Shellharbour
CITY COUNCIL

DRAFT Long Term Financial Plan 2019 - 2029

Contents

Introduction

The Long Term Financial Plan (LTFP) is an important part of Council's strategic planning process, as it is used to model various scenarios. It is also used to inform and guide future action and to allow Council to identify financial issues at an earlier stage. The LTFP provides a means to forecast Shellharbour City Council's capacity to provide financial resources to meet the Objectives of the Community Strategic Plan.

Council's Sustainable Financial Strategy supports the LTFP by providing direction and context. The LTFP is developed in conjunction with the Asset Management Plans and Workforce Management Plan and incorporates the strategies and actions contained within Council's Delivery Program.

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

- the planning assumptions used to develop the plan
- projected income and expenditure, balance sheet and cash-flow statement
- sensitivity analysis
- monitoring financial performance and sustainability

The primary purpose of this LTFP is to facilitate effective financial decision-making which is informed by the short, medium and long term expectations of the community.

The LTFP is reviewed on an annual basis, with a major review process undertaken in line with the review of the Community Strategic Plan.

A Financially Sustainable Future

Council's key objective is to be financially sustainable over the short, medium and long terms to meet community's specific needs. At its meeting on 13 March 2018, Council endorsed the "Sustainable Financial Strategy".

The 2019/20 Operational Plan and 2018-21 Delivery Program have been prepared within the context of the endorsed strategy. Council will demonstrate financial sustainability to the Community by implementing 11 Key Financial Objectives contained within the four principles below.

Principles
PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses

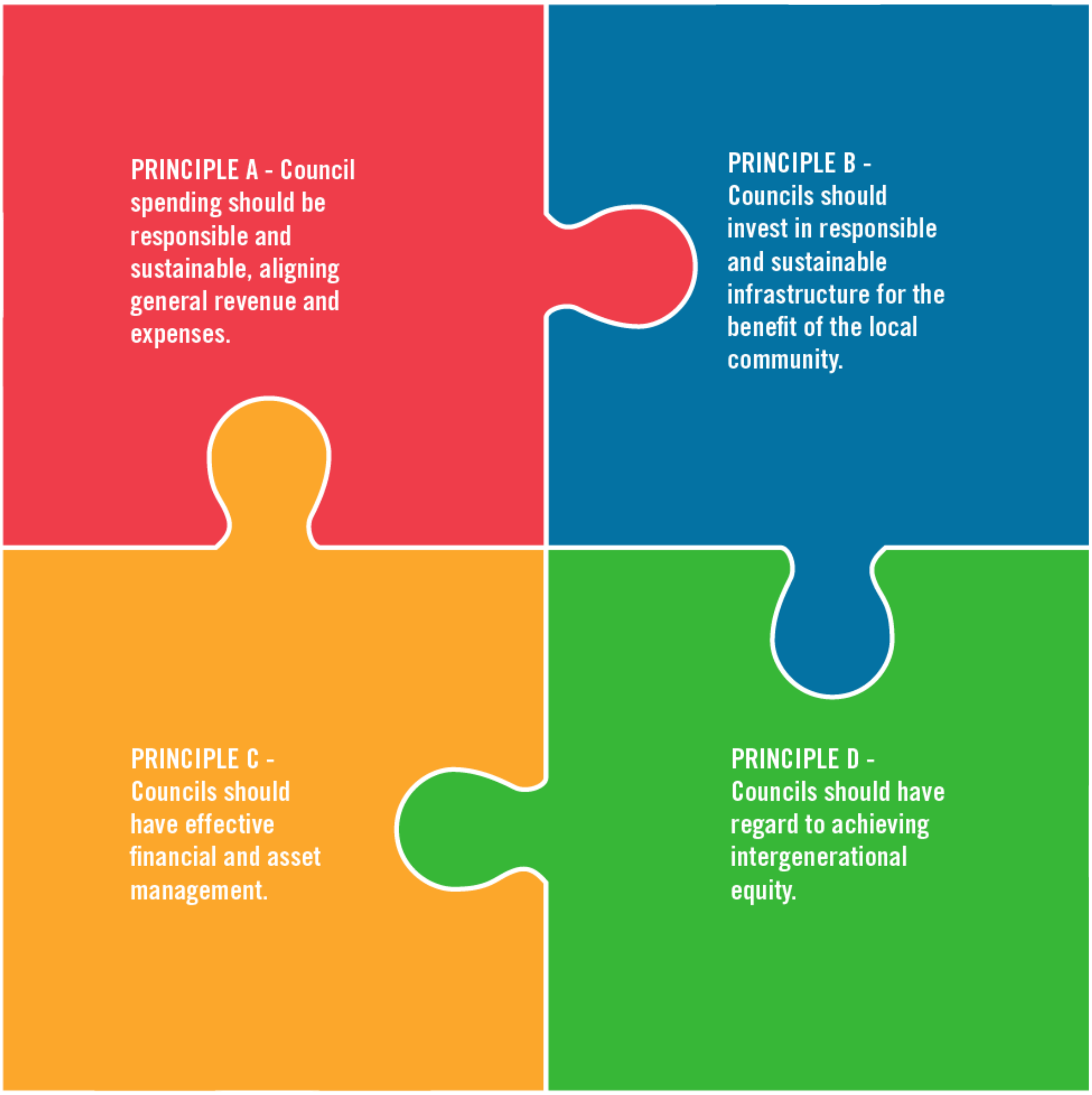
PRINCIPLE B - Councils should invest in responsible and sustainable infrastructure for the benefit of the local community

PRINCIPLE C - Councils should have effective financial and asset management

PRINCIPLE D - Councils should have regard to achieving intergenerational equity

Council has applied the 11 Key Financial Objectives below to the 2019/20 Operational Plan and 2018-21 Delivery program to ensure financial sustainability.

Council's Principles of Sound Financial Management



Council's Principles of Sound Financial Management

PRINCIPLE A
- Council spending should be responsible and sustainable, aligning general revenue and expenses

Key Objective 1	**Financially sustainable over the short, medium and long term to meet community's specific needs.**

Actions

- Maintaining a professional finance team.
- Ensuring an effective "Integrating Planning & Reporting" (IP&R) process throughout Council.
- Having Operating Performance Ratio as a key assessment criteria for Council's strategic decisions.
- Council integrates FFtF and Cash reporting within the Quarterly Operational Plan Review, Delivery Program (updated annually for the Council term) and the LTFP (updated annually for a 10 Year outlook).

Outcomes

- Council access attractive TCorp borrow rates to reduce costs and drive further investment into the community.
- Council will demonstrate to the community and other stakeholders that it is financially responsible and efficiently meets the needs of the community today and into the future.

Measure - Fit For the Future Ratio & Other Metrics

- Council achieves all (FFtF) ratios and cash ratio and be deemed "Fit" by the Office of Local Government (OLG).

Key Objective 2	Optimise returns from Council's commercial ventures thereby reducing burden for rate payers and minimising revenue volatility.

Actions

- Develop a Shell Cove Business Plan that creates a surplus from commercial enterprises to fund ongoing maintenance of the precinct and providing a dividend to Council.
- Links Shell Cove business to produce a net surplus (after depreciation) and thereby providing a dividend to Council.
- Complete the Links Shell Cove precinct sub-division and investigate further sub-division options.
- Expand commercial operations (including regular passenger transport services) at the airport precinct.
- Have a working group focusing on increasing returns from Council owned surplus land.
- Further commercialise business plans for Council's enterprises.
- Ensure all commercial ventures business plans are reviewed and updated regularly.

Outcomes

- Increasing the performance of commercial assets/ventures that provide a net positive return to Council.
- Contributing positively to the Own Source Revenue and Operating Performance FFtF ratios.
- Assists in reducing the need for special rate variations.
- Improve commercial returns for the wholesale nursery, Shellharbour Tourist Caravan Park and the Sand Mine.

Measure - Fit For the Future Ratio & Other Metrics

- Achieve the FFtF Own Source Revenue target of 60% each year with aspiration goal of increasing the percentage year-on-year.
- Assists Council in achieving the Operating Performance ratio.

Key Objective 3	Council will continually review its services to better define service requirements and refine delivery methods.

