ATTACHMENT 3

IP&R Framework

Long Term Financial Plan

2019-2029: **Our place. Our plan.**

Revised to include Special Rate Variation
Adopted January 2019

PORT STEPHENS COUNCIL

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Contents

1. Executive Summary

The Long Term Financial Plan 2019-2029 (LTFP) aligns the long term aspirations and goals of the Community Strategic Plan (CSP) with Council's financial ability to deliver these ambitions.

It provides a robust yet dynamic framework in which Council can review and assess its financial sustainability in conjunction with its core functions and responsibilities. The LTFP contains a set of long range financial projections based on a set of assumptions. It covers a 10 year time period from 2019-2020 to 2028-2029.

The LTFP is models 3 scenarios, each of which shows a specific financial outlook. The scenarios are cumulative, so that each scenario incorporates the assumptions and financial outcomes of the previous scenario(s). The scenarios can also be looked at in isolation. One of the scenarios modelled requires an increase in rates above the anticipated rate peg set by IPART which is known as a Special Rate Variation (SRV).

This iteration of the LTFP aims to model and inform residents on the outcomes of the various financial scenarios as chosen by Council, including a proposed SRV. At its meeting on 9 October 2018, Council resolved to proceed to lodge a SRV application to IPART on a rate increase of 7.5% per annum (including rate pegging) for a period of seven years with this increase being a permanent addition to income.

A summary of each scenario is as follows:

Scenario 1 – Conservative (less than authorised rate peg)

The future sustainability of Council is dependent upon generating sufficient funds to meet the costs of maintaining and renewing assets to deliver services.

Under this scenario, budget parameters are set at conservative levels including a rate increase of 2.0%.

Under these parameters, Council would not generate sufficient funds to continue providing current service levels or renew its assets when required.

Scenario 2 – Standard (authorised rate peg)

Under this scenario *(currently applied)*, financial sustainability is maintained however, it does identify a number of financial challenges that Council will need to review in the near future. The assumption of the authorised rate peg of 2.7% for 2019-2020 and estimated rate peg of 2.5% for the period of 2020 to 2029 has been used. Budget parameters are set based on a business as usual approach however does not allow for any increased or enhanced service levels.

Scenario 3 – Strategic (includes a proposed SRV)

Under this scenario, financial sustainability is maintained and provides financial capacity to increase service levels to the community and fast track a number of asset renewals and introduce new assets based on community needs. This scenario addresses demand for extra service provision, infrastructure operation and maintenance, providing funds to invest in long term loans to fund recognised priorities.

This scenario assumes a SRV of 7.5% per annum (inclusive of rate peg) for seven years from 2019-2020 to 2025-2026 inclusive. Council is proposing that the increase be retained permanently in its rates general income base. This means that the rate levels in 2025-2026 will increase by the rate peg in 2026-2027 and subsequent years and rates will not be reduced to pre-SRV levels. The SRV is proposed to commence in the financial year starting on 1 July 2019.

Scenario 3 is Council's preferred option in setting the 2019-2020 operating budget. Scenario 3 will provide sufficient resources to employ additional staff and contractors in order to deliver the expanded services, new capital works, capital renewal and increased asset maintenance expenditure outlined in the proposed SRV.

If the SRV application is not successful, then the alternate 2019-2020 budget position for Council is the Scenario 2: Standard.

Assumptions for each respective scenario are for financial modelling purposes only and would require community consultation, Council endorsement and the necessary legislative approvals before implementation.

