CHAPTER 2

FIT FOR THE FUTURE
Financial criteria and measures

FairfieldCity
Celebrating diversity

CONTENTS

EXECUTIVE SUMMARY

Fairfield City Council (FCC) will be stronger in the Fit for the Future (FFF) financial criteria and benchmarks when compared to the amalgamated entity over the next ten years. Five out of seven criteria achieve a higher performance or are met earlier than the amalgamated entity.

Fairfield City Council will meet all FFF performance benchmarks as a standalone council by 2016/17, except for the building and infrastructure renewal ratio which will be met in 2017/18. Financial consistency and efficiency improvements were initiated by Council as part of its Long Term Financial Plan (LTFP). Work on these initiatives commenced prior to the current local government reform process and was identified as part of an ongoing performance, audit and improvement process. The initiatives cover areas including:

- The development of new revenue centres in order to reduce the reliance on rates.
- New processes and formulas to improve asset renewal and classification.
- The application for and approval of a Special Rate Variation (SRV).
- Improved efficiency measures to improve service delivery.

Council developed the LTFP to outline the steps it will take to address the major financial challenges and opportunities which will impact on the way it does business over the next 10 years. The main objectives of the LTFP are to maintain and improve Council's financial sustainability and to inform Council's decisions about the services and new initiatives it will deliver. The LTFP is updated each year to provide a rolling 10 year outlook.

In summary, the LTFP demonstrates that Fairfield City Council is in a strong financial position over the next 10 years and this supports the conclusions of the TCorp assessment of financial sustainability and the NSW Government Local Government infrastructure audit. Council's LTFP demonstrates that Council can:

- Deliver operating surpluses each year.
- Meet all 'Fit for the Future' benchmarks as set by the State Government.
- Achieve its own financial sustainability benchmarks.

This puts Council in a very good position to continue to deliver services that are important for its community and to introduce new initiatives that are identified as priorities in the Fairfield City Plan.

Presented below are extracts from the 10 year LTFP projections and the expected performance against various benchmarks across the 10 year horizon.

	Projected Years									
	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000
Net Operating Result	23,568	8,665	8,522	7,892	7,554	8,473	9,440	9,710	9,944	9,526
Net Operating Result (before capital grants)	3,194	3,579	3,334	2,574	2,103	2,886	3,714	3,840	3,927	3,358
Cash and Cash Equivalents (at end of financial year)	3,773	3,775	7,659	10,383	9,888	8,875	9,235	9,996	9,866	9,736
Cash, Cash Equivalents and Investments (at end of FY)	63,735	63,737	67,621	70,345	72,850	75,837	80,197	84,958	88,828	94,698
Net Assets (at end of FY)	1,794,209	1,802,874	1,811,397	1,819,288	1,991,423	1,999,896	2,009,336	2,019,046	2,028,990	2,235,646

The table above and additional detail later in this chapter, show that Council is forecast to achieve the stated goals. A positive net operating result is expected in each year of the LTFP as well as a better than breakeven net operating result before capital grants. Cash and cash equivalents decline in the 2015/16 year due to significant capital spend, but will then increase to sufficient levels. Continued growth in cash, cash equivalents and investments is projected across the entirety of the LTFP period, again the only exception being the 2015/16 year which is affected by the significant infrastructure capital spend. Council's net asset base also continues to grow across the LTFP period.

Council had identified in the previous LTFP that a series of intervention initiatives would be required from 2018/19 so that Council could progress to achieving its long term financial sustainability. Significant structural reform has been undertaken in recent years which have achieved cost reductions across Council's operating budget including a reduction of 4.5% in employee costs by the 2015/16 year. The impact of this structural reform has reduced the need for these additional financial intervention initiatives to find significant financial benefits in the short to medium term. However, continuous improvement in financial results remains a priority for Council.

Previous financial results and projections had been adversely affected by the introduction of new accounting standards regarding asset revaluations, the related impacts on depreciation expense and application of the previous conservative depreciation methodology. As a result, there has been an ongoing review of depreciation in line with the asset management plans over several years, culminating in a change of calculation method. This change has conditional external audit approval and thus has been worked into the 2015/16 budget and the subsequent years of the LTFP which improves projected financial outcomes.

Special Schedule 7 is a relatively new reporting requirement that has limitations caused by a lack of consistency of data and appropriate auditing standards. Historically, Council has been very conservative in preparing this Schedule which has adversely impacted results. This view is supported and recognised in the guidance provided in the description of the ratios where it was noted *"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".* Fairfield Council as part of its Integrated Planning and Reporting improvements has reassessed some accounting treatments regarding assets and depreciation in partnership with its external auditors. Fairfield Council has previously prepared the Special Schedule 7 on the basis that all assets requiring renewal were restored to new condition (condition 1). The outcome for Fairfield with this more rigorous approach was still only 3.88% compared to the benchmark requirement of less than 2%. The changes in approach will improve this asset backlog percentage by:

- The new Special Rate Variation granted by IPART for Council commencing July 2014 included a recognition that Asset Management Plans addressing Asset backlog was a priority for Fairfield Council and this results in an additional $42.41M over 10 years to be spent on asset upgrades.
- Significant spend on asset renewal programmes included in the operational plans from strong Asset Management Planning.
- Measuring the cost to bring assets to a satisfactory condition as prescribed by the Office of Local Government as condition 2, as opposed to the current measure of condition 1 or new.
- The recommendation to consult with the community to determine the asset condition that is considered acceptable to deliver the required level of service. This may mean, for example, that an asset in condition 3 (average) may still deliver the required level of service and thus not form part of the asset backlog. This consultation is anticipated to deliver a significant reduction in the asset backlog.

Other initiatives have been pursued to further improve Council's long term financial position. Council's Sustainable Resource Centre currently returns approximately $900,000 to the annual budget from its recycling business. Additional property rental revenues to be delivered in 2016/17 due to the development of the Dutton Lane project in Cabramatta, currently under construction and an additional Property Development Fund investment in the 2018/19 year are examples of such initiatives.

Since 2009/10 Council has implemented an ongoing program of productivity improvements, cost containments and revenue opportunities. The savings that have been achieved combined with a new SRV have significantly improved Council's financial sustainability as well as its ability to deliver priority services and initiatives for the community. The SRV which commenced in 2014/15, aims to achieve two outcomes - to enable Council to address its asset backlog and ensure the condition of its assets remain stable over the next 10 years, and to support a number of new capital initiatives which will deliver new and improved facilities to the community.

The Key Financial Indicators are displayed in the tables below. They confirm that the key objectives of balanced budgets/operational surpluses, continuous financial improvement, meeting financial sustainability benchmarks and FFF benchmarks will be achieved.

Council's future position has been forecast on the basis of a continuance of "normal operations" as amended for SRV initiatives and underpinned by conservative assumptions and initiatives/efficiencies either already achieved or underway. This demonstrates a sound financial foundation and a readiness for future challenges. Hence Council could be expected to withstand adverse impacts or shocks outside of these assumptions. A focus on continuous improvement has the potential to deliver an upside to these projections.

Fairfield City Council Key Performance Indicators

FFF Criteria

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Operating Performance Ratio (greater or equal to break even average over 3 years)	-1.43%	0.87%	2.09%	1.91%	1.58%	1.45%	1.62%	1.89%	2.03%	1.92%
Own Source Operating Revenue Ratio (greater than 60% average over 3 years)	80.73%	81.02%	82.54%	85.13%	85.12%	85.15%	85.19%	85.24%	85.25%	85.26%
Building & Infrastructure Renewals Ratio (greater than 100% average over 3 years)	80.94%	94.16%	102.55%	103.13%	102.11%	101.76%	101.42%	101.09%	100.77%	100.45%
Infrastructure Backlog Ratio (less than 2%)	1.93%	1.92%	1.90%	1.88%	1.87%	1.85%	1.84%	1.80%	1.78%	1.76%
Asset Maintenance Ratio (greater than or equal to 100% average over 3 years)	97.97%	101.25%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
Debt Service Ratio (> 0 and < or = to 20% average over 3 years)	0.52%	0.27%	0.25%	0.43%	0.57%	0.70%	0.65%	0.61%	0.59%	0.58%
Real Operating Expenditure per Capita over time (a decrease in real operating expenditure per capita over time)	$647.44	$648.21	$638.54	$634.46	$629.21	$625.56	$617.02	$611.04	$605.12	$601.43

Other Financial Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Unrestricted Current Ratio	3.12	3.37	3.56	3.49	3.47	3.46	3.59	3.68	3.80	3.98
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	3.56%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%
Capital Expenditure Ratio	1.90%	1.21%	1.15%	1.53%	1.15%	1.14%	1.14%	1.14%	1.17%	1.10%
Rates & Annual Charges Coverage Ratio	58.53%	63.26%	63.35%	63.39%	63.43%	62.88%	62.81%	62.74%	62.68%	62.61%
Net Financial Liabilities Ratio (Gearing Ratio)	0.09%	0.06%	-0.06%	0.52%	0.42%	0.32%	0.18%	0.02%	-0.09%	-0.26%
Net Interest Coverage Ratio	-1.71%	-1.70%	-1.57%	-1.32%	-1.26%	-1.46%	-1.56%	-1.67%	-1.75%	-1.86%

FINANCIAL CRITERIA AND BENCHMARKS

SUSTAINABILITY

Operating Performance Ratio

Greater or equal to break even average over 3 years

Executive Summary

Fairfield Council is expected to meet this 3 year average benchmark in the 2016/17 year and then continue to meet it throughout the remainder of the LTFP period. Continued actions to further improve productivity, generate additional revenue and contain costs, are expected to result in operating surpluses for the foreseeable future.

Fairfield City Council consistently generates operating surpluses. This is despite the significant increase in depreciation expense caused by:

- The introduction of new accounting standards regarding asset revaluations.
- The related impacts on depreciation expense.
- The application of the current conservative depreciation methodology.

The SRV which took effect from 1 July 2014 and efficiency initiatives reducing costs (such as the previously implemented structural changes improving labour expenses by 4.5%) will return Council to surplus in 2015/16. These operating surpluses will be further improved by the application of the revised depreciation accounting treatment endorsed by our external auditors for application in 2014/15.

	Financial Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	-1.70%	2.04%	2.21%	2.02%	1.52%	1.21%	1.61%	2.02%	2.04%	2.03%	1.69%
Amalgamated	-1.59%	0.91%	0.84%	1.05%	1.02%	0.68%	0.98%	1.56%	1.62%	1.58%	1.28%

Note- The table above shows the result per year, the 3 year averages can be seen in the detailed graphs below.

What Fairfield City Council actions are or have been implemented to improve this ratio?

Council has a proud record of delivering productivity improvements, cost containment and improved revenue opportunities and a number of achievements in recent years continue to deliver benefits in the current year. These have been measured and monitored since 2008 and have **resulted in approximately $5.7M per annum in improvements to the operating result.** Such initiatives include:

- Withdrawal of management of the Fairfield City Farm (2009).
- Structural change for salaries and wages (2010) – 4.5% reduction from last projected LTFP.
- Christmas closure of non-essential services (2010).
- Energy and waste minimisation program (2010-2013).
- Review of operations of multi-deck car parks (2012).

Fairfield City Council remains committed to an ongoing program of initiatives to achieve further financial benefits for our community. These productivity improvements and cost containment initiatives enable Council to maximise the services it can deliver and the value for each rate dollar for ratepayers.

Initiatives in progress to further improve Operating Performance include:

- Continued focus on employee costs – including leave management.
- Purchase ongoing revenue generating properties including the new Library site at Hamilton Road. Dutton Lane commercial retail development currently under construction which is forecast to return $2.4M p.a. in rental from retail premises.
- Review of the appropriateness of user fees and charges.
- Changing the waste recycling delivery resourcing model - $600,000 p.a. cost reduction.
- Commercial Property Development Fund – Diamond Crescent residential development and various smaller subdivisions – one off capital return on investment through land sales to fund commercial projects such as Dutton Lane development mentioned above.
- Modifying the operation of goods storage to move to Just In Time delivery approach for the bulk of stock items.
- Analysis of purchasing to identify efficiencies from procurement.
- Cessation of the Enterprise Bargaining Agreement (EBA) finalised in June 2015.

Initiatives under consideration include:

- Review service levels and core versus optional services.
- Fully cost subsidies for Council's services so that future decisions can be made concerning the level of subsidy.
- Review resourcing models including use of contract services.
- Business case assessment of the subsidy level, utilisation and alternate delivery models for community halls, community office space and other services.

Forecast for ILGRP's Preferred Option - Amalgamated Council

It is projected that the amalgamated entity will meet the benchmark in the 2016/17 financial year. Fairfield standalone meets the criteria in the 2016/17 year and continues to have a higher operating performance ratio over the following years indicating a more robust financial position than the amalgamated entity going forward.

Assumptions

- Expenditure and priorities continue as per respective LTFPs for the amalgamated entity.
- Ongoing productivity improvement, revenue opportunities and cost containment strategies for both councils continue to be achieved and not disrupted by amalgamation. If these are not achieved they are offset by any estimated savings or efficiencies from amalgamation - refer amalgamation costs analysis below.
- Amalgamation grants will be sufficient to meet the costs of amalgamation – refer amalgamation costs analysis below.

Definition of Criterion

The operating performance ratio measures Council's achievement of containing operating expenditure within operating revenue. It is an important measure as it provides an indication of how a council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). The OLG recommends that all councils should have at least a break even operating position or better as a key component of financial sustainability.

Calculation

$$\frac{\text{Total continuing operating revenue (excl. Capital Grants \& Contributions)} - \text{Operating Expenses}}{\text{Total continuing operating revenue (excl. Capital Grants \& Contributions)}}$$

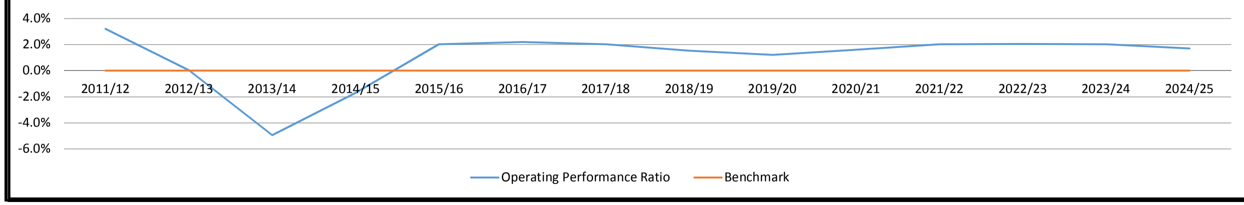
Comments on Criterion

Fairfield Council would meet this benchmark earlier if the three following reasonable amendments were made to the measurement criteria:

- The measure excludes profit on sale of assets, including operational assets such as plant and equipment, vehicles and other items considered as part of the normal operating activities. Council would support the removal of one-off extraordinary profits/losses on sale, but normal operating asset disposals should be included.
- Fairfield Council participates as part of two self-insurance groups, WestPool and the United Independent Pools (UIP) and this is recorded in the accounts as net share of interests in joint ventures. This represents a reduced insurance cost for Council, but is excluded as part of the measure.
- The benchmark excludes Fair Value adjustments for investments, yet the income statement is significantly affected by other Fair Value adjustments such as depreciation and this treatment appears inconsistent.

STANDALONE POSITION

1. Operating Performance Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2016/17	Financial Year										
Benchmark: (greater or equal to break even average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total continuing operating revenue (excl. capital grants and contributions) less operating expenses / Total continuing operating revenue (exc. capital grants and contributions)	3.20%	0.03%	-4.94%	-0.59%	✓	-1.70%	2.04%	2.21%	2.02%	1.52%	1.21%	1.61%	2.02%	2.04%	2.03%	1.69%
					Rolling 3 year average	-2.19%	-1.43%	0.87%	2.09%	1.91%	1.58%	1.45%	1.62%	1.89%	2.03%	1.92%
					Meets the FFTF Benchmark	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Operating Performance Ratio

- 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.
- TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability.

Commentary on result:

Fairfield Council consistently generates operating surpluses. This is despite the significant increase in depreciation expense caused by:

- introduction of new accounting standards regarding asset revaluations
- the related impacts on depreciation expense
- application of the current conservative depreciation methodology.

These items have impacted the 2013/14 and 2014/15 years resulting in operating deficits which run against the long term trend. The Special Rate variation taking effect from 1 July 2014 and efficiency initiatives reducing costs (such as the structural changes improving labour expenses by 4.5%) will return Council to surplus for 2015/16. These operating surpluses will be further improved by the application of the revised depreciation accounting treatment endorsed by our external auditors for application in FY15. This essentially is recognition of assets residual values and asset degradation curves based on asset condition inspections over the useful lives.

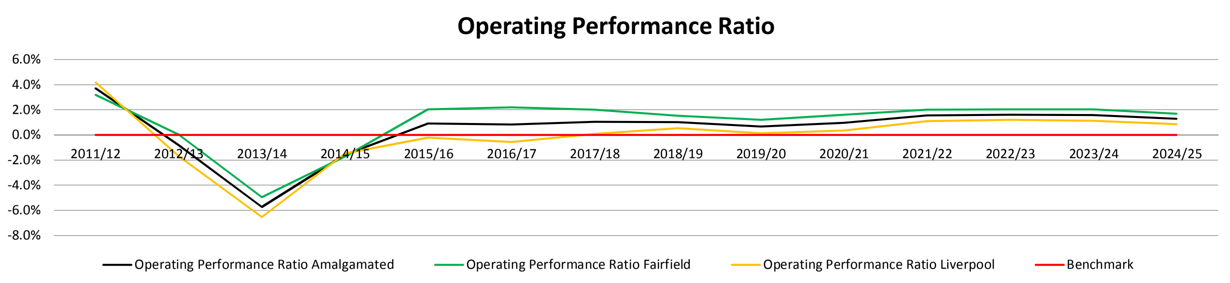
How Could Council Meet This Benchmark In The Future?

Structural changes commenced in earlier years, and the depreciation policy change effected in 2014/15 will yield enduring benefits to operating results. Council is expected to reach this benchmark in the 2016/17 year and then continue to meet in throughout the remainder of the LTFP period. Continued actions to further improve productivity, generate additional revenue and contain costs, as outlined in the relevant section of the LTFP document, is expected to result in operating surpluses for the foreseeable future.

STANDALONE (Each Council) v AMALGAMATED POSITION

1. Operating Performance Ratio	Historical					Projected										
	Financial Year			3 Year average	Meets the FFTF Benchmark	Financial Year										
Benchmark: (greater or equal to break even average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	3.20%	0.03%	-4.94%	-0.59%	✗	-1.70%	2.04%	2.21%	2.02%	1.52%	1.21%	1.61%	2.02%	2.04%	2.03%	1.69%
Liverpool	4.18%	-1.69%	-6.53%	-1.35%	✗	-1.48%	-0.22%	-0.56%	0.08%	0.53%	0.15%	0.34%	1.09%	1.21%	1.13%	0.87%
Amalgamated (FCC & LCC)	3.70%	-0.83%	-5.74%	-0.97%	✗	-1.59%	0.91%	0.84%	1.05%	1.02%	0.68%	0.98%	1.56%	1.62%	1.58%	1.28%

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rolling 3 year average	-2.19%	-1.43%	0.87%	2.09%	1.91%	1.58%	1.45%	1.62%	1.89%	2.03%	1.92%
Meets the FFTF Benchmark	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓
Rolling 3 year average	-3.18%	-2.63%	-0.75%	-0.23%	0.03%	0.25%	0.34%	0.54%	0.89%	1.14%	1.07%
Meets the FFTF Benchmark	✗	✗	✗	✗	✓	✓	✓	✓	✓	✓	✓
Rolling 3 year average	-2.68%	-2.03%	0.06%	0.93%	0.97%	0.92%	0.89%	1.08%	1.39%	1.59%	1.49%
Meets the FFTF Benchmark	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Operating Performance Ratio

- 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 ongoing expenditure requirements.
- TCorp recommended that all councils should be at least break even operating position or better, as a key component of financial sustainability.

Commentary on result:

The amalgamated entity will meet the benchmark in the 2016/17 financial year, Fairfield standalone meets the criteria in the 2016/17 year and continues to have a higher operating performance ratio over the following years indicating a sounder financial position than the amalgamated entity going forward.

How Could Council Meet This Benchmark In The Future?

Continued actions to improve productivity, generate additial revenue and contain costs is expected to result in operating surpluses for the forseeable future. Further opportunities in the amalgamated entity are difficult to identify at present.

SUSTAINABILITY

Own Source Revenue

Greater than 60% average over 3 years

Executive Summary

Fairfield City Council is currently significantly exceeding this benchmark with a 3 year average of 81.81% and is anticipated to continue to exceed this benchmark in the future.

Continuation of current plans and strategies to develop funding sources independent of grants and rates, such as the commercial Property Development Fund (PDF) activities, should ensure continued achievement of this benchmark. Fairfield City currently has a SEIFA index of 3rd most disadvantaged LGA in NSW and is the most disadvantaged in metropolitan Sydney. The need in the community requires Council to be able to reliably fund its service delivery while keeping rates, fees and charges at an affordable level.

	Financial Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	80.51%	77.59%	85.16%	85.13%	85.12%	85.10%	85.23%	85.24%	85.25%	85.26%	85.27%
Amalgamated	76.70%	74.24%	77.44%	77.76%	79.08%	79.27%	81.21%	82.50%	83.92%	85.32%	84.17%

Note- The table above shows the result per year, the 3 year averages can be seen in the detailed graphs below.

What Fairfield City Council actions are or have been implemented to improve this ratio?

Council's PDF projects, including the development of a retail centre in Dutton Lane generating $2.4M net p.a and the commercial recycling business in the Sustainable Resource Centre (SRC) generating $900,000 return annually, reduce its reliance on both grants and rates. A further property development is planned to be commenced in 2018/19 which will generate $1.2M p.a. recurring income from the 2020/21 year.

Forecast for ILGRP's Preferred Option - Amalgamated Council

The amalgamated entity meets the benchmark from the 2014/15 year and Fairfield standalone also meets the criteria from 2014/15. It is worthy to note that Fairfield's own source revenue ratio is higher than the amalgamated entity by an average of 4.5% over the next 10 years.

Fairfield City currently has a SEIFA index of 3rd most disadvantaged LGA in NSW and the most disadvantaged in metropolitan Sydney. A merger may disguise this level of disadvantage and negatively influence funding allocations that support the priority needs of this community.

Assumptions

- Future significant changes do not occur to grants such as Federal Assistance Grants (FAGs) indexation freeze that reduced the grants and increased the ratio.
- Delivery of the PDF commercial project is accomplished and the Sustainable Resource Centre continues profitable operations.

Definition of Criterion

The own source revenue ratio measures fiscal flexibility as it indicates the extent of external funding sources such as operating and capital grants and contributions received by councils. 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

Calculation

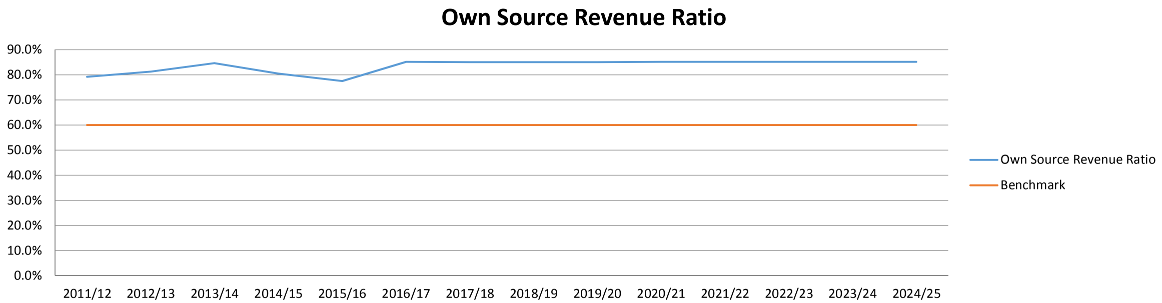
$$\frac{\text{Total continuing operating revenue (less ALL Grants \& Contributions)}}{\text{Total continuing operating revenue}}$$

Comments on Criterion

The measure can see a natural improvement without Council taking any action, but simply as a result of decisions taken by Federal and State Governments deciding to reduce grants. An example of this was the Federal Government's recent decision to not apply inflation for 3 years to FAGs. This was further compounded by the NSW State Government's decision through its distribution model to reduce Fairfield Council's share by a further 5%, resulting in a net impact to Fairfield Council in year 1 of $800,000 reduction in income. Ironically, both of these impacts improve our benchmark ratio, but deliver less revenue to service the community.

STANDALONE POSITION

2. Own Source Revenue Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2014/15	Financial Year										
Benchmark: (greater than 60% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total continuing operating revenue less all grants and contributions / Total continuing operating revenue inclusive of capital grants and contributions	79.29%	81.38%	84.68%	81.81%	✓	80.51%	77.59%	85.16%	85.13%	85.12%	85.10%	85.23%	85.24%	85.25%	85.26%	85.27%
					Rolling 3 year average	82.1%	80.7%	81.0%	82.5%	85.1%	85.1%	85.1%	85.2%	85.2%	85.2%	85.3%
					Meets the FFTF Benchmark	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Own Source Revenue Ratio

• Measures the degree of reliance on external funding sources (e.g. grants and contributions).

• 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.

• The Federal Government did not apply inflation for 3 years to Federal Assistance Grants (FAG's). This, with State Government's decision through its distribution model to reduce Council's share by a further 5% resulted in a net impact in year 1 of $800k reduction in income. Ironically, this improves our benchmark ratio, but delivers less revenue to service the Community.

Commentary on result:

Council is currently significantly exceeding this benchmark and this is anticipated to continue in the future. Council has taken actions with the development of a retail centre in Dutton Lane as part of a commercial Property Development Fund (PDF) project generating $2.4M and a commercial recycling business in the Sustainable Resource Centre (SRC) generating $900k return net p.a to reduce its reliance on both grants and rates. A further property development is planned to be commenced in 2018/19 which will generate $1.2M p.a. recurring income from 2020/21 year. An additional $10.65M in capital grants in 2015/16 for roads and infrastructure for the new airport reduces the ratio in that year.

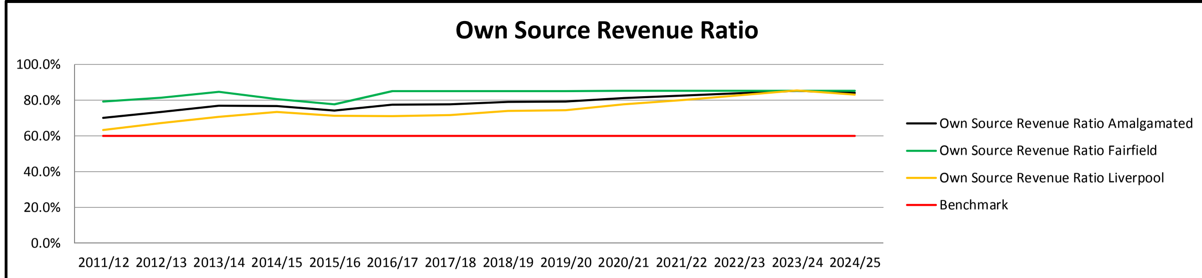
How Could Council Meet This Benchmark In The Future?

Continuation of current plans and strategies should ensure continued achievement of this benchmark.

STANDALONE (Each Council) v AMALGAMATED POSITION

2. Own Source Revenue Ratio	Historical					Projected										
	Financial Year			3 Year average	Meets the FFTF Benchmark	Financial Year										
Benchmark: (greater than 60% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	79.29%	81.38%	84.68%	81.81%	✔	80.51%	77.59%	85.16%	85.13%	85.12%	85.10%	85.23%	85.24%	85.25%	85.26%	85.27%
Liverpool	63.23%	67.25%	70.61%	66.95%	✔	73.39%	71.23%	71.05%	71.68%	73.99%	74.35%	77.69%	80.05%	82.69%	85.38%	83.17%
Amalgamated (FCC & LCC)	70.07%	73.51%	76.92%	73.48%	✔	76.70%	74.24%	77.44%	77.76%	79.08%	79.27%	81.21%	82.50%	83.92%	85.32%	84.17%

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rolling 3 year average	82.1%	80.7%	81.0%	82.5%	85.1%	85.1%	85.1%	85.2%	85.2%	85.2%	85.3%
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Rolling 3 year average	70.43%	71.75%	71.87%	71.32%	72.25%	73.35%	75.35%	77.36%	80.15%	82.70%	83.73%
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Rolling 3 year average	75.72%	75.91%	76.11%	76.48%	78.10%	78.71%	79.86%	81.01%	82.55%	83.92%	84.47%
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Own Source Revenue Ratio

- Measures the degree of reliance on external funding sources (e.g. grants and contributions).
- 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.

Commentary on result:

The amalgamated entity meets the benchmark from the 2014/15 year and Fairfield stand-alone also meets the criterion from 2014/15. it is worthy to note that Fairfield's own source revenue ratio is higher than the amalgamated entity by an average of 4.5% over the next 10 years.

How Could Council Meet This Benchmark In The Future?

Other initiatives have been pursued to further improve Fairfield Council's long term financial position. Additional property rental revenues to be delivered in 2016-17 due to the development of Dutton Lane in Cabramatta, currently under construction, and an additional commercial Property Development Fund investment in the 2018/19 year are examples of such initiatives.

SUSTAINABILITY

Building and Infrastructure Asset Renewal Ratio

Greater than 100% average over 3 years

Executive Summary

The renewal ratio is expected to achieve greater than 100% from 2015/16 and meet the three year average in 2017/18. This improvement has occurred due to:

- Improved project identification between new and renewal components.
- The application of the new SRV expenditure from 2014/15 commits $42.41M for infrastructure renewals over 10 years, of which $1.7M p.a. ($15.3M for 10 years) is for buildings.
- A change in the depreciation measurement to better recognise the deterioration of assets will further improve the ratio. Council's methodology will be introduced and audited as part of the 2014/15 financial year, for application from 2015/16 and subsequent years which will result in a significant impact (reduction) on depreciation expense.