Actions

- Determine costs of providing services and compare to industry benchmarks.
- Develop service levels and further refine existing service levels to align with community expectation to minimise over-servicing (spending).

Outcomes

- Increasing the awareness of whole of-life costs in providing services to the community and further drive efficiencies.
- Minimise the burden to general rate payers of non-commercial ventures.

Measure - Fit For the Future Ratio & Other Metrics

- Assists Council in achieving the Operating Performance ratio.

Key Objective 4	Adequately resourced cross-functional sustainability teams will be formed to address specific risks to Council's financial sustainability.

Actions

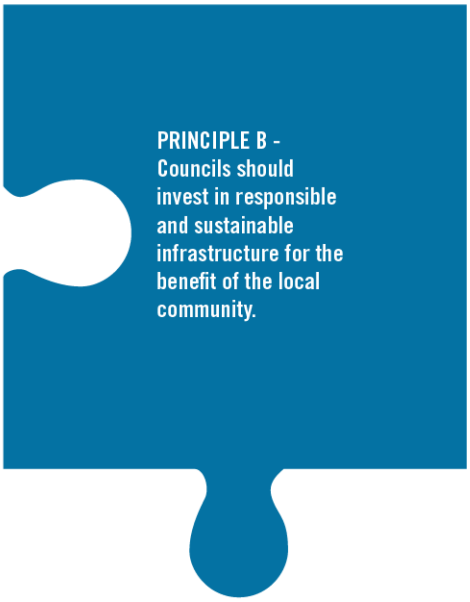
- Cross functional sustainable teams will be formed to address specific risks to Council's financial sustainability.
- Teams will consist of subject matter experts who are resourced to identify and implement solutions.

Outcomes

- Significant risks to Council's financial sustainability is timely identified and mitigated.

Measure - Fit For the Future Ratio & Other Metrics

- Assists Council in achieving the Operating Performance ratio and other FFtF ratios.



PRINCIPLE B
- Councils should invest in responsible and sustainable infrastructure for the benefit of the local community

Key Objective 5	**Council will systematically assess asset conditions and determine funding to ensure desired condition levels are achieved at the best value for Council.**

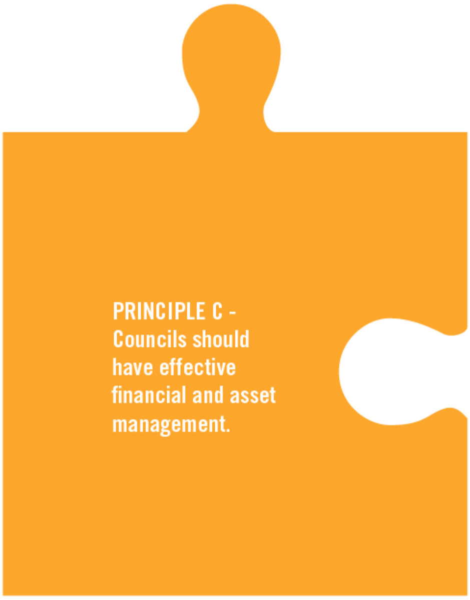
Actions

- The Community will be engaged to determine service levels. Council's Asset Management Plan (AMP) will reflect community expectations and prioritise assets spending.
- Continue with Council's asset conditional assessment program to reduce maintenance expenditure within the Delivery Program.
- Implementing processes to enable whole of life costing for assets.
- Ensure the appropriate classification of asset renewal expenditure and asset maintenance exist.
- Implement a program that ensures Infrastructure Renewal ratio greater than 100% annually per Council's Asset Management Plan.
- Further refine the program that identifies the frequency and method of conditional assessments for infrastructure assets to ensure the Infrastructure Backlog Ratio is less than 2% as per Special Schedule 7 requirements contained within Council's Asset Management plan.
- Implement a program that ensures infrastructure assets maintenance is greater than 100% as per Special Schedule 7 requirements contained within Council's Asset Management plan.
- Enhance the community asset strategy that ensures community assets are safe, well maintained and fit for purpose.
- Educate the community on the costs associated with maintaining assets according to the various condition categories and benchmark with peer councils.

Outcomes
• Achieve Special Schedule 7 Compliance by prioritising expenditure and ensuring sufficient type of expenditure is performed on infrastructure assets. • Strategic Asset Management Plan is integrated within the Operating Plan, Delivery Program and LTFP thereby guaranteeing funding
Measure - Fit For the Future Ratio & Other Metrics
• Infrastructure Renewal ratio greater than 100%. • Infrastructure Backlog ratio less than 2%. • Asset Maintenance ratio is greater than 100% which indicates Council is investing enough funds to reduce the infrastructure backlog.

Key Objective 6	Council's Delivery Program will be used to determine infrastructure service levels and funding to meet community expectations.

Actions
• The Sustainable Financial Strategy will provide the overall parameters for asset related FFtF ratios and funding availability. • Asset Management Plan (AMP) is prepared at a project level within required FFtF parameters. • Ensure the AMP is integrated with the Delivery Program
Outcomes
• Community infrastructure service levels and relevant FFtF ratios will be met within the Delivery Program. • As the Delivery Program contains project level detail, information will be available for strategic decision makers to make infrastructure changes and remain within FFtF parameters.
Measure - Fit For the Future Ratio & Other Metrics
• Assists Council in achieving the FFtF ratios, Infrastructure Renewal ratio, Infrastructure Backlog ratio and Asset Maintenance ratio. • Assists Council in achieving the Unrestricted Current ratio.



PRINCIPLE C
- Councils should have effective financial and asset management

Key Objective 7	Financial Reporting of operational performance must be accurate and transparent to ensure Council is accountable for the efficient use of community resources.

Actions

- Council continues with the ‘Budgeting for Outcomes’ architecture that enables Council to monitor the costs of the Objectives contained within the Community Strategic Plan (CSP).
- Regular and rigorous reporting regime that identifies current and future variances, risks to the operational plan that enables timely corrective action.
- Continue to develop Council’s finance partnering model so finance staff increase their understanding of Council’s activities and increase the financial acumen of Council officers.

Outcomes

- The ‘Budgeting for Outcomes’ model enables Council to identify the true cost of achieving the community’s Objectives within the CSP which drives efficiencies and improves strategic planning.
- Council’s finance partnering model, will educate Council officers of the financial impact of their activities and how they will be held to account for their financial performance.
- Council officers will be held to account to ensure Council resources are efficiently utilised.

Measure - Fit For the Future Ratio & Other Metrics

- Real Operating Expenditure ratio declined over time.
- Achieve Operating Performance ratio.

Key Objective 8	Effective Capital Expenditure Framework will ensure capital expenditure is sufficiently planned, scoped, approved and regularly monitored to maximise infrastructure delivered to the community.

Actions

- Rollout the new Procurement Policy and Procurement Procedures to ensure capital expenditure procurement roles and responsibilities are clear and individuals are held accountable.
- Rollout the recently developed capital reporting framework that ensures capital expenditure is appropriately approved with the project manager being held to account for phasing, forecasting and project risk mitigation.

Outcomes

- Council officers involved in capital expenditure are held to account resulting in predictable and efficient capital expenditure.

Measure - Fit For the Future Ratio & Other Metrics

- Infrastructure Renewal ratio greater than 100%
- Infrastructure Backlog ratio less than 2%
- Asset Maintenance ratio is greater than 100% which indicates Council is investing enough funds to reduce the infrastructure backlog.

Key Objective 9	Having a financially sustainable culture supported by effective Policies and Procedures ensures all Council officers are accountable to deliver services to the community efficiently.