The main assumptions used for each scenario is as follows:

Income	Conservative	Standard	SRV
Rates			
Pegging factor applied 2020	2.7%	2.7%	2.7%
SRV peg factor applied 2020	-	-	4.8%
Ongoing peg factor beyond 2020	2.0%	2.5%	2.5%
SRV peg factor beyond 2020	-	-	5.0%
New annual rates assessment	100	150	150
User fees and charges Annual factor	2.2%	2.5%	2.5%
Operating grants and Contributions Annual factor	2.2%	2.5%	2.5%
Other			
Other income	2.2%	2.5%	2.5%
Cash investment returns	2.5%	2.5%	2.5%
Airport dividend	50.0%	50.0%	50.0%

Expenses	Conservative	Standard	SRV
Salaries and allowances	2.75%	2.75%	2.75%
Materials and contracts	2.3%	2.5%	2.5%
Capital spend over 10 years	$208M	$210M	$210M
SRV capital spend over 10 years	-	-	$115M
Other expenses	2.3%	2.5%	2.5%

Projected Underlying Result	Conservative	Standard	SRV (*)
2019-2020	677,000	677,000	471,000
2020-2021	(161,000)	122,000	1,875,000
2021-2022	94,000	103,000	2,552,000
2022-2023	245,000	(11,000)	3,652,000
2023-2024	529,000	995,000	4,949,000
2024-2025	42,000	651,000	6,384,000
2025-2026	(1,026,000)	891,000	8,919,000
2026-2027	(1,321,000)	614,000	7,885,000
2027-2028	(1,441,000)	1,584,000	7,473,000
2028-2029	(2,392,000)	1,260,000	7,215,000

(*) - The underlying operating result does not include loan repayments. The special rate variation income will be used to repay loans which are not an operating expense. Please refer to page 68 for more detail.

2. Proposed Special Rate Variation

Council is proposing to make an application to the Independent Pricing and Regulatory Tribunal (IPART) for a Special Rate Variation (SRV) of 7.5% per annum (inclusive of rate peg) for seven years from 2019-2020 to 2025-2026 inclusive. Council's decision to apply for a rate increase has not been taken lightly and follows considerable community consultation.

The cumulative percentage increase, including rate peg, of this proposal is 65.9% over the seven years. Council is proposing that the increase be retained permanently in its rates general income base. This means that the rate levels in 2025-2026 will increase by the rate peg in 2026-2027 and subsequent years and rates will not be reduced to pre-SRV levels.

The SRV is proposed to commence in the financial year starting on 1 July 2019. The purpose of the SRV would be to fund a range of infrastructure, facilities and services to meet community expectations as outlined in Council's Community Strategic Plan 2018-2028 (CSP).

Background

Shortly after the local government elections in September 2017, Council sought views on the possibility of a rate rise as part of community consultation on our Integrated Planning and Reporting (IP&R) Framework.

A discussion paper to review the Community Strategic Plan 2018-2028 was circulated in the community for comment and feedback and further input from Councillors on key priorities was also sought at a Councillor Workshop on 21 October 2017.

Specific feedback received from these activities included:

- Town centres need attention to make them more attractive to visitors and residents.
- Need for improved public amenities and more pathways for walkers and cyclists.
- Infrastructure should be first with proper planning.
- Much greater priority needs to be given to place making and strategic planning of our urban centres.
- Ecologically sustainable development should be formally recognised as a key commitment.

These items, as well as Councillor priorities (developed from their own discussions with the community), were included in the development of the draft CSP and other IP&R documents, which were placed on public exhibition in April 2018.

From this public consultation, a number of topics were recurring across the submissions relating to:

- Special Rate Variation
- Height increases
- Drainage
- Roads
- Anna Bay
- Cycleways and pathways
- Ecologically sustainable development
- Readability of the documents

In response to this feedback, the IP&R documents were revised and adopted by Council on 26 June 2018.

As part of the endorsed Delivery Program 2018-2021, Key Priorities were detailed (pages 6-11) and Council further considered a SRV as a way to raise funds to undertake these unfunded projects and others outlined in the Strategic Asset Management Plan (SAMP 8: 2018).

In July/August 2018, Council undertook extensive community consultation about a proposed SRV, possible rate options and projects and services to be funded. Council considered the community feedback from this consultation at its meeting in October and resolved to move forward with an application for increased rates to assist with better town centres, improved infrastructure including safer roads and more effective drainage, enhanced library/community services and support for tourism which attracts people, investment, jobs and events.