The SRV which took effect from 1 July 2014 has committed significant expenditure for Building and Infrastructure Renewal - $42.41M for infrastructure renewals over 10 years, of which $1.7M p.a. ($15.3M for 10 years) is for buildings – as Council previously identified this as a concern. This increased expenditure will improve the ratio.

The current shortfall against the benchmark is also largely a result of understatement of asset renewals due to the classification of work performed as new projects. There is now a greater emphasis to separately identify renewal components from improvements or extensions. In the past, asset renewals were understated due to the classification of work performed as 'new projects'. Improvements in the classification process presents a more accurate reflection of the actual renewal work and show that Council will reach the benchmark performance in the 2015/16 year (noting that the 3 year rolling average will take until 2017/18 to flow through).

	Financial Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	77.18%	100.30%	104.86%	102.47%	102.11%	101.77%	101.43%	101.09%	100.77%	100.45%	100.13%
Amalgamated	79.27%	121.59%	92.06%	103.92%	108.75%	103.99%	102.70%	102.10%	103.82%	103.45%	101.90%

Note- The table above shows the result per year, the 3 year averages can be seen in the detailed graphs below.

What Fairfield City Council actions are or have been implemented to improve this ratio?

The SRV which commenced on 1 July 2014 commits $42.41M for infrastructure renewals over 10 years, of which $1.7M p.a. ($15.3M for 10 years) is for buildings, which improves this ratio.

Council has strengthened internal classification processes for renewals of assets as part of its depreciation and asset review. This will result in separately identifying renewal components from improvements or extensions. In the past, asset renewals were understated due to the classification of work performed as new projects. This classification problem occurred because most renewal work also accommodates improvements that have been identified responding to community expectations.

Additionally, a change in depreciation measurement will further improve the ratio Council's methodology will be introduced and audited as part of the 2014/2015 financial year, for application from 2015/2016 and subsequent years which will result in a significant impact (reduction) on depreciation expense (compared to previously forecasted depreciation expense). The reduction is essentially recognition of asset residual values and asset degradation curves based on condition inspections over the useful lives to better recognise the deterioration of assets.

Forecast for ILGRP's Preferred Option - Amalgamated Council

The amalgamated entity will meet the benchmark as of the 2017/18 financial year, this is also the case with Fairfield standing alone. It should be noted that Fairfield Council currently has a more conservative average depreciation rate of 1.72% or 58.3 years average asset life compared to Liverpool's of 1.15% or 86.6 years. This means the improved amalgamated entity result is generated from combining methodologies rather than improved results.

Assumptions

- Liverpool has identified funding sources to complete the Liverpool renewals. Fairfield has the Special Rate Variation approved for Fairfield's renewals.
- Fairfield Council has the capacity to deliver the renewal programs.
- Fairfield's Asset Management Plans (AMPs) identify the renewal programme effectively and without conflict.

Definition of Criterion

The building and infrastructure asset renewal ratio assesses the rate at which assets are being renewed against the rate at which they are depreciating.

Renewal is defined as the replacement of existing assets to equivalent capacity or performance capability, as opposed to the acquisition of new assets.

A higher ratio is an indicator of strong performance, performance < 100% indicates that a council's existing assets are deteriorating faster than they are being renewed and that potentially the backlog is worsening.

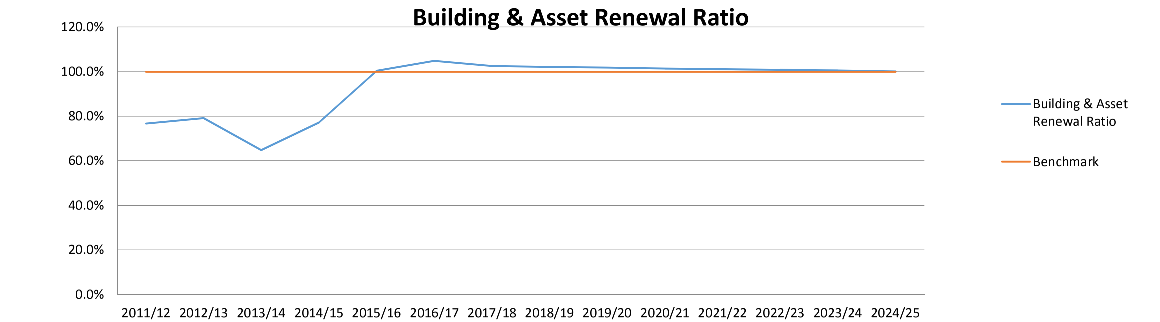
Calculation

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

Comments on Criterion

Special Schedule 7 is a relatively new reporting requirement that has limitations caused by a lack of consistency of data and appropriate auditing standards. Fairfield Council has been very conservative historically in preparing this Schedule which may have adversely impacted the result. This view is supported and recognised in the guidance provided in the description of the ratios where it was noted. "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." Council has, as part of its Integrated Planning and Reporting improvements, reassessed some accounting treatments regarding assets and depreciation in partnership with the external auditors Pitcher Partners.

3. Building and Infrastructure Asset Renewal Ratio	Historical					Projected										
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2017/2018	Financial Year										
Benchmark: (greater than 100% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Asset renewals (building and infrastructure) / Depreciation, amortisation and impairment (building and infrastructure)	76.74%	79.10%	64.81%	73.06%	✔	77.18%	100.30%	104.86%	102.47%	102.11%	101.77%	101.43%	101.09%	100.77%	100.45%	100.13%
					Rolling 3 year average	73.5%	80.9%	94.2%	102.5%	103.1%	102.1%	101.8%	101.4%	101.1%	100.8%	100.4%
					Meets the FFTF Benchmark	☒	☒	☒	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Building and Infrastructure Asset Renewal 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.
- Compares the proportion spent on infrastructure asset renewals and the asset's deterioration.
- A consistent measure that can be applied across councils of different sizes and locations.
- A higher ratio is an indicator of strong performance.
- Performance < 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially the backlog is worsening.

Commentary on result:

The renewal ratio is expected to achieve greater than 100% from 2015/16 and meet the 3 year average in 2017/18. This improvement has occurred due to:

- Improved project identification between new and renewal components
- The application of the new SRV expenditure from 2014/15 of $42.41M for infrastrucutre renewals over 10 years, of which $1.7M per annum ($15.3M for 10 years from 2014/15) is for buildings
- A change in the depreciation measurement to better recognise the deterioration of assets will further improve the ratio. Council's methodology to be introduced for the 2014/2015 and subsequent years will result in a significant impact (reduction) on depreciation expense.

Council has strengthened internal classification processes for renewals of assets as part of its depreciation and asset review. This will result in separately identifying renewal components from improvements or extensions. In the past, asset renewals were understated due to the classification of work performed as new projects. This classification problem occurred because most renewal work also accommodates improvements that have been identified responding to community expectations. Additionally, the change in depreciation policy will further improve the ratio.

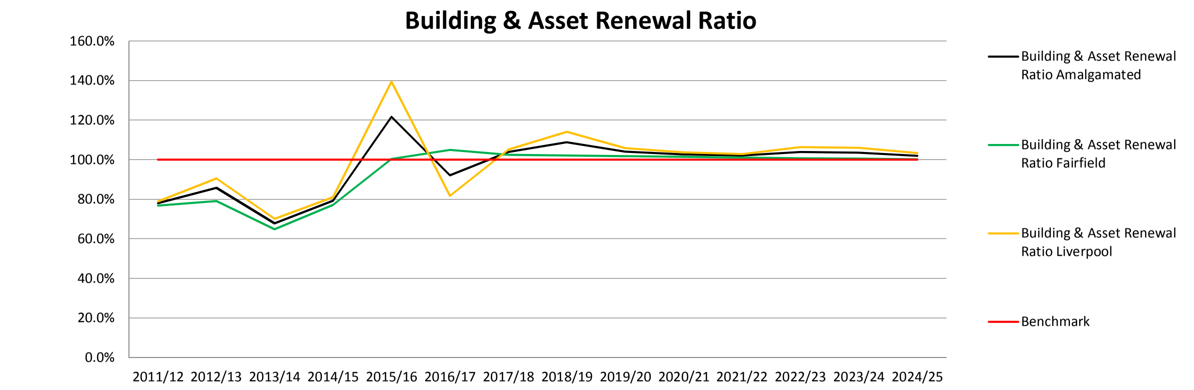
How Could Council Meet This Benchmark In The Future?

The SRV commits $42.41M for infrastrucutre renewals over 10 years, of which $1.7M per annum ($15.3M for 10 years from 2014/15) is for buildings, this improves this ratio.

STANDALONE (Each Council) v AMALGAMATED POSITION

3. Building and Infrastructure Asset Renewal Ratio	Historical					Projected										
	Financial Year			3 Year average	Meets the FFTF Benchmark	Financial Year										
Benchmark: (greater than 100% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	76.74%	79.10%	64.81%	73.06%	✗	77.18%	100.30%	104.86%	102.47%	102.11%	101.77%	101.43%	101.09%	100.77%	100.45%	100.13%
Liverpool	78.92%	90.41%	70.09%	79.56%	✗	81.01%	139.35%	81.61%	105.07%	114.00%	105.74%	103.70%	102.90%	106.38%	106.01%	103.41%
Amalgamated (FCC & LCC)	78.05%	85.77%	67.82%	76.87%	✗	79.27%	121.59%	92.06%	103.92%	108.75%	103.99%	102.70%	102.10%	103.82%	103.45%	101.90%

Rolling 3 year average	73.5%	80.9%	94.2%	102.5%	103.1%	102.1%	101.8%	101.4%	101.1%	100.8%	100.4%
Meets the FFTF Benchmark	☒	☒	☒	✓	✓	✓	✓	✓	✓	✓	✓
Rolling 3 year average	80.25%	96.21%	100.48%	108.32%	100.63%	108.28%	107.74%	104.10%	104.31%	105.07%	105.25%
Meets the FFTF Benchmark	☒	☒	✓	✓	✓	✓	✓	✓	✓	✓	✓
Rolling 3 year average	77.32%	89.39%	97.62%	105.73%	101.74%	105.56%	105.11%	102.92%	102.87%	103.12%	103.05%
Meets the FFTF Benchmark	☒	☒	☒	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Building and Infrastructure Asset Renewal 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.
- Compares the proportion spent on infrastructure asset renewals and the asset's deterioration.
- A consistent measure that can be applied across councils of different sizes and locations.
- A higher ratio is an indicator of strong performance.
- Performance < 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially the backlog is worsening.

Commentary on result:

The amalgamated entity will meet the benchmark as of the 2017/18 financial year, this is also the case with Fairfield standing alone. It should be noted that Fairfield Council currently has a more conservative average depreciation rate of 1.72% or 58.3 years average asset life compared to Liverpool's of 1.15% or 86.6 years. This means the improved amalgamated entity result may be generated from combining methodologies rather than improved results.

How Could Council Meet This Benchmark In The Future?

The succes of Asset Management Plans, condition inspections, life-cycles, maintenance and intervention points will need to be considered. The different LGA's may currently adopt different standards and life-cycles.

INFRASTRUCTURE AND SERVICE MANAGEMENT

Infrastructure Backlog Ratio

Less than 2%

Executive Summary

Fairfield City Council's infrastructure backlog ratio will achieve the benchmark of less than 2% from 2014/15. Fairfield Council's spend on infrastructure renewal has been significant for many years and further improvement will occur due to:

- A change in the measurement of the asset backlog to a satisfactory condition as prescribed by the Office of Local Government as condition 2, as opposed to the previous position of condition 1 or new.
- The Special Rate Variation included an additional $42.41m to be spent on asset upgrades and this will also reduce the asset backlog.
- The recommendation to consult with the community to determine the asset condition that is considered acceptable to deliver the required level of service.

Council's assets are considered to be in a comparatively good condition with only 1.2% of all assets falling into the poor (condition 4) and 0% in the very poor (condition 5) categories as a percentage of written down value (per Special Schedule No. 7 2014 Published Financial Statements). The table below shows the comparative asset conditions for other comparable councils.

	Fairfield City Council 2014	Blacktown City Council 2014	Holroyd City Council 2014	Liverpool City Council 2014	Parramatta City Council 2014q	Penrith City Council 2014	Bankstown City Council 2014	Sutherland City Council 2014
1 (Excellent)	45.1%	25.8%	28.1%	41.1%	17.0%	25.0%	16.1%	15.3%
2 (Good)	44.4%	35.6%	39.9%	32.6%	31.7%	43.7%	34.1%	57.3%
3 (Average)	9.3%	30.9%	20.4%	20.7%	31.4%	21.0%	40.2%	21.1%
4 (Poor)	1.2%	5.7%	8.0%	3.3%	14.1%	7.8%	5.9%	4.2%
5 (Very Poor)	0.0%	2.0%	3.6%	2.3%	5.8%	2.5%	3.7%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

	Financial Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	1.95%	1.93%	1.92%	1.90%	1.88%	1.87%	1.85%	1.84%	1.80%	1.78%	1.76%
Amalgamated	3.17%	2.55%	2.50%	2.14%	1.87%	1.49%	1.13%	1.11%	1.08%	1.06%	1.07%

Note- The table above shows the result per year.

What Fairfield City Council actions are or have been implemented to improve this ratio?

Council has previously calculated this ratio on the basis that all assets requiring renewal were restored to new condition (condition 1) and not condition 2 (good) as prescribed by the Office of Local Government. The outcome for Fairfield with this more rigorous approach was still only 3.88% compared to the benchmark requirement of less than 2%. Changes in the measurement approach will improve this asset backlog percentage by:

- Measuring the cost to bring the asset to a satisfactory condition as prescribed by the Office of Local Government as condition 2, as opposed to the previous position of condition 1 or new.
- The recommendation to consult with the community to determine the asset condition that is considered acceptable to deliver the required level of service. This may mean, for example, that an asset in condition 3 (average) may still deliver the required level of service and thus not form part of the asset backlog. This consultation is anticipated to deliver a significant reduction in the asset backlog.
- The Special Rate Variation included recognition that Asset Management Plans addressing asset backlog was a priority for Council. This results in an additional $42.41M to be spent on asset upgrades and this will also reduce the asset backlog.

Forecast for ILGRP's Preferred Option - Amalgamated Council

The amalgamated entity would meet this benchmark in the 2018/19 year. Fairfield Council meets the benchmark in 2014/15 year, which is considerably earlier than the amalgamated entity. This is consistent with Fairfield Council's assets being in comparatively good condition with only 1.2% of all assets falling into the poor (condition 4) and 0% in the very poor (condition 5) categories as a percentage of written down value. The improvements noted for Fairfield Council have already been adopted by Liverpool Council and reduced its asset backlog in the 2013/14 financial statements by $144M.

Assumptions

- Backlog ratios are measured for councils in a consistent way
    - Liverpool has consulted with its community to establish satisfactory asset conditions for service.
    - Fairfield currently assumes OLG condition 2 as appropriate – community consultation would be required to change this assumption.
- Asset consumption or degradation are appropriate for each asset category and council based on local conditions and use.

Definition of Criterion

The infrastructure backlog ratio shows the infrastructure backlog as a total value of a council's infrastructure. It measures the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way.

Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands. A low ratio is an indicator of strong performance.

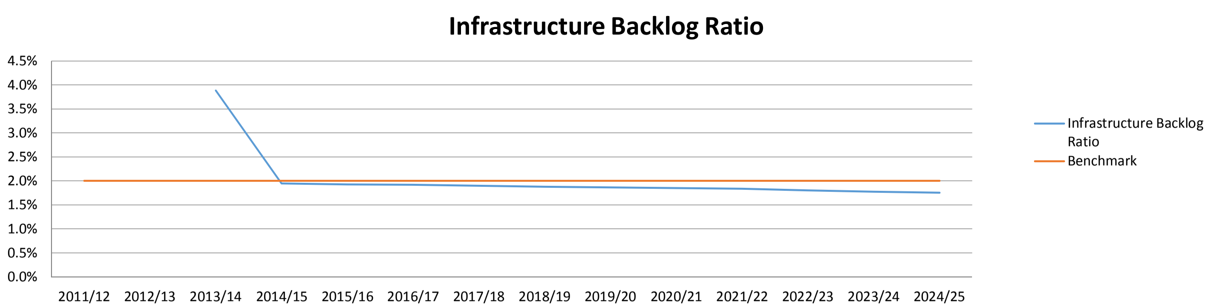
Calculation

$$\frac{\text{Estimated cost to bring assets to a satisfactory condition}}{\text{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets.}}$$

Comments on Criterion

Fairfield Council has previously prepared the Special Schedule 7 on the basis that all assets requiring renewal were restored to new condition (condition 1). This refers to the inconsistency mentioned earlier (refer to comment on the Building and Infrastructure Asset Renewal Ratio criterion above) in the preparation and application of Special Schedule 7.

4. Infrastructure Backlog Ratio	Historical				Projected												
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2014/15	Financial Year										
Benchmark: (less than 2%)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Estimated cost to bring assets to a satisfactory condition Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets			3.88%		✓	1.95%	1.93%	1.92%	1.90%	1.88%	1.87%	1.85%	1.84%	1.80%	1.78%	1.76%



Comments re Infrastructure Backlog Ratio

- Indicates the proportion of backlog against the total value of the Council's infrastructure assets.
- A measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way.
- Measures how councils are managing their infrastructure which is so critical to effective community sustainability.
- Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.
- A low ratio is an indicator of strong performance.

Commentary on result:

Council have previously calculated this ratio on the basis that all assets requiring renewal were restored to new condition (condition / category 1). The outcome for Fairfield with this more rigorous approach was still only 3.88% compared to the benchmark requirement of less than 2%. Changes in the measurement approach will improve this asset backlog percentage by:

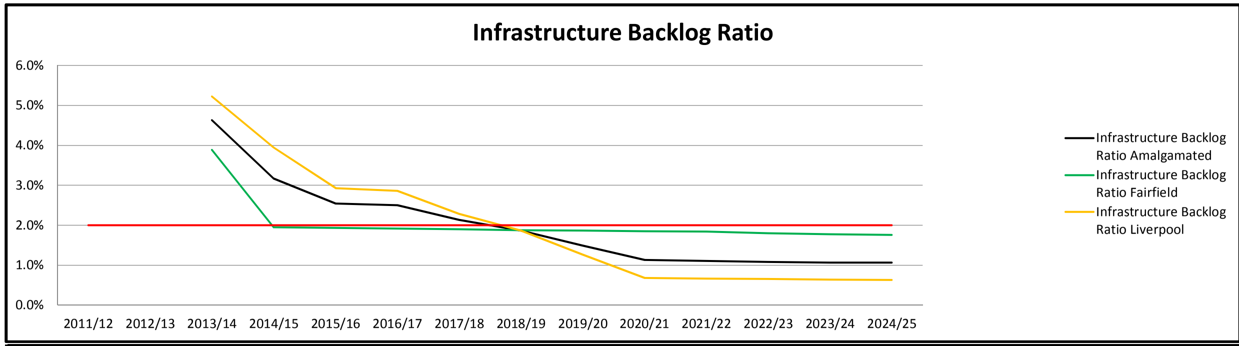
- Measuring the cost to bring the asset to a satisfactory condition as prescribed by the Office of Local Government as condition 2, as opposed to the current position of condition 1 or new.
- The recommendation to consult with the community to determine the asset condition that is considered acceptable to deliver the required level of service. This may mean, for example, that an asset in condition 3 (average) may still deliver the required level of service and thus not form part of the asset backlog. This consultation is anticipated to deliver a significant reduction in the asset backlog.

How Could Council Meet This Benchmark In The Future?

The Special Rate Variation (SRV) included a recognition that Asset Management Plans addressing Asset backlog was a priority for Council. This results in an additional $42.41m to be spent on asset upgrades. Despite the current result for this measure indicating a failure to meet the required minimum benchmark, Council's assets are considered to be in a comparatively good condition with only 1.2% of all assets falling into the poor (condition 4) and 0% in the very poor (condition 5) categories . The referred changes are expected to better reflect the true performance of Council against this benchmark. The table in the Asset Management, Capital Expenditure and Depreciation section of this document shows the comparative asset conditions with neighbouring Councils.

STANDALONE (Each Council) v AMALGAMATED POSITION

4. Infrastructure Backlog Ratio	Historical					Projected										
	Financial Year			3 Year average	Meets the FFTF Benchmark	Financial Year										
Benchmark: (less than 2%)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield			3.88%		2014/15	1.95%	1.93%	1.92%	1.90%	1.88%	1.87%	1.85%	1.84%	1.80%	1.78%	1.76%
Liverpool			5.23%		2018/19	3.94%	2.93%	2.86%	2.28%	1.86%	1.26%	0.68%	0.67%	0.65%	0.64%	0.63%
Amalgamated (FCC & LCC)			4.63%		2018/19	3.17%	2.55%	2.50%	2.14%	1.87%	1.49%	1.13%	1.11%	1.08%	1.06%	1.07%



Comments re Infrastructure Backlog Ratio

- Indicates the proportion of backlog against the total value of the council's infrastructure assets.
- A measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way.
- Measures how councils are managing their infrastructure which is so critical to effective community sustainability.
- Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.
- A low ratio is an indicator of strong performance.

Commentary on result:

The amalgamated entity would meet this benchmark in the 2018/19 year. Fairfield Council meets the benchmark in 2014/15 year, this is considerably earlier than the amalgamated entity. This is consistent with Fairfield Council's assets being in comparatively good condition with only 1.2% of all assets falling into the poor (condition 4) and 0% in the very poor (condition 5) categories as a percentage of written down value. The improvements noted in "How could Council meet this bechmark in the future?" have already been adopted by Liverpool Council and reduced their asset backlog in the 2013/14 financial statements by $144M.

How Could Council Meet This Benchmark In The Future?

The infrastructure backlog ratio for Fairfield Council is expected to achieve the benchmark of less than 2% from 2014/15. This improvement has occurred due to:

- Change in the measurement of the asset backlog to a satisfactory condition as prescribed by the Office of Local Government as condition 2, as opposed to the current position of condition 1 or new.
- The Special Rate Variation (SRV) included an additional $42.41m to be spent on asset upgrades and this will also reduce the asset backlog.
- The recommendation to consult with the community to determine the asset condition that is considered acceptable to deliver the required level of service.

Asset Maintenance Ratio

Greater than or equal to 100% average over 3 years

Executive Summary

Council will achieve a 97.09% Asset Maintenance Ratio in the 2014/15 financial year and will exceed 100% in 2015/16. In relation to the rolling 3 year average, **Fairfield will meet the benchmark in the 2016/17 year.**

The SRV which commenced in 2014/15 results in an additional $4.71M per annum being spent on asset maintenance and improves this ratio.

The target of 103.09% from the 2015/16 forward represents recognition that actual maintenance sometimes exceeds the Asset Management Plan maintenance costs, due to scope creep or unforeseen problems. It also allows for some tolerance for additional maintenance caused by significant weather or other events.

	Financial Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	97.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
Amalgamated	101.78%	106.45%	106.28%	106.52%	106.81%	107.09%	107.37%	108.05%	107.62%	108.31%	108.64%

Note- The table above shows the result per year, the 3 year averages can be seen in the detailed graphs below

What Fairfield City Council actions are or have been implemented to improve this ratio?

The Special Rate Variation commencing July 2014 included recognition that Asset Management Plans addressing Asset maintenance was a priority for Council. This results in an additional $4.71M p.a. to be spent on asset maintenance.

Additional SRV funds addressing asset backlog improves the condition of assets and will reduce the demand for maintenance actions, further improving this ratio.

Forecast for ILGRP's Preferred Option - Amalgamated Council

The amalgamated entity will achieve the benchmark in the 2015/16 year, Fairfield standalone achieves this in 2016/17. Fairfield's SRV results in an additional $4.71M p.a. being spent on asset maintenance and improves this ratio. Fairfield Council has strong asset management planning practices to determine appropriate intervention strategies and renewal programs and this best practice reduces the burden on maintenance costs.

Assumptions

- The Asset Management Plans accurately predict the required repairs and maintenance.
- The calculation includes the recognition that declining asset backlogs are reducing pressure on repairs and maintenance costs.

Definition of Criterion

The asset maintenance ratio compares council's actual asset maintenance against the estimated required annual asset maintenance.

It indicates if a council is investing enough funds within the year to stop the infrastructure backlog from growing.

It provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

A ratio of less than 100% indicates that there may be a worsening infrastructure backlog.

Calculation

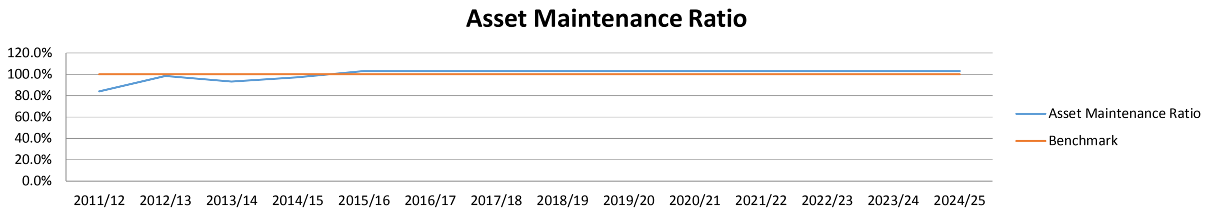
$$\frac{\text{Actual Asset Maintenance}}{\text{Required Asset Maintenance}}$$

Comments on Criterion

The previously referred to limitations of Special Schedule 7 reporting caused by a lack of consistency with data are equally applicable in respect of this measure.

STANDALONE POSITION

5. Asset Maintenance Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2016/17	Financial Year										
Benchmark: (greater than or equal to 100% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Actual asset maintenance / Required asset maintenance	83.90%	98.43%	93.16%	91.12%	✔	97.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
					Rolling 3 year average	95.87%	97.97%	101.25%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
					Meets the FFTF Benchmark	☒	☒	✔	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Asset Maintenance Ratio

- Reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.
- Provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.
- A ratio of less than 100% indicates that there may be a worsening infrastructure backlog.

Commentary on result:

Council will achieve a 97.09% Asset Maintenance Ratio in the 2014/15 financial year, against a benchmark of 100%. In relation to the rolling 3 year average, Fairfield will meet the benchmark in the 2016/17 year.

The SRV which commenced in 2014/15 results in an additional $4.71m per annum being spent on asset maintenance and improves this ratio.

The target of 103.09% from the 2015/16 forward represents recognition that actual maintenance sometimes exceeds the Asset Management Plan maintenance costs, due to scope creep or unforeseen problems. It also allows for some tolerance for additional maintenance caused by significant weather or other events.

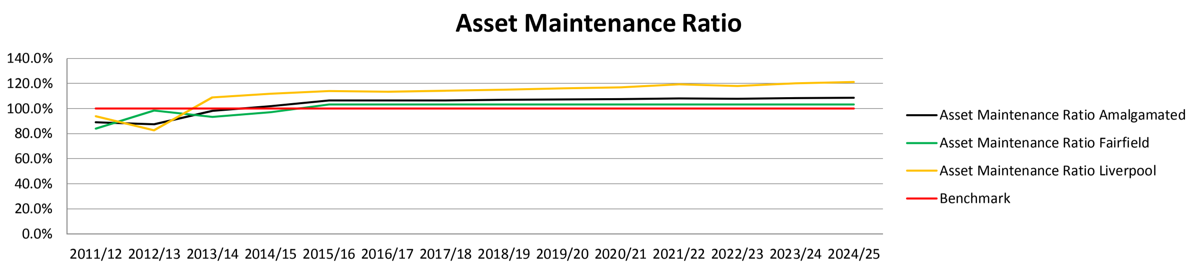
How Could Council Meet This Benchmark In The Future?

The Special Rate Variation (SRV) commencing July 2014 included recognition that Asset Management Plans addressing Asset maintenance was a priority for Council. This results in an additional $4.71m per annum to be spent on asset maintenance. Required maintenance may be reduced in the future due to this additional SRV addressing asset backlog improving the condition of assets and reducing the demand for maintenance actions.

STANDALONE (Each Council) v AMALGAMATED POSITION

5. Asset Maintenance Ratio	Historical					Projected										
	Financial Year			3 Year average	Meets the FFTF Benchmark	Financial Year										
Benchmark: (greater than or equal to 100% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	83.90%	98.43%	93.16%	91.12%	✗	97.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
Liverpool	93.83%	82.64%	108.89%	90.96%	✗	111.85%	113.91%	113.48%	114.16%	115.10%	116.02%	116.95%	119.14%	117.79%	120.06%	121.18%
Amalgamated (FCC & LCC)	89.09%	87.39%	98.19%	91.03%	✗	101.78%	106.45%	106.28%	106.52%	106.81%	107.09%	107.37%	108.05%	107.62%	108.31%	108.64%

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rolling 3 year average	95.87%	97.97%	101.25%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
Meets the FFTF Benchmark	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓
Rolling 3 year average	94.08%	111.60%	113.11%	113.85%	114.26%	115.10%	116.03%	117.39%	117.97%	119.00%	119.69%
Meets the FFTF Benchmark	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Rolling 3 year average	95.03%	102.28%	104.94%	106.42%	106.54%	106.81%	107.09%	107.51%	107.68%	107.99%	108.20%
Meets the FFTF Benchmark	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Asset Maintenance Ratio

- Reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.
- Provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.
- A ratio of less than 100% indicates that there may be a worsening infrastructure backlog.