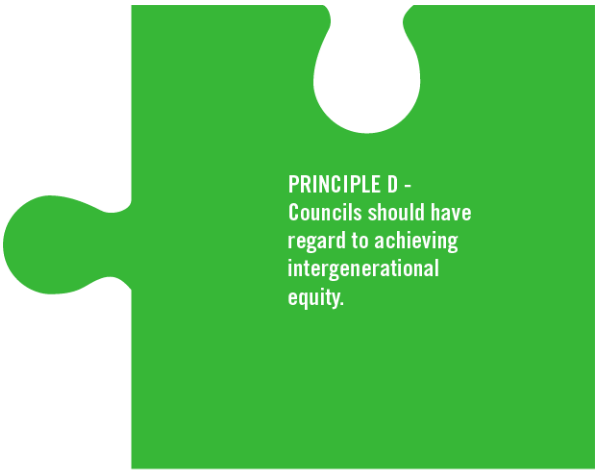
Actions

- The Quarterly Operational Plan Review process has been updated to include year-end forecasting and year-to-date variance commentary.
- Rollout the recently endorsed Procurement Policy and Procurement Procedure so Council officers are aware of their delegated budget, remain within their delegated budget and are aware of the processes to adjust their delegated budgets.
- Provide regular finance training/education to Council's Senior Management Team.

Outcomes

- Financial literacy is achieved throughout Council thereby ensuring financial performance is maximised and is aligned with the Operational Plan and Delivery Program.

Measure - Fit For the Future Ratio & Other Metrics
• Assists Council in achieving all FFtF ratios. • Reduction in instances where Budget allocations are exceeded.



PRINCIPLE D
- Councils should have regard to achieving intergenerational equity

Key Objective 10	**Excess working capital should be minimised and potential to borrow competitively for infrastructure projects should always exist.**

Actions

- Council's cash balance and investment portfolio will be managed daily and reported monthly to ensure the optimum funding exists to minimise cost of funds while maintaining liquidity.
- Ensuring Council remains financially sustainable and ensuring borrowings are commercially competitive and within sources defined by legislation.
- Investment Policy ensures Council's investment risk is appropriate.

Outcomes

- Maximise infrastructure expenditure that benefits current and future generations, maximises investment return and minimise operational volatility.

Measure - Fit For the Future Ratio & Other Metrics

- Unrestricted Current ratio remains within the range 1.5 to 3.5 times.
- Annualised Investment Return should be 1% above the AusBond bank Bill Index.
- Debt Service ratio remains within the range 0% to 20%.

Key Objective 11	Maintaining inter-generational equity is a key consideration for all strategic decisions.

Actions

- Utilising borrowings to assist in funding long term assets and ensuring borrowing periods do not exceed the useful life of the asset.
- Where appropriate, and not to the detriment of achieving FFtF ratios and metrics, Council will pursue loans and other commercial options to further align costs with generations that are receiving benefits.
- Where it is economically sound to do so, Council will incur costs today that will ultimately provide significant benefits in the future.
- Monitor and strategically manage borrowings, including acquiring and retiring debt to maintain the FFtF Debt Service ratio.
- External borrowings will not be used for current operational expenditure.

Outcomes

- Further aligns infrastructure benefits with infrastructure costs.
- Strategic financial decisions may extend beyond Council's 10 year long term financial plan.
- Inter-generational impacts will be highlighted to ensure informed strategic decisions are made.

Measure - Fit For the Future Ratio & Other Metrics

- The Debt Service ratio is always greater than 0% and less than or equal to 20%.

Planning Assumptions

The LTFP contains a number of assumptions, including some that are beyond the control of Council, such as interest rates and State Government waste levies. Variations in these assumptions during the life of the plan may have a significant impact on Council's future financial planning. The LTFP is updated annually in conjunction with preparation of the Operational Plan and Budget, which responds to the three year Delivery Program and Shellharbour's 10 year Community Strategic Plan, to ensure the assumptions are continually updated with the latest information available.

2.5%

Inflation

The LTFP has been prepared assuming a 2.50% inflation for 2019/20 and 2.00% each year after.

If more accurate forecasts are available for specific items, Council will adopt these rates and highlight the rates utilised where forecasts are significant.

Service Priorities

Council's objective is to ensure 'value for money' for ratepayers. Council also aims to deliver long-term financial sustainability, ensuring services remain relevant and align with the 'needs and wants' of the local community. Extensive consultation was conducted as part of the development of the Community Strategic Plan to determine the range and priority of services desired by the community.

Increase in dwellings

Shellharbour City Council's estimated population for 2018/19 is 73,101. The average household size (persons per dwelling) is 2.70, slightly above the state average of 2.61. Council is forecasting a year-on-year annual dwelling growth rate of 2.15% over the LTFP.

Business
1%
(based on historical data)

Residential
2.15%
(based on expected dwelling growth)

Farmland
0.0%
(based on historical data)

Anticipated annual growth by Rate Category

Revenue Forecasts

The sources of funds for Council are varied and the following shows the breakdown of revenues budgeted for Council for 2019/20. This is expected to remain an indicative breakup of sources of revenue for the term of the LTFP.

Rates & Annual Charges

Rating is a major component of Council's revenue base. A 2.7% rate peg has been assumed for 2019/20, while the remainder of the LTFP has factored in an increase of 2.5%. This is in line with advice from the OLG.

User Charges and Fees

Many of the services provided by Council are offered on a 'cost recovery' basis to allow a 'user pays' principle to be applied. Other considerations when determining user charges and fees include: Regulated charges, Market price, Community Service requirements and Developer Contributions (discussed separately). The 2019/20 Operational Plan includes information on Council's pricing policies for its user charges and fees. In general, a CPI based increase has been applied to most user charges and fees pricing over the LTFP period.

Grants

Council receives a Financial Assistance Grant from the Commonwealth Government and anticipates the continuation of this grant along with CPI growth rate of 2.5%. Other budgeted grants are generally for specific purposes and projects, with the grant monies assumed to be expended in the year it is provided. In preparing the LTFP, Council has assumed that it will continue to receive grants. A CPI based increase has been applied to these grant amounts over the LTFP period. Should these grants and subsidies be reduced, Council's ability to provide the same level of service will be impacted.

$5.4m
Federal Assistance Grant

Development Contributions

Council collects contributions from new development toward funding the cost of additional infrastructure required as a result of the development. These contributions include cash, land and other assets and are collected through Council's Developer Contributions Plan, Works in Kind Agreements and/or Planning Agreements (also known as VPA's). Funds collected from developers are restricted and are allocated to projects in line with the relevant Developer Contributions Plan or Planning Agreement.

Interest and Investments

2.9%

Based on advice from Council's investment advisors, existing term deposits held and taking into consideration the 10 year Australian Bond rate, interest returns have been included at 2.9% for 2019/20, 2.87% for 2012/21, 2.93% for 2020/21 and increasing on average 0.07% per annum each year after. The balance of funds available for investment has been calculated after taking into account cashflow forecasts.

Expenditure Forecasts

The Community Strategic Plan has given Council an indication of the communities' expectations for the future. In developing expenditure forecasts Council has considered, not only the new expenditure in the Community Strategic Plan, but also Council's existing commitments, much of which is regular and ongoing. Extensive consultation with staff occurred during the preparation of the LTFP. All categories of expenditure have been examined and projections included have been based on varying factors, including historical averaging or staff projections in many cases.

Employee Costs

Wages for 2019/20 are based on an award increase and salary system movements of 3.25%. A vacancy factor of 3% is built into the 2019/20 budget and this is included in all later year projections. Staffing levels have been assumed as being stable apart additional resourcing associated with maintenance obligations attached to asset growth. Calculations for this large expenditure category is also informed by the Workforce Management Plan, as well as legislative requirements for superannuation increases and any changes to workers' compensation legislation.

Depreciation

Depreciation estimates have been based on current levels along with factoring in costs associated with future capital expenditure, assets dedicated by developers and the anticipated sale of any assets. Refer below for significant depreciation items.

- Warilla Library will be commissioned in the 2019/20 financial year and will commence depreciation during the year. Annual depreciation is estimated to be approximately $0.285m
- Depreciation forecasts include an additional $3.0m of drainage and $2.5m of roads per annum added to Council's asset base from Developer's asset contributions.
- Shell Cove Harbour assets depreciation is based on an average useful life of 129 years. This equates to a total annual depreciation of $0.87m. Depreciation will commence from 2021/22 and is based on the assets coming over to Council from 1 July 2021, thus a full year of depreciation has been factored in for the 2021/22 financial year.

Borrowing Costs

Section 621 of the Local Government Act 1993 allows the Council to borrow at a level determined by the Council via approval of the Revenue Policy contained within the annual Operational Plan. Borrowing to build, renew and upgrade community assets is recognised across the industry as a prudent financial strategy when used to fund the cost of long life assets, refer to Principle D of Sustainable Financial Strategy.

