAL EQUITY	**1,589,942**	**1,602,630**	**1,618,132**	**1,629,257**	**1,641,018**	**1,655,905**	**1,671,204**	**1,686,296**	**1,700,412**	**1,715,629**

Likely Model Cashflow Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Cash Flows from Operating Activities										
Receipts										
Rates & Annual Charges	67,068	70,012	72,331	74,549	76,829	79,140	81,620	84,055	86,584	89,150
User Charges & Fees	6,974	7,496	7,963	8,330	8,626	8,927	9,239	9,562	9,894	10,237
Investment & Interest Revenue Received	793	849	911	860	870	854	914	995	964	978
Grants & Contributions	21,565	19,340	18,657	18,863	19,079	22,371	22,930	22,812	22,928	23,267
Other	4,908	5,111	5,254	5,435	5,623	5,820	6,057	6,228	6,443	6,666
Payments										
Employee Benefits & On-Costs	(33,763)	(34,805)	(35,803)	(36,865)	(37,945)	(39,102)	(40,201)	(41,379)	(42,591)	(43,839)
Materials & Contracts	(30,136)	(29,356)	(30,387)	(31,783)	(33,332)	(34,884)	(37,173)	(38,746)	(40,626)	(42,620)
Borrowing Costs	(689)	(686)	(771)	(807)	(783)	(719)	(653)	(567)	(481)	(418)
Other Expenses	(5,145)	(5,337)	(5,537)	(5,745)	(5,962)	(6,186)	(6,420)	(6,663)	(6,916)	(7,178)
Net Cash provided (or used in) Operating Activities	31,574	32,625	32,618	32,836	33,007	36,221	36,312	36,297	36,198	36,243
Cash Flows from Investing Activities										
Receipts										
Sale of Infrastructure, Property, Plant & Equipment	1,067	552	345	833	605	252	703	395	570	934
Payments										
Purchases of Infrastructure, Property, Plant & Equipment	(39,322)	(39,297)	(30,981)	(23,550)	(25,479)	(23,256)	(28,135)	(27,080)	(24,773)	(32,448)
Net Cash provided (or used in) Investing Activities	(38,255)	(38,745)	(30,636)	(22,716)	(24,874)	(23,004)	(27,432)	(26,685)	(24,203)	(31,513)
Cash Flows from Financing Activities										
Receipts										
Prcoeeds from Borrowings & Advances	7,000	7,000	11,000	5,000	2,500	750	750	0	0	0
Payments										
Repayment of Borrowings & Advances	(3,587)	(3,163)	(3,625)	(3,980)	(4,198)	(4,320)	(4,446)	(4,531)	(3,626)	(2,699)
Net Cash provided (or used in) Financing Activities	3,413	3,837	7,375	1,020	(1,698)	(3,570)	(3,696)	(4,531)	(3,626)	(2,699)
Net Increase / (Decrease) in Cash & Cash Equivalents	(3,267)	(2,283)	9,357	11,140	6,434	9,647	5,184	5,081	8,369	2,031
plus: Cash, Cash Equivalents & Investments - beginning of year	50,400	47,133	44,850	54,207	65,347	71,781	81,428	86,612	91,693	100,062
Cash & Cash Equivalents - end of year	**47,133**	**44,850**	**54,207**	**65,347**	**71,781**	**81,428**	**86,612**	**91,693**	**100,062**	**102,093**

Likely Model – Financial Performance Measures

Performance Measure	Benchmark	Draft Budget 2022/2023	Projected 2023/2024	Projected 2024/2025	Projected 2025/2026	Projected 2026/2027	Projected 2027/2028	Projected 2028/2029	Projected 2029/2030	Projected 2030/2031	Projected 2031/2032
Operating Performance	**0%**	0.002	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Own Source Revenue	**>60%**	76.7%	79.3%	80.4%	80.7%	81.0%	79.0%	79.1%	79.7%	80.1%	80.3%
Asset Renewal	**>100%**	136.1%	78.1%	120.4%	105.7%	90.2%	81.4%	79.6%	81.4%	74.9%	78.2%
Infrastructure Backlog	**≤ 2%**	1.5%	1.8%	1.5%	1.4%	1.5%	1.6%	1.9%	2.2%	2.6%	2.9%
Asset Maintenance	**>100%**	93.5%	99.3%	104.8%	104.8%	102.3%	100.1%	99.7%	100.1%	98.6%	99.4%
Debt Service	**>0%<20%**	4.3%	4.5%	5.0%	5.2%	5.3%	5.2%	5.1%	4.9%	4.8%	3.2%