Commentary on result:

The amalgamated entity will achieve the benchmark in the 2015/16 year, Fairfield standalone achieves this in 2016/17. Fairfield's Special Rate Variation (SRV) commencing July 2014 results in an additional $4.71M per annum to be spent on asset maintenance and improves this ratio. Fairfield Council has strong Asset Management Plan practices to determine appropriate intervention strategies, renewal programs supported by an SRV and this best practice reduces the burden on maintenance costs.

How Could Council Meet This Benchmark In The Future?

The target for the amalgamated Council from 2015/16 forward represents recognition that actual maintenance sometimes exceeds the Asset Management Plan maintenance costs, due to scope creep or unforeseen problems. It also allows for some tolerance for additional maintenance caused by significant weather or other events.

INFRASTRUCTURE AND SERVICE MANAGEMENT

Debt Service Ratio

Greater than zero and less than or equal to 20% average over 3 year

Executive Summary

Fairfield City Council meets this benchmark. It has minimal debt and additional debt will only be taken where the evidence supports its use after considering the whole of life costs of the project and servicing interest. In this regard, **Fairfield Council's preference is also to utilise loan funds for revenue generating projects.**

Council is currently at the lower end of the recommended range for this benchmark. This gives Council the potential to use debt in the future to cope with unexpected change including natural disasters as well as new facilities required by the community.

Whilst still remaining at a very low level, the ratio increases in the 2018/19 year, as a new property development initiative has been earmarked with borrowings of $12M to be sourced to finance a commercial project to generate additional revenue for Council.

Continuation of the current policy of minimal debt, with external borrowings sought only when the use of debt proves beneficial, will ensure continued achievement of this benchmark.

	Financial Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	0.29%	0.26%	0.26%	0.23%	0.78%	0.70%	0.64%	0.61%	0.59%	0.58%	0.57%
Amalgamated	2.93%	3.12%	2.88%	2.45%	2.53%	2.29%	1.97%	2.14%	2.08%	1.81%	1.68%

Note- The table above shows the result per year, the 3 year averages can be seen in the detailed graphs below.

What Fairfield City Council actions are or have been implemented to improve this ratio?

Council currently uses debt where commercial opportunities are available to deliver an acceptable rate of return including funding costs. Continuation of the current practice of minimal debt, with external borrowings sought only when the use of debt proves beneficial, will ensure continued achievement of this benchmark.

Forecast for ILGRP's Preferred Option - Amalgamated Council

As a growth council, Liverpool will have a higher growth demand for their services and infrastructure that may lag the revenue generated from the additional rates. Currently the amalgamated entity will meet the benchmark but have a higher debt level than Fairfield as a standalone council, due to Liverpool's higher existing debt levels. Fairfield Council has minimal debt and additional debt will only be taken where the evidence supports the use of debt.

Assumptions

- Fairfield Council has forecast a loan in 2018/19 for $12M for a property development initiative that will generate a $1.2M p.a return from 2020/21.
- Loans will only be considered where the Net Present Value (NPV) of the project is positive including the costs to service the loan.
- There is no future cash flow pressures that require additional loans.
- Relatively low rates of interest.

Definition of Criterion

The debt service ratio indicates the proportion of revenue from ordinary activities utilised for debt repayment.

It is generally higher for councils which have acquired funding for infrastructure development, especially relating to urban release areas.

Prudent and active debt management is a key part of Council's 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.

Inadequate use of debt may mean that councils are forced to raise rates. The ratio is also a strong proxy indicator of a council's strategic capacity.

Calculation

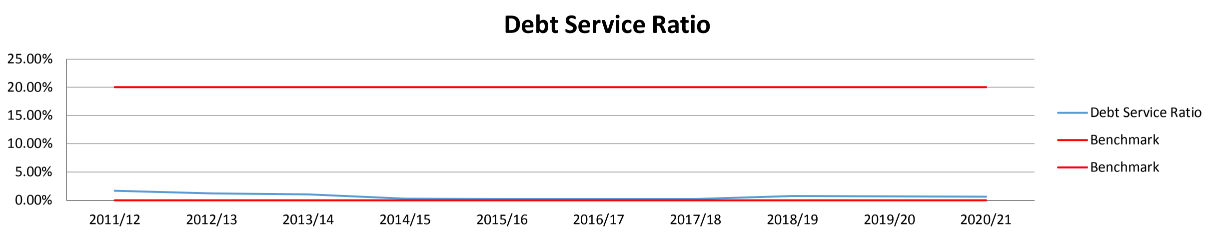
$$\frac{\text{Cost of debt service (interest expense \& principal repayments)}}{\text{Total continuing operating revenue (exc. capital grants and contributions).}}$$

Comments on Criterion

The use of debt for asset renewal has benefit where the whole of life costs, including servicing debts, is reduced by earlier intervention. The Asset Management Plans should recommend the optimum asset intervention and renewal cycles.

STANDALONE POSITION

6. Debt Service Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2014/15	Financial Year										
Benchmark: (> 0 and < or = to 20% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Cost of debt service (interest expense & principal repayments) / Total continuing operating revenue (exc. capital grants and contributions)	1.70%	1.20%	1.05%	1.32%	✔	0.29%	0.26%	0.26%	0.23%	0.78%	0.70%	0.64%	0.61%	0.59%	0.58%	0.57%
					Rolling 3 year average	0.83%	0.52%	0.27%	0.25%	0.43%	0.57%	0.70%	0.65%	0.61%	0.59%	0.58%
					Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Debt Service Ratio

- Prudent and active debt management is a key part of Council's 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.
- Inadequate use of debt may mean that councils are forced to raise rates
- It is also a strong proxy indicator of a council's strategic capacity.

Commentary on result:

Council has minimal debt and additional debt will only be taken where the evidence supports the use of debt and the whole of life costs, including servicing interest, is beneficial. Council is currently at the lower end of the recommended range for this benchmark. Whilst still remaining at a very low level, the ratio increases in the 2018/19 year, as a new revenue generating project has been earmarked with borrowings of $12m to be sourced to finance the project.

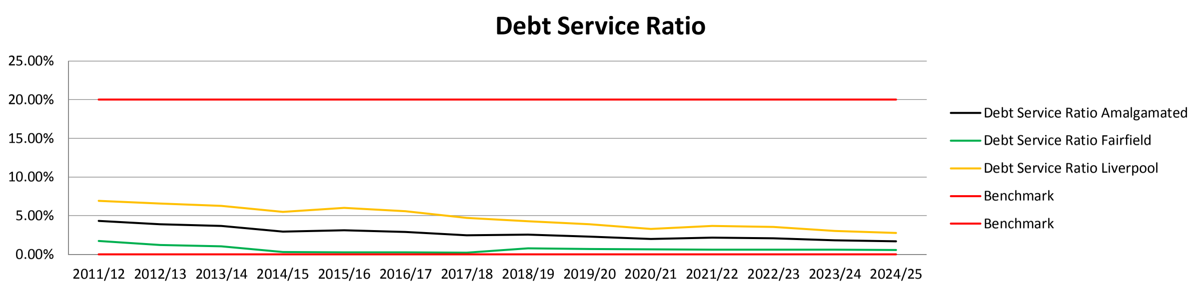
How Could Council Meet This Benchmark In The Future?

Continuation of current policy of minimal debt, with external borrowings sought only when the use of debt proves beneficial, will ensure continued achievement of this benchmark.

STANDALONE (Each Council) v AMALGAMATED POSITION

6. Debt Service Ratio	Historical					Projected										
	Financial Year			3 Year average	Meets the FFTF Benchmark	Financial Year										
Benchmark: (> 0 and < or = to 20% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	1.70%	1.20%	1.05%	1.32%	✔	0.29%	0.26%	0.26%	0.23%	0.78%	0.70%	0.64%	0.61%	0.59%	0.58%	0.57%
Liverpool	6.93%	6.58%	6.25%	6.59%	✔	5.49%	5.99%	5.55%	4.69%	4.28%	3.88%	3.30%	3.66%	3.55%	3.03%	2.77%
Amalgamated (FCC & LCC)	4.34%	3.88%	3.65%	3.95%	✔	2.93%	3.12%	2.88%	2.45%	2.53%	2.29%	1.97%	2.14%	2.08%	1.81%	1.68%

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rolling 3 year average	0.83%	0.52%	0.27%	0.25%	0.43%	0.57%	0.70%	0.65%	0.61%	0.59%	0.58%
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Rolling 3 year average	6.08%	5.90%	5.68%	5.40%	4.83%	4.28%	3.81%	3.61%	3.50%	3.41%	3.11%
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Rolling 3 year average	3.47%	3.22%	2.97%	2.81%	2.62%	2.42%	2.26%	2.13%	2.07%	2.01%	1.85%
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Debt Service Ratio

- Prudent and active debt management is a key part of Council's 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.
- Inadequate use of debt may mean that councils are forced to raise rates
- It is also a strong proxy indicator of a council's strategic capacity.

Commentary on result:

As a growth Council, Liverpool will have a higher growth demand for their services and infrastructure that may lag the revenue generated from the additional rates. Currently the amalgamated entity will meet the benchmark but have a higher debt level than Fairfield stand-alone due to Liverpool's higher debt levels. Fairfield Council has minimal debt and additional debt will only be taken where the evidence supports the use of debt and the whole of life costs, including servicing interest, is beneficial.

How Could Council Meet This Benchmark In The Future?

Continuation of current policy of minimal debt, with external borrowings sought only when the use of debt proves beneficial, will ensure continued achievement of this benchmark. Liverpool Council's loans are reducing, Fairfield Council ratio increases markedly in the 2018/19 year, as a new property development initiative has been earmarked with borrowings of $12m to be sourced to finance the project.

EFFICIENCY

Real Operating Expenditure Per Capita

A decrease in real operating expenditure per capita over time

Executive Summary

Fairfield Council is currently meeting the recommended reduction for this benchmark reflecting efficiency improvements. Fairfield's community and their comparative level of disadvantage places more pressure on Council to provide a broader range of services.

Real operating expenditure per capita increases in the 2014/15 and 2016/17 years as a result of increases in new services to the community, most of which is tied to the Special Rate Variation which took effect from 1 July 2014. The calculation did not remove the impact of these new services, but it still shows a downwards trend.

Projections indicate a consistent reduction in real operating expenditure per capita throughout the LTFP period.

Real Operating Expenditure per Capita

	Financial Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	$683.45	$647.44	$648.21	$638.54	$634.46	$629.21	$625.56	$617.02	$611.04	$605.12	$601.43
Amalgamated	$684.64	$643.92	$638.44	$626.25	$617.94	$609.86	$601.12	$589.92	$581.19	$574.01	$568.22

Note- The table above shows the result per year.

What Fairfield City Council actions are or have been implemented to improve this ratio?

Many of the initiatives highlighted when discussing the Operating Performance ratio earlier in this chapter deliver benefits that improve this ratio. Past productivity improvements and cost containment strategies deliver ongoing benefits. These have been measured and monitored since 2008 and have resulted in approximately $5.7M p.a. in improvements to the operating result. These initiatives include:

- Withdrawal of management of the Fairfield City Farm (2009).
- Structural change for salaries and wages (2010).
- Christmas closure of non-essential services (2010).
- Energy and waste minimisation program (2010-2013).
- Review of operations of multi-deck car parks (2012).
- Organisational restructure (2013).

Council has identified a range of productivity initiatives to be explored and developed to deliver increased efficiencies, revenue increases and cost reductions over the life of the LTFP. These initiatives will be assessed through a business case methodology. Identified strategies include:

- Continued focus on employee costs – particularly leave management.
- Changing the waste recycling delivery model - $600,000 p.a cost reduction.
- Modifying the operation of goods storage to move to Just In Time delivery approach for the bulk of stock items.
- Analysis of purchasing to identify efficiencies from procurement.
- Opportunities for shared services or resource sharing.
- Review service levels and core versus optional services.
- Review resourcing models including the use of contract services.
- Cessation of the long term Enterprise Bargaining Agreement finalised in June 2015.

Forecast for ILGRP's Preferred Option - Amalgamated Council

Fairfield Council's structural changes resulted in a 4.5% salary reduction. In addition the long term Enterprise Bargaining Agreement has been agreed to cease in June 2015. Other efficiency programs have generated savings over $5.7M p.a. Future initiatives will deliver Fairfield Council's projected 7.6% efficiency cost decrease over the 10 year term (adjusted for inflation), compared to Liverpool Council's assumption of a 19.7% efficiency cost decrease. Fairfield is an infill council with a higher population density to service, meaning the additional service requirements can be provided with the current infrastructure in place. Liverpool is a growth council with new areas and new services to provide additional infrastructure requirements, making the Liverpool projection aggressive. Liverpool's approach makes the projections for the amalgamated entity challenging to achieve.

Assumptions

- Consistent levels of service delivery.
- Minimal cost shocks in expenses projected.
- Inflation is consistent with financial projections.
- Population estimates are reliable.

Definition of Criterion

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Calculation

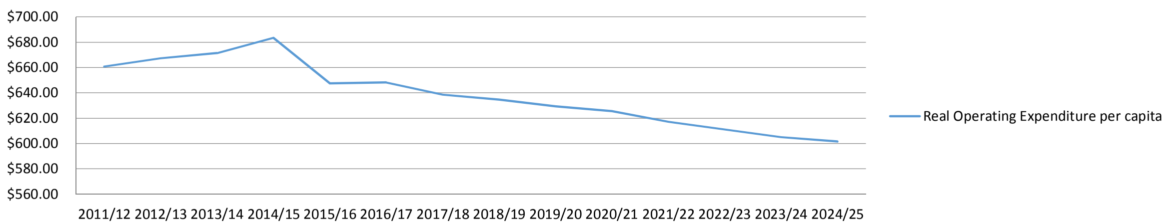
$$\frac{\text{Real Operating Expenditure (deflated by CPI)}}{\text{Population}}$$

Comments on Criterion

The concern with this benchmark is that comparisons between councils can be difficult as the service offerings are not consistent. Fairfield's community and their comparative level of disadvantage places more pressure on Council to provide a broader range of services. The comparisons also take no account of the differences in service levels that respond to different community priorities.

STANDALONE POSITION

7. Real Operating Expenditure per Capita over time	Historical				Projected										
	Financial Year			Meets the FFTF Benchmark from 2015-2025	Financial Year										
Benchmark: (a decrease in real operating expenditure per capita over time)	2011/12	2012/13	2013/14		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Real Operating Expenditure (deflated by CPI) / Population	$ 660.84	$ 667.35	$ 671.31	✔	$ 683.45	$ 647.44	$ 648.21	$ 638.54	$ 634.46	$ 629.21	$ 625.56	$ 617.02	$ 611.04	$ 605.12	$ 601.43
				Meets the FFTF Benchmark	☒	✔	☒	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Real Operating Expenditure over time

- Assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.
- Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Commentary on result:

Council is currently meeting the recommended reduction for this benchmark reflecting efficiency improvements. However, real operating expenditure per capita increases in the 2014/15 and 2016/17 years as a result of increases in services to the community, most of which is tied to the Special Rate Variation granted last year for effect from 1 July 2014. Projections indicate a consistent reduction in real operating expenditure per capita throughout the LTFP period.

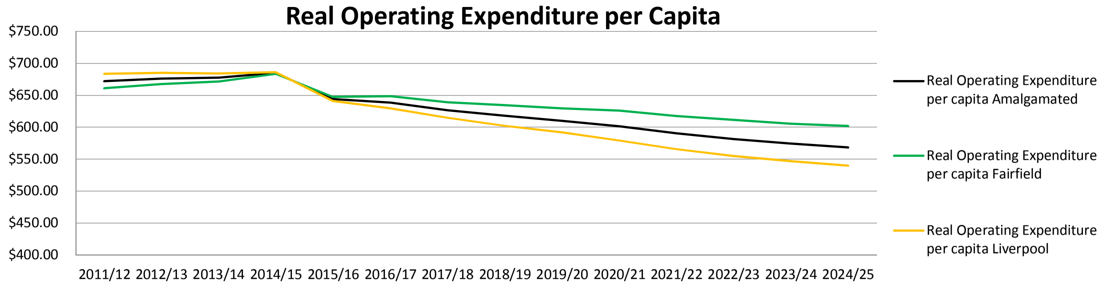
How Could Council Meet This Benchmark In The Future?

Fairfield City Council is committed to an ongoing program on initiatives to achieve financial savings, continuous improvement and efficient/effective service delivery for our community. Productivity improvements and cost containment enable Council to maximise the services it can deliver and the value for each rate dollar for ratepayers. The Productivity Improvements, Revenue Opportunities, Cost Containment Strategies section of this document provides more details in this respect.

STANDALONE (Each Council) v AMALGAMATED POSITION

7. Real Operating Expenditure per Capita over time	Historical				Projected										
	Financial Year			Meets the FFTF Benchmark	Financial Year										
Benchmark: (a decrease in real operating expenditure per capita over time)	2011/12	2012/13	2013/14		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Fairfield	$ 660.84	$ 667.35	$ 671.31	☒	$ 683.45	$ 647.44	$ 648.21	$ 638.54	$ 634.46	$ 629.21	$ 625.56	$ 617.02	$ 611.04	$ 605.12	$ 601.43
Liverpool	$ 683.31	$ 684.90	$ 683.79	☒	$ 685.82	$ 640.49	$ 629.05	$ 614.58	$ 602.41	$ 591.87	$ 578.90	$ 565.55	$ 554.64	$ 546.65	$ 539.33
Amalgamated (FCC & LCC)	$ 671.92	$ 676.04	$ 677.53	☒	$ 684.64	$ 643.92	$ 638.44	$ 626.25	$ 617.94	$ 609.86	$ 601.12	$ 589.92	$ 581.19	$ 574.01	$ 568.22

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Meets the FFTF Benchmark	☒	✔	☒	✔	✔	✔	✔	✔	✔	✔	✔
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Meets the FFTF Benchmark	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Real Operating Expenditure over time

- Assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.
- Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Commentary on result:

Fairfield Council's structural changes resulted in a 4.5% salary reduction and other efficiency programmes have generated savings over $5m p.a with future initiatives commencing, delivering Fairfield Council's projected 7.6% efficiency increase over the 10 year term (adjusted for inflation) compared to Liverpool Council’s assumption of a 19.7% efficiency increase. Fairfield is an infill Council with a higher population density to service, meaning the additional service requirements can be provided with the current infrastructure in place. Liverpool is a growth Council with new areas and new services to provide via additional infrastructure requirements, making the Liverpool projection aggressive to achieve that translates into the amalgamated entity projection.

How Could Council Meet This Benchmark In The Future?

The levels of service expected by residents will need to be negotiated and the delivery models costed. The amalgamated Council will need to identify a range of productivity initiatives to be explored and developed to deliver increased efficiencies, revenue increases and cost reductions over the life of the LTFP. These will form initiatives to be explored with specific proposals being assessed through a business case methodology.

IMPROVEMENT ACTION PLAN

Council's LTFP identifies the work previously undertaken, the work under the Improvement Action Plan 2015/16 and activities planned for beyond 2015/16 (Section 5 of the Improvement Proposal - Template 2). The key Improvement Actions for 2015/16 (Section 3.4 of the Improvement Proposal - Template 2) are:

1. Implement SRV initiatives
2. Implement new depreciation policy – ($3.6M reduction p.a.)
3. Complete Dutton Lane Commercial and Retail Development
4. Complete Diamond Crescent subdivision and sale (41 lots)
5. Change the condition measurement approach of assets (condition 2)
6. Structural change delivering Salary and Wages improvement – meet 2015/16 budget which includes the 4.5% improvement
7. Changing the waste recycling delivery resourcing model – savings of $600,000 p.a.
8. Annual Review of Service Levels – SIMALTO grid
9. Annual Review of Fees and Charges
10. New productivity improvements and cost containment initiatives – 7.6% savings identified over 10 years in the LTFP (per the real operating expenditure per capita benchmark) including e-business transactions
11. Asset Maintenance – increased spend from SRV
12. Expand the current procurement sharing arrangement with Liverpool City Council and other councils
13. Explore the creation of a joint organisation for the south west region for shared services and other regional issues

AMALGAMATION COSTS

There is limited experience in modelling the true costs of amalgamation. This analysis relied on the Australian experiences that have occurred to date. It is recognised that the comparability of the recent Queensland amalgamations, which involved regional and metropolitan councils, has some limitations. However, Toowoomba was chosen on the basis of a budget with comparable operational spend. The knowledge, challenges, costs, timelines and opportunities were used to inform the amalgamation modelling used for an amalgamation of Fairfield and Liverpool Councils.

Analysis by Queensland Treasury Corporation (2012) found that the costs of the 2008 amalgamations in that state averaged \$8.1M per new council (\$2M net costs i.e. after amalgamation savings), with Central Highlands Regional Council claiming the highest gross cost of \$21.5M. Almost half of costs related to one-off information and communication technology costs (43.8%) and a further 28% related to senior staff redundancies, recruitment and councillor allowances. Toowoomba Regional Council reported their amalgamation costs over a four year period to be \$19M.

Findings from the Toowoomba amalgamation in Queensland (2008) have been used in this report, as they are the most recent, relevant and comparable Australian example to the ILGRP's preferred option of an amalgamation.

Toowoomba had an operating expense of \$357M in the 2013/14 financial year and its current population is 161,970 (2014). The amalgamated Fairfield Liverpool Council would have a combined operating expense total of \$310M in the 2015/16 year. Fairfield/Liverpool operating expenses amount to 86.9% of Toowoomba's operating expenses for 2014/15. Toowoomba's amalgamation costs over four years were approximately \$19M. Therefore 86.9% of \$19M equates to an estimated equivalent of \$16.51M of costs relating to systems, processes and redundancies for the Fairfield Liverpool amalgamated council.

Toowoomba Analysis and Findings

- 8 Councils amalgamated (1 metropolitan and 7 regional).
- Savings recognised in the seventh year. There were no dollar savings, but an increased service level over the LGA.
- 6.65% salary equalisation adjustment in salaries and wages. In addition staff members were promoted which contributed to the 6.65% increase as positions were filled internally.
- The newly elected political members and General Manager had the majority of influence on the organisational structure and appointments.
- Systems go live on the 29 June 2015, approximately 7 years from amalgamation in 2008.
- The first few years saw no real changes except preliminary organisational structures (due to preservation of staff requirements) and planning.
- Approximately \$10M to replace corporate systems (\$4M of that is internal staff secondment to work on the project). Technology One was the system chosen. \$2M-\$3M was spent on data validation, cleansing and integration.
- 20 senior staff redundancies in year 4 costing approximately \$3.5M.

- Leased building to centralise additional staff costing $2M per annum.
- Constructing a new administration building to accommodate 1,200 employees with capital of $68M for 10,000 square metres (sq.m) with half being utilised commercially for a return and the other half for Council. Approximately $300-$350 per sq.m long term contract. Usually commercial rental income would be higher at $410-$480 per sq.m.
- $500,000 p.a. allocated to re-branding of Council which is completed in line with normal maintenance schedules.
- The rating system was the most difficult to align post amalgamation. Approximately 300 different categories that initially transitioned down to 170 categories and since down to 40 categories after a 4 year transition period. The rates system mirrored the higher cost structure with the rates being stabilised on the higher council rates base. The community expectation was that higher rates equated to more or improved service delivery.
- $19M costs over 4 years were exclusive of leasing costs, salaries and wages increases, branding costs and new building construction.
- Operating expenditure post-amalgamation is equal to combined operating expenditure pre-amalgamation. This means that service delivery of services to regional areas, in particular, are now much higher than pre-amalgamation in line with community expectations for the payment of higher rates.
- Councillor structure stayed the same with 11 Councillors and an increase in support staff that was required. This was internally recruited and increased governance costs in comparison to pre-amalgamation.
- Toowoomba **defined the "benefits of amalgamation as a conscious investment in the Council's inherent delivery structure to deliver future outcomes for the community".** The way Toowoomba communicated the amalgamation process to the community was by describing that **"this is a capital and operational investment in your Council's infrastructure and the community has a say in the nature of these investments for the future to better your community."**

The table below summarises the estimated amalgamation costs:

Costs of Amalgamation											
		Base Year			3 Year Award Guarantee End			Savings start HERE			
$'000	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**Totals ($'000)**
Grant	$19,500										**$19,500**
Systems (43.8%)				-$1,000	-$2,321	-$1,910	-$2,000				**-$7,231**
Salary Equalisation (3.325%)		-$3,959	-$3,959	-$3,959	-$3,959						**-$15,836**
Redundencies (28%)					-$4,623						**-$4,623**
Branding		-$500	-$500	-$500	-$500	-$500	-$500	-$500	-$500	-$500	**-$4,500**
Temporary Admin Building (Lease fee)		-$1,750	-$1,750	-$1,750	-$1,750	-$1,750	-$1,750				**-$10,500**
Building & renovation (Capital)					DA & Design	Construct	Construct	Occupy			**$0**
Totals	**$19,500**	**-$6,209**	**-$6,209**	**-$7,209**	**-$13,153**	**-$4,160**	**-$4,250**	**-$500**	**-$500**	**-$500**	**-$23,190**

The base year is estimated to be after the September 2016 Election.

• Systems and Processes

The costs related to systems have been calculated using the analysis by Queensland Treasury Corporation (2012) indicating that 43.8% of total amalgamation costs (estimated at $16.51M) are related to systems and processes. The assumption is that it will take some time before a decision is made in relation to the corporate systems to be used. 2018/19 is assumed as the initiation of the scoping and planning of the new systems, followed by a 3 year implementation period costing approximately $7.23M.

• Redundancies

The costs related to redundancies have been calculated using the analysis by Queensland Treasury Corporation (2012) indicating that 28% of total amalgamation costs (estimated at $16.51M) are related to redundancies. This will equate to $4.6M in the fourth year of amalgamation due to the award guarantee of no redundancies in the first 3 years of amalgamation. It is anticipated that the redundancies will mainly apply to more senior members of staff.

• Branding

This is in reference to the visual identity of the amalgamated entity. Considerations of branding include: logo, signage, uniforms, letter heads, etc. With the exception of uniforms, gateway signs, suburb markers and building signage, other signs would be replaced as needed via maintenance schedule. It is assumed that $500,000 p.a. over the LTFP would be required.

• Salary Equalisation and Industrial Agreements

Findings identified from the Toowoomba Regional Council example indicated that a 6.65% increase in salaries and wages occurred due to salary equalisation for staff of the amalgamated Council. In this report, it is assumed that half that cost (3.325%) will be required in an amalgamation of Fairfield and Liverpool. This is due to the close proximity of Fairfield and Liverpool, and the fact that they are both metropolitan councils which should not have the same salary discrepancies. This equated to a $3.96M increase in salaries and wages over the first 4 years from 2016/17 to 2019/20. This is assumed to end when the formalised organisational structure is completed and redundancies have been finalised.

• Buildings and Renovations Including Relocations

The relocation costs have been calculated assuming that the amalgamated entity will need to accommodate the employees in a central location via a building lease until more permanent accommodation is established. This figure was calculated using an estimated requirement of 5,000 square metres of commercial space in the Liverpool regional centre at $350 per square metre, resulting in a lease cost of $1.75M p.a. from the 2016/17 until assumed completion of a new building in 2022/23.

It is assumed that the construction of a new building for the amalgamated Council will be required. Estimated figures have not been forecasted as it is capital related and subject to design. Commencement of this building is assumed to be in the 2019/20 year with completion estimated in the 2022/23 year.

• Standardisation of Rates

The standardisation of rates is an important factor in the amalgamation process and the rating system is difficult to estimate and align post amalgamation. In the Queensland examples, it is highlighted that their rates system mirrored the higher cost structure, with the Council with the higher rates being capped and the Council with the lower rates rising. This resulted in community expectation of higher rates equating to new or improved service delivery. In this case, Fairfield residents would expect any rate increases would be reflected in additional service delivery. That said, Fairfield Council currently has a SEIFA index of 3rd in NSW and the most disadvantaged metropolitan council which would mean rate increases may not be affordable. A merger may also disguise this level of disadvantage and concerns about affordability.

Potential Savings From Amalgamation

The NSW State Government has offered an untied grant of $10.5M to each newly amalgamated council with a further $3M for each additional 50,000 in population above 250,000, capped at $22.5M. Based on the merged entity population of 403,037 (calculated on 2014 projections) the NSW State Government would provide a grant of $19.5M to the amalgamated council.

Additional assumptions applied to the scenario in this report are:

- Transition period: it is assumed that cost savings only commence seven years from the base year identified, in the 2022/23 year. This encompasses a transition period where council cost structures gradually move to merged structures where economies of scale will apply.
- Operating expenditure projections: Expenditure savings are assumed to grow in line with projected Long Term Financial Plan (LTFP) expenditure growth rates for each council.

For the purposes of analysing potential cost savings from amalgamation, Council has used a model where pre-merger operating expenditure for each option is compared with post-merger expenditure. The average operating efficiency per capita is forecast to derive a percentage change in total expenditure, which is then applied to the base case expenditure of that option to derive financial costs or savings.

As noted earlier, the merger costs will occur over 7 years (2022/23) and savings commence in 2023/24.