Loan borrowings have been factored in for the following capital projects. The use of loan borrowings is based on the intergenerational equity principle around the funding of long life assets. All new loans are based on a 20 year term at 4.00% p.a. The new loans are:

- Shell Cove Wet and Dry Marina Business loan - $28m to be gradually drawn down from 2019/20 in line with expected capital spend budget.
- Airport Business Plan Implementation – $1m loan to part fund the Airport Business Plan Implementation capital works
- Tripoli Way (Albion Park Bypass) – $5.7m loan to part fund the Tripoli Way capital works.

Repayments currently included in the LTFP include:

Road Renewal
Borrowings from 2012/13 under the Local Infrastructure Renewal Scheme (LIRS) – Round 1 for $3m expenditure on the renewal of Council's road infrastructure. The term of this loan is 10 years.

Shellharbour Beachside Holiday Park Amenity Improvement
Borrowings from 2014/15 for $600K, with repayments to be funded from the Crown Reserve Restriction. The term of this loan is 10 years and was for the renewal of the existing amenities building and delivery of a camp kitchen.

A further loan of $400K was taken out to fund the installation of additional cabins. The term of this loan is also 10 years.

Stadium roof replacement
Borrowings were drawn down in 2014/15 for the Stadium Roof replacement for $987K. The term of this loan is 10 years.

Civic Centre
Loan borrowings commenced late in 2016/17 for the Civic Centre project. The LTFP includes $12.78m of borrowings over a 20 year term.

Warilla Library
Loan borrowings of $3.4m to part fund the new Warilla Library. The loan is expected to be drawn in the 2018/19 year with repayments to be made over a 20 year term.

Airport Business Plan Implementation
Loan borrowings of $1m are expected to be drawn in the 2020/21 year. The term of the loan is expected to be 20 years

Capital Expenditure

The majority of the capital expenditure program included in the LTFP is for the renewal of existing assets. These costs are informed by the information contained in Council's Asset Management Plan. There is however some new capital expenditure items which is not unusual in a growing local government area. Refer below for key items:

- The new Warilla Library capital spend to continue in 2019/20 with $3.3m allocated in that year.
- Tripoli Way: $24.6m has been budgeted in years 2023/24 ($17.7m) and 2024/25 ($6.9m)
- Capital expenditure associated with the Shell Cove Wet and Dry Marina business assets will span multiple years. 2019/20 - $7.7m, 2020/21 - $18.4m, 2021/22 - $3.0m, 2022/23 - $0.825m.
- The capital works associated with the Airport Business Plan Implementation will be $20.4m across 2019/20 ($10.4m) and 2020/21 ($10m)

Other Assumptions

Refer below for other assumptions that underpin Council's Long Term Financial Plan

- Utility costs increase at 3% per year.
- Insurance costs growth set at 4% p.a. based on recent historical average annual increases.
- Materials and contracts as well as other expenses growth over LTFP is 2.0%. This has been based on CPI of 2.5% less 0.5% for an efficiency target.
- From 2023/24 the Asset Renewal spend increases above the current SRV funded capital budgets. The additional expenditure will be funded from general revenue.
- Shell Cove Harbour assets estimated valuation is $112.5m. Expected handover dates are $80.2m in 2021/22, $16.7m in 2022/23, $9.4m in 2023/24, $3.1m in 24/25 and $3.1m in 26/27.
- Land Sales expected are:
    - Remaining 5 lots of Subdivision A – $2.5m of revenue less $1.6m COGS (estimated land value & subdivision works) in 2019/20.
- Population numbers used in Real Operating Expenditure per Capita ratio expected to increase on average 2.07% per year over the 10 year period. This is based on data from "Forecast id" website plus additional population growth expected from Calderwood and Shell Cove.

Financial Performance and Sustainability

PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses

Operating Performance Ratio

How well is Council managing its finances in terms of containing operating expenditure within operating revenue?

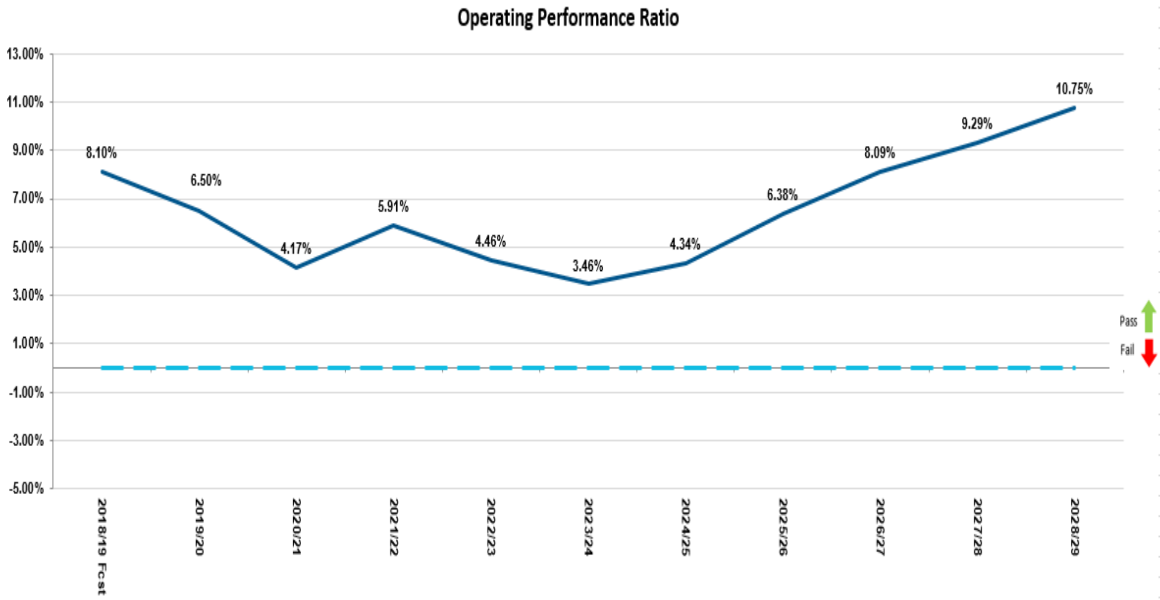
Operating performance ratio is an important measure as it provides an indication of whether a Council is containing its operating expenditure within its operating revenue.

Ratio = Operating revenue excluding capital grants and contributions less operating expenses divided by operating revenue excluding capital grants and contributions

What do the results tell us?

Council exceeds the breakeven benchmark for all years reflected in the graph below.

Benchmark is 0%



PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses

Own Source Revenue Ratio

How reliant is Council upon external funding sources such as Operating Grants and Contributions?

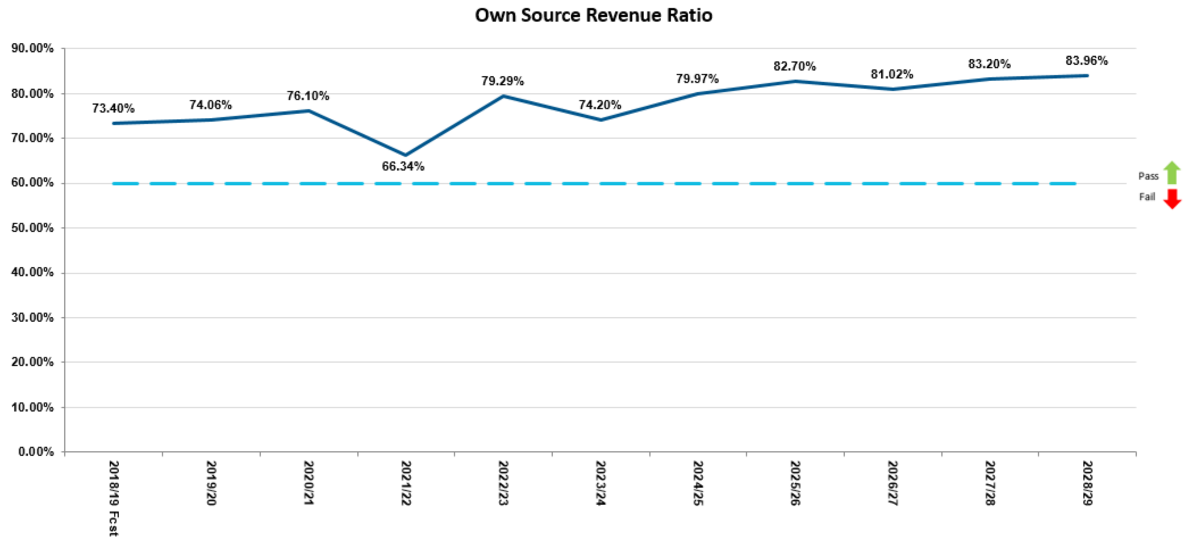
Own source revenue measures the degree of reliance on external funding sources (eg. Grants and Contributions). Financial flexibility increases as the level of own source revenue increases and gives Council greater ability to respond to external shocks or challenges.