In October 2018, Council reviewed community feedback and formally resolved to apply to IPART for a SRV.

Council's current income streams cover a substantial delivery program with a modest surplus (approximately $1m in 2017-2018).

Some of these revenue sources, such as developer contributions (formerly section 94, now known as section 7.11) and grants, cannot be planned in advance. For example, Council does not control when the funding collected through developer contributions will become available as it depends on when new developments go ahead. The expenditure of these funds is also highly regulated through legislation (*Environmental Planning and Assessment Act 1979*).

Similarly, grant programs may have different priorities and so may not be available to fund the identified local community priorities. They also often require matching funding.

It is proposed that the revenues from Council's Williamtown sand extraction contract will be used to part fund the redevelopment of Council's depots. Some proposed SRV funds will also be used for this project.

Benefits of a SRV

The community has consistently provided feedback that while it is generally happy with Council's delivery of infrastructure, maintenance and services, it aspires for more major community projects to enhance the local area.

Council's annual Customer Satisfaction Survey results confirm this satisfaction with overall scores above 75% since 2012.

Overall Satisfaction with Council's Services

While Council is financially fit, it does not have the required additional resources to deliver additional community infrastructure and services, as consistently requested as part of IP&R community consultation.

Asset maintenance

Service	2018-2019 annual budget	Increased service
Tree maintenance	$0.350m pa This fluctuates each year due to weather conditions.	*Proposed recurring cost per annum of $0.100m in 2019-2020 increasing to $0.650m pa from 2023-2024 onwards.* The current backlog of works for street trees is $0.200m and parks/reserves is currently $0.050m. This funding would address the backlog of hazardous trees in parks, reserves and street reserves with removal and replacement of trees rated 3 and 4 and the development of a proactive tree inspection program in line with Council's insurer's best practice manuals and guidelines.

		This funding would also allow inspection of trees that, while not dangerous in themselves, are causing and will cause damage to Council's infrastructure. Ratings: 1 - Needs to done immediately 2 - Needs to done within three months 3 - Needs to be done within 12 months 4 - Reviewed and carried out within two years
Open drain Maintenance	$0.400m This fluctuates each year due to weather conditions.	*Proposed additional recurring cost per annum of $0.100m in 2019-2020 increasing to $0.500m pa from 2023-2024 onwards.* Council's assets are rated in one of following five asset condition-rating categories: 1. Near perfect 2. Good 3. Satisfactory 4. Very poor 5. Unserviceable With additional funds, undertake additional drainage maintenance - excavation, mowing and spraying (varying from year to year based on growing conditions). Council will increase service level from Level 4 to Level 2.
Sports facilities maintenance	$0.400m per annum This fluctuates each year due to breakdowns and vandalism.	*Proposed additional recurring cost per annum of $0.100m in 2019-2020 increasing to $0.500m pa from 2023-2024 onwards.* Current allocation is not adequate to reduce the logged defect list impacting on services provided to community.

		Council’s defect list currently includes 706 carpentry defects, 453 paint defects, 77 electrical defects and 80 plumbing defects. These are defects on Council’s community and recreation buildings with the majority of them on sporting facilities. This does not include any upgrades or proactive maintenance. Funding will increase Council's capacity to undertake large scale maintenance tasks across sporting facilities to: • Improve functionality and visual amenity. • Repair or replace deteriorated assets (including carpentry, paint, electrical and plumbing defects).
Roads	Approximately $4m of Council funds augmented by external grants.	*Proposed additional recurring cost per annum of $0.500m in 2019-2020 increasing to $5m pa from 2025-2026 onwards.* The road network condition is functioning well given Council's focus on asset management as documented in Council's Strategic Asset Management Plan. A large portion of our road network is currently in the satisfactory to good condition rating. Though it should be noted, like most Councils, there is still a road pavement backlog that requires work. While our focus is road user safety and keeping good roads good, the increasing costs for road maintenance above income and grants will, in the future, result in an increasing backlog and road network deterioration. This will move the road network overall "satisfactory to good condition rating" down to a level, which would be lower than the community expectation.