Potential Amalgamation Savings										
		Base Year						Savings start HERE		
$'000	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Total Expenses from Continuing Operations - Fairfield	$153,704	$158,572	$161,787	$166,498	$171,021	$176,105	$179,908	$184,530	$189,273	$194,842
Total Expenses from Continuing Operations - Liverpool	$156,569	$160,205	$163,906	$168,239	$173,094	$179,274	$183,401	$188,350	$194,393	$200,839
Total Expenditure (Amalgamated)	**$310,273**	**$318,777**	**$325,693**	**$334,737**	**$344,115**	**$355,379**	**$363,309**	**$372,880**	**$383,666**	**$395,681**
Fairfield Operating Expenditure Per Capita	$749	$766	$773	$788	$802	$818	$827	$840	$853	$870
Liverpool Operating Expenditure Per Capita	$741	$743	$744	$748	$754	$757	$758	$763	$771	$780
Average Operating Expenditure Per Capita	**$745**	**$754**	**$759**	**$768**	**$778**	**$787**	**$793**	**$801**	**$812**	**$825**
Population Fairfield	205,108	207,126	209,164	211,222	213,301	215,400	217,520	219,661	221,823	224,006
Population Liverpool	211,200	215,635	220,164	224,787	229,507	236,950	241,926	247,006	252,194	257,490
Total Population (Amalgamated)	**416,308**	**422,761**	**429,328**	**436,009**	**442,808**	**452,350**	**459,446**	**466,667**	**474,017**	**481,496**
Total expenditure (using lower per capita cost)	$310,297	$318,874	$325,852	$335,007	$344,501	$356,036	$364,151	$373,940	$384,919	$397,184
Total Savings from amalgamation	**-$24**	**-$97**	**-$159**	**-$270**	**-$386**	**-$657**	**-$842**	**-$1,060**	**-$1,253**	**-$1,503**

Note: Average Expenditure per Capita and Population are stated as whole numbers, not $'000's

The above figures indicate that with amalgamation the entity will incur a loss of $3.82M over the term of the LTFP. What is highlighted is that Fairfield Council assumes a 7.6% efficiency increase over the 10 year term (adjusted for inflation) compared to Liverpool Council's assumption of a 19.7% efficiency increase. Fairfield is an infill council with a higher population density to service, meaning the additional service requirements can largely be provided by the current infrastructure. Liverpool is a growth council with new areas and new services to provide via additional infrastructure requirements, making the Liverpool projection very aggressive to achieve. The statistics in the table below demonstrate the different growth outlooks and land area that supports these assumptions.

Statistics	Fairfield	Liverpool	Combined
Land Area	102km^2	306km^2	408km^2
Population Density (persons per hectare)	19.99	6.54	9.90
Urban Growth Status	Stable	Growth	Growth
Current Financial Position (Tcorp Assessment)	Sound	Sound	Sound
Financial Outlook (Tcorp Assessment)	Neutral	Negative	Negative
Business			
Gross Regional Product	$7.5 billion	$7.9 billion	$15.4 billion
Number of Businesses	14,610	13,680	28,290
Number of Jobs	46,823	53,805	100,628
Number of Development Applications 2013/14	772	1,204	1,924
Unemployment rate	11.60%	7.5%	No change

The analysis is consistent with Toowoomba Regional Council's findings indicating that operating expenditure post-amalgamation is equal to combined operating expenditure pre-amalgamation. However, the service delivery to regional areas in particular has increased to higher than pre-amalgamation levels meaning that efficiencies have been gained via service delivery that are not reflected in actual dollar impacts to the bottom line. It also reflects the finding that with higher rates, an expectation of increased service delivery is anticipated by the community.

Overall Result of Amalgamation

The table below indicates that the overall net financial result of an amalgamated entity will have additional costs of $27M over the 10 year LTFP period. This is approximately 8.7% of the current combined operating expenditure, and equates to a $2.7M loss per annum over the 10 year LTFP period. However, there may be potential savings beyond the 10 year projection of this analysis that would be dependent on the strategic decisions and structure of the new amalgamated entity.

Costs & Savings via Amalgamation											
		Base Year			3 Year Award Guarantee End			Savings start HERE			
$'000	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**Totals ($'000)**
Grant	$19,500										**$19,500**
Systems (43.8%)				-$1,000	-$2,321	-$1,910	-$2,000				**-$7,231**
Salary Equalisation (3.325%)		-$3,959	-$3,959	-$3,959	-$3,959						**-$15,836**
Redundencies (28%)					-$4,623						**-$4,623**
Branding		-$500	-$500	-$500	-$500	-$500	-$500	-$500	-$500	-$500	**-$4,500**
Temporary Admin Building (Lease fee)		-$1,750	-$1,750	-$1,750	-$1,750	-$1,750	-$1,750				**-$10,500**
Building & renovation (Capital)					DA & Design	Construct	Construct	Occupy			**$0**
Savings								-$1,060	-$1,252	-$1,504	**-$3,816**
Totals	**$19,500**	**-$6,209**	**-$6,209**	**-$7,209**	**-$13,153**	**-$4,160**	**-$4,250**	**-$1,560**	**-$1,752**	**-$2,004**	**-$27,006**

Limitations of Analysis

The structure and model of service delivery by the amalgamated council is unknown. For example, the use of internal day labour to provide services compared to the practice of outsourcing. Also, the amalgamated entity's service offerings and levels of service will need to be agreed through review of the community's priorities and Council's strategic planning and direction.

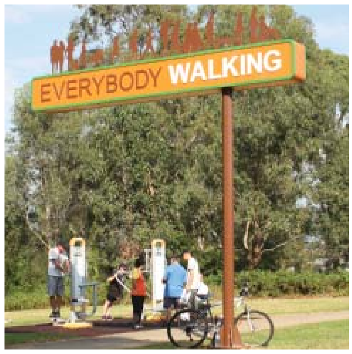
The potential savings from amalgamation have been calculated by undertaking a limited financial analysis which uses assumptions. These analyses examine expenditure per capita and assume that the processes, services and service levels of one council will be adopted within an amalgamation. It also recalculates the per capita spend for one council to another and then generates a "cost saving" after including an assumed value for transitional costs. **Council believes that projected amalgamated cost savings through reductions to services in this way are not efficiencies but direct service level decreases.** In order to implement this type of 'cost saving' there is no need to amalgamate councils, all that is required is that service levels be reduced.

A critique of this approach is that it does not address the needs and priorities identified by the community which is a direct requirement of the Integrated Planning and Reporting Framework. To make a sound assessment of any cost savings through changes to services, the philosophies of both councils and the results of community consultation need to be extensively examined. The change to the service levels needed by this larger population should then be used to calculate an alternate per capita spend.

APPENDIX 1

FIT FOR THE FUTURE
Fairfield City Council
Long Term Financial Plan
2015/16-2024/25





Our home
Our City Our future

LONG TERM FINANCIAL PLAN


2015/16 – 2024/25

CONTENTS

EXECUTIVE SUMMARY

Council has developed this Long Term Financial Plan (LTFP) to outline the steps it will take to address the major financial challenges and opportunities which will impact on the way it does business over the next 10 years. The main objectives of the LTFP are to achieve Council's financial sustainability and to inform Council's decisions about the services and new initiatives it will deliver. The LTFP is updated each year to provide a rolling 10 year outlook.

In summary, this LTFP demonstrates that Fairfield City Council is in a strong financial position over the next 10 years. It is projected to

- ✓ deliver operating surpluses each year,
- ✓ to meet all "Fit for the Future' benchmarks as set by the State Government, and
- ✓ to achieve its own financial sustainability benchmarks.

This puts Council in a very good position to continue to deliver services that are important for its community and to introduce new initiatives that are identified as priorities in the Fairfield City Plan.

Since 2009-10 Council has implemented an ongoing program of productivity improvements, cost containments and revenue opportunities. The savings that have been achieved combined with a new special rate variation (SRV) have significantly improved Council's financial sustainability as well as its ability to deliver priority services and initiatives for the community. The new SRV to commenced in 2014-15, to achieve two outcomes - to enable Council to address its asset backlog and ensure the condition of its assets remain stable over the next 10 years, and to support a number of new capital initiatives which will deliver new and improved facilities to the community.

The preparation of the LTFP commenced with a detailed (internal) analysis of the 2015/16 budget. Next, a review of external influences such as population growth, inflation, interest rates and economic growth were considered when assessing the future years.

The outcomes from the internal analysis and review of external influences have been combined to project the future.

An exception to this is with respect to a change in depreciation policy. This has conditional external audit approval and as a result, has been incorporated into the 2015/16 budget and the subsequent years of the LTFP. Detail of this policy change is included in the Asset Management, Capital Expenditure and Depreciation section of this document.

The key objectives when developing this LTFP are:

- Balanced Budgets / Operational Surpluses
- Continuous Financial Improvement
- Achievement of Financial Sustainability Benchmarks
- Achievement of Fit For The Future Benchmarks prescribed by the State Government.

SUMMARY OF FINANCIAL RESULTS

Presented below are extracts from the 10 year LTFP projections and the expected performance against various benchmarks across the 10 year horizon should Council results align to that presented in this LTFP.

PROJECTED YEARS										
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Net Operating Result	23,568	8,665	8,522	7,892	7,554	8,473	9,440	9,710	9,944	9,526
Net Operating Result (before capital grants)	3,194	3,579	3,334	2,574	2,103	2,886	3,714	3,840	3,927	3,358
Cash and Cash Equivalents (at end of financial year)	3,773	3,775	7,659	10,383	9,888	8,875	9,235	9,996	9,866	9,736
Cash, Cash Equivalents and Investments (at end of FY)	63,735	63,737	67,621	70,345	72,850	75,837	80,197	84,958	88,828	94,698
Net Assets(at end of FY)	1,794,209	1,802,874	1,811,397	1,819,288	1,991,423	1,999,896	2,009,336	2,019,046	2,028,990	2,235,646

The table above shows that Council is forecast to achieve the stated goals. A positive net operating result is expected in each year of the LTFP as well as a better than breakeven net operating result before capital grants. Cash and cash equivalents decline in the 2015/16 year due to significant capital spend, but will then increase to sufficient levels. Continued growth in cash, cash equivalents and investments is projected across the entirety of the LTFP period, again the only exception being the 2015/16 year which is affected by the significant infrastructure capital spend. Council's net asset base also continues to grow across the LTFP period.

Since the adoption of Council's last LTFP, the State Government has released new financial benchmarks as part of its 'Fit for the Future' package for all NSW Councils. These benchmarks have now been incorporated into this document and into Council's ongoing monitoring of its financial performance and outlook.

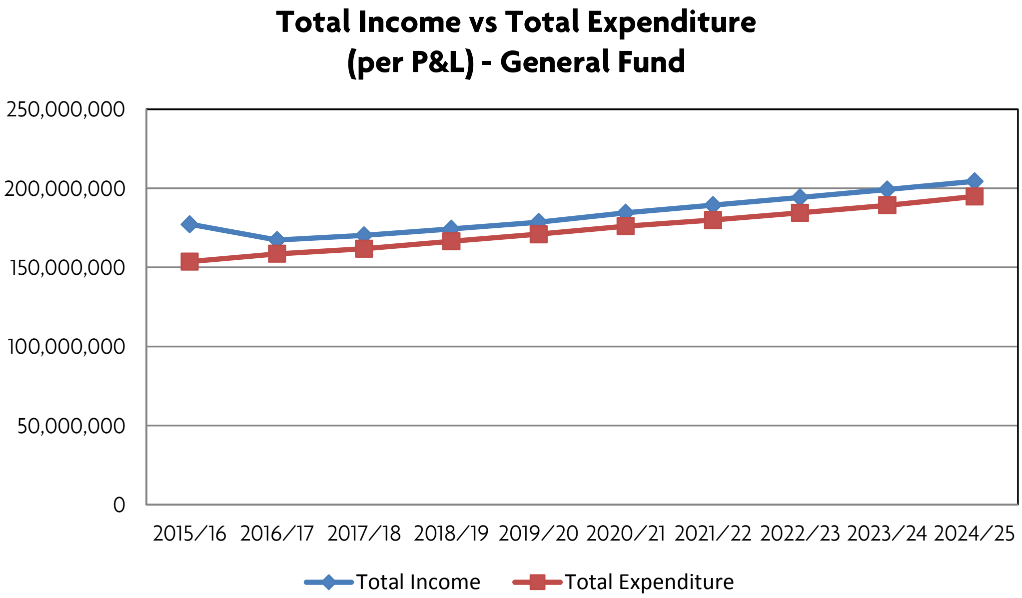
The Key Financial Indicators are displayed in the tables below. They confirm that the key objectives of balanced budgets/operational surpluses, continuous financial improvement, achievement of financial sustainability benchmarks and achievement of Fit For The Future (FFTF) benchmarks will be achieved.

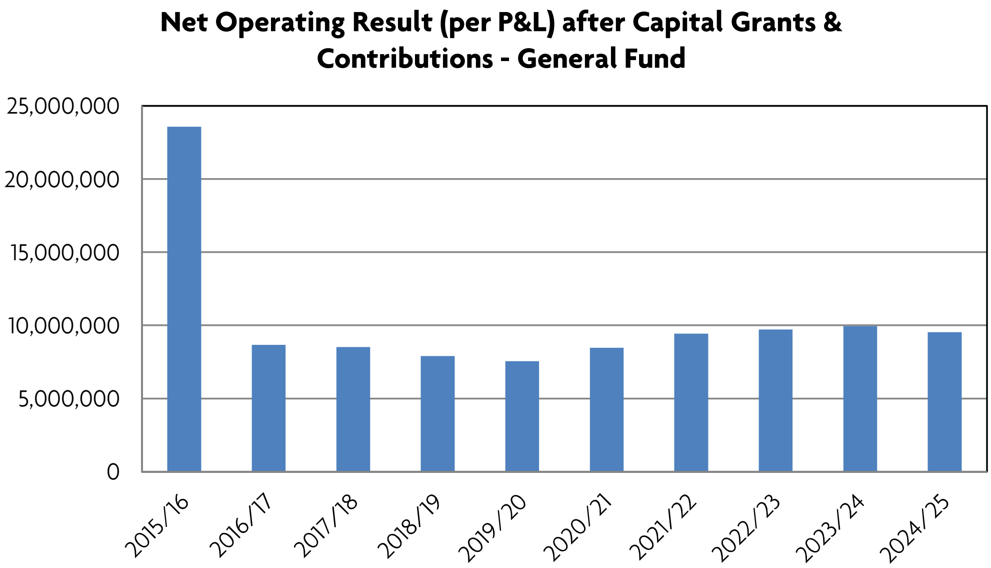
KEY PERFORMANCE INDICATORS

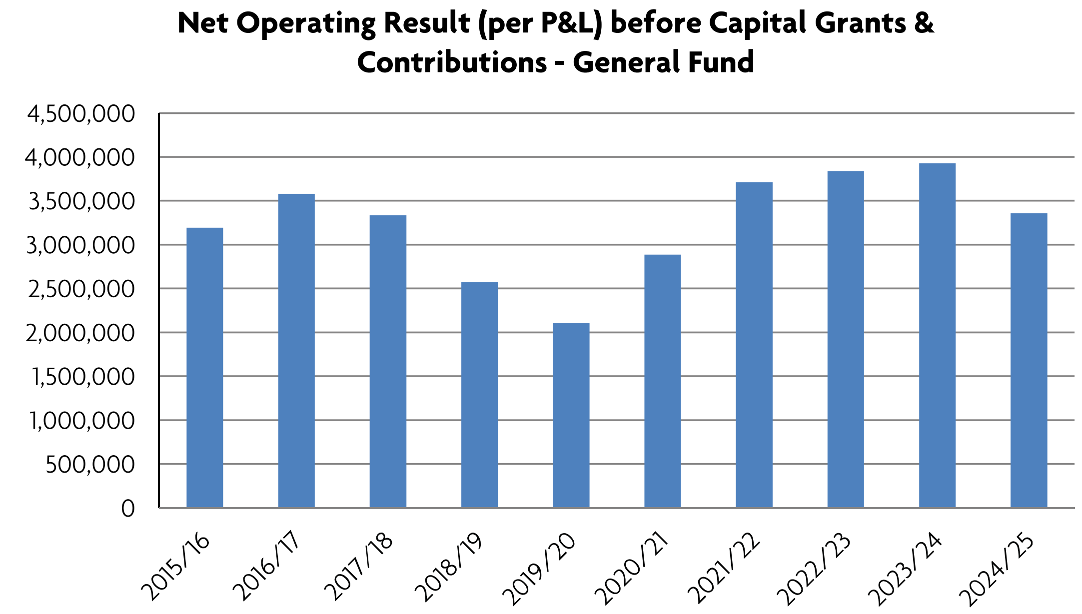
● Within benchmark ● Not within benchmark

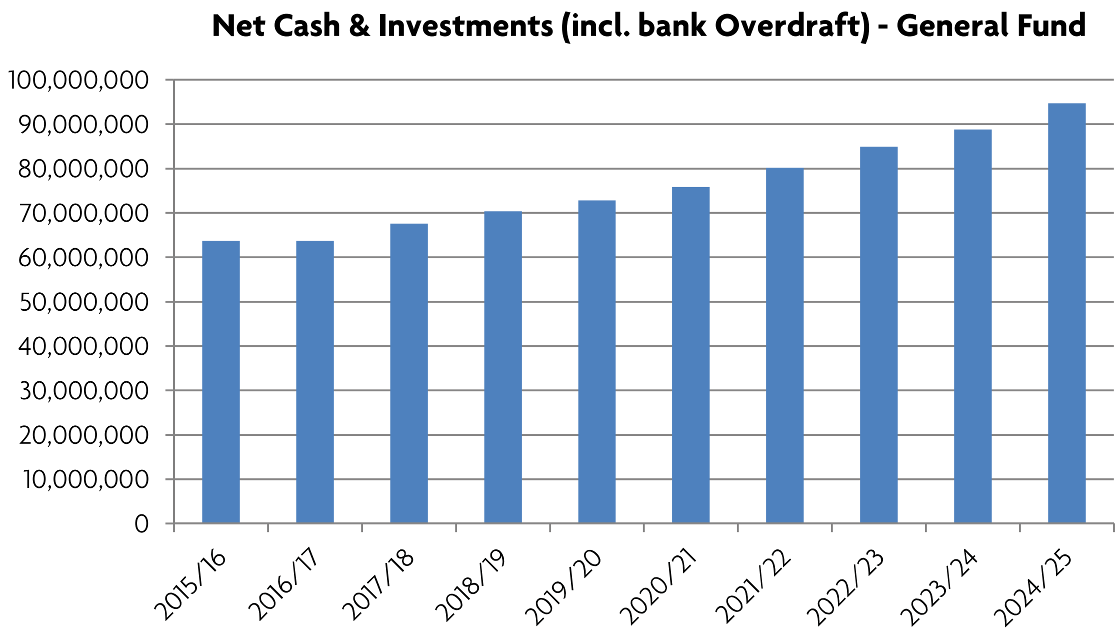
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Operating Performance Ratio	2.04%	2.21%	2.02%	1.52%	1.21%	1.61%	2.02%	2.04%	2.03%	1.69%
Own Source Operating Revenue Ratio	77.59%	85.16%	85.13%	85.12%	85.10%	85.23%	85.24%	85.25%	85.26%	85.27%
Unrestricted Current Ratio	3.12	3.37	3.56	3.49	3.47	3.46	3.59	3.68	3.80	3.98
Debt Service Cover Ratio	83.78%	80.93%	91.60%	26.33%	28.97%	31.83%	33.84%	34.55%	35.25%	35.37%
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	3.56%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%
New Special Schedule 7 Ratios										
Building & Infrastructure Renewals Ratio	100.30%	104.86%	102.47%	102.11%	101.77%	101.43%	101.09%	100.77%	100.45%	100.13%
Infrastructure Backlog Ratio	1.93%	1.92%	1.90%	1.88%	1.87%	1.85%	1.84%	1.80%	1.78%	1.76%
Asset Maintenance Ratio	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
Capital Expenditure Ratio	1.90%	1.21%	1.15%	1.53%	1.15%	1.14%	1.14%	1.14%	1.17%	1.10%
Old Note 13 Ratios (not incl. in new Note 13 or Special Schedule 7)										
Debt Service Ratio	0.26%	0.26%	0.23%	0.78%	0.70%	0.64%	0.61%	0.59%	0.58%	0.57%
Rates & Annual Charges Coverage Ratio	58.53%	63.26%	63.35%	63.39%	63.43%	62.88%	62.81%	62.74%	62.68%	62.61%
TCorp Ratios										
Unrestricted Current Ratio	3.12	3.37	3.56	3.49	3.47	3.46	3.59	3.68	3.80	3.98
Building & Infrastructure Renewals Ratio	100.30%	104.86%	102.47%	102.11%	101.77%	101.43%	101.09%	100.77%	100.45%	100.13%
Net Financial Liabilities Ratio (Gearing Ratio)	0.09%	0.06%	-0.06%	0.52%	0.42%	0.32%	0.18%	0.02%	-0.09%	-0.26%
Net Interest Coverage Ratio	-1.71%	-1.70%	-1.57%	-1.32%	-1.26%	-1.46%	-1.56%	-1.67%	-1.75%	-1.86%
Fit for the Future Criteria										
Operating Performance Ratio	2.04%	2.21%	2.02%	1.52%	1.21%	1.61%	2.02%	2.04%	2.03%	1.69%
Own Source Operating Revenue Ratio	77.59%	85.16%	85.13%	85.12%	85.10%	85.23%	85.24%	85.25%	85.26%	85.27%
Building & Infrastructure Renewals Ratio	100.30%	104.86%	102.47%	102.11%	101.77%	101.43%	101.09%	100.77%	100.45%	100.13%
Infrastructure Backlog Ratio	1.93%	1.92%	1.90%	1.88%	1.87%	1.85%	1.84%	1.80%	1.78%	1.76%
Asset Maintenance Ratio	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
Debt Service Ratio	0.26%	0.26%	0.23%	0.78%	0.70%	0.64%	0.61%	0.59%	0.58%	0.57%
Real Operating Expenditure Per Capita over Time	See page 10 LTFP									

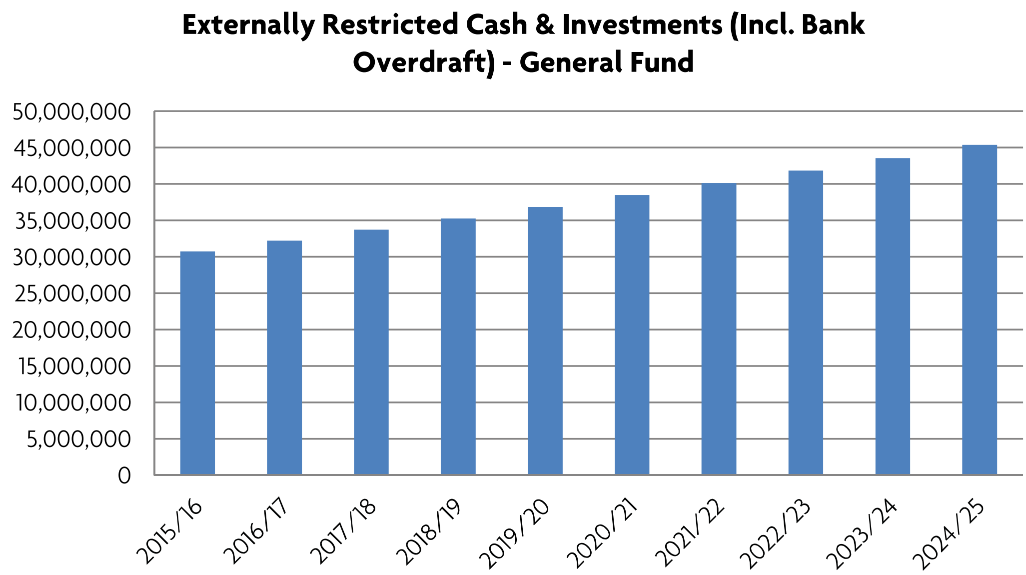
The financial trends over the 10 years of the LTFP are represented in the Graphs below further indicate achievement of the stated objectives.

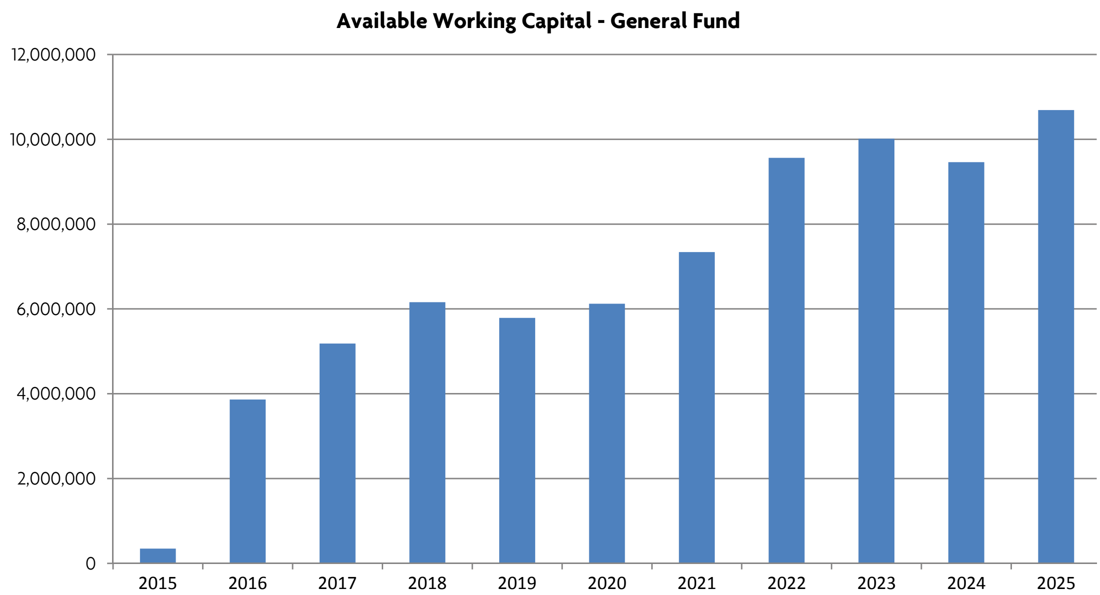





Net Operating Result (per P&L) before Capital Grants & Contributions - General Fund
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25


Net Cash & Investments (incl. bank Overdraft) - General Fund
100,000,000
90,000,000
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25





Given that Council's future position has then been forecast on the basis of a continuance of "normal operations" as amended for SRV initiatives and underpinned by conservative assumptions and initiatives/efficiencies either already achieved or underway. This demonstrates a sound financial foundation and a readiness for future challenges. Hence Council could be expected to withstand adverse impacts or shocks outside of these assumptions. A focus on continuous improvement has the potential to deliver an upside to these projections, these initiatives are detailed in the Productivity Improvement, Revenue Opportunities, Cost Containment Strategies section of this document.

FIT FOR THE FUTURE ANALYSIS

The NSW State Government recommended a self-assessment tool that measured retrospectively over a period of three years from audited published financial statements and generated a series of benchmarks or ratios. These benchmarks provided a recommended or 'hurdle' result that generated a 'Yes' or 'No' outcome whether the Council met the Fit for the Future Benchmarks.

Council had previously identified in the previous LTFP that a series of intervention initiatives would be required from 2018/19 so that Council could progress to achieving its long term financial sustainability. Significant structural reform has been undertaken in recent years which have achieved a reduction of 4.5% in employee costs in the 2015/16 year. The impact of this structural reform has reduced the pressure to find significant financial benefits in the short to medium term (i.e. said intervention initiatives). However, continuous improvement in financial results remains a goal for Council.

Previous financial results and projections had been adversely affected by the introduction of new accounting standards regarding asset revaluations, the related impacts on depreciation expense and application of the current conservative depreciation methodology. As a result, there has been an ongoing review of depreciation in line with the asset management plans over several years, culminating in a change of policy. This change in depreciation policy has conditional external audit approval and thus has been worked into the 2015/16 budget and the subsequent years of the LTFP. Detail of this policy change is included in the Asset Management, Capital Expenditure and Depreciation section of this document. The application of this policy improves projected financial outcomes.

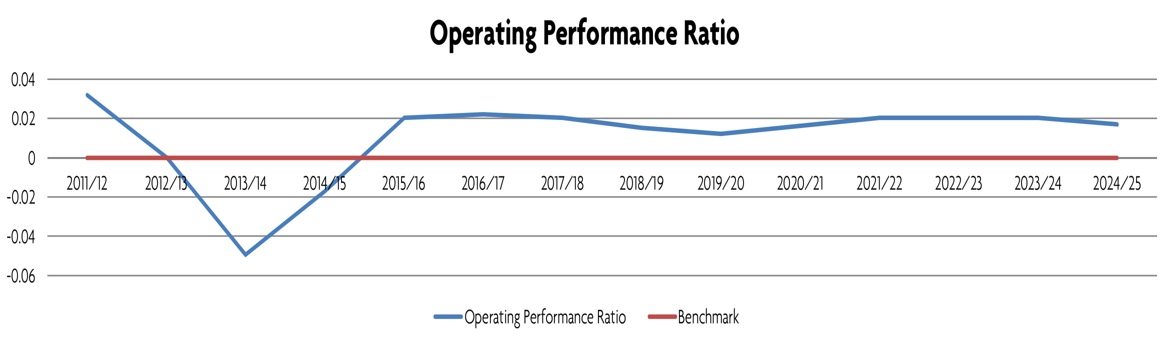
Special Schedule 7 is a relatively new reporting requirement that has limitations caused by a lack of consistency of data and appropriate auditing standards. Fairfield Council has been very conservative historically in preparing this schedule which has adversely impacted results. This view is supported and recognized in the guidance provided in the description of the ratios where it was noted "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". Fairfield Council as part of its Integrated Planning and Reporting improvements has reassessed some accounting treatments regarding assets and depreciation in partnership with their external auditors. Fairfield Council have previously prepared the Special Schedule 7 on the basis that all assets requiring renewal were restored to new condition (condition / category 1). The outcome for Fairfield with this more rigorous approach was still only 3.88% compared to the benchmark requirement of less than 2%. The changes in the approach will improve this asset backlog percentage by:

- Measuring the cost to bring the asset to a satisfactory condition as prescribed by the Office of Local Government as condition 2, as opposed to the current measure of condition 1 or new.
- The recommendation to consult with the community to determine the asset condition that is considered acceptable to deliver the required level of service. This may mean, for example, that an asset in condition 4 (poor) may still deliver the required level of service and thus not form part of the asset backlog. This consultation is anticipated to deliver a significant reduction in the asset backlog.
- The new Special Rate Variation (SRV) granted by IPART for Council commencing July 2014 included a recognition that Asset Management Plans addressing Asset backlog was a priority for Fairfield Council and this results in an additional $42.41m over 10 years to be spent on asset upgrades.