Ratio = Total revenue (excluding grants and contributions) divided by total operating revenue (inclusive of capital grants and contributions)

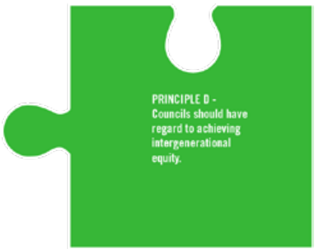
What do the results tell us?

Council meets the benchmark for this indicator and is projected to continue to do so in the future. The result indicates that Council has sufficient financial flexibility due to its levels of discretionary revenue.

The decrease in 2021/22 is the result of significant assets from the Shell Cove project being handed over to Council.



PRINCIPLE D - Councils should have regard to achieving intergenerational equity infrastructure and Service Management



Debt Service Ratio

What impact is loan repayments (principle & interest) having on the discretionary Revenue of Council?

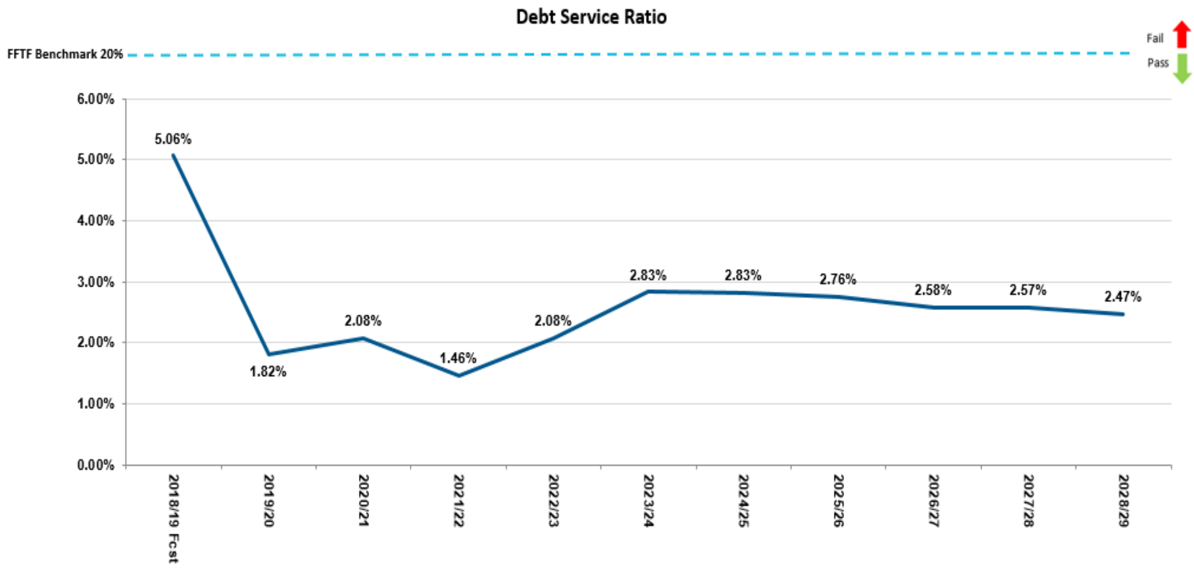
Prudent and active debt management is a key part of Council’s approach to funding and managing infrastructure over the longer term.

Ratio = Total of Loan repayments is divided by income from continuing operations excluding capital grants and contributions.

What do the results tell us?

Council’s debt levels are relatively low when compared to the Fit for the Future maximum benchmark for this ratio of 20%. The ratio peaks in 2018/19 based on repaying a short term loan. Loan borrowings are used to smooth funding costs and equitably spread the cost of assets across current and future generations of users.

Benchmark is greater than 0% but less or equal to 20%.



PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses

Real Operating Expenditure

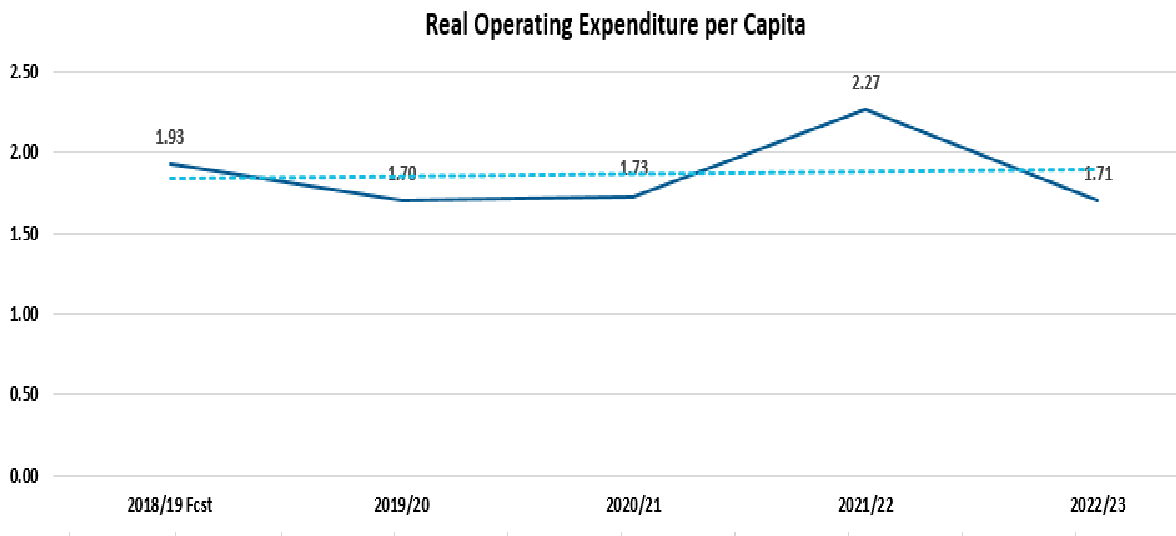
Is real expenditure per capita declining over time?

The ratio measures real per capita productivity over time.. As Council adds additional services to the community, a declining real expenditure per capita ratio will be challenging.

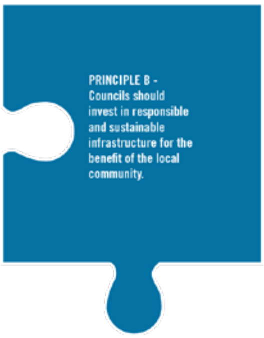
Ratio = Operating Expenditure (excl. inflation) / population
(Benchmark: Declining over 5 year period

What do the results tell us?

Whilst the ratio should be decreasing over time, the ratio is expected to slightly increase over the five year period. The increasing ratio has been driven by Council's share of the Shell Cove development costs. If Council's share of Shell Cove was excluded, the ratio would actually be declining over the measured period. A review of the development cost forecast timing is currently being undertaken.



PRINCIPLE B - Councils should invest in responsible and sustainable infrastructure for the benefit of the local community



Infrastructure Renewals Ratio

Is Council renewing existing infrastructure?