ATTACHMENT 4 – OPTIMISTIC MODEL PROJECTIONS

Optimistic Model - Income Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Income										
Rates & Annual Charges	70,598	73,791	76,363	78,508	80,777	83,158	85,521	88,089	90,795	93,515
User Charges & Fees	7,044	7,530	7,961	8,290	8,498	8,710	8,928	9,151	9,380	9,614
Other Revenue	1,851	1,930	1,945	1,994	2,044	2,097	2,182	2,201	2,256	2,312
Grants & Contributions - Operating	10,765	8,410	8,213	8,344	8,479	8,641	9,094	8,894	9,046	9,214
Grants & Contributions - Capital	11,935	11,874	11,298	11,320	11,343	14,573	14,597	14,621	14,505	14,601
Interest & Investment Income	1,058	1,113	1,173	1,119	1,126	1,108	1,164	1,245	1,212	1,228
Other Income	3,106	3,184	3,264	3,345	3,429	3,515	3,602	3,692	3,785	3,879
Total Income from Continuing Operations	**106,357**	**107,832**	**110,216**	**112,920**	**115,695**	**121,801**	**125,087**	**127,893**	**130,978**	**134,363**
Expenses										
Employee Costs	34,807	35,881	36,910	38,005	39,119	40,311	41,444	42,658	43,908	45,195
Materials & Services	30,440	29,292	30,691	31,363	32,787	33,763	36,274	37,287	38,812	40,526
Borrowing Costs	522	1,019	1,322	1,447	1,455	1,382	1,306	1,194	1,080	964
Depreciation & Amortisation	22,570	23,366	23,650	23,789	23,939	24,171	24,299	24,360	24,442	24,560
Other Expenses	5,197	5,352	5,513	5,679	5,851	6,029	6,213	6,404	6,601	6,805
Total Expenses from Continuing Operations	**93,536**	**94,910**	**98,086**	**100,283**	**103,151**	**105,657**	**109,536**	**111,904**	**114,844**	**118,050**
Net Operating Result for the Year	**12,821**	**12,922**	**12,130**	**12,637**	**12,544**	**16,144**	**15,551**	**15,990**	**16,134**	**16,313**
Net Operating Result before Capital Items	**886**	**1,048**	**832**	**1,317**	**1,201**	**1,571**	**954**	**1,369**	**1,629**	**1,712**

Optimistic Model - Capital Budget Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Net Operating Result (excl. Capital Grants)	886	1,048	832	1,317	1,201	1,571	954	1,369	1,629	1,712
Capital Funding and Expenditure										
Source of Capital Funding (excluding reserves)										
Proceeds from the sale of capital assets	1,067	546	340	798	490	233	665	377	791	863
Depreciation	22,570	23,366	23,650	23,789	23,939	24,171	24,299	24,360	24,442	24,560
Grants & Contributions provided for Capital Purposes	11,935	11,874	11,298	11,320	11,343	14,573	14,597	14,621	14,505	14,601
	35,573	35,785	35,288	35,907	35,772	38,976	39,561	39,358	39,738	40,024
Application of Capital Funding										
New Assets	14,959	25,777	5,747	3,131	6,898	8,295	12,751	11,852	10,225	13,492
Renewal of Assets	21,814	14,865	22,794	20,360	18,036	16,406	15,001	16,621	14,725	17,696
Other Assets	3,896	700	4,903	693	2,209	708	720	811	743	2,453
Plant & Equipment	3,021	2,750	1,268	2,674	1,828	1,427	3,173	1,496	2,721	2,896
	43,691	44,092	34,711	26,857	28,971	26,836	31,644	30,781	28,415	36,537
Net Capital Expenditure	(8,118)	(8,307)	577	9,050	6,801	12,140	7,917	8,577	11,323	3,487
Net Reserve Transfers & Capital Movements	7,233	7,259	(1,410)	(10,367)	(8,002)	(13,711)	(8,871)	(9,946)	(12,952)	(5,199)
Retained surlplus/(deficit) available for general funding purposes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Optimistic Model - Balance Sheet