Other initiatives have been pursued to further improve Council's long term financial position. Additional property rental revenues to be delivered in 2016-17 due to the development of Dutton Lane in Cabramatta, currently under construction, and an additional Property Development Fund investment in the 2018/19 year are examples of such initiatives. A series of interventions and cost containment actions are continuing to deliver efficiencies, these are detailed in the Productivity Improvement, Revenue Opportunities, Cost Containment Strategies section of this document. The projected outcomes for each of the Fit For The Future measures follows:t Strategies section of this document.

The projected outcomes for each of the Fit For The Future measures follows:

1. Operating Performance Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2015-2025	Financial Year										
Benchmark: (greater or equal to break even average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total continuing operating revenue (excl. capital grants and contributions) less operating expenses / Total continuing operating revenue (exc. capital grants and contributions)	3.20%	0.03%	-4.94%	-0.59%	✓	-1.70%	2.04%	2.21%	2.02%	1.52%	1.21%	1.61%	2.02%	2.04%	2.03%	1.69%
					Rolling 3 year average	-2.19%	-1.43%	0.87%	2.09%	1.91%	1.58%	1.45%	1.62%	1.89%	2.03%	1.92%
					Meets the FFTF Benchmark	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Operating Performance Ratio

- 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.
- TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability.

Commentary on result:

Fairfield Council consistently generates operating surpluses. This is despite the significant increase in depreciation expense caused by:

- introduction of new accounting standards regarding asset revaluations
- the related impacts on depreciation expense
- application of the current conservative depreciation methodology.

These items have impacted the 2013/14 and 2014/15 years resulting in operating deficits which run against the long term trend.

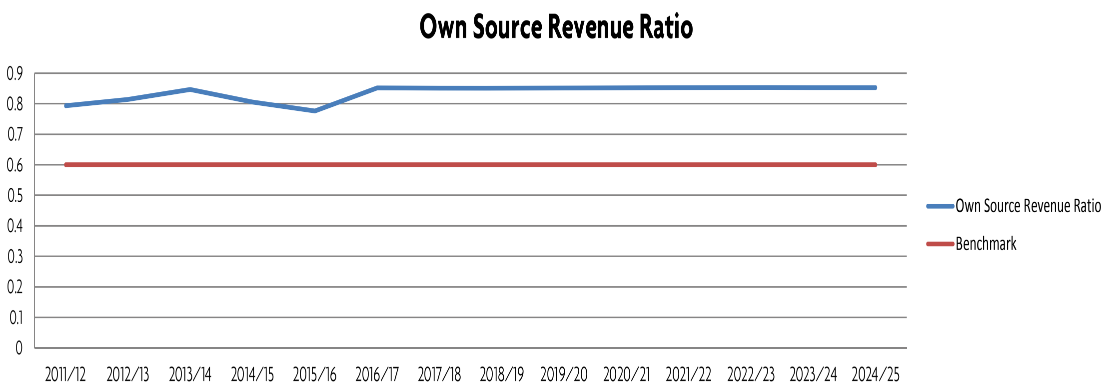
The Special Rate variation taking effect from 1 July 2014 and efficiency initiatives reducing costs (such as the structural changes improving labour expenses by 4.5%) will return Council to surplus for 2015/16. These operating surpluses will be further improved by the application of the revised depreciation accounting treatment endorsed by our external auditors for application in FY15. This essentially is recognition of assets residual values and asset degradation curves based on asset condition inspections over the useful lives.

How Could Council Meet This Benchmark In The Future?

Structural changes commenced in earlier years, and the depreciation policy change effected in 2014/15 will yield enduring benefits to operating results. Council is expected to reach this benchmark in the 2016/17 year and then continue to meet in throughout the remainder of the LTPF period. Continued actions to further improve productivity, generate additional revenue and contain costs, as outlined in the relevant section of this LTFP document, is expected to result in operating surpluses for the foreseeable future.

2. Own Source Revenue Ratio	Historical				Projected												
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2015-2025	Financial Year											
Benchmark: (greater than 60% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total continuing operating revenue less all grants and contributions / Total continuing operating revenue inclusive of capital grants and contributions	79.29%	81.38%	84.68%	81.81%	✓	80.51%	77.59%	85.16%	85.13%	85.12%	85.10%	85.23%	85.24%	85.25%	85.26%	85.27%

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rolling 3 year average	82.1%	80.7%	81.0%	82.5%	85.1%	85.1%	85.1%	85.2%	85.2%	85.2%	85.3%
Meets the FFTF Benchmark	✓	ü	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Own Source Revenue Ratio

- Measures the degree of reliance on external funding sources (e.g. grants and contributions).
- 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.

The Federal Governments did not apply inflation for 3 years to Federal Assistance Grants (FAG's). This, with State Governments decision through its distribution model to reduce Councils share by a further 5% resulted in a net impact in year 1 of $800k reduction in income. Ironically, this improves our benchmark ratio, but delivers less revenue to service the Community.

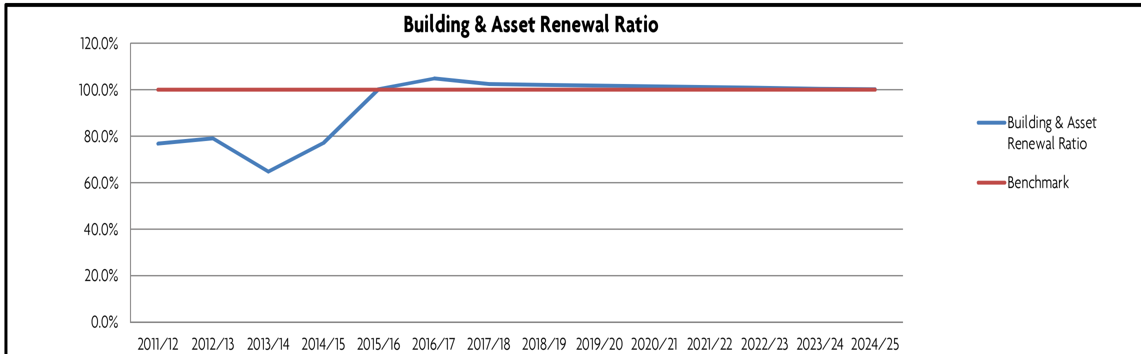
Commentary on result:

Council is currently significantly exceeding this benchmark and this is anticipated to continue in the future. Council has taken actions with the development of a retail centre in Dutton Lane as part of a Property Development Fund (PDF) and a commercial recycling business in the Sustainable Resource Centre (SRC) to reduce its reliance on both grants and rates. A further property development is planned to be commenced in 2018/19 which will generate $1.2M p.a. recurring income from 2020/21 year. An additional $10.65M in capital grants in 2015/16 for roads and infrastructure for the new airport reduces the ratio in that year.

How Could Council Meet This Benchmark In The Future?

Continuation of current plans and strategies should ensure continued achievement of this benchmark.

3. Building and Infrastructure Asset Renewal Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2015-2025	Financial Year										
Benchmark: (greater than 100% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Asset renewals (building and infrastructure) / Depreciation, amortisation and impairment (building and infrastructure)	76.74%	79.10%	64.81%	73.06%	✔	77.18%	100.30%	104.86%	102.47%	102.11%	101.77%	101.43%	101.09%	100.77%	100.45%	100.13%
					Rolling 3 year average	73.5%	80.9%	94.2%	102.5%	103.1%	102.1%	101.8%	101.4%	101.1%	100.8%	100.4%
					Meets the FFTF Benchmark	☒	☒	☒	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Building and Infrastructure Asset Renewal 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.
- Compares the proportion spent on infrastructure asset renewals and the asset's deterioration.
- A consistent measure that can be applied across councils of different sizes and locations.
- A higher ratio is an indicator of strong performance.
- Performance < 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially the backlog is worsening.

Commentary on result:

The renewal ratio is expected to achieve greater than 100% from 2015/16 and meet the 3 year average in 2017/18. This improvement has occurred due to:

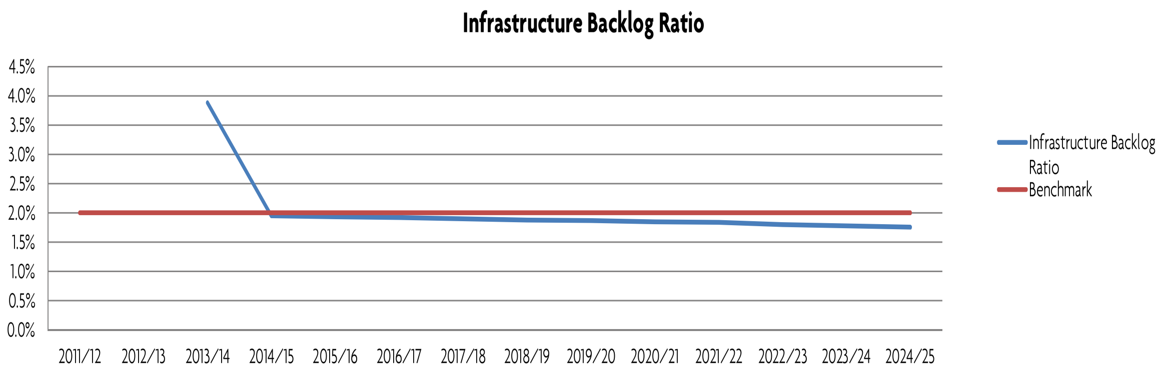
- Improved project identification between new and renewal components
- The application of the new SRV expenditure from 2014/15 of $42.41M for infrastrucutre renewals over 10 years, of which $1.7M per annum ($15.3M for 10 years from 2014/15) is for buildings
- A change in the depreciation measurement to better recognise the deterioration of assets will further improve the ratio. Council's methodology to be introduced for the 2014/2015 and subsequent years will result in a significant impact (reduction) on depreciation expense.

Council has strengthened internal classification processes for renewals of assets as part of its depreciation and asset review. This will result in separately identifying renewal components from improvements or extensions. In the past, asset renewals were understated due to the classification of work performed as new projects. This classification problem occurred because most renewal work also accommodates improvements that have been identified responding to community expectations. Additionally, the change in depreciation policy will further improve the ratio.

How Could Council Meet This Benchmark In The Future?

The SRV commits $42.41M for infrastrucutre renewals over 10 years, of which $1.7M per annum ($15.3M for 10 years from 2014/15) is for buildings, this improves this ratio.

4. Infrastructure Backlog Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2015-2025	Financial Year										
Benchmark: (less than 2%)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Estimated cost to bring assets to a satisfactory condition / Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets			3.88%		✓	1.95%	1.93%	1.92%	1.90%	1.88%	1.87%	1.85%	1.84%	1.80%	1.78%	1.76%



Comments re Infrastructure Backlog Ratio

- Indicates the proportion of backlog against the total value of the Council's infrastructure assets.
- A measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way.
- Measures how councils are managing their infrastructure which is so critical to effective community sustainability.
- Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.
- A low ratio is an indicator of strong performance.

Commentary on result:

Council have previously calculated this ratio on the basis that all assets requiring renewal were restored to new condition (condition / category 1). The outcome for Fairfield with this more rigorous approach was still only 3.88% compared to the benchmark requirement of less than 2%. Changes in the measurement approach will improve this asset backlog percentage by:

- Measuring the cost to bring the asset to a satisfactory condition as prescribed by the Office of Local Government as condition 2, as opposed to the current position of condition 1 or new.
- The recommendation to consult with the community to determine the asset condition that is considered acceptable to deliver the required level of service. This may mean, for example, that an asset in condition 4 (poor) may still deliver the required level of service and thus not form part of the asset backlog. This consultation is anticipated to deliver a significant reduction in the asset backlog.

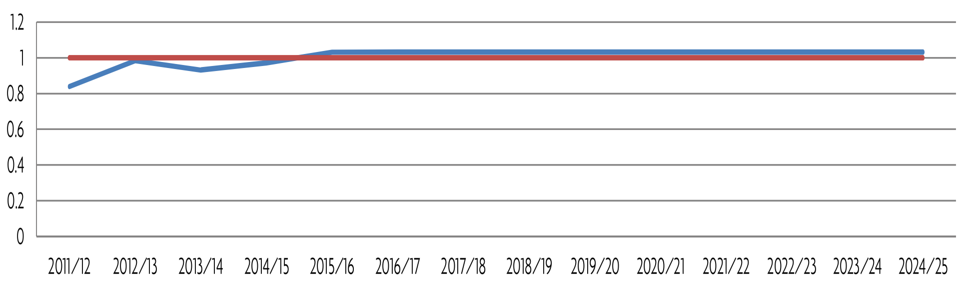
How Could Council Meet This Benchmark In The Future?

The Special Rate Variation (SRV) included a recognition that Asset Management Plans addressing Asset backlog was a priority for Council. This results in an additional $42.41m to be spent on asset upgrades.

Despite the current result for this measure indicating a failure to meet the required minimum benchmark, Council's assets are considered to be in a comparatively good condition with only 1.2% of all assets falling into the poor (condition 4) and 0% in the very poor (condition 5) categories . The referred changes are expected to better reflect the true performance of Council against this benchmark. The table in the Asset Management, Capital Expenditure and Depreciation section of this document shows the comparative asset conditions with neighbouring Councils.

5. Asset Maintenance Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2015-2025	Financial Year										
Benchmark: (greater than or equal to 100% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Actual asset maintenance / Required asset maintenance	83.90%	98.43%	93.16%	91.12%	✓	97.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rolling 3 year average	95.87%	97.97%	101.25%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%	103.09%
Meets the FFTF Benchmark	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Asset Maintenance Ratio

- Reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.
- Provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.
- A ratio of less than 100% indicates that there may be a worsening infrastructure backlog.

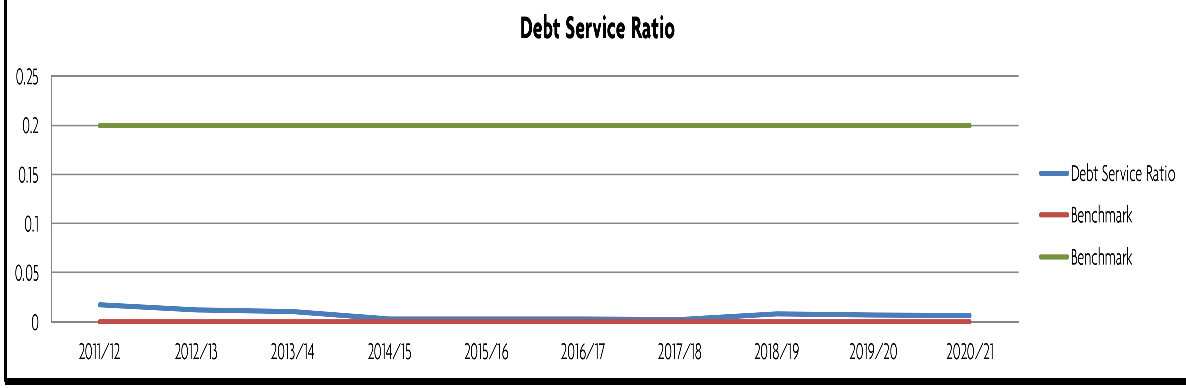
Commentary on result:

Council achieved a 91% Asset Maintenance Ratio against a benchmark of 100%. The target of 103.09% represents a recognition that actual maintenance sometimes exceeds the Asset Management Plan maintenance costs, due to scope creep or unforeseen problems. For example, repairing a road may highlight the need for additional sewer works. It also allows for some tolerance for additional maintenance cause by significant weather or other events.

How Could Council Meet This Benchmark In The Future?

The Special Rate Variation (SRV) commencing July 2014 included recognition that Asset Management Plans addressing Asset maintenance was a priority for Council. This results in an additional $4.7m per annum to be spent on asset maintenance. Required maintenance may be reduced in the future due to this additional SRV addressing asset backlog improving the condition of assets and reducing the demand for maintenance actions.

6. Debt Service Ratio	Historical				Projected											
	Financial Year			3 Year average	Meets the FFTF Benchmark from 2015-2025	Financial Year										
Benchmark: (› 0 and ‹ or = to 20% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Cost of debt service (interest expense & principal repayments) / Total continuing operating revenue (exc. capital grants and contributions)	1.70%	1.20%	1.05%	1.32%	✓	0.29%	0.26%	0.26%	0.23%	0.78%	0.70%	0.64%	0.61%	0.59%	0.58%	0.57%
					Rolling 3 year average	0.83%	0.52%	0.27%	0.25%	0.43%	0.57%	0.70%	0.65%	0.61%	0.59%	0.58%
					Meets the FFTF Benchmark	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



Comments re Debt Service Ratio

- 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.
- Inadequate use of debt may mean that councils are forced to raise rates
- It is also a strong proxy indicator of a council's strategic capacity.

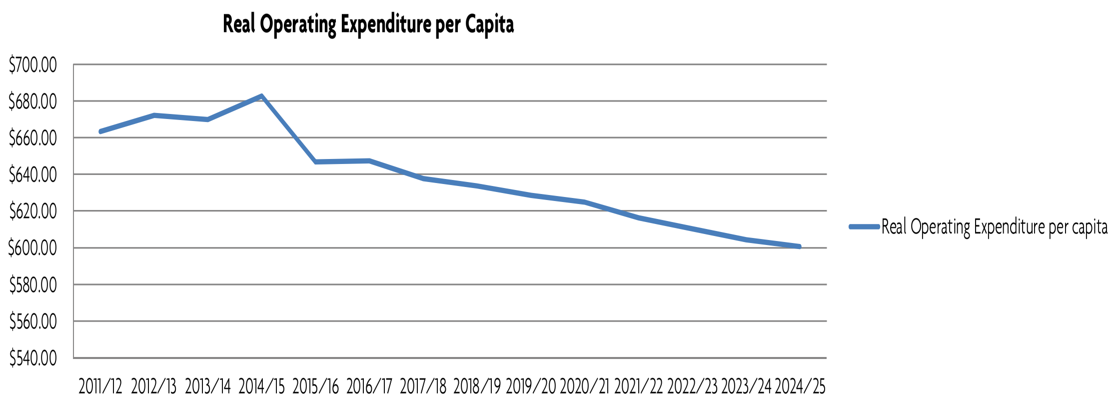
Commentary on result:

Council has minimal debt and additional debt will only be taken where the evidence supports the use of debt and the whole of life costs, including servicing interest, is beneficial. Council is currently at the lower end of the recommended range for this benchmark. Whilst still remaining at a very low level, the ratio increases markedly in the 2018/19 year, as a new property development initiative has been earmarked with borrowings of $12m to be sourced to finance the project.

How Could Council Meet This Benchmark In The Future?

Continuation of current policy of minimal debt, with external borrowings sought only when the use of debt proves beneficial, will ensure continued achievement of this benchmark.

7. Real Operating Expenditure per Capita over time	Historical			Projected											
	Financial Year			Meets the FFTF Benchmark from 2015-2025	Financial Year										
Benchmark: (a decrease in real operating expenditure per capita over time)	2011/12	2012/13	2013/14		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Real Operating Expenditure (deflated by CPI) / Population	$ 663.58	$ 672.20	$ 669.93	✔	$ 682.74	$ 646.77	$ 647.54	$ 637.88	$ 633.81	$ 628.56	$ 624.92	$ 616.38	$ 610.41	$ 604.49	$ 600.81
				Meets the FFTF Benchmark	☒	✔	☒	✔	✔	✔	✔	✔	✔	✔	✔



Comments re Real Operating Expenditure over time

- Assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.
- Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Commentary on result:

Council is currently meeting the recommended reduction for this benchmark reflecting efficiency improvements. However, real operating expenditure per capita increases markedly in the 2014/15 and 2016/17 years as a result of increases in services to the community, most of which is tied to the Special Rate Variation granted last year for effect from 1 July 2014. Projections indicate a consistent reduction in real operating expenditure per capita throughout the LTFP period.

How Could Council Meet This Benchmark In The Future?

Fairfield City Council is committed to an ongoing program on initiatives to achieve financial savings, continuous improvement and efficient/effective service delivery for our community. Productivity improvements and cost containment enable Council to maximise the services it can deliver and the value for each rate dollar for ratepayers. The Productivity Improvements, Revenue Opportunities, Cost Containment Strategies section of this document provides more details in this respect.

INTRODUCTION

The increasing demands for services, growth in the cost of labour and materials, combined with a legislated cap in revenue generated from rates, has created a challenging financial environment for Fairfield City Council.

At the centre of Council's future financial sustainability will be the ability to adapt and respond to the challenges faced in delivering services more efficiently, reducing expenditure, and delivering opportunities to generate additional revenue sources.

Council's LTFP is a requirement under the Integrated Planning and Reporting Framework for NSW Local Government and form part of the Resourcing Strategy for the Community Strategic Plan, along with the Strategic Asset Management Plan and the Workforce Plan.

The LTFP provides a framework by which Council can assess its revenue building capacity to meet the activities and level of services outlined in the Community Strategic Plan and ultimately achieving the community vision. It also:

- Establishes 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 solve financial problems as a whole, see how various plans fit together, and understand the impact of certain decisions on other plans or strategies;

- Provides a means of measuring Council's success in implementing strategies; and
- Confirms that Council can remain sustainable in the longer term.

The LTFP is a decision making and problem solving tool. It is not intended that the LTFP is set in concrete – it is a guide for future action. Financial planning over a ten year horizon is difficult and obviously relies on a variety of assumptions that may be subject to change during this period. Changes in these assumptions, external influences on operations such as economic impacts and decisions made by Council across the last 12 months are all reasons why revised projections for future years may differ from previous projections. To assist in understanding the influences affecting those previous projections, this document includes a comparison of the 2015/16 income statement from last year's LTFP and the 2015/16 income statement in this LTFP projection.

The 10 year LTFP will inform decision making during the finalisation of the Community Strategic Plan and the development of the Delivery Program (4 year horizon). It is updated annually as part of the development of the Operational Plan (one year budget). It is also reassessed in detail as part of the four-yearly review of the Community Strategic Plan.

The first year of each LTFP mirrors the annual budget for that current year and this flow on effect streamlines the annual budget process.

The preparation of the LTFP commenced with a detailed analysis of the 2015/16 budget. An internal analysis was conducted to:

- remove the impacts of income and expenditure items considered unique to the 2015/16 year and not of a recurring nature;
- consider efficiencies already achieved or beginning to be achieved from structural reviews and projects recently undertaken by Council or in progress;
- review items outlined in the SRV application to ensure all had been incorporated into both the 2015/16 budget and the subsequent years of the LTFP; and
- ensure actions and plans contained in other Council internal and published documents – such as Asset Management Plans, Workforce Management Plans, Service Statements, Operational Plan, Community Strategic Plan, Delivery Program and Resourcing Strategy – had been appropriately included in future projections.

Next, a review of external influences such as population growth, inflation, interest rates and economic growth were considered when assessing the future years of the LTFP.

The outcomes from the internal analysis and review of external influences have then been combined to project the future. Council's future position has then been forecast on the basis of a continuance of "normal operations" as amended for SRV initiatives and as affected by the external influences. "Normal operations" is difficult to define but can be regarded as the provision of services to stakeholders at levels of service that they have come to expect on a regular basis. Levels of service however may not remain the same given changes in community expectations in future years of the Plan.

PLANNING ASSUMPTIONS

ECONOMIC OUTLOOK

Global conditions were reviewed to consider potential impacts of Australia's economy, given Australia is not immune to global impacts and trends. Global growth remains modest with prolonged stagnation in Europe and Japan.

US / UK
These areas are expected to continue with stability in their fiscal and monetary policy, have stable employment, stable business confidence and investment, and continued stability with respect to consumer confidence and investment.

Euro zone
Structural issues continue to be a restraint on growth with uncertainty over Greek performance and debt repayment remaining a concern. Easy monetary policy and a tight fiscal policy, weak business confidence and investment, weak consumer confidence and investment, weak demand and a lack of fiscal and structural stimulus are expected to continue in this part of the world.

Japan
Structural issues continue to be a restraint on growth. The initial response to consumption tax will be a deferral of investment goods for households and businesses. Moderate domestic reinvestment of capital will be released through the bond purchasing scheme in the medium term.

China
A managed slowdown in growth is expected.

Russia
Tensions in the Ukraine will continue in the short to medium term, increasing political pressures and subduing business confidence. Falling output and employment, along with falling investment and consumption are expected. Easing of monetary policy is expected.

Developing Economies
Slow growth and development is projected, with moderate external demand, domestic policy tightening, political uncertainties and supply side constraints expected to continue.

No significant changes in this global outlook are expected until at least the medium term (2020/21 year) at the earliest

No global shocks are currently expected to impact upon Australia's current fiscal outlook.

Australia
The growth in the Australian economy has remained below trend and expectations over the past year. Economic growth of 3% is expected for 2016 and remain in the 2.8% to 3.2% range over the life of the LTFP. There is enough excess capacity within the domestic economy to keep this stability for some time.

EMPLOYMENT FORECASTS

Unemployment of 6.5% is anticipated for 2016, rising to 7% in the medium term. As economic growth improves in the longer term, the unemployment rate is then expected to reduce to 6%. It is worthy to note, that past results indicate Fairfield City Council's unemployment rates are higher than Sydney's overall unemployment rate average.

Fairfield Local Government Area
The economic characteristics that present challenges to Fairfield City are;

- high unemployment,
- low labour market participation,
- low English language, literacy and numeracy skills,
- low levels of education, skills and qualifications,
- a nationally declining manufacturing industry which is the largest employing industry in Fairfield City,
- a fragmented tourism industry,
- a changing retail sector,
- competing regional business parks and industrial areas,
- ageing infrastructure,
- limited internal public transport options
- industry impacted from an unskilled labour market
- high Australian dollar impacting export industries

Fairfield will continue to experience moderate structural shift in declining employment in the manufacturing, retail and wholesale industries and increasing growth in health care and education. The gradual return of skilled labour from the mining industry is hoped to remove some of the current growth barriers for business and industry as well as introduce innovations, improved business processes and new drivers of growth which will lead to higher business and consumer confidence and drive positive local economic growth in the medium to long term. However, local economic growth is still expected to remain largely in line with the national outlook.

POPULATION GROWTH

BRIEF STATISTICS	FAIRFIELD CITY
Forecast population 2014	203,109
Change between 2014 and 2031	36,791
Average annual percentage change between 2014 and 2031 (17 years):	0.52% per annum
Total percentage change between 2014 and 2031 (17 years):	18.1%

INFLATION FORECASTS

Inflation is expected to remain well contained over the life of the plan, remaining at the lower end of the RBA's 2% to 3% desired range in the short term and rising to the mid to upper end medium to longer term.

Inflation forecasts used over the term of the LTFP have been based upon predictions of growth in the Consumer Price Index (CPI), as shown in the following table:

	2015-16	2016-17	2017-18	2018-19	THERE AFTER
CPI	2.40%	2.00%	2.00%	2.50%	2.50%

INFLATION RATE FORECASTS

Deposit interest rates are expected to remain low until at least the late to medium term of the long term financial plan period.

Lending interest rates are anticipated to also remain low, at least until the medium term.

The latest RBA commentary has indicated that despite interest rates being at their lowest levels on record, further rate cuts remain an option. This commentary supports the interest rate outlook built into the LTFP.

ASSET MANAGEMENT, CAPITAL EXPENDITURE AND DEPRECIATION

An asset revaluation required under the Fair Value Accounting Standard every five years will be undertaken in the 2014/15 year using replacement cost data. Compounded CPI has been assumed in the 2019/20 and 2024/25 years to derive the revaluation required in those years. The depreciation impact follows in the year after revaluation.

ASSET MANAGEMENT

Council's assets are considered to be in a comparatively good condition with only 1.2% of all assets falling into the poor (condition 4) and 0% in the very poor (condition 5) categories as a percentage of written down value (per Special Schedule No. 7 2014 Published Financial Statements). The table below shows the comparative asset conditions for neighbouring and other comparable Councils.

	FAIRFIELD CITY COUNCIL 2014	BLACKTOWN CITY COUNCIL 2014	HOLROYD CITY COUNCIL 2014	LIVERPOOL CITY COUNCIL 2014	PARRAMATTA CITY COUNCIL 2014	PENRITH CITY COUNCIL 2014	BANKSTOWN CITY COUNCIL 2014	SUTHERLAND CITY COUNCIL 2014
1. (Excellent)	45.1%	25.8%	28.1%	41.1%	17.0%	25.0%	16.1%	15.3%
2. (Good)	44.4%	35.6%	39.9%	32.6%	31.7%	43.7%	34.1%	57.3%
3. (Average)	9.3%	30.9%	20.4%	20.7%	31.4%	21.0%	40.2%	21.1%
4. (Poor)	1.2%	5.7%	8.0%	3.3%	14.1%	7.8%	5.9%	4.2%
5. (Very Poor)	0.0%	2.0%	3.6%	2.3%	5.8%	2.5%	3.7%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Special Rate Variation (SRV) included a recognition that Asset Management Plans addressing Asset backlog was a priority for Council. This will result in an additional $42.41m over 10 years being spent on asset upgrades.

The SRV also commits $1.7M per annum ($15.3M for 10 years from 2014/15) for building and infrastructure renewal. Council has strengthened internal classification processes for renewals of assets as part of its depreciation and asset review. This will result in separately identifying renewal components from improvements or extensions. In the past, asset renewals were understated due to the classification of work performed as new projects. This classification problem occurred because most renewal work also accommodates improvements that have been identified responding to community expectations.

The table below outlines the renewal capital as a percentage of the Fair Value Replacement Cost at 30 June 2014 for each asset category. The strength of the Asset Management Plans means that an appropriate and balanced renewal programme has been defined with consideration across asset classes.