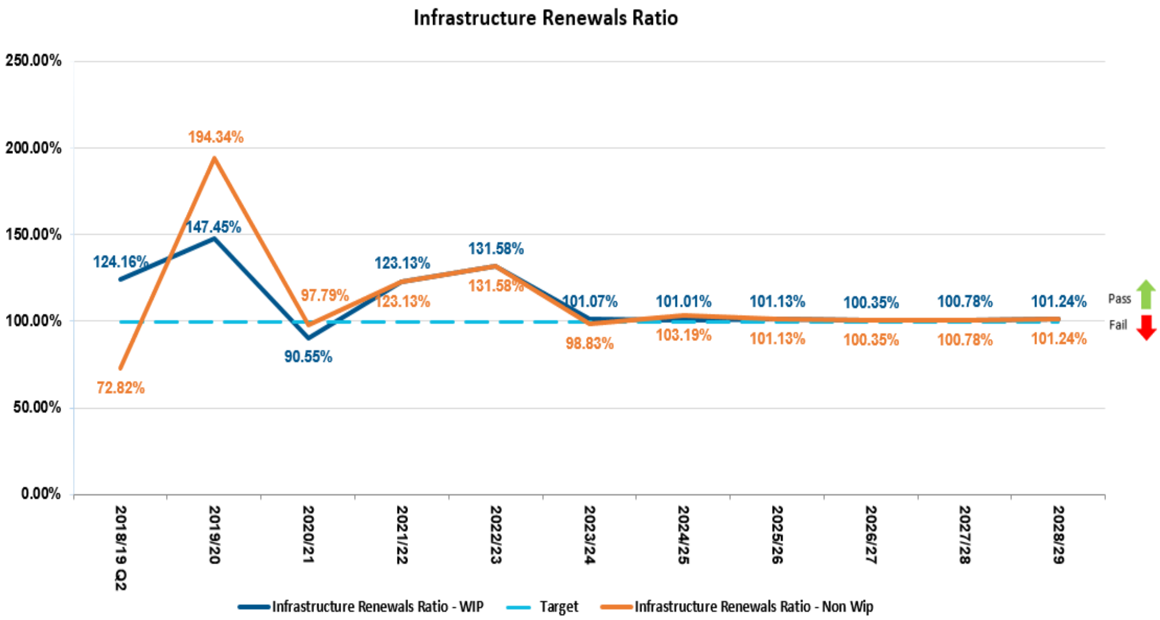
The infrastructure renewals ratio assesses the rate at which assets are being renewed against the rate at which they are depreciating.

Ratio = Asset renewals (building, infrastructure and other structures) is divided by Depreciation, Amortisation and Impairment (building, infrastructure and other structures).

What do the results tell us?

The ratio has been presented in two different formats; 1) including Works In Progress (WIP) and 2) not including -WIP. When WIP is not included it results in greater volatility in the ratio as capital spend is only ever included in the year the project is completed. The divergence of the two measurements over the 2018/19 and 2019/20 year is largely due to the Warilla Library project, which is expected to be complete by December 2020.

Benchmark: greater than 100%.



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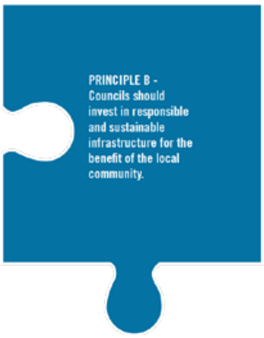


Infrastructure Backlog Ratio

Is Council infrastructure at a satisfactory level?

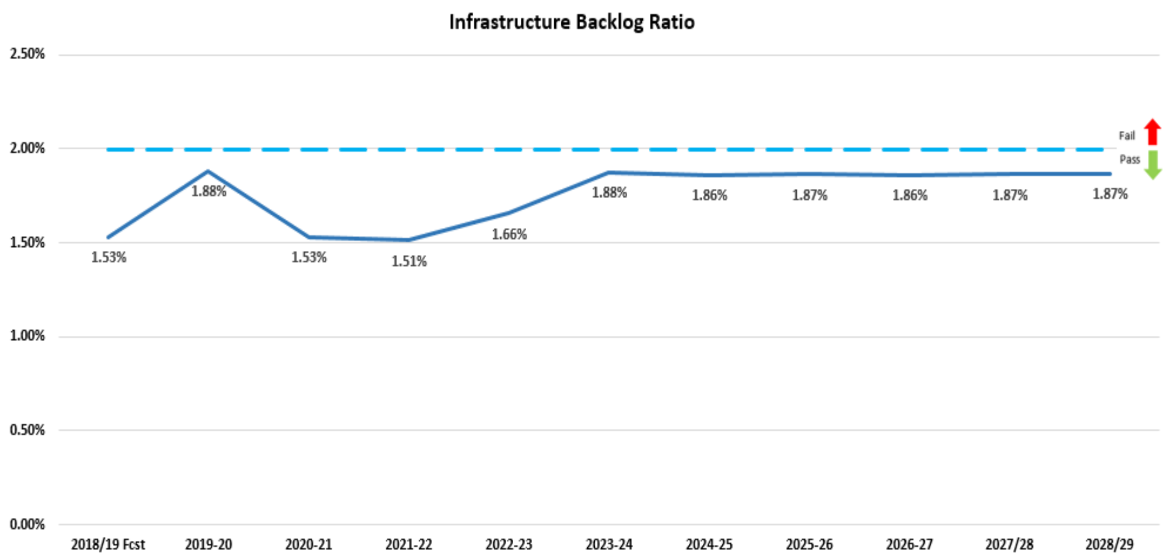
Satisfactory level is achieved when Council estimates the cost to bring Council's poor conditioned infrastructure assets to a satisfactory standard is below 2% of the total written down value

Ratio = Estimates cost to bring assets to a satisfactory condition / Total WDV of infrastructure, buildings, other structures and depreciable land improvement assets

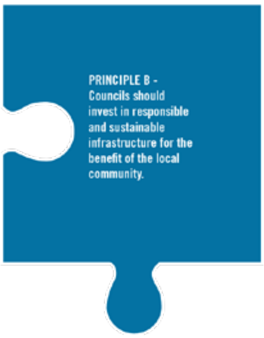
What do the results tell us?

As a result of Council's asset renewal strategy funded from the Special Rate Variation combined with an effective maintenance program, the cost to bring poor conditioned assets to a satisfactory condition is below the 2% benchmark.

Benchmark: (Benchmark < 2%)



PRINCIPLE B - Councils should invest in responsible and sustainable infrastructure for the benefit of the local community



Asset Maintenance Ratio

Is Council investing enough funds to reduce the infrastructure backlog?

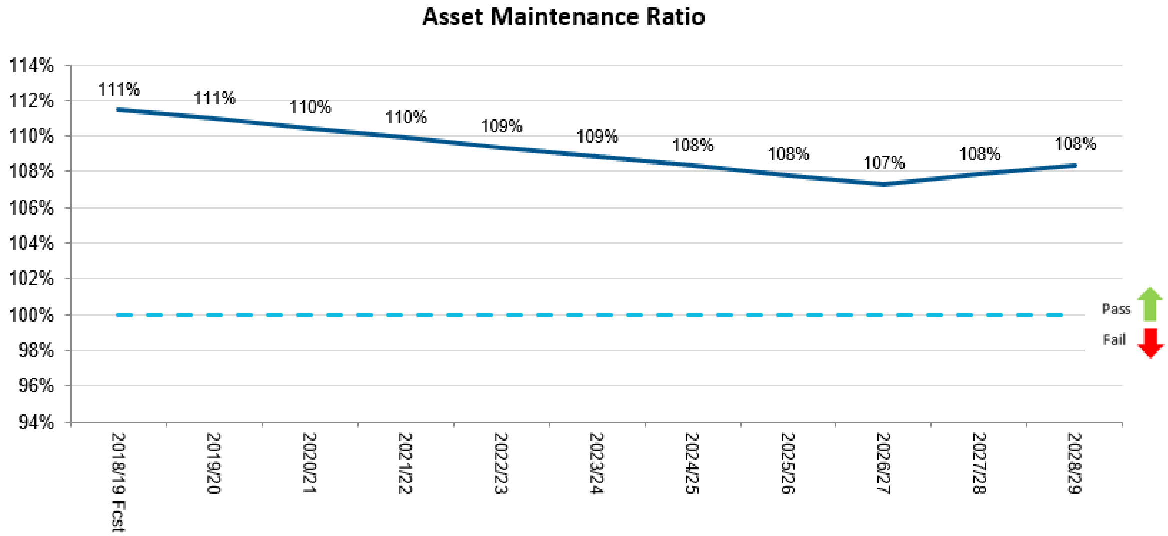
An effective maintenance program allocates sufficient asset maintenance funds that meet or exceed the estimated level of maintenance

Ratio = Estimated level of asset maintenance / required level of asset maintenance

What do the results tell us?