$'000	DRAFT Budget 2022/23	PROJECTED 2023/2024	PROJECTED 2024/2025	PROJECTED 2025/2026	PROJECTED 2026/2027	PROJECTED 2027/2028	PROJECTED 2028/2029	PROJECTED 2029/2030	PROJECTED 2030/2031	PROJECTED 2031/2032
Current Assets										
Cash & Cash Equivalents	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Investments	43,634	41,281	50,367	61,280	67,279	76,647	81,435	86,276	94,678	96,918
Receivables	17,014	17,591	18,119	18,634	19,145	19,820	20,473	21,085	21,686	22,289
Inventories	308	315	323	331	339	348	357	366	375	384
Other	1,333	1,367	1,401	1,436	1,472	1,508	1,546	1,585	1,624	1,665
	65,788	64,054	73,709	85,181	91,735	101,824	107,311	112,812	121,863	124,755
Non-Current Assets										
Investments	4,277	4,542	4,807	5,072	5,337	5,602	5,867	6,132	6,397	6,662
Infrastructure Property, Plant & Equipment	1,536,487	1,553,764	1,558,654	1,558,356	1,559,351	1,559,881	1,563,334	1,567,447	1,567,955	1,574,583
Investment Property	40,068	40,083	40,323	40,467	40,620	40,764	40,912	41,063	41,218	41,378
Intangible Assets	674	774	945	1,045	1,145	1,245	1,345	1,524	1,624	1,724
Other	14,492	17,281	22,701	25,025	28,320	29,978	32,958	34,558	36,976	41,203
	1,595,998	1,616,444	1,627,430	1,629,965	1,634,772	1,637,470	1,644,415	1,650,724	1,654,171	1,665,550
TOTAL ASSETS	**1,661,786**	**1,680,498**	**1,701,139**	**1,715,146**	**1,726,507**	**1,739,294**	**1,751,726**	**1,763,536**	**1,776,034**	**1,790,306**
Current Liabilities										
Payables	15,111	15,458	15,820	16,190	16,576	16,974	17,399	17,836	18,290	18,764
Borrowings	3,078	3,654	4,230	4,650	4,875	4,966	5,057	4,098	3,539	3,539
Provisions	11,019	11,349	11,690	12,040	12,401	12,773	13,157	13,551	13,958	14,377
	29,208	30,461	31,739	32,880	33,853	34,714	35,613	35,485	35,787	36,679
Non-Current Liabilities										
Payables	2,194	2,249	2,305	2,362	2,421	2,482	2,544	2,608	2,673	2,740
Borrowings	28,951	32,946	36,365	37,178	35,033	30,885	26,647	22,548	19,431	16,314
Provisions	11,478	11,822	12,177	12,542	12,918	13,306	13,705	14,116	14,540	14,976
	42,623	47,017	50,847	52,083	50,373	46,673	42,896	39,272	36,644	34,030
TOTAL LIABILITIES	**71,830**	**77,477**	**82,586**	**84,963**	**84,226**	**81,387**	**78,509**	**74,757**	**72,431**	**70,709**
NET ASSETS	**1,589,956**	**1,603,020**	**1,618,553**	**1,630,183**	**1,642,281**	**1,657,907**	**1,673,217**	**1,688,779**	**1,703,603**	**1,719,597**
Equity										
Accumulated Surplus	508,938	522,002	537,535	549,165	561,263	576,889	592,197	607,759	622,585	638,579
IPPE Revaluation Reserve	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018	1,081,018
TOTAL EQUITY	**1,589,956**	**1,603,020**	**1,618,553**	**1,630,183**	**1,642,281**	**1,657,907**	**1,673,216**	**1,688,777**	**1,703,603**	**1,719,597**