Increased events and library services

Service	2018-2019 annual budget	Increased service
Library	Operational budget $1.78m Capital budget $0.250m	*Proposed additional recurring cost per annum of $0.100m in 2019-2020 increasing to $0.500m pa from 2024-2025 onwards.* Library services currently fall well below the *NSW Living, Learning Libraries Standards and Guidelines for Public Libraries 2014* for Library Expenditure per capita per annum. Port Stephens libraries receive $28.63 per capita per annum whereas the baseline Standard is $49.70 per capita per annum. While increasing the library budget will not meet the baseline standard, it will improve operational performance and services to the community.
Events	$0.164m per annum	*Proposed additional recurring cost per annum of $0.350m in 2019-2020 increasing to $0.500m pa from 2023-2024 onwards.* In 2017-2018, Council provided financial support for 23 events across Port Stephens totalling $115,237; providing an economic benefit to the area of approximately $8.26 million. Council proposes to establish an expanded event management team as well as sponsorship programs designed to support events which increase visitation and visitor spend and reduce seasonal fluctuations. This will increase economic output across the community and also drive key social and cultural outcomes.

Increased infrastructure maintenance

Service	2018-2019 annual budget	Increased service
Infrastructure maintenance	N/A	*Proposed recurring cost per annum increasing as the SRV projects are delivered to $2.5m pa in 2028-2029.* Details contained further within. As new and upgraded infrastructure is completed, their ongoing maintenance gradually increases over 10 years. The life of new assets is estimated at 20 years.

Proposed SRV funds expenditure

If successful, the proposed rate increase will provide additional funds (with the use of loans) to deliver major projects and increased services requested by the community; in particular:

- town centre and neighbourhood revitalisation
- new and improved infrastructure
- enhanced services and maintenance.

It will fund projects that will stimulate the local economy, drive business growth, attract visitors and enhance our region for residents. It will fund more cycleways and footpaths, allow for a boosted road resealing and rehabilitation program, improved amenities, enhanced services in the libraries and provide stronger support for local events.

The rate increase would remain permanently in place to fund ongoing delivery of events and community services, continue capital road projects, service the remaining loan requirements and maintain existing and new infrastructure built as part of the SRV program.

Over the 10 year period from 2019-20 to 2028-2029, Council proposes to use the SRV funds to:

1. Fund major, one-off infrastructure projects with additional loan borrowings

The estimated $133.4m raised through the proposed SRV will be leveraged with loans of $60 million over 20 years for new and enhanced major infrastructure projects as well as renewal of existing assets to be built over a 10 year period.

These are:

Town centre and neighbourhood revitalisation	$43m
Road resealing and rehabilitation	$35.150m
Paths and cycleways	$9.7m
New and improved community amenities	$8m
Sports facilities upgrades	$6.8m
Depot relocation and rehabilitation	$5m
Foreshore improvements	$3m
Shoal Bay drainage	$2m
Street lighting upgrade	$2m
SoldiersPoint carpark	$0.500m
	$115.150m

More details are available within.

2. Fund enhanced services with SRV funds only

The followings services are recurring costs per annum which will increase as SRV funds become available over 10 years.

	Ten year spend
Enhanced community services	$19.5m
Increased infrastructure maintenance	$11.2m

More details are available within.

3. Fund repayments for loans borrowed to undertake the projects.

The estimated costs of loan repayments in the first ten years are as follows:

- $18.17m on loan interest payments, and
- $25.2m on loan principal repayments.

Loans

The reason for loan funding in addition to the SRV income is to provide funds to start and complete the SRV capital works program in reasonable time frame, that 10 years, while maintaining cash flow for the enhanced services and loan repayments. The loans and their repayments are over 20 years, the estimated life of new infrastructure assets.