RENEWAL PERCENTAGE BASED ON FAIR VALUE 2015 - 2024											
Fair Value as at 30/6/14		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
$163,247,000	Buildings	3.37%	5.87%	5.97%	6.07%	6.17%	6.27%	6.37%	6.48%	6.82%	6.47%
$87,445,000	Footpaths	3.09%	2.53%	2.00%	2.04%	2.08%	2.12%	2.16%	2.21%	3.00%	1.54%
$24,169,000	Open Space	9.64%	9.71%	9.79%	9.86%	9.94%	10.02%	10.09%	10.18%	10.26%	10.34%
$28,561,000	Plant	20.55%	20.96%	21.38%	21.81%	22.24%	22.69%	23.14%	23.60%	24.08%	24.56%
$645,338,000	Roads, Bridges, Kerb and Gutter	2.09%	1.74%	1.77%	1.80%	1.83%	1.87%	1.90%	1.93%	1.97%	2.01%
$284,815,000	Stormwater Drainage	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.14%	0.14%	0.14%	0.14%

CAPITAL EXPENDITURE

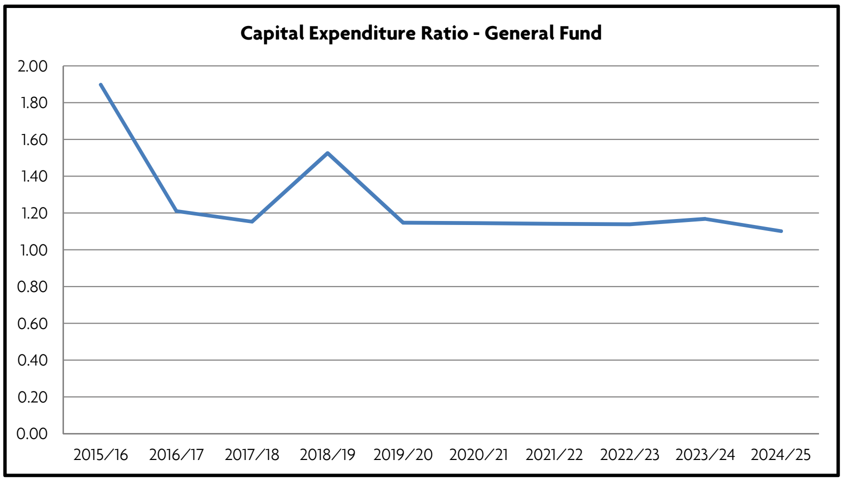
Council undertakes a number of major works programs each year with the specific locations or tasks listed in the annual Operational Plan. The Major Programs are:

- Social and Cultural Development
- Disability Upgrades – Access Improvement Program
- CCTV New Cameras
- Road Renewal / Upgrade
  - ◇ Road Rehabilitation
  - ◇ Roads to Recovery
  - ◇ Roads and Maritime Services Repair
  - ◇ Road & Maritime Services 3*3 Grant
- Building Assets Renewal / Upgrade
- Footpath Renewal / Upgrade / New
- Emergency Asset Failure
- Asset Management Strategy
- Open Space Land Acquisition & Embellishment
- Open Space Asset Renewal / Upgrade
- Traffic Management Renewal / Upgrade / New
  - ◇ Local Area and Traffic Management
  - ◇ Pedestrian Access and Mobility Plan
  - ◇ Blackspot
- Plant and Equipment Replacement
- Strategic Land Use Planning
- Existing Stormwater Management
- Flood Mitigation
- Stormwater Levy
- Waste Less Recycle More
- Place Management and Economic Development
- Productivity Improvements and Cost Containment Strategy
- Workforce Management Plan
- Fleet Renewal Program

NEW INITIATIVES

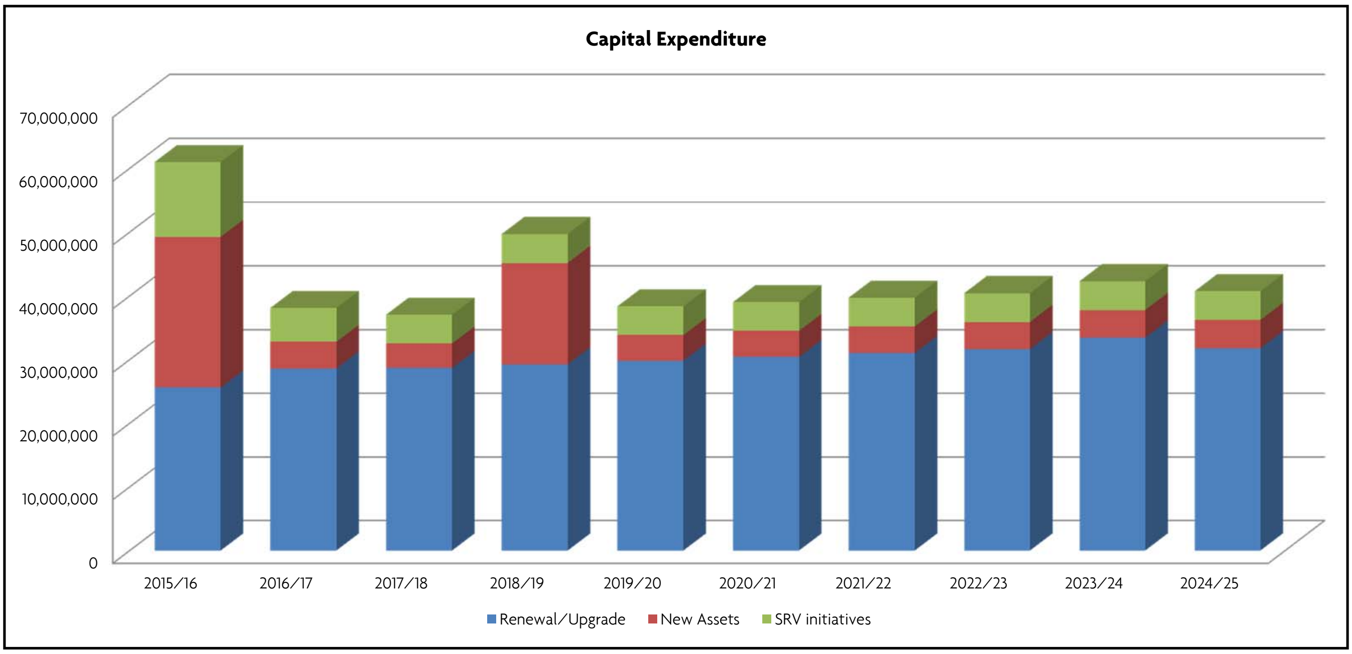
- SRV Drainage Upgrade
- SRV Roads, Kerbs and Gutters
- SRV Community Building Upgrades
- SRV Footpath Connections
- SRV Sports Ground Renovation and Upgrade
- SRV Open Space Upgrade

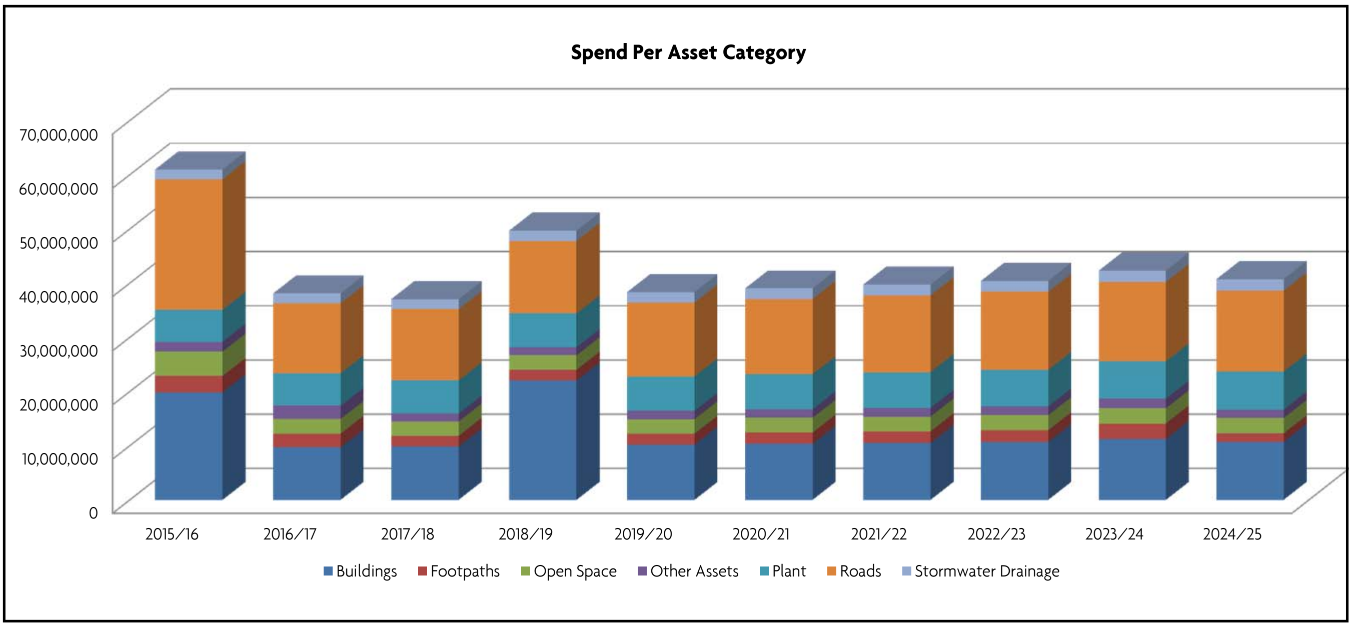
The capital expenditure programme over the life of the LTFP is consistent with the exception of increases in the 2014/15, 2015/16 and 2018/19 years. These increases relate to new assets identified as part of the SRV initiatives, property development, and $10.65M in 2015/16 for infrastructure funded by the Federal Government to support the new airport. The capital expenditure ratio represents the capital spend in relation to depreciation expense. A ratio of 1.00 means that capital expenditure equals depreciation, indicating that the asset base is being maintained. A ratio above 1.00 is targeted due to the mix of renewal and new capital activity.

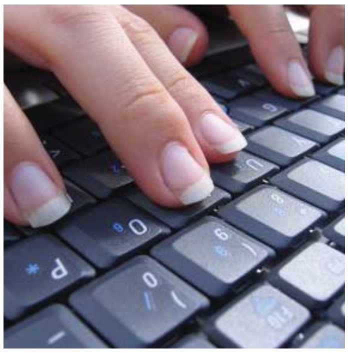


The total (new and renewal) capital expenditure by asset class planned over the life of the LTFP is outlined in the table below. The graphs that follow show different dissections of this expenditure.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Grand Total
Buildings	$19,866,568	$9,686,739	$9,846,474	$22,009,404	$10,175,592	$10,345,104	$10,518,006	$10,694,366	$11,244,732	$10,687,259	$125,074,243
Footpaths	$2,999,229	$2,516,814	$1,955,150	$1,994,253	$2,034,138	$2,074,821	$2,116,317	$2,158,643	$2,859,117	$1,588,552	$22,297,033
Open Space	$4,505,000	$2,727,900	$2,651,258	$2,675,083	$2,699,385	$2,724,173	$2,749,456	$2,775,245	$2,801,550	$2,828,381	$29,137,431
Other Assets	$1,825,500	$2,433,610	$1,462,282	$1,491,528	$1,521,358	$1,551,786	$1,582,821	$1,614,478	$1,766,277	$1,560,193	$16,809,833
Plant	$5,868,727	$5,986,102	$6,105,824	$6,227,940	$6,352,499	$6,479,549	$6,609,140	$6,741,323	$6,876,149	$7,013,672	$64,260,923
Roads	$24,128,273	$12,928,238	$13,162,803	$13,402,059	$13,646,100	$13,895,022	$14,148,923	$14,407,901	$14,672,059	$14,941,501	$149,332,881
Stormwater Drainage	$1,786,902	$1,819,640	$1,853,033	$1,887,093	$1,921,835	$1,957,272	$1,993,418	$2,030,286	$2,067,892	$2,106,249	$19,423,620
Grand Total	$60,980,199	$38,099,043	$37,036,824	$49,687,360	$38,350,908	$39,027,726	$39,718,080	$40,422,242	$42,287,775	$40,725,807	$426,335,964


Capital Expenditure
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Renewal/Upgrade
New Assets
SRV initiatives


Spend Per Asset Category
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Buildings
Footpaths
Open Space
Other Assets
Plant
Roads
Stormwater Drainage



DEPRECIATION

Council's financial results have contained significant increase in depreciation expense as illustrated below.

Depreciation expense history, expressed in $ [millions]

Depreciation Expense	2007	2008	2009	2010	2011	2012	2013	2014
- Buildings	1.8	2.0	5.6	5.7	5.7	6.0	6.1	10.0
- Infrastructure	10.3	10.9	11.0	11.3	13.6	13.6	14.2	14.7
- Other Assets	4.1	4.5	5.1	5.0	5.0	5.0	5.1	4.6
Total Depreciation	16.2	17.4	21.7	22.0	24.3	24.6	25.4	29.3

Note: Depreciation expense history, expressed in $ (millions):

This has been caused by:

- introduction of new accounting standards regarding asset revaluations
- the related impacts on depreciation expense
- Application of the current conservative depreciation methodology.

The Building asset category is the most significant contributor to the increase in the expense over the 2007 to 2014 period.

The following breakdown of the asset category and the related expense:

Buildings	2007	2008	2009	2010	2011	2012	2013	2014
– Depn. expense	1.79	2.05	5.64	5.69	5.69	6.02	6.06	9.96
– Cost /Fair Valn.	8.32	8.84	8.97	9.07	11.29	11.44	11.95	12.43
- Additions	8.38	2.28	1.32	2.75	5.37	1.06	2.40	6.39
– Net Valn. Increase	0.00	68.49	0.00	0.00	0.00	0.00	34.12	0.00

Note: Depreciation expense history, expressed in $ (millions):

Over this 7 year period building additions of $30M have occurred, whilst net valuations of $102.6M occurred in the 2 valuation years of 2008 and 2013. These significant increases in the $ base on which the depreciation expense is calculated is the reason for the expense increase.

The calculation of annual depreciation charge is affected by the assessment of 'useful life' and 'residual value'.

- Roads, bridges and footpath revaluations were performed by FCC based on assessment of asset conditions and application of estimated useful lives and residual values to the components therein.
- Buildings revaluations were performed by an independent expert who applied useful lives in accordance with their knowledge for the components involved.

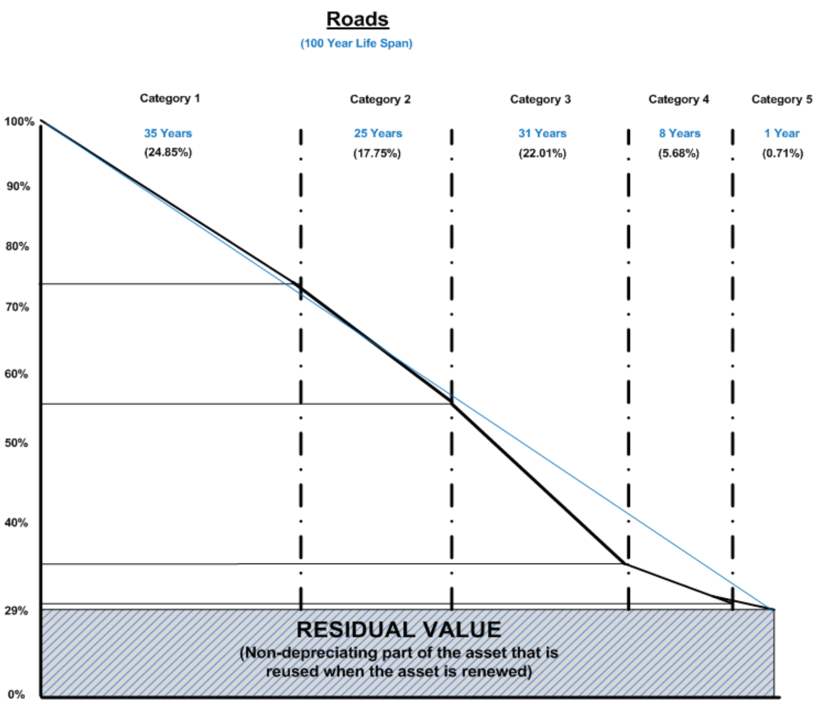
For the 2010 fair valuation, Council did not calculate any residual values for the Roads, Bridges and Footpath asset category. Similarly, the valuer was instructed not to calculate Building component residual values in the 2008 and 2013 fair valuations. These decisions have had a very significant impact on the depreciation expense calculated for each asset category.

Further, comparison of FCC's financial statements to other councils in the Sydney metropolitan area indicated significant differences in useful life estimations. Differences in all aspects impacting on depreciation were noted – level of componentisation, useful lives and possibly residual values. As shown in the table below, Fairfield Council currently recognises the highest level of depreciation and the shortest asset life which is very conservative. A change in the depreciation policy which has conditional external audit approval has been worked into the 2015/16 budget and the subsequent years of the LTFP. The revised depreciation methodology restated in the table is still consistent with a more conservative approach and comparable to the four highest depreciation rates.

Published Financial Statements 30 June 2014.

$000's	Infrastructure (Depreciable Fair Value)	Depreciation Expense	%	Average # Years to fully Depreciate assets
Fairfield - Current Depreciation Method	1,224,337	24,631	2.01%	49.7
Sydney	1,942,537	34,954	1.80%	55.6
Blacktown	2,214,422	38,385	1.73%	57.7
Parramatta	1,143,413	19,703	1.72%	58.0
Fairfield Revised Depreciation Method Restated	1,224,337	21,000	1.72%	58.3
Sutherland	1,479,392	19,549	1.32%	75.7
Lane Cove	254,729	3,358	1.32%	75.9
Liverpool	1,746,474	20,158	1.15%	86.6
Bankstown	1,828,948	20,741	1.13%	88.2
Holroyd	940,232	10,355	1.10%	90.8
Manly	299,188	3,044	1.02%	98.3
Penrith	1,059,922	9,015	0.85%	117.6

Council's methodology to be introduced for the 2014/2015 and subsequent years will result in a significant impact (reduction) on depreciation expense for the initial year and for years thereafter. The reduction is essentially a recognition of assets residual values and asset degradation curves based on asset condition inspections over the useful lives as illustrated below with the roads example.



PRODUCTIVITY IMPROVEMENTS, REVENUE OPPORTUNITIES, COST CONTAINMENT STRATEGIES

Council is committed to holding fees and charges to an affordable level and providing services and facilities because of the nature of our disadvantaged community. Rates are maintained at an affordable level including the Special Rate Variation, discounted accommodation for a range of Non-Government Organisations (NGO's) to serve the community and provision of facilities for youth including a new water park, adventure park and study spaces in libraries. Council also has a commitment to commercial revenue opportunities to reduce reliance on rates. This includes the Sustainable Resource Centre (SRC), property development, sub-division and sales, Dutton Lane commercial development, as well as a new proposed development in 2018/19.

Council has a proud record of delivering productivity improvements, cost containment and improved revenue opportunities, and a number of achievements in recent years continue to deliver benefits in the current year. These have been measured and monitored since 2008 and have resulted in approximately $5.7M per annum in improvements to the operating result. Such initiatives include::

- Withdrawal of management of the Fairfield City Farm (2009)
- Structural change for salaries and wages (2010)
- Christmas closure of non-essential services (2010)
- Energy and waste minimisation programme (2010-2013)
- Review of operations of multi-deck car parks (2012).

Fairfield City Council remains committed to an ongoing program of initiatives to achieve further financial benefits for our community. These productivity improvements and cost containment enable Council to maximise the services it can deliver and the value for each rate dollar for ratepayers.

Council's Integrated Planning and Reporting (IP&R) documents identify many of the initiatives that will be undertaken in coming years to achieve further savings and efficiencies. In addition, there are a number of actions in various strategies, service plans and individual work plans that will also contribute. Council needs to work on a range of efficiencies to manage expenses responsibly moving forward and to look for sustainable revenue sources.

Efficiencies identify the other improvements in operations which reduce costs, improve productivity and allow more to be done with existing resources. The organisation has been working on efficiencies for a number of years. This has generated savings and productivity improvements. As part of this process, the following priority areas for the organisation have emerged:

- Process improvement and reengineering
- People development and service alignment
- New and improved systems
- Reviewing how Council procures
- Reviewing asset management
- Identifying new sustainable revenue sources.

Council has identified a range of productivity initiatives to be explored and developed to deliver increased efficiencies, revenue increases and cost reductions over the life of the LTFP. These will form initiatives to be explored with specific proposals being assessed through a business case methodology. Identified strategies include:

INITIATIVES IN PROGRESS

- Continued focus on employee costs – particularly leave management
- Purchase ongoing revenue generating properties – Dutton Lane development. Project forecast to return $2.4 million per annum
- Review appropriateness of user fee and charges
- Changing the waste recycling delivery resourcing model - $600K cost reduction
- Property Development Fund – Diamond Crescent and various smaller subdivisions – one off capital return on investment through land sales.
- Modifying the operation of goods storage to move to Just In Time delivery approach for bulk of stock items.
- Analysis of purchasing to identify efficiencies from procurement.

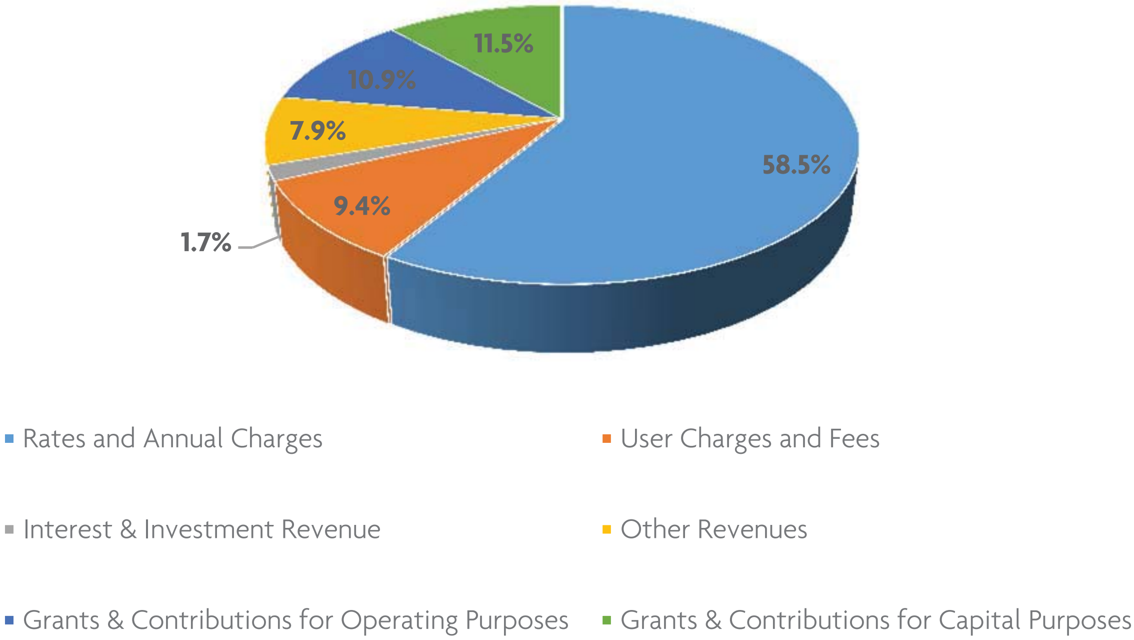
INITIATIVES UNDER CONSIDERATION

- Opportunities for shared services or resource sharing
- Review service levels and core versus optional services
- Fully cost subsidies for Council's services so that future decisions can be made concerning the level of subsidy
- Review resourcing models including use of contract services
- Business case assessment of the subsidy level, utilisation and alternate delivery models for community halls and / or community office space.

The management of Councils efficiency program is documented in Productivity Improvements and Cost Containment 2013-2017.

REVENUE FORECASTS

Sources of Revenue - % of Total 2015/16



RATES AND ANNUAL CHARGES

The rate peg for 2015/16 has been handed down and will be 2.4% and this has been incorporated into Year 1.

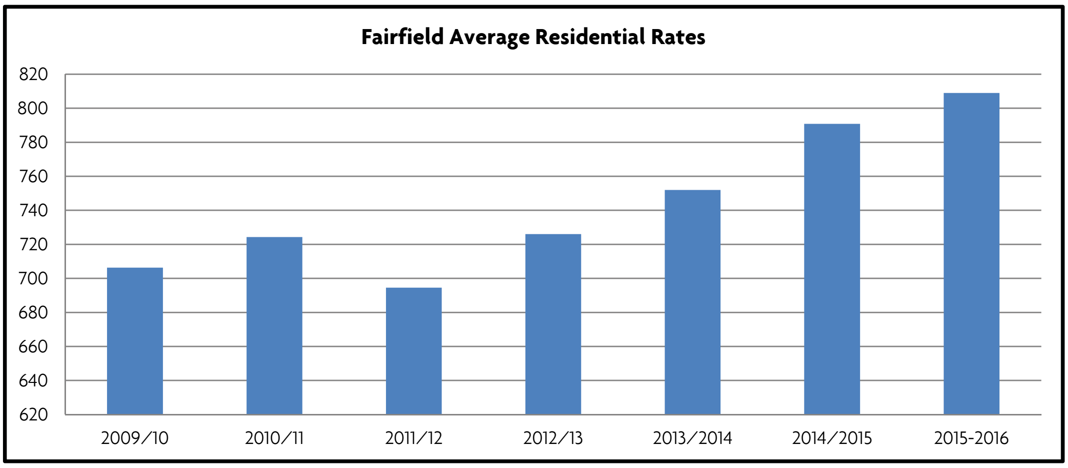
Given population growth in the Fairfield Local Government Area is not forecast to be significant, no changes to rates and annual charges have been included for population increase. Future years' rate peg is expected to align to CPI, with annual changes as per the table below.

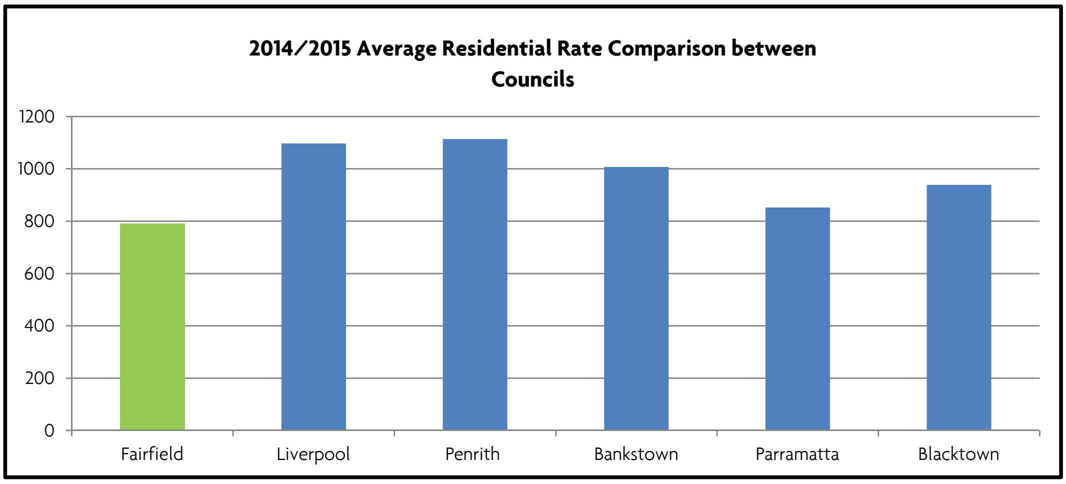
RATES AND ANNUAL CHARGES	2015-16	2016-17	2017-18	2018-19	THERE AFTER
Rate Peg	2.40%	2.00%	2.00%	2.50%	2.50%

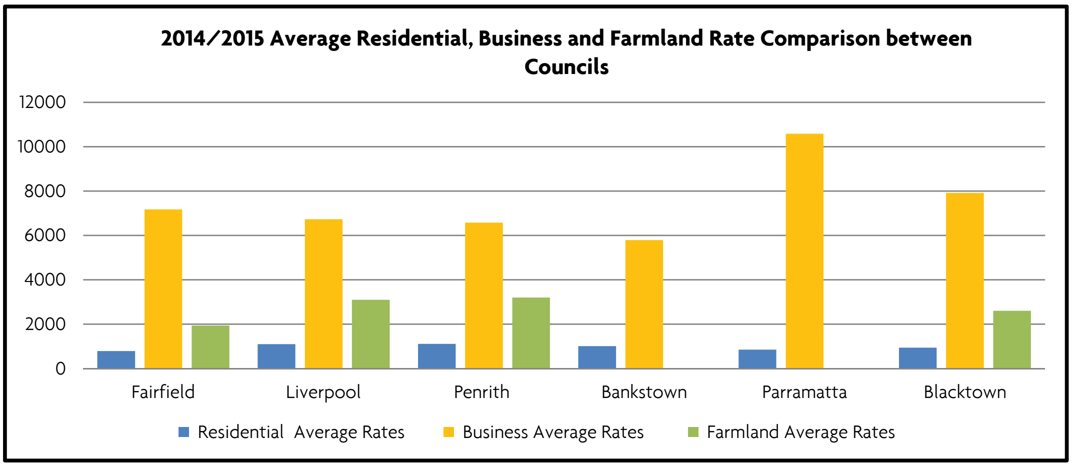
STORMWATER LEVIES ARE ALSO EXPECTED TO ALIGN TO CPI.

The pensioner rate rebate has been retained throughout the life of the LTFP. The NSW State Government has committed to 50% funding of pensioner rebates on rates for one year, but has not firmly committed beyond this point. The LTFP has assumed continued commitment.

The below graphs summarise the average residential, business and farmland rates between Fairfield and neighbouring Councils.