Council is maintaining assets above the required level of asset maintenance throughout the LTFP. This is achieved by implementing an effective assets renewal program and allocating sufficient funds for maintenance.

Benchmark: (Benchmark > 100%)



Income Statement '000

Account Description	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
Income										
Rates & Annual Charges	62,672	65,571	68,603	71,774	75,090	78,559	82,186	85,980	89,947	94,097
User Charges & Fees	17,743	18,556	19,020	19,495	19,982	20,482	20,994	21,519	22,057	22,608
Interest & Investment Revenues	2,674	2,729	3,517	4,615	4,935	5,165	5,364	5,622	5,736	5,825
Other Revenues	55,323	57,392	113,656	72,532	21,231	16,939	16,785	19,555	15,041	15,555
Operating Grants & Contributions	8,391	8,298	8,392	8,575	8,474	8,686	8,904	9,129	9,360	9,597
Capital Grants & Contributions	40,280	37,200	95,715	35,622	33,889	21,863	17,520	22,160	17,650	16,984
Net Gains from Disposal of Assets	117	0	0	0	0	0	0	0	0	0
Total Income	187,200	189,746	308,902	212,613	163,601	151,695	151,753	163,965	159,790	164,665
Expenses										
Employee Benefits & Oncosts	39,635	41,729	43,196	44,532	45,798	47,051	48,165	49,352	50,607	51,910
Borrowing Costs	1,291	1,185	1,147	2,019	1,947	1,873	2,008	1,931	1,847	1,762
Materials & Contracts	23,537	22,007	23,636	24,692	25,678	26,533	27,134	27,854	28,395	29,004
Depreciation & Amortisation	17,760	18,296	21,584	23,055	23,467	24,348	24,776	25,622	26,248	26,736
Other Expenses	55,037	62,965	111,031	74,800	28,338	24,398	23,581	25,570	21,839	22,388
Total Expenses	137,260	146,181	200,595	169,098	125,228	124,203	125,663	130,329	128,935	131,800
Net Operating Surplus/(Deficit)	49,941	43,565	108,308	43,515	38,373	27,492	26,090	33,635	30,855	32,865
Net Operating Surplus/(Deficit) Before Capital	9,661	6,364	12,592	7,893	4,484	5,629	8,570	11,475	13,205	15,882

Balance Sheet '000

Account Description	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
Current Assets										
Cash & Cash Equivalents	9,526	10,680	8,493	12,908	12,844	10,106	9,731	10,225	10,895	10,239
Current Investments	41,200	41,958	60,058	55,058	57,660	57,711	57,078	62,986	63,525	68,525
Current Receivables	6,104	5,068	5,279	5,499	5,728	5,967	6,216	6,477	6,748	7,031
Inventories	11,392	66,335	42,152	16,862	10,893	7,788	5,290	1,316	1,338	1,362
Other Current Assets	421	442	463	485	507	530	554	578	602	628
Non-current assets classified as held for sale	0	0	0	0	0	0	0	0	0	0
Total Current Assets	**68,642**	**124,483**	**119,742**	**94,108**	**90,929**	**85,399**	**82,166**	**84,878**	**86,406**	**91,082**
Non-Current Assets										
Non-current investments	49,063	49,063	59,205	79,205	93,603	108,552	129,185	148,277	171,738	197,738
Non-current receivables	1,349	1,417	1,488	1,562	1,640	1,722	1,808	1,899	1,993	2,093
Infrastructure, Prop, Plant & Equip	941,491	1,001,123	1,122,150	1,178,650	1,215,142	1,233,817	1,241,439	1,253,701	1,258,358	1,262,904
Investment Property	23,061	23,061	23,061	23,061	23,061	23,061	23,061	23,061	23,061	23,061
Intangible Assets	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036
Total Non Current Assets	**1,018,000**	**1,077,699**	**1,208,939**	**1,285,514**	**1,336,482**	**1,370,188**	**1,398,529**	**1,429,973**	**1,458,186**	**1,488,832**
Total Assets	**1,086,642**	**1,202,182**	**1,328,681**	**1,379,622**	**1,427,411**	**1,455,587**	**1,480,695**	**1,514,851**	**1,544,592**	**1,579,913**
Current Liabilities										
Current Payables	10,977	11,611	12,106	12,495	12,921	13,476	13,874	14,224	14,562	15,035
Current Borrowings	5,264	2,384	2,118	2,160	2,246	2,150	2,195	2,287	2,380	2,477
Current Provisions	13,561	14,243	14,745	15,202	15,635	16,063	16,443	16,848	17,277	17,722
Total Current Liabilities	**29,802**	**28,238**	**28,969**	**29,857**	**30,801**	**31,690**	**32,512**	**33,359**	**34,218**	**35,233**
Non-Current Liabilities										
Non-current Borrowings	22,630	38,720	39,425	37,265	40,676	38,526	36,331	34,044	31,664	29,187
Non-current Provisions	17,484	17,838	18,199	18,567	18,943	19,326	19,717	20,116	20,522	20,937
Total Non Current Liabilities	**40,114**	**56,558**	**57,624**	**55,833**	**59,619**	**57,852**	**56,048**	**54,159**	**52,186**	**50,124**
Total Liabilities	**69,916**	**84,795**	**86,594**	**85,689**	**90,420**	**89,541**	**88,559**	**87,519**	**86,405**	**85,358**
Net Assets	**1,016,726**	**1,117,387**	**1,242,087**	**1,293,933**	**1,336,991**	**1,366,046**	**1,392,135**	**1,427,333**	**1,458,187**	**01,494,556**
Equity										
Retained Earnings	608,052	708,713	833413	885,259	928,317	957,372	983,461	1,018,659	1,049,513	1,085,882
Revaluation Reserves	408,674	408,674	408,674	408,674	408,674	408,674	408,674	408,674	408,674	408,674
Total Equity	**1,016,726**	**1,117,387**	**1,242,087**	**1,293,933**	**1,336,991**	**1,366,046**	**1,392,135**	**1,427,333**	**1,458,187**	**1,494,556**
Total Equity	**1,016,726**	**1,117,387**	**1,242,087**	**1,293,933**	**1,336,991**	**1,366,046**	**1,392,135**	**1,427,333**	**1,453,187**	**1,494,556**