Historically, Council's policy regarding the use of loan funding has been that loan funding is only available where the proposed expenditure will result in a future revenue stream that will fund the loan repayments. As a result, the majority of

Council's existing debt portfolio relates to its commercially focused activities being the holiday parks, Newcastle Airport and the commercial property portfolio.

Council's current debt portfolio is detailed within.

Council would raise all external borrowings at the most competitive rates available and from sources available as defined by legislation. Loan drawdowns will be timed to optimise cash flow and minimise interest expenses. A summary of expected loan drawdowns over the next four years based on the capital works delivery schedule attached to the SRV is as follows:

	Loan amount per annum			
Purpose of loan	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**
• Town centre revitalisation • Community amenities • Carparking • Sport facilities • Paths and cycleways • Drainage • Roads	$11m	$11m	$10m	$8m

Revision of the Integrated Planning and Reporting documents

The revised IP&R documents are the plans that outline how Council will deliver the SRV funded projects over the next 10 years.

More detail about the proposed SRV projects for the next two years is available in the Delivery Program and Operational Plans 2018-2021.

The IP&R documents have been revised in a way that:

- If the SRV application is successful, the plans clearly show how Council will deliver the identified SRV projects and programs; or

- If the SRV application is not successful, show how Council will continue to deliver its program with a rate rise of rate pegging only.

The IP&R documents, as legislated under the *Local Government Act 1993,* are:

- Community Strategic Plan 2018-2028;
- Delivery Program 2018-2021;
- Operational Plans 2018-2021 including a Statement of Revenue Policy;
- Strategic Asset Management Plan 2019-2029* (SAMP 9);
- Long Term Financial Plan 2019-2029*; and
- Workforce Plan 2018-2021.

All are reviewed annually with some being rolling 10 year plans (marked *), while others are fixed to the term of council. In this case, Council’s current term expires in September 2020.

Proposed SRV projects

Town centre and neighbourhood revitalisation - $43m

LOCATION	COST	DETAILS
Nelson Bay	$15m one off cost	Implement Stage One of Nelson Bay Town Centre and Foreshore Strategy actions, including: • implement proposed Public Domain Plan • implement Apex Park Masterplan Provide new car parking facilities
Raymond Terrace	$15m one off cost	Implement Stage One of Raymond Terrace and Heatherbrae Strategy by upgrading William Street between Sturgeon and King Street, including: • drainage works • kerb and gutter upgrades • street tree planting and gardens • increased pedestrian access for greater accessibility and dining Undertake King Street revitalisation including: • construct footpaths along the riverbank • provide access connection from King Street to the levee • reintroduce heritage streetscape
Medowie	$5m one off cost	Aligned with the Medowie Planning Strategy, enhance the town centre as a focus for commercial and community activity Review purchase of land for centrally located open space and drainage works to reduce flooding, improve planning and release land for development.
Karuah	$2m one off cost	Aligned with the Karuah Growth Strategy, undertake Mustons Road culvert widening and pedestrian walkway. Provide main street vista with: • town signage • formalised parking • gardens on road blisters and footpaths

Anna Bay	$2m one off cost	Review and refine Anna Bay Strategy and Town Plan and implement with construction of: • footpaths for pedestrian access • town signage • formalised parking • gardens on road blisters and footpaths
Lemon Tree Passage/ Tanilba Bay	$2m one off cost	Implement McCann Park improvements. Provide a sense of town arrival from Lemon Tree Passage Road and John Street. Provide main street vista with: • footpaths for pedestrian access • town signage • gardens on road blisters and footpaths
Fern Bay	$1m one off cost	• Construct pathways for pedestrian access along Nelson Bay Road and the original Fern Bay suburb • Construct bus shelter
Fingal Bay	$0.500m one off cost	Provide main street vista with: • footpaths for pedestrian access along and to Market Street • town signage • formalised parking • gardens on road blisters and footpaths
Seaham	$0.500m one off cost	Provide a sense of place through: • road pavement delineation • bus stop interchange • street trees planting

Road resealing and rehabilitation - $35.15m over 10 years

Road resealing and rehabilitation projects are funded as a recurring cost per annum. This program will increase the number of road rehabilitations and sealing of gravel roads. The first two years will focus on the first seal on gravel roads and the required design and investigation in preparation of future road rehabilitations to match allocated funds. The third year of the SRV program (2021-2022) will substantially increase the amount of first seal gravel roads and road rehabilitation.