USER CHARGES AND FEES

Most fees and charges are expected to align with CPI and hence increases are consistent with the rate peg table shown above.

New fees and charges introduced over the life of the LTFP relate to new infrastructure resulting from the Special Rate Variation, such as the Youth Centre and the Water Park. Refer to the Asset Management, Capital Expenditure and Depreciation section above.

INTEREST AND INVESTMENT REVENUE

Given interest rates have declined in recent years and expected to remain low, it is assumed that interest and investment revenue will decline, since longer term investments will mature over the life of the LTFP and re-investment will be at lower than the historical rates.

Whilst rates are projected to increase in the later years of the LTFP, the increased interest revenue from investments maturing in those years is not expected to outweigh the decline resulting in the earlier years.

OTHER REVENUES

PROPERTY RENTAL

Property rental is expected to increase significantly in 2016-17 due to the development of Dutton Lane in Cabramatta. This development which is expected to bring to Council a long term income stream of additional rental income of $3.6m per year in 2016-17, with a CPI increase in each subsequent year. The net bottom line impact from this development is forecast to be $2.4m after allowance for outgoings.

An additional Property Development Fund investment is expected to be commenced in the 2018/19 year. This will be financed through new borrowings of approximately $12 million, with projected returns of approximately 10% p.a. ($1,200,000) to commence from the 2020/21 year.

The Diamond Crescent development underway in 2014/15 recognises the cash flow implications however as this is a non-recurring benefit, the profit on sale of assets has been discounted for the purposes of the LTFP.

COMMERCIAL ACTIVITIES

Fees for the commercial waste service, childcare centres, leisure centres and showground are expected to increase in line with CPI. Ability to increase fees for these activities, beyond the CPI, is limited due to the price sensitive nature of customers and the necessity for Council to provide market competitive prices.

GRANTS AND CONTRIBUTIONS PROVIDED FOR OPERATING PURPOSES

GRANTS AND SUBSIDIES

Most grants and subsidies have been assumed to increase in line with CPI.

A three year CPI freeze for the three years of 2014/15, 2015/16 and 2016/17 is expected for Federal Assistance Grants and hence this assumption impacts the first three years of the LTFP. CPI increases have been assumed for the remainder of the Plan period.

In respect of NSW State Government distributions, a 5% reduction has been assumed for the first year of the LTFP. CPI increases have been assumed beyond that point.

It has been assumed that other operational grants relating to Child Care will continue unchanged, and hence increased by CPI throughout the LTFP. Similarly, other grant funded programmes have been assumed to continue with no changes.

No assumptions have been made in relation to Fit for The Future funding changes, as there have been no concrete decisions made by the State Government in respect of any grants currently provided for operating purposes.

GRANTS AND CONTRIBUTIONS PROVIDED FOR CAPITAL PURPOSES

Grants for 2015/16 increase significantly due to $10.65M one off infrastructure grant in respect of roads for the new Badgery's Creek airport. The removal of this grant for 2016/17 accounts for the significant reduction in grants in that year compared to 2015/16.

Future years assume continuation of capital grants at the current modest levels and hence CPI increases have been applied throughout the Plan.

No assumptions have been made in relation to Fit for The Future funding changes, as there have been no concrete decisions made by the State Government in respect of any grants currently provided for capital purposes.

External restrictions are growing over the life of the LTFP because of the collection of some capital grants which currently do not have a forecasted project to apply such funds. S94 and S94A contributions are examples.

Section 94A collection is quite consistent, apart from the odd major development which would provide a one off large lump sum payment into the account. However, in recent times Section 94A expenditure has been cyclical. Funds are collected and once there are significant funds available, those funds are allocated to a major projects. Once those funds are spent, the account is generally allowed to build up to a point where another significant project can be funded through Section 94A. Additionally, the Plan does not contain a list of projects for funds to be allocated, just a list of community infrastructure categories for which funds can be spent. As a result, Section 94A expenditure can be opportunistic.

Section 94 collection is linked to a number of factors such as the residential approvals and as a result the collection of Section 94 funds is generally harder to anticipate. Expenditure of S94 is just as hard to anticipate on a yearly basis. Projects identified in the Section 94 Plan are generally only funded once the total amount required is collected. This can take a number of years, particularly in the case of land acquisition for open space where the cost is high. Additionally, for acquisition of open space, there are many other factors that impact on the timing of expenditure of funds, such as identification of appropriate sites for open space, whether the existing owner is willing to sell, etc. Expenditure for open space acquisition is sometimes opportunistic.

NET GAIN FROM DISPOSAL OF ASSETS

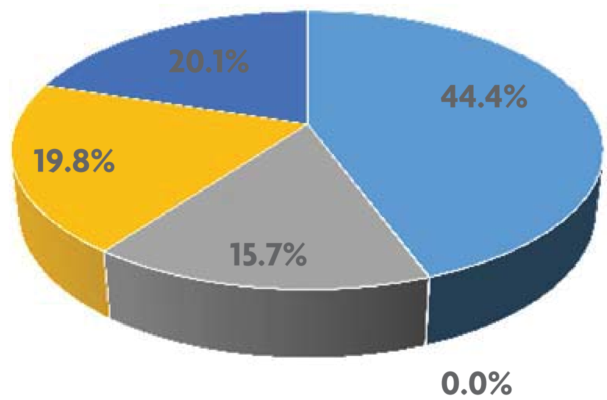
No large sales of assets are anticipated. It has been assumed that proceeds from disposal from any assets will equate to written down values, and hence no profit or loss on disposal has been included.

INCOME FROM JOINT VENTURES AND ASSOCIATED ENTITIEs

Council has an interest in the WESPOOL self-insurance consortium (joint venture). Insurance premiums are dictated by actuarial review. The difference between income collected (insurance premiums) from joint venture partners as set by this actuarial review and actual claims and expenses will generate a profit or a loss each year, with Council's share being taken up in the income statement. Whilst the reality will be that a profit or loss each year will result, revisions to premiums from subsequent actuarial reviews should deliver a net breakeven position over the long term. Accordingly no income or loss from this joint venture has been included in the LTFP.

EXPENDITURE FORECASTS

Expenditure - % of Total Spend 2015/16



EMPLOYEE BENEFITS AND ON-COSTS

Increases in employee costs consist of three components:

- award increases
- movements within the salary system as part of the annual performance review process
- increases in liabilities for untaken long service and annual leave.

Recent analysis forecasted Council's future salary obligations. It compared the annual salary system increase (the Local Government State Award increase and the annual performance progressions for staff) versus the annual rate peg increase. The analysis illustrated that for Council to maintain the salary and wages costs to the level of rate peg increases it must intervene.

As a result of previously implemented structural changes, there has been a 4.5% improvement in wages in the base year of the LTFP. Employee Benefit and On-Costs are now projected to be $68.429m for the base year of 2015/16, as compared to $71.6m for the same year in the previous LTFP.

Wages have been estimated to increase by the rate peg plus 1% for award and performance increments.

EMPLOYEE BENEFITS / ON-COSTS	2015-16	2016-17	2017-18	2018-19	THERE AFTER
Annual Increase	3.40%	3.00%	3.00%	3.50%	3.50%

Cost savings from "employee churn" have been included in forecasts. Assuming a 5% staff turnover, $3.691m savings are expected to be achieved in 2015/16 from the time period between an employee leaving and the position being filled.

Minimal growth in employee entitlements have been projected over the life of the LTFP as an outcome of the directive that Managers must manage their staff leave balances so that leave is (at least) being taken over the year at the same rate it is accrued.

It has been assumed that there are no significant changes to wages and salaries and employee benefits arising from any government policy changes. Previously announced changes such as the move to a flat 20% rate for the statutory formula method of calculating motor vehicle fringe benefits have already been worked into projections. Penalty rates, workers compensation and other on-costs are also projected to remain consistent across the LTFP. Further, staff training is expected to continue at similar levels to those currently experienced.

The employee costs forecasts build in current Enterprise Agreement conditions, however it is noted that these are currently the subject of an industrial negotiation.

Casuals, agency staff and overtime are expected to remain at current levels. No on-off redundancies and related ongoing cost savings have been built into projections as no structural changes are currently anticipated. Note that under the Fit For the Future proposals, employment is guaranteed for three years after any merger.

BORROWING COSTS

As per the SRV application, Councillors have directed that debt will be used where commercial opportunities are available to deliver an acceptable rate of return including funding costs. An additional Property Development Fund investment is expected to be commenced in the 2018/19 year. This will be financed through new borrowings of approximately $12 million, with projected returns of approximately 10% p.a. ($1,200,000) to commence from the 2020/21 year.

MATERIALS AND CONTRACTS

Expenditure on materials, contracts and other operating costs has been generally based on CPI increases. A continued focus on the efficiencies programme and new procurement efficiencies have been forecast to deliver benefits of a magnitude sufficient to restrict expenditure increases to CPI only.

It is noted that crude oil prices have recently been reducing. As this affects asphalt costs under the roads programme, a potential benefit may arise which will help offset any above CPI cost increases.

Conversely, Council was foundation partner to a waste disposal contract which initially increased waste disposal costs but with the foresight that considerable cost savings would be achieved longer term, and these are now being achieved. This contract was initially with State Government but has since been transferred to the private sector. The expiry of this contract is outside the life of the LTFP, and hence no changes from the current position outside of CPI increases have been built into the Plan. This contract is noted with respect to the future, for if upon expiry negotiation cannot deliver a similar contracted cost, a significant expenditure increase is likely to arise. Whilst the waste reserve currently has a balance in excess of $10m, this would be quickly consumed and may require an increased Waste Levy to residents if offsetting cost savings or efficiencies cannot be identified.

With respect to the Sustainable Resource Centre, it is noted that there is significant competition in the market and Council has constraints that commercial operators do not. There is a risk that feed stock, crushing contracts, sales and hence the return on investment to Council may reduce with competition. However at this stage, no significant change to financial outcomes for the Centre have been projected.

The recent NSW state government election result means that it is likely that there will be changes to energy prices and the partial privatisation of poles creates cost risks. As there has not been anything concrete announced regarding anticipated cost impacts arising from the implementation of this programme, no

expenditure changes outside of CPI increases have been included in projections.

As it is not possible to predict natural disasters or other localised events, no uninsured losses have been budgeted, nor have any increased Emergency response components.

DEPRECIATION AND AMORTISATION

Refer to the Asset Management, Capital Expenditure and Depreciation section above. Changes in the depreciation policy have resulted in a reduction in depreciation expense for the 2014/15 and future financial years, as compared to previous projections.

OTHER EXPENSES

Consistent with other expenditure lines, most items have been projected to increase by CPI only.

Comments in relation to energy prices noted in the Materials and Contracts section above have been equally applied here – i.e. no movements outside of CPI increases have been projected. No significant changes to utility costs such as network, telephone, water and gas have been included in the Plan.

Council elections have been assumed to continue every 4 years, at a current cost of approximately $700,000 per election. The first of these has been included for the 2016/17 year.

Pooling resources and buying power under State contracts, and WESROC (Western Sydney Regional Organisation of Councils) and WESPOOL (self-insurance) consortiums deliver cost saving benefits to Council. These have been projected to continue for the life of the LTFP. However a risk remains to the cost savings with the Fit For The Future proposals tabled by the State Government, as the dissolving of a number of Councils may reduce the economies of scale and result in increased pricing.

2015-16 PROJECTION – CHANGES FROM PREVIOUS LTFP

	2015/16 Projection Previous LTFP	2015/16 Projection Current LTFP	KEY FACTORS INFLUENCING REVISED 2015/16 PROJECTION VS PREVIOUS LTFP
Rates and Annual Charges	103,758	103,758	No change
User Charges and Fees	20,463	16,709	Approx $3.7M revenue reclassified from here to Other Revenues
Interest & Investment Revenue	4,025	3,086	Decline in interest rates below previous projection
Other Revenues	9,255	13,992	Approx $3.7M revenue reclassified to here from User Fees and Charges; Additional increase due to higher car parking revenues.
Grants & Contributions for Operating Purposes	22,957	19,353	Federal Assistance Grants freeze (previously assumed CPI increase); 5% reduction in State Government grants in each of 2 years (previously assumed CPI increase).
Grants & Contributions for Capital Purposes	4,321	20,373	$10.65M additional relates to one off infrastructure grant in respect of roads for the new Badgery's Creek airport. Previous projection anticipated large decreases v prior years, this has not eventuated
Total Income From Continuing Operations	**164,778**	**177,271**	
Employee Benefits and Costs	71,629	68,207	Previously implemented structural change have delivered a 4.5% improvement in wages costs
Borrowing Costs	599	57	Previous projection expected Dutton Lane property development to be partially funded from external finance. Now to be funded from internal reserves.
Materials & Contracts	24,674	24,140	No significant change, some cost savings achieved
Depreciation and Amortisation	31,639	30,416	Policy change as detailed in the Asset Management, Capital expenditure and Depreciation section
Other Expenses	31,972	30,884	Cost containment strategies delivering results
Total Expenses from Continuing Operations	**160,513**	**153,704**	
Net Operating Result	**4,265**	**23,567**	
Result before Grants & Contributions for Capital Purposes	**(55)**	**3,194**	

SENSITIVITY ANALYSIS

The LTFP contains a number of assumptions based on various sources. Accordingly variations in these assumptions during the life of the plan may have a significant impact on the Council's future financial plans.

The LTFP is therefore updated annually in conjunction with the preparation of the Operational Plan.

Key drivers in the estimates provided in the LTFP and the impact of a 1% plus or minus movement are provided below.

EFFECT OF 1% MOVEMENT IN CPI IN EVERY YEAR OF THE LTFP

			Impact	
Drivers	Assumption	Impact	One Year	Total 10 Years
Inflation	1%	Revenue	$1,625,190	$103,588,175
		Expenses	$1,565,080	$105,158,818
		Net Result	$60,110	-$1,570,643
Rate Peg (Inflation exceeds rate peg by 1%)			-$728,248	-$47,817,048
Charges	1%		$993,778	$65,802,577
Fees and Charges and Operating Grants	1%		$387,103	$23,394,842
Employee Costs	1%		$705,832	$45,189,529
Materials and Contracts and Other Expenses	1%		$241,680	$15,598,341

EFFECT OF 1% MOVEMENT IN CPI IN ONLY THE FIRST YEAR (2015/16) ON THE LTFP

			Impact	
Drivers	Assumption	Impact	One Year	Total 10 Years
Inflation	1%	Revenue	$1,625,190	$18,036,579
		Expenses	$1,565,080	$22,537,171
		Net Result	$60,110	-$4,500,592
Rate Peg (Inflation exceeds rate peg by 1%)			-$728,248	-$8,090,149
Charges	1%		$993,778	$11,022,191
Fees and Charges and Operating Grants	1%		$387,103	$4,300,346
Employee Costs	1%		$705,832	$8,125,319
Materials and Contracts and Other Expenses	1%		$241,680	$2,684,827
Interest on Investments	10% Movement on Balances Invested (Assumes Same Rate)		$191,205	$2,288,413
	1% change to Interest Rate		$637,350	$7,628,043

RISK ASSESSMENT

Council's risk management strategy comprises the annual update of the LTFP. This is done in conjunction with the preparation of the Operational Plan where key assumptions and forecasts are reviewed and adjusted where necessary. The revised LTFP is also submitted to Council for adoption with the new Operational Plan and Delivery Program. The impact of significant variances or changes to the LTFP is identified with proposals for any necessary mitigating corrective action.

In addition, to determine whether there may be any emerging trends that may impact on the LTFP, monthly financial reports are submitted to Council as well as Quarterly Budget Review Statement. Monitoring and reporting against Council's Financial Sustainability Indicators forms part of the quarterly review.

PROJECTION

INCOME STATEMENT

Fairfield City Council 10 Year Financial Plan for the Years ending 30 June 2025 INCOME STATEMENT - GENERAL FUND Scenario: Base Case	Actuals 2013/14 $	Current Year 2014/15 $	2015/16 $	2016/17 $	2017/18 $	2018/19 $	Projected Years 2019/20 $	2020/21 $	2021/22 $	2022/23 $	2023/24 $	2024/25 $
Income from Continuing Operations												
Revenue:												
Rates & Annual Charges	95,092,000	99,377,814	103,758,232	105,802,242	107,887,133	110,545,368	113,270,059	116,062,868	118,925,497	121,859,691	124,867,240	127,949,979
User Charges & Fees	15,808,000	17,528,200	16,708,590	17,042,762	17,383,617	17,818,207	18,263,663	18,720,254	19,188,261	19,667,967	20,159,667	20,663,658
Interest & Investment Revenue	3,734,000	3,472,494	3,086,280	2,894,280	2,710,294	2,640,294	2,570,294	3,012,294	3,282,294	3,561,294	3,810,294	4,114,294
Other Revenues	13,900,000	13,261,223	13,992,079	16,671,921	17,005,359	17,430,493	17,866,255	19,512,912	20,000,734	20,500,753	21,013,272	21,538,603
Grants & Contributions provided for Operating Purposes	15,061,000	21,182,077	19,352,566	19,739,617	20,134,410	20,637,770	21,153,714	21,682,557	22,224,621	22,780,237	23,349,742	23,933,486
Grants & Contributions provided for Capital Purposes	7,997,000	11,169,681	20,373,543	5,086,465	5,188,194	5,317,899	5,450,846	5,587,118	5,726,796	5,869,965	6,016,715	6,167,132
Other Income:												
Net gains from the disposal of assets	178,000	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	794,000	-	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**152,564,000**	**165,991,489**	**177,271,290**	**167,237,287**	**170,309,007**	**174,390,032**	**178,574,832**	**184,578,003**	**189,348,202**	**194,239,907**	**199,216,930**	**204,367,153**
Expenses from Continuing Operations												
Employee Benefits & On-Costs	64,275,000	71,370,770	68,207,193	70,328,256	72,512,219	74,840,374	77,241,222	79,449,017	81,720,893	84,058,719	86,464,419	88,939,971
Borrowing Costs	121,000	103,251	57,111	55,670	31,116	332,965	324,406	320,484	320,080	320,080	320,080	320,080
Materials & Contracts	24,830,000	24,225,846	24,140,100	24,628,262	25,126,187	25,761,042	26,411,768	27,078,763	27,762,432	28,463,193	29,181,473	29,917,710
Depreciation & Amortisation	29,195,000	30,343,270	30,415,656	30,673,815	31,287,291	31,913,037	32,551,298	33,202,324	33,866,371	34,543,698	35,234,572	35,939,263
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	31,123,000	31,413,608	30,883,704	32,886,229	32,829,953	33,650,702	34,491,970	36,054,269	36,238,126	37,144,079	38,072,681	39,724,499
Interest & Investment Losses	-	-	-	-	-	-	-	-	-	-	-	-
Net Losses from the Disposal of Assets	-	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**149,544,000**	**157,456,745**	**153,703,764**	**158,572,232**	**161,786,767**	**166,498,121**	**171,020,664**	**176,104,857**	**179,907,902**	**184,529,770**	**189,273,225**	**194,841,523**
Operating Result from Continuing Operations	**3,020,000**	**8,534,744**	**23,567,526**	**8,665,055**	**8,522,240**	**7,891,911**	**7,554,168**	**8,473,146**	**9,440,301**	**9,710,138**	**9,943,705**	**9,525,629**
Discontinued Operations - Profit/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit/(Loss) from Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Result for the Year	**3,020,000**	**8,534,744**	**23,567,526**	**8,665,055**	**8,522,240**	**7,891,911**	**7,554,168**	**8,473,146**	**9,440,301**	**9,710,138**	**9,943,705**	**9,525,629**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**(4,977,000)**	**(2,634,937)**	**3,193,983**	**3,578,590**	**3,334,046**	**2,574,012**	**2,103,322**	**2,886,028**	**3,713,505**	**3,840,172**	**3,926,990**	**3,358,497**

BALANCE SHEET

Fairfield City Council 10 Year Financial Plan for the Years ending 30 June 2025 BALANCE SHEET - GENERAL FUND Scenario: Base Case	Actuals 2013/14 $	Current Year 2014/15 $	Projected Years 2015/16 $	2016/17 $	2017/18 $	2018/19 $	2019/20 $	2020/21 $	2021/22 $	2022/23 $	2023/24 $	2024/25 $
ASSETS												
Current Assets												
Cash & Cash Equivalents	16,065,000	7,922,906	3,772,962	3,774,889	7,658,541	10,382,937	9,887,731	8,874,556	9,235,103	9,995,702	9,865,533	9,736,304
Investments	36,672,000	35,600,477	28,781,760	26,982,900	25,184,040	24,584,420	25,184,800	26,449,990	28,207,395	29,609,990	32,374,420	36,533,660
Receivables	8,306,000	11,124,897	11,665,237	12,916,026	13,184,299	13,520,173	13,862,002	14,845,308	15,227,768	15,626,110	16,027,403	16,451,907
Inventories	571,000	616,847	622,976	635,435	648,144	664,348	680,956	697,980	715,430	733,316	751,649	770,440
Other	895,000	864,544	859,142	897,843	904,705	927,323	950,506	985,146	998,625	1,023,591	1,049,181	1,086,287
Non-current assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	62,509,000	56,129,670	45,702,077	45,207,093	47,579,730	50,079,201	50,565,996	51,852,981	54,384,322	56,988,708	60,068,185	64,578,598
Non-Current Assets												
Investments	23,290,000	24,361,523	31,180,240	32,979,100	34,777,960	35,377,580	37,777,200	40,512,010	42,754,605	45,352,010	46,587,580	48,428,340
Receivables	1,009,000	1,050,146	1,096,435	1,118,034	1,140,066	1,168,156	1,196,948	1,226,460	1,256,710	1,287,717	1,319,498	1,352,074
Inventories	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure, Property, Plant & Equipment	1,683,273,000	1,718,106,901	1,745,429,444	1,751,925,832	1,756,727,948	1,773,531,169	1,942,915,399	1,947,720,537	1,952,526,476	1,957,333,105	1,963,287,595	2,164,077,958
Investments Accounted for using the equity method	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000	4,794,000
Investment Property	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000
Intangible Assets	-	-	-	-	-	-	-	-	-	-	-	-
Non-current assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Current Assets	1,724,706,000	1,760,652,570	1,794,840,119	1,803,156,966	1,809,779,973	1,827,210,904	1,999,023,547	2,006,593,008	2,013,671,791	2,021,106,832	2,028,328,673	2,230,992,371
TOTAL ASSETS	**1,787,215,000**	**1,816,782,240**	**1,840,542,196**	**1,848,364,060**	**1,857,359,703**	**1,877,290,106**	**2,049,589,543**	**2,058,445,988**	**2,068,056,113**	**2,078,095,540**	**2,088,396,858**	**2,295,570,969**
LIABILITIES												
Current Liabilities												
Bank Overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Payables	18,872,000	17,555,982	17,370,924	16,159,339	16,228,513	16,486,304	16,745,237	17,142,588	17,283,011	17,562,163	17,848,387	18,273,694
Borrowings	306,000	344,731	368,270	347,167	189,481	883,099	823,224	800,000	800,000	800,000	800,000	800,000
Provisions	6,031,000	5,623,615	5,760,476	5,900,075	6,042,465	6,188,415	6,338,014	6,491,353	6,648,526	6,809,627	6,974,757	7,144,014
Liabilities associated with assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	25,209,000	23,524,328	23,499,670	22,406,581	22,460,459	23,557,818	23,906,475	24,433,941	24,731,536	25,171,790	25,623,144	26,217,709
Non-Current Liabilities												
Payables	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	1,391,000	1,011,241	642,971	295,804	106,323	10,423,224	9,600,000	8,800,000	8,000,000	7,200,000	6,400,000	5,600,000
Provisions	18,508,000	21,604,927	22,190,285	22,787,350	23,396,356	24,020,587	24,660,425	25,316,258	25,988,487	26,677,521	27,383,782	28,107,699
Investments Accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities associated with assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Current Liabilities	19,899,000	22,616,168	22,833,256	23,083,154	23,502,679	34,443,811	34,260,425	34,116,258	33,988,487	33,877,521	33,783,782	33,707,699
TOTAL LIABILITIES	**45,108,000**	**46,140,496**	**46,332,926**	**45,489,735**	**45,963,138**	**58,001,630**	**58,166,899**	**58,550,199**	**58,720,023**	**59,049,312**	**59,406,925**	**59,925,407**
Net Assets	**1,742,107,000**	**1,770,641,744**	**1,794,209,270**	**1,802,874,325**	**1,811,396,565**	**1,819,288,476**	**1,991,422,644**	**1,999,895,790**	**2,009,336,090**	**2,019,046,228**	**2,028,989,933**	**2,235,645,562**
EQUITY												
Retained Earnings	674,927,000	683,461,744	707,029,270	715,694,325	724,216,565	732,108,476	739,662,644	748,135,790	757,576,090	767,286,228	777,229,933	786,755,562
Revaluation Reserves	1,067,180,000	1,087,180,000	1,087,180,000	1,087,180,000	1,087,180,000	1,087,180,000	1,251,760,000	1,251,760,000	1,251,760,000	1,251,760,000	1,251,760,000	1,448,890,000
Council Equity Interest	1,742,107,000	1,770,641,744	1,794,209,270	1,802,874,325	1,811,396,565	1,819,288,476	1,991,422,644	1,999,895,790	2,009,336,090	2,019,046,228	2,028,989,933	2,235,645,562
Minority Equity Interest	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,742,107,000**	**1,770,641,744**	**1,794,209,270**	**1,802,874,325**	**1,811,396,565**	**1,819,288,476**	**1,991,422,644**	**1,999,895,790**	**2,009,336,090**	**2,019,046,228**	**2,028,989,933**	**2,235,645,562**

CASH FLOW STATEEMNT

Fairfield City Council 10 Year Financial Plan for the Years ending 30 June 2025 CASH FLOW STATEMENT - GENERAL FUND Scenario: Base Case	Actuals 2013/14 $	Current Year 2014/15 $	2015/16 $	2016/17 $	2017/18 $	2018/19 $	Projected Years 2019/20 $	2020/21 $	2021/22 $	2022/23 $	2023/24 $	2024/25 $
Cash Flows from Operating Activities												
Receipts:												
Rates & Annual Charges	95,394,000	98,944,321	103,596,222	105,726,644	107,810,023	110,447,053	113,169,287	115,959,576	118,819,622	121,751,170	124,756,006	127,835,963
User Charges & Fees	18,825,000	17,528,200	16,708,590	17,042,762	17,383,617	17,818,207	18,263,663	18,720,254	19,188,261	19,667,967	20,159,667	20,663,658
Interest & Investment Revenue Received	3,208,000	3,707,985	3,130,271	2,889,570	2,690,422	2,621,131	2,553,094	2,987,440	3,256,540	3,528,576	3,783,765	4,073,923
Grants & Contributions	23,058,000	32,349,111	39,725,858	24,827,031	25,322,565	25,955,619	26,604,510	27,269,622	27,951,363	28,650,147	29,366,401	30,100,561
Bonds & Deposits Received	21,000	-	-	-	-	-	-	-	-	-	-	-
Other	19,582,000	10,601,829	13,523,720	15,478,891	16,812,075	17,184,056	17,613,658	18,628,292	19,719,707	20,212,699	20,718,017	21,235,967
Payments:												
Employee Benefits & On-Costs	(65,147,000)	(69,097,930)	(67,567,490)	(71,258,374)	(71,760,822)	(74,070,193)	(76,451,786)	(78,639,845)	(80,891,492)	(83,208,583)	(85,593,029)	(88,046,797)
Materials & Contracts	(32,512,000)	(25,138,151)	(24,243,217)	(24,224,063)	(25,076,431)	(25,546,939)	(26,192,237)	(26,732,711)	(27,652,585)	(28,226,539)	(28,938,818)	(29,547,946)
Borrowing Costs	(118,000)	(105,652)	(57,263)	(55,833)	(31,269)	(328,099)	(324,796)	(320,848)	(320,434)	(320,434)	(320,434)	(320,434)
Bonds & Deposits Refunded	-	-	-	-	-	-	-	-	-	-	-	-
Other	(32,946,000)	(31,413,608)	(30,883,704)	(32,886,229)	(32,829,953)	(33,650,702)	(34,491,970)	(36,054,269)	(36,238,126)	(37,144,079)	(38,072,681)	(39,724,499)
Net Cash provided (or used in) Operating Activities	29,365,000	37,376,105	53,932,987	37,540,400	40,320,226	40,430,135	40,743,422	41,817,511	43,832,856	44,910,925	45,858,893	46,270,397
Cash Flows from Investing Activities												
Receipts:												
Sale of Investment Securities	22,500,000	-	-	-	-	-	-	-	-	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	1,009,000	20,181,200	3,242,000	928,840	947,417	971,102	995,380	1,020,264	1,045,771	1,071,915	1,098,713	1,126,181
Payments:												
Purchase of Investment Securities	(14,500,000)	-	-	-	-	-	(3,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(6,000,000)
Purchase of Investment Property	9,593,000	-	-	-	-	-	-	-	-	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(41,592,000)	(65,358,371)	(60,980,199)	(38,099,043)	(37,036,824)	(49,687,360)	(38,350,908)	(39,027,726)	(39,718,080)	(40,422,242)	(42,287,775)	(40,725,807)
Net Cash provided (or used in) Investing Activities	(22,990,000)	(45,177,171)	(57,738,199)	(37,170,203)	(36,089,407)	(48,716,258)	(40,355,529)	(42,007,462)	(42,672,309)	(43,350,327)	(45,189,062)	(45,599,626)
Cash Flows from Financing Activities												
Receipts:												
Proceeds from Borrowings & Advances	-	-	-	-	-	12,000,000	-	-	-	-	-	-
Proceeds from Finance Leases	-	-	-	-	-	-	-	-	-	-	-	-
Payments:												
Repayment of Borrowings & Advances	(1,378,000)	(341,028)	(344,731)	(368,270)	(347,167)	(989,481)	(883,099)	(823,224)	(800,000)	(800,000)	(800,000)	(800,000)
Repayment of Finance Lease Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow provided (used in) Financing Activities	(1,378,000)	(341,028)	(344,731)	(368,270)	(347,167)	11,010,519	(883,099)	(823,224)	(800,000)	(800,000)	(800,000)	(800,000)
Net Increase/(Decrease) in Cash & Cash Equivalents	4,997,000	(8,142,094)	(4,149,943)	1,927	3,883,652	2,724,396	(495,206)	(1,013,175)	360,547	760,598	(130,168)	(129,229)
plus: Cash, Cash Equivalents & Investments - beginning of year	11,068,000	16,065,000	7,922,906	3,772,962	3,774,889	7,658,541	10,382,937	9,887,731	8,874,556	9,235,103	9,995,702	9,865,533
Cash & Cash Equivalents - end of the year	**16,065,000**	**7,922,906**	**3,772,962**	**3,774,889**	**7,658,541**	**10,382,937**	**9,887,731**	**8,874,556**	**9,235,103**	**9,995,702**	**9,865,533**	**9,736,304**
Cash & Cash Equivalents - end of the year	16,065,000	7,922,906	3,772,962	3,774,889	7,658,541	10,382,937	9,887,731	8,874,556	9,235,103	9,995,702	9,865,533	9,736,304
Investments - end of the year	59,962,000	59,962,000	59,962,000	59,962,000	59,962,000	59,962,000	62,962,000	66,962,000	70,962,000	74,962,000	78,962,000	84,962,000
Cash, Cash Equivalents & Investments - end of the year	**76,027,000**	**67,884,906**	**63,734,962**	**63,736,889**	**67,620,541**	**70,344,937**	**72,849,731**	**75,836,556**	**80,197,103**	**84,957,702**	**88,827,533**	**94,698,304**
Representing:												
- External Restrictions	44,993,000	27,326,142	30,759,659	32,232,330	33,734,472	35,274,186	36,852,412	38,470,117	40,128,287	41,827,934	43,570,072	45,355,764
- Internal Restricitons	27,628,000	33,644,077	23,272,116	22,898,677	24,517,769	26,177,338	26,878,397	27,596,982	28,333,531	31,088,494	33,912,332	36,806,765
- Unrestricted	3,406,000	6,914,687	9,703,187	8,605,882	9,368,300	8,893,413	9,118,923	9,769,458	11,735,286	12,041,273	11,345,129	12,535,775
	76,027,000	**67,884,906**	**63,734,962**	**63,736,889**	**67,620,541**	**70,344,937**	**72,849,731**	**75,836,556**	**80,197,103**	**84,957,702**	**88,827,533**	**94,698,304**

APPENDIX

Operating Performance Ratio - The operating performance ratio measures council's achievement of containing operating expenditure within operating revenue. Total continuing operating revenue (excl. Capital Grants & Contributions) - Operating Expenses / Total continuing operating revenue (excl. Capital Grants & Contributions)

Own Source Operating Revenue Ratio - The own source revenue ratio measures fiscal flexibility as it indicates the extent of external funding sources such as operating and capital grants and contributions received by councils. Total continuing operating revenue (less ALL Grants & Contributions) / Total continuing operating revenue.