Statement of Cash Flow '000

Account Description	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
Cash Flows from Operating Activities										
Receipts:										
Rates & Annual Charges	62,457	65,329	68,367	71,527	74,831	78,287	81,901	85,681	89,634	93,769
User Charges & Fees	17,701	18,506	18,974	19,448	19,934	20,433	20,943	21,467	22,003	22,553
Interest & Investment Revenues	2,674	2,729	3,517	4,615	4,935	5,165	5,364	5,622	5,736	5,825
Other Revenues	55,323	57,392	113,656	72,532	21,231	16,939	16,785	19,555	15,041	19,058
Operating Grants & Contributions	8,391	8,298	8,392	8,575	8,474	8,686	8,904	9,129	9,360	9,597
Capital Grants & Contributions	16,070	17,096	4,215	5,122	10,389	4,363	3,020	4,660	3,150	2,484
Payments:										
Employee Benefits & Oncosts	(39,016)	(41,047)	(42,693)	(44,075)	(45,365)	(46,623)	(47,785)	(48,947)	(50,178)	(51,465)
Borrowing Costs	(944)	(831)	(786)	(1,651)	(1,572)	(1,490)	(1,618)	(1,532)	(1,440)	(1,347)
Materials & Contracts	(22,478)	(22,442)	(25,111)	(25,547)	(25,639)	(26,329)	(27,005)	(27,780)	(28,251)	(28,785)
Other Expenses	(52,479)	(58,472)	(84,899)	(48,288)	(22,005)	(20,963)	(20,839)	(21,343)	(21,692)	(22,183)
Net cash provided (or used in) operating activities	**47,700**	**46,526**	**63,632**	**62,258**	**45,213**	**38,469**	**39,672**	**46,511**	**43,362**	**49,506**
Cash Flows from Investing Activities										
Receipts:										
Sale of Investments	30,000	21,000	40,000	40,000	22,000	25,000	20,000	21,000	18,000	22,000
Sale of Real Estate Assets	1,158	0	0	0	0	0	0	0	0	0
Sale of infrastructure, property, plant and equipment	159	0	0	0	0	0	0	0	0	0
Payments:										
Purchase of infrastructure, property, plant and equipment	(54,989)	(57,822)	(91,203)	(40,725)	(31,773)	(23,961)	(17,897)	(18,822)	(16,405)	(16,782)
Purchase of Investments	(31,758)	(21,758)	(11,758)	(55,000)	(39,000)	(40,000)	(40,000)	(46,000)	(42,000)	(53,000)
Net cash provided (or used in) investing activities	**(55,431)**	**(58,581)**	**(62,961)**	**(55,725)**	**(48,773)**	**(38,961)**	**(37,897)**	**(43,822)**	**(40,405)**	**(47,782)**
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	10,406	18,474	2,824	0	5,656	0	0	0	0	0
Payments:										
Repayment of Borrowings and Advances	(1,459)	(5,264)	(2,384)	(2,118)	(2,160)	(2,246)	(2,150)	(2,195)	(2,287)	(2,380)
Net cash provided (or used in) financing activities	**8,946**	**13,210**	**440**	**(2,118)**	**3,496**	**(2,246)**	**(2,150)**	**(2,195)**	**(2,287)**	**(2,380)**
Net (increase) / decrease in cash	**1,215**	**1,155**	**1,110**	**4,415**	**(64)**	**(2,738)**	**(375)**	**494**	**670**	**(656)**

Sensitivity Analysis/Scenario Modelling

Long term financial plans contain a wide range of assumptions, which if do not occur, may have varying levels of impact on future financial plans.

The following scenarios include modifications to some of the main assumptions made in Council's long term financial plan.

Scenario 1 – Planned - as per assumptions outlined in this document.

Scenario 2 – Increase – this includes an increase in movements in some of the main assumptions from the planned scenario as outlined below.

Inflation – increase by 1% from the planned scenario of 2.5%. This will impact User Charges and Fees, Operating Grants and Contributions, Employee Benefits, Materials and Contracts and Other Expenses. This is applicable from 2020/21 onwards.

Dwelling Growth – Increase by 1% from the planned scenario. This will impact Rates and Annual Charges. This is applicable from 2020/21 onwards.

Rate Peg – Increase by 1% from the planned scenario of 2.5%. This will impact Rates and Annual Charges. This is applicable from 2020/21 onwards.

Interest Returns – Increase by 0.5% from the planned scenario. This will impact Interest and Investment Revenues. This is applicable from 2020/21 onwards.

The net impact of the scenario is a surplus of $30.0m in 2028/29 compared to the planned surplus of $15.9m

Scenario 3 – Decrease – this includes a decrease in movements in some of the main assumptions from the planned scenario as outlined below.

Inflation – decrease of 1% from the planned scenario of 2.5%. This will impact User Charges and Fees, Operating Grants and Contributions, Employee Benefits, Materials and Contracts and Other Expenses. This is applicable from 2020/21 onwards.

Dwelling Growth – growth decreases to 1.18% based on additional forecast growth in Shell Cove and Calderwood not occurring within the LTFP timeframe. This will impact Rates and Annual Charges. This is applicable from 2020/21 onwards.

Rate Peg – Decrease of 1% from the planned scenario of 2.5%. This will impact Rates and Annual Charges. This is applicable from 2020/21 onwards.

Interest Returns – Decrease by 0.5% from the planned scenario. This will impact Interest and Investment Revenues. This is applicable from 2020/21 onwards.

The net impact of the scenario is a surplus of $3.7m in 2028/29 compared to the planned surplus of $15.9m.

The detail impacts of the assumption changes in scenarios 2 and 3 have been modelled in the following 10 year income statements.

LTFP Income Statement – Scenario 2 Increase

Account Description	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
Income										
Rates & Annual Charges	62,672	66,764	71,123	75,767	80,714	85,985	91,601	97,585	103,960	110,752
User Charges & Fees	17,743	18,733	19,389	20,067	20,770	21,497	22,249	23,028	23,834	24,668
Interest & Investment Revenues	2,504	2,982	3,761	4,851	5,161	5,383	5,571	5,819	5,922	5,999
Other Revenues	55,323	57,405	113,682	72,573	21,287	17,014	16,878	19,668	15,176	15,714
Operating Grants & Contributions	8,391	8,374	8,551	8,822	8,814	9,125	9,450	9,787	10,138	10,504
Capital Grants & Contributions	40,280	37,200	95,715	35,622	33,889	21,863	17,520	22,160	17,650	16,984
Net Gains from Disposal of Assets	117	0	0	0	0	0	0	0	0	0
Total Income	187,030	191,458	312,220	217,701	170,635	160,867	163,269	178,047	176,679	184,620
Expenses										
Employee Benefits & Oncosts	39,635	41,747	43,234	44,591	45,879	47,156	48,294	49,507	50,790	52,122
Borrowing Costs	1,291	1,185	1,147	2,019	1,947	1,873	2,008	1,931	1,847	1,762
Materials & Contracts	23,537	67,992	115,826	80,849	35,638	31,906	31,932	34,602	31,474	32,565
Depreciation & Amortisation	17,760	18,296	21,584	23,055	23,467	24,348	24,776	25,622	26,248	26,736
Other Expenses	55,037	17,478	19,866	20,226	20,548	21,813	22,223	22,948	23,606	24,432
Total Expenses	137,260	146,697	201,657	170,740	127,479	127,096	129,233	134,610	133,965	137,616
Net Operating Surplus/(Deficit)	49,771	44,761	110,563	46,961	43,156	33,771	34,036	43,436	42,714	47,004
Net Operating Surplus/(Deficit) Before Capital	9,491	7,560	14,848	11,340	9,267	11,908	16,516	21,276	25,065	30,021

LTFP Income Statement – Scenario 3 Decrease

Account Description	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
Income										
Rates & Annual Charges	62,672	64,335	66,042	67,793	69,591	71,435	73,328	75,271	77,265	79,311
User Charges & Fees	17,743	18,378	18,654	18,934	19,218	19,506	19,799	20,096	20,397	20,703
Interest & Investment Revenues	2,417	2,121	2,900	3,990	4,300	4,521	4,710	4,958	5,061	5,138
Other Revenues	55,323	57,380	113,631	72,493	21,177	16,870	16,699	19,452	14,920	15,415
Operating Grants & Contributions	8,391	8,275	8,345	8,503	8,375	8,559	8,747	8,940	9,137	9,340
Capital Grants & Contributions	40,280	37,200	95,715	35,622	33,889	21,863	17,520	22,160	17,650	16,984
Net Gains from Disposal of Assets	117	0	0	0	0	0	0	0	0	0
Total Income	186,943	187,689	305,286	207,334	156,549	142,755	140,803	150,877	144,430	146,891
Expenses										
Employee Benefits & Oncosts	39,635	41,366	42,450	43,387	44,239	45,062	45,728	46,452	47,225	48,027
Borrowing Costs	1,291	1,185	1,147	2,019	1,947	1,873	2,008	1,931	1,847	1,762
Materials & Contracts	62,320	67,573	114,965	79,522	33,821	29,577	29,065	31,173	27,455	27,928
Depreciation & Amortisation	17,760	18,296	21,584	23,055	23,467	24,348	24,776	25,622	26,248	26,736
Other Expenses	16,254	17,236	19,368	19,460	19,501	20,471	20,571	20,971	21,289	21,759
Total Expenses	137,260	145,655	199,515	167,443	122,976	121,331	122,149	126,148	124,063	126,212
Net Operating Surplus/(Deficit)	49,683	42,034	105,772	39,891	33,573	21,424	18,654	24,729	20,367	20,679
Net Operating Surplus/(Deficit) Before Capital	9,403	4,833	10,056	4,269	(316)	(439)	1,135	2,568	2,717	3,695

Shellharbour
CITY COUNCIL

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