Optimistic Model - Cashflow Statement

$'000	DRAFT Budget 2022/23	PROJECTED 2023/24	PROJECTED 2024/25	PROJECTED 2025/26	PROJECTED 2026/27	PROJECTED 2027/28	PROJECTED 2028/29	PROJECTED 2029/30	PROJECTED 2030/31	PROJECTED 2031/32
Cash Flows from Operating Activities										
Receipts										
Rates & Annual Charges	67,068	70,101	72,545	74,582	76,738	79,000	81,245	83,684	86,255	88,839
User Charges & Fees	6,974	7,455	7,881	8,207	8,413	8,623	8,838	9,059	9,286	9,518
Investment & Interest Revenue Received	793	848	908	854	861	843	899	980	947	963
Grants & Contributions	21,565	19,270	18,535	18,681	18,830	22,053	22,506	22,340	22,373	22,624
Other	4,908	5,063	5,157	5,285	5,418	5,555	5,726	5,834	5,980	6,130
Payments										
Employee Benefits & On-Costs	(33,763)	(34,805)	(35,803)	(36,865)	(37,945)	(39,102)	(40,201)	(41,379)	(42,591)	(43,839)
Materials & Contracts	(30,136)	(28,999)	(30,384)	(31,050)	(32,459)	(33,425)	(35,911)	(36,914)	(38,424)	(40,120)
Borrowing Costs	(689)	(686)	(771)	(807)	(783)	(719)	(653)	(567)	(481)	(418)
Other Expenses	(5,145)	(5,299)	(5,458)	(5,622)	(5,793)	(5,969)	(6,151)	(6,340)	(6,535)	(6,737)
Net Cash provided (or used in) Operating Activities	31,574	32,948	32,611	33,267	33,280	36,859	36,299	36,698	36,810	36,959
Cash Flows from Investing Activities										
Receipts										
Sale of Infrastructure, Property, Plant & Equipment	1,067	546	340	798	490	233	665	377	791	863
Payments										
Purchases of Infrastructure, Property, Plant & Equipment	(39,322)	(39,683)	(31,240)	(24,172)	(26,074)	(24,153)	(28,480)	(27,703)	(25,574)	(32,883)
Net Cash provided (or used in) Investing Activities	(38,254)	(39,137)	(30,900)	(23,373)	(25,584)	(23,920)	(27,815)	(27,326)	(24,783)	(32,020)
Cash Flows from Financing Activities										
Receipts										
Prcoeeds from Borrowings & Advances	7,000	7,000	11,000	5,000	2,500	750	750	0	0	0
Payments										
Repayment of Borrowings & Advances	(3,587)	(3,163)	(3,625)	(3,980)	(4,198)	(4,320)	(4,446)	(4,531)	(3,626)	(2,699)
Net Cash provided (or used in) Financing Activities	3,413	3,837	7,375	1,020	(1,698)	(3,570)	(3,696)	(4,531)	(3,626)	(2,699)
Net Increase / (Decrease) in Cash & Cash Equivalents	(3,267)	(2,352)	9,085	10,914	5,998	9,368	4,788	4,841	8,402	2,240
plus: Cash, Cash Equivalents & Investments - beginning of year	50,400	47,134	44,781	53,867	64,780	70,779	80,147	84,935	89,776	98,178
Cash & Cash Equivalents - end of year	**47,134**	**44,781**	**53,867**	**64,780**	**70,779**	**80,147**	**84,935**	**89,776**	**98,178**	**100,418**

Optimistic Model – Financial Performance Measures

Performance Measure	Benchmark	Draft Budget 2022/2023	Projected 2023/2024	Projected 2024/2025	Projected 2025/2026	Projected 2026/2027	Projected 2027/2028	Projected 2028/2029	Projected 2029/2030	Projected 2030/2031	Projected 2031/2032
Operating Performance	**0%**	0.002	0.004	0.001	0.006	0.006	0.007	0.000	0.004	0.005	0.006
Own Source Revenue	**>60%**	76.7%	79.3%	80.6%	80.9%	81.2%	79.1%	79.2%	79.8%	80.3%	80.6%
Asset Renewal	**>100%**	136.1%	81.8%	121.9%	110.5%	94.7%	88.1%	84.1%	85.6%	81.6%	82.6%
Infrastructure Backlog	**≤ 2%**	1.5%	1.7%	1.4%	1.2%	1.3%	1.5%	1.7%	1.9%	2.1%	2.4%
Asset Maintenance	**>100%**	93.5%	96.9%	101.3%	101.3%	100.0%	100.0%	98.9%	100.0%	100.1%	100.3%
Debt Service	**>0%<20%**	4.3%	4.5%	4.9%	5.2%	5.3%	5.2%	5.1%	5.0%	4.9%	3.3%

Hawkesbury City Council

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