Unrestricted Current Ratio - The unrestricted current ratio measures the adequacy of working capital and the ability of a council to satisfy its obligations in the short term. Current Assets less all External Restrictions / Current Liabilities less Specific Purpose Liabilities.

Debt Service Cover Ratio - This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. Operating Result before capital excluding interest and depreciation, impairment, amortisation (EBITDA) / Principal Repayments (from the Statement of Cash Flows) + Borrowing Interest Costs (from the Income Statement)

Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage - This ratio assesses the impact of uncollected rates and annual charges on liquidity and the efficiency of councils' debt recovery. Rates, Annual and Extra Charges Outstanding / Rates, Annual and Extra Charges Collectible

Building & Infrastructure Renewals Ratio - The building and infrastructure asset renewal ratio assesses the rate at which assets are being renewed against the rate at which they are depreciating. Renewal is defined as the replacement of existing assets to equivalent capacity or performance capability, as opposed to the acquisition of new assets. Asset renewals (building and infrastructure) / Depreciation, amortisation and impairment (building and infrastructure).

Infrastructure Backlog Ratio - The infrastructure backlog ratio shows the infrastructure backlog as a total value of a council's infrastructure. Estimated cost to bring assets to a satisfactory condition / Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets.

Asset Maintenance Ratio - The asset maintenance ratio compares councils' actual asset maintenance against the estimated required annual asset maintenance. It indicates if a council is investing enough funds within the year to stop the infrastructure backlog from growing. Actual Asset Maintenance / Required Asset Maintenance.

Capital Expenditure Ratio - This ratio shows whether a Council earns more from its' main activities or spends more to maintain or expand these activities. Annual Capital Expenditure / Annual Depreciation

Debt Service Ratio - The debt service ratio indicates the proportion of revenue from ordinary activities utilised for debt repayment. It is generally higher for councils which have acquired funding for infrastructure development. Cost of debt service (interest expense & principal repayments) / Total continuing operating revenue (exc. capital grants and contributions).

Rates & Annual Charges Coverage Ratio - The purpose of the Rates & Annual Charges Coverage Ratio is to assess the degree of Council's dependence upon revenue from rates and annual charges and to assess the security of Council's income.

Net Financial Liabilities Ratio (Gearing Ratio) - This ratio indicates the extent to which net financial liabilities of a Council could be met by its operating revenue. Where the ratio is falling over time it indicates that the Council's capacity to meet its financial obligations from operating revenue is strengthening. This ratio is calculated as follows, total liabilities less current assets divided by operating revenue.

Net Interest Coverage Ratio - A ratio used to determine how easily a Council can pay interest on outstanding debt. The ratio is calculated by dividing Councils earnings before interest and taxes (EBIT) by its interest expenses for the same period. The lower the ratio, the more the Council is burdened by debt expense.

APPENDIX 2

FIT FOR THE FUTURE
Fairfield City Council
Pitcher Partners Depreciation Expense Report

PITCHER PARTNERS
ACCOUNTANTS AUDITORS & ADVISORS

Fairfield City Council

Report – Review of Depreciation Expense and Related Asset Management Issues

Carl Millington Partner

Pitcher Partners
Level 22 Martin Place, Sydney NSW 2000
Telephone +61 2 9228 2249
Facsimile +61 2 9223 1762
Email cmillington@pitcher-nsw.com.au

Table of Contents

PITCHER PARTNERS

Executive Summary

Introduction

Fairfield City Council ("FCC") via correspondence received on 8 January 2014 [refer ***Appendix 1***] from Tony Smith, then FCC Chief Financial Officer, requested that a review into the depreciation expense calculations be performed with a view to determining the appropriateness of the significant increases that have occurred in the 8 years to 2013/2014 and the further increases forecast to occur in future financial years.

Additionally, in early 2015, Brad Cutts, FCC Chief Financial Officer, provided a document outlining the methodology on which depreciation would be calculated from 01 July 2015 [refer ***Appendix 2***]. The document titled 'Asset Values identifying Residual Asset Values' is intended to be the basis for calculation of depreciation expense on the fair valuation of FCC's infrastructure assets from 2015/2016.

In relation to the initial correspondence, this report looks at the historical basis for the depreciation charge, its composition between asset categories, the factors impacting on the expense recognised and comparisons of FCC to other council entities.

In relation to the new methodology issued for future application, this report again compares the assumptions made to other councils as well as assessing the appropriateness of the useful lives and residual values to be applied in the calculation of depreciation expense. It also makes reference to the accounting treatment required from the changes being made to the estimates on which depreciation expense is calculated.

Objectives / Scope

The overall objectives of the review were as follows:

1. Review the basis for the historic depreciation calculation and determine the primary reasons for the increase in the expense for the 8 year period to 2013/2014.
2. Compare FCC's depreciation of infrastructure assets to other 'Group 3' councils in the Sydney area.
3. Assess FCC's intended methodology going forward in relation to assumptions used for the components of categories of infrastructure assets which impacts (decreases) depreciation expense.

Upon completion of the above we have prepared this report of factual findings.

Approach

Our approach was to review the basis of the calculation of depreciation expense incurred to date and the changes being considered impacting on calculation of the expense in future financial years. Our review required discussions with staff involved in the administration of assets and asset management as well as persons in the finance department. We conducted testing and analytical procedures in accordance with the scope set out above.

Summary of Key Findings and Recommendations

Our observations and testing identified the following key findings and recommendations:

- The main contributors to the FCC depreciation expense is the asset categories of Buildings and Roads, Bridges and Footpaths. All other categories, whether infrastructure or other property, plant and equipment have a limited impact on depreciation expense.
- Buildings depreciation expense has increased from $1.793M in 2007 to $9.958M in 2014. This is largely a result of:
  - revaluing assets at Fair Value in the 2008 and 2013 years rather than historical Cost, as required by the Office of Local Government.
  - Asset additions of $30.1M since 2007.
- Roads, bridges and footpath depreciation expense has increased from $8.32M in 2007 to $12.432M in 2014, primarily from:
  - revaluation increments of $317.24M;
  - additions of $114M that have been recognised in the period since 2007.
- The calculation of annual deprecation charge is affected by the assessment of 'useful life' and 'residual value'.
  - Roads, bridges and footpath revaluations were performed by FCC based on assessment of asset conditions and application of estimated useful lives and residual values to the components therein.
  - Buildings revaluations were performed by an independent expert who applied useful lives in accordance with their knowledge for the components involved.

  For the 2010 fair valuation, FCC did not calculate any residual values for the Roads, Bridges and Footpath asset category. Similarly, the valuer was instructed not to calculate Building component residual values in the 2008 and 2013 fair valuations. These decisions appear to have had a very significant impact on the depreciation expense calculated for each asset category.
- Comparison of FCC's financial statements to other 'Group 3' councils in the Sydney metropolitan area indicated significant differences in useful life estimations. Differences in all aspects impacting on depreciation were noted – level of componentisation, useful lives and possibly residual values. It appeared that the bases that FCC used resulted in a depreciation expense within the middle of the range of this group of council's reviewed.

  It was noted that the disclosure concerning Residual Value was not detailed in Note 1 of these council's financial statements. This is despite the fact that the Residual Value appears to have a critical impact on the depreciation expense calculated.
- FCC's methodology to be introduced for the 2014/2015 and subsequent years will result in a significant impact (reduction) on depreciation expense for the initial year and for years thereafter. The reduction is based on review of useful life and residual value. This resulted in the methodology as detailed at Appendix 2.
- Our review of the proposed methodology indicates that it appears to be in accordance with current Australian Accounting Standards and that the application of the revised methodology is consistent with the requirements of the Office of Local Government and more accurately reflects the periodic consumption of the asset classes involved.
- A change in an accounting policy requires disclosure in accordance with AASB108, 'Accounting Policies, Changes in Accounting Estimates and Errors'. Following is an example of the application of the Accounting Standard:

- Penrith City Council was identified as a council in which a significant change to these variables occurred recently. Penrith's financial statements for 2013 (the year of re-assessment) were reviewed as an example of the relative $ impact and the disclosures required. Note 1 of those statements stated: "For 2012/2013 Council reviewed and amended the useful lives and residual value for its road, drainage and building asset classes to more accurately reflect the consumption of these assets. This change in method of incorporating both a change in useful lives and the use of a residual value resulted in a decrease in depreciation expense from the previous year and now *more realistically represents the consumption of these assets."*

Our detailed findings are as set out in the Detailed Report of Findings.

Acknowledgement

The co-operation of Council Staff and Management in providing information to enable this review to be undertaken and completed is acknowledged with thanks.

- Brad Cutts (Chief Financial Officer);
- Ponniah Jeyarajah (Manager Financial Accounting); and
- Zahid Hassan (Asset Management).

Accountability and responsibility

Pitcher Partners takes responsibility for this report, which is prepared on the basis of the limitations, set out below.

Contact Persons	Telephone Number	Title
Carl Millington	(02) 9228 2249	Partner, Business Advisory & Assurance

The matters raised in this report are only those that came to our attention during the course of our review and are not necessarily a comprehensive statement of all the issues that exist or all improvements that might be made. Council should assess recommendations for improvements for their full commercial impact before they are implemented. This report has been prepared solely for the use of Council and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

Detailed Report of findings

Detailed Approach

Our detailed approach was as follows:

1. We conducted a review as to the calculation of the depreciation expense incurred from the 2007 to 2014 financial years. This review entailed:
   - Review the pattern of change for depreciation expense for these financial years;
   - Review increases related to Buildings;
   - Review increases related to Roads, Bridges and Footpaths; and
   - Compare FCC estimations used in 2014 to other Group 3 councils.
2. We conducted a review of the methodology devised by FCC in 2015 to more accurately reflect the depreciation of assets between fair valuation assessments performed. This review entailed:
   - Determining the reasonableness of the assumptions made in preparation of the new methodology as at ***Appendix 2***.
   - Assessing the accounting treatment required for this change in estimates occurring.

Detailed Findings

1.1 –Depreciation expense increase from 2007 to 2014

FCC's depreciation expense history, expressed in $ [millions] is as follows:

Depreciation Exp.	2007	2008	2009	2010	2011	2012	2013	2014
- Buildings	1.8	2.0	5.6	5.7	5.7	6.0	6.1	10.0
- Infrastructure	10.3	10.9	11.0	11.3	13.6	13.6	14.2	14.7
- Other Assets	4.1	4.5	5.1	5.0	5.0	5.0	5.1	4.6
Total Depreciation	**16.2**	**17.4**	**21.7**	**22.0**	**24.3**	**24.6**	**25.4**	**29.3**

Accordingly, - Buildings depreciation expense has increased by $9.2M or 511%; infrastructure depreciation expense has increased by $4.4M or 43%; and the total depreciation expense has increased by $13.1M or 81%.

Recommendations

Management re-assess the bases for the increases in the depreciation expense to ensure that the expense accurately reflects the consumption of the assets.

1.2 – Review of increases related to Buildings

Findings

As can be seen from point ***1.1***, the Building asset category is the most significant contributor to the increase in the expense over the 2007 to 2014 period.

The following breakdown of the asset category and the related expense [expressed in millions $] is extracted from FCC's GPFRs:

Buildings	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
– Depn. expense	1.79	2.05	5.64	5.69	5.69	6.02	6.06	9.96
– Cost /Fair Valn.	8.32	8.84	8.97	9.07	11.29	11.44	11.95	12.43
- Additions	8.38	2.28	1.32	2.75	5.37	1.06	2.40	6.39
– Net Valn. Increase	0.00	68.49	0.00	0.00	0.00	0.00	34.12	0.00

Over this 7 year period building additions of $30.1M have occurred, whilst net valuations of $102.6M occurred in the 2 valuation years of 2008 and 2013. These significant increases in the $ base on which the depreciation expense is calculated is the reason for the expense increase.

It is noted that the 2013 fair valuation saw a net increase of $34M which was disclosed in Note 9 of the GPFRs on a net (accumulated depreciation has been cleared against the fair value) basis. However, despite this, the depreciation expense applicable in the 2014 year, as expected, increased significantly as based on the current replacement cost assessed of circa $248M.

FCC has used the independent valuers, Scott Fullarton Valuations Pty Ltd ("SFV") to perform the valuations of its Building assets. SFV has performed the fair value analysis based on the relevant accounting standard, AASB 116 'Property, Plant and Equipment' and guidance contained in NSW Treasury Accounting Policy [tpp 07-1] and NSW Department of Local Government (now Office - "OLG") guidelines.

The Current Replacement Costs are based on SFV unit rates from their database of values built up from performance of such valuations. The SFV valuation states that; "Our schedule provides the Gross Value of each building, which is obtained by applying a unit rate to a structure or a square metre rate to a building, based on its current replacement cost, which is the lowest cost of replacing the economic benefits of the existing asset using modern technology. These rates have been derived from substantial analysis of construction costs from over one hundred and twenty (120) Councils throughout New South Wales and are continually updated in our database to reflect movements in construction costs."

This is deemed as appropriate and therefore no variations to the rates used are recommended to be investigated by FCC with a view to possibly reducing the depreciation expense that emanates from the current replacement cost applied to the building assets.

The Useful Life has been determined by component for each but the most basic Building assets within this asset class. The SFV valuation states that; "we estimate the Total Life and Residual Life of each building/structure and, where the building is considered a complex asset, for each component, as they have useful lives different from those of the non-current assets to which they relate. In regard to componentisation, paragraph 43 of AASB116 requires each part of the asset with a cost that is significant in relation to the asset be depreciated separately. As discussed with Council, we noted the suggested minimum componentisation of buildings by the OLG and, as agreed, the level of componentisation that we adopt is structure, internal finishes, electrical services, mechanical services, fire/security, transportation (lifts etc.) and roof."

The action taken is deemed as appropriate as in accordance with this accounting standard and OLG guidance for the valuation of Buildings.

Review of the 30 June 2013 valuation indicates that the maximum useful life applied for the building structures (or masonry) component is 60 years. Review of the Code as well as disclosures in Note 1 of other council's financial statements indicates that up to 100 years is used as the Useful Life for such components in Building assets.

It is noted that FCC management has not updated the Peoplesoft asset register to reflect the new Useful Lives of buildings as assessed in the 2013 SFV valuation. This results in the depreciation charge being overstated as the Useful Lives were predominantly greater than the lives recorded in FCC's asset register.

As with all other classes of FCC assets, no Residual Value has been applied to the Building assets. As per the SFV excerpt above it would appear as though they considered the possibility of Residual Values for the Buildings components – however the non-use of it is not referred to thereafter. This action appears critical to the increase in the depreciation expense for Building assets.

Recommendations

Management action required:

- update the Peoplesoft asset register to reflect the useful lives of Building asset components as per the SFV valuation document.
- ensure that useful lives and asset carrying values are reviewed each year.

1.3 – Review of increases related to Roads, Bridges and Footpaths

Findings

As detailed above in point **1.1**, the infrastructure category is also a significant contributor to depreciation expense. The most significant category therein is Roads, Bridges and Footpaths for which the following breakdown of the asset category and the related expense [expressed in $ - millions $] is extracted from FCC's GPFRs:

Roads, Bridges, F/paths	2007	2008	2009	2010	2011	2012	2013	2014
– Depn. expense	8.32	8.84	8.97	9.07	11.29	11.44	11.95	12.43
– Cost /Fair Valn.	419.9	424.7	439.6	666.5	681.8	695.5	712.2	732.8
- Additions	10.04	10.82	14.07	14.95	15.04	13.68	16.72	17.92
– Net Valn. Increase	0.00	0.00	0.00	317.24	0.00	0.00	0.00	0.00

Over this 7 year period additions of $114M have occurred, whilst a net valuation of $317M occurred in the valuation year of 2010. These significant increases in the $ base on which the depreciation expense is calculated is the reason for the expense increase.

The Current Replacement Cost value for this class of assets when initially fair valued in 2010 was $666.5M - this has since increased, through additions, by $66.3M to $732.8M at 30 June 2014. Review of Note 9a of FCC's financial statements showed respective additions of $15.3M in 2011, $13.7M in 2012, $16.7M in 2013 and $17.9M which add to $63.6M – a difference of $2.7M related to an adjustment in 2013. This confirms that the unit costs used as the basis for valuation in 2010 have remained unchanged, as required, through to 2014.

FCC unit rates used for the 30 June 2010 valuation were reviewed and assessed as appropriate. Re-assessment is required for the valuation required as at 30 June 2015 which could further impact on the current replacement cost and therefore the depreciation expense for the 2015/2016 year and beyond.

The Useful Life applied in the 2010 review stated that "the useful lives of assets have been based on IPWEA guidelines, Council's experience or a Council with similar assets". Review of the useful lives as per the depreciation calculation work papers for the year ended 30 June 2013 indicated that the useful lives used were at the upper end of the IPWEA guidelines as stated in the 2010 methodology and the useful lives as referred to for each class of assets in the DLG Code 21 for 2013. Whilst the useful life should be determined by council's asset manager and should be aligned to councils Asset Management Plan it is considered reasonable that the useful lives for these infrastructure assets are in accordance with the IPWEA and Code guidelines. As a consequence, there is not considered to be any significant scope for review of useful lives and ultimately reduction in depreciation expense in the years going forward.

As noted for FCC Buildings, no Residual Values were considered in the 2010 fair valuation of infrastructure assets. It is expected that FCC asset management will consider establishing Residual Values for appropriate infrastructure asset components from 1 July 2015.

Recommendations

- Management review the estimations for the useful lives and residual values of all components of these infrastructure assets.
- Review the unit rates applied in valuations to ensure that as accurate as possible reflecting the Current Replacement Cost. Detailed benchmarking with other councils with similar infrastructure characteristics and costs should be performed to further support the rates used.
- Residual Value can be considered for infrastructure assets where the cost to renew to its service potential is less than the cost to replace the asset. This can typically occur for road assets as well as stormwater drainage assets. As per the Australian Infrastructure Financial Management Guidelines in these instances council is required to maintain "documentation supporting asset performance and residual values in current asset renewal practices and for future planned renewals detailed in adopted asset management plans." A Residual Value can also be allocated where the asset has a salvage value. Council should consider the possibility of salvage values applicable to components of infrastructure assets. It is anticipated that such components may include asphalt seals used in the road network and for council footpaths as well as brick or concrete components used in road structures, bridges, footpaths and car parks.
- It is noted that the inclusion of Residual Values involves a considerable effort to support the calculation and to administer throughout the life of the asset. A cost/benefit analysis should be performed by management to determine the impact Residual Values would have on future year's depreciation expense.
- In the event that it is decided that a change to the methodology is required, update The FCC Asset Management Plan to reflect the maintenance and capital expenditure programs to support the estimated of useful life and residual values used.

1.4 – Comparison of Current FCC Depreciation estimates to other Group 3 Councils

Findings

FCC's 2013 Financial Statements, Note 1 – 'Summary of Significant Accounting Policies – Depreciation' was reviewed as were a selection of 6 other 'Group 3' (large Metropolitan) councils. The table below shows the results obtained indicated differences in the useful lives applied to the various categories of assets. It is noted that information pertaining to any Residual Values used cannot be determined from review of financial statements.

Asset Class	Fairfield CC	Black. CC	Banks. CC	Suth. CC	Hurst. CC	Warr. CC	R'wick CC
Buildings							
- Structure	**40-80**	25-384	100	50	0-100	50-100	60
- Components	**20**	-	-	-	-	20-40	20
Infrastructure							
Roads – Surface	**30**	10-50	35	40	50-100	20	25
Roads – Structure	**100**	15-150	100	75	50-100	100	80
Bridges	**100**	15-100	80	80	-	100	-
Road - Pavements	**-**	-		20	-	-	100
Kerb & Gutter	**80**	-	75	70	50-80	100	110
Footpaths	**60**	50-60	60	50	50-80	100	20-80
Drainage	**100**	50-100	120	100	25-100	100	50-120

This information is a summation of the useful lives used for the calculation of depreciation for the asset classes as noted.

General observations from these disclosures are:

- Only Warringah has disclosed componentising of Buildings, though the Useful Life range for Blacktown and Hurstville indicates componentisation may also have occurred there.
  FCC's componentising of Buildings is in accordance with the Code's requirements and is therefore considered appropriate.
- Building Structure Useful Lives for other councils appear to be in excess of the Useful Life used at FCC. Only Sutherland and Randwick have similar Useful Life ranges.
- FCC's Sealed Road - Surfacing Useful Life is only greater than Warringah. Other councils have a significant range within this category indicating that some components may be significantly greater than 30 years.
- Kerb and Gutters useful lives for Warringah and Randwick are significantly greater than FCC. All other councils have similar useful lives to FCC.

Specific conclusion cannot be drawn from these general ranges disclosed; however it would appear that there are differences in the useful lives of assets/asset components between councils. This emphasises the importance of continual benchmarking with one another.

FCC's 2013 Financial Statements, Note 9a – 'Infrastructure Property Plant and Equipment' was reviewed for the selection of Group 3 councils as noted above. The following was noted based on the 2012/2013 depreciation expense as a percentage of the opening balance of the asset classes noted:

Asset Class	**Fairfield CC**	Black. CC	Banks. CC	Suth. CC	Hurst. CC	Warr. CC	Randwick CC
Buildings	**2.91%**	1.77%	1.68%	1.96%	1.29%	1.00%	3.02%
Infrastructure							
Roads, Bridges & Footpaths	**1.72%**	2.00%	1.18%	1.87%	1.16%	0.91%	1.06%
Stormwater Drainage	**0.80%**	1.17%	0.71%	1.16%	1.02%	1.05%	0.82%

For Buildings, the FCC depreciation expense at 2.91% of the opening balance amount is in line with Randwick Council where componentisation has also occurred. Whilst Warringah's Note 1 indicates that componentisation should occur, the overall depreciation rate is very low. If FCC's depreciation expense proportion was 2.00% of the asset class then the annual saving is estimated at $1.9M, with further savings going forward with the 30/06/13 revaluation taking effect from the 2013/2014 year.

Infrastructure – for Roads, Bridges and Footpaths the FCC depreciation expense is estimated at 1.72% and is second highest to Blacktown with all other councils' estimate being less. If the expense proportion for Roads, Bridges and Footpaths was reduced to 1.2% of the asset class then the annual saving is estimated at $3.6M. This amount will increase if the revaluation to occur as at 30 June 2015 results in greater current replacement costs than the 2010 assessment.

Infrastructure – Stormwater Drainage, FCC's depreciation proportion for this class is in the lower range of the councils reviewed.

TCorp's 'Financial Sustainability of the New South Wales Local Government Sector' issued in April, 2013 referred to the dramatic impact of depreciation expense on all councils in a post-revaluation climate. Review of the document's Findings and Recommendations section revealed:

- Main Findings 6.1.11 is titled - "Depreciation rates and expenses, and methodologies vary across Councils".
- Recommendations 6.2.18 states that "further analysis of depreciation needs to be undertaken to ensure assets are being depreciated at the correct rate to reflect applicable asset lives." It is noted that "the average depreciation rate for infrastructure assets vary from 2.5% to more than 5.0%. Such a range appears too large and further analysis needs to be conducted to validate the depreciation."
- Analysis of Group 3 councils (of which FCC is one) was performed at page 77. The DLG council snapshot for 2011/2012 indicates that FCC's depreciation expense as a total of operating expenses is 18.3% compared to the Group 3 mean of 17.7%.

TCorp's conclusion that more comprehensive analysis is required indicates that FCC should proceed cautiously with any adjustments to the parameters which impact on the magnitude of the annual depreciation charge.

Recommendations

FCC management continue to benchmark the variables related to their depreciable assets to industry and Council records.

Management particularly review the basis for introduction of Residual Values for Roads, Bridges and Footpath components and maintain documentation supporting the Residual Value decisions reached.

2.1 – Testing of FCC Asset Valuation Methodology - 2015

Findings

FCC provided the document as at ***Appendix 2*** which will be the basis for the valuation and related depreciation charge to be applied to each component within the depreciable asset categories of Buildings and infrastructure assets from the 2015/2016 financial year.

The changes in estimates for the Useful Life and Residual Value variables is management's best estimate of the actual situation related to each class of assets. This has been represented by management who also provided referenced information to support the changes.

Recommendations

Management should provide an authorised representation for the estimates of Useful Lives and of Residual Values used.

Management should compile a supporting file of documentary information on which the estimates have been made. This information is expected to include industry standards (such as IPWEA guidelines) as well as benchmarking against similar local government entities. This information should be able to withstand critical review by external parties such as audit or the OLG.

Management should consider engaging the external valuers, SFV, to provide an opinion on the revised methodology related to Building assets for which they have valued in 2008 and 2013 as Building assets are not required to be fair valued again until 30 June 2018.

2.2 – Accounting Treatment for Initial Year and Subsequent Years of Changed Methodology

Findings

Council's decision to re-assess the bases on which depreciation is calculated on its Building and infrastructure assets will result in a significant change in the estimates and therefore require appropriate treatment and disclosure as allowed per current Australian accounting standards.

Recommendations

Review of the accounting standards indicates that AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' is applicable. Review of AASB116, 'Property, Plant & Equipment' paragraph 51 states that AASB108 applies for changes in estimations related to asset revaluations where it is not the initial application of a policy to revalue assets. Should this change occur it will not be the initial application of a policy to revalue assets.

AASB108 paragraphs 36 and 37 state that the impact of changes in estimates are to be included in the Income Statement and reflected in the asset/liability and equity balances for the period of the change; – that is, there is no requirement to restate in prior period comparatives. AASB108 paragraphs 39 and 40 outline the disclosure requirements related to such a change.

It is noted that such a change to estimates impacting on asset values and depreciation expense was effected at Penrith City Council as at 30 June 2012. The following was noted as depreciation expense incurred for the relevant years – most of which relates to Building and infrastructure assets:

	2014	2013	2012
Depreciation expense charged	$19.7M	$19.1M	$39.0M

A significant reduction in the depreciation expense in the initial year (2013) of the revised estimates for Useful Life and Residual Values was expected as the depreciation expense for the previous financial years since the last fair valuation would have been significantly greater than required compared to the amount to equate to the fair valuation calculation for each asset as at 30 June 2013 based on the new estimate variables.

It was expected that the depreciation charge for 2014 would increase over 2013 as the required adjustment made in the initial year of the revision had been effected and the reduction would decrease with a 'normal' year's expense based on the new estimates. This did not occur, – as can be seen the depreciation expense remained at $19M indicating that the initial adjustment required to equate to the fair values based on the revised estimates was not significant.

The impact on FCC's depreciation expense will not be seen until the 2015/2016 financial year.