Depending on the road pavement terrain, location and surrounding environment, road rehabilitations cost $60 per m2 to $120 per m2 and gravel road first seals cost $850,000 per km to $1.4mil per km.

The level of work varies from year to year across 10 years. The details of specific road projects are listed in Attachment 4 of SAMP 9 with funding listed in the LTFP.

ROADS	COST	DETAILS
Resealing and rehabilitation	Recurring cost per annum	Increase the number of road rehabilitation and road reseals as outlined in SAMP9 (Attachment 4). Per annum amount will increase as SRV funds become available over seven years. Please refer within for details.

Enhanced community services, event management and asset maintenance - $19.5m over 10 years

This includes library, community and event services ($7.6m over 10 years), tree maintenance ($4.6m over 10 years), open drain maintenance ($3.55m over 10 years) and sporting facility maintenance ($3.65m over 10 years).

These services are funded as a recurring cost per annum. The service levels gradually increase over 10 years in line with the SRV. After Year 10, the services will continue to be funded by the rates income based on the SRV that will remain permanently in place. Please refer to LTFP for details.

SERVICE	COST	DETAILS
Event management	Recurring cost per annum	Establish and resource a team to develop, manage and attract events to drive cultural and economic benefits for Port Stephens. • Establish an expanded events team to manage events sponsorship and coordination of Council owned and operated events across the LGA • Establish expanded event sponsorship and procurement program. Focus is attracting events that will deliver economic benefit to Port Stephens, particularly through overnight visitation in 'off peak' tourism season • Initiate, coordinate and manage 2 to 3 community based events throughout the year to complement Council's place making and place activation programs, driving desired social and cultural outcomes.

		Per annum amount will increase as SRV funds become available over seven years. Please refer to the LTFP for details.
Library and community services	Recurring cost per annum	Expand homebound delivery and children's literacy programs, extend technology training for seniors, increase opening hours. Per annum amount will increase as SRV funds become available over seven years. Please refer to the LTFP for details.
Open drain maintenance	Recurring cost per annum	Undertake an additional drainage maintenance program of 250 lineal metres (lm) of excavation, 1,500 lm of mowing and 5,000 lm of spraying per $0.100m. Maintenance is a mixture of spraying and mechanical works, which varies from year to year based on growing conditions. Per annum amount will increase as SRV funds become available over seven years. Please refer to the LTFP for details.
Sports facilities maintenance	Recurring cost per annum	Funding will increase Council's capacity to undertake large scale maintenance tasks across sporting facilities to: • Improve functionality and visual amenity • Repair or replace deteriorated assets (including carpentry, paint, electrical and plumbing defects). These funds would be used to reduce the defect list by rectifying an estimated 150 additional building trade defects (including carpentry, paint, electrical and plumbing defects) per $0.100m (actual number dependent on final inspections prior to work and time taken to undertake each remediation). Per annum amount will increase as SRV funds become available over seven years. Please refer to the LTFP for details.
Tree maintenance	Recurring cost per annum	This funding would address the backlog of hazardous trees in parks, reserves and street reserves with removal and replacement of trees rated 3 and 4 and the development of a proactive tree inspection program in line with Council's insurer's best practice manuals and guidelines.

		This funding would also allow inspection of trees that, while not dangerous in themselves, are causing and will cause damage to Council's infrastructure. Per annum amount will increase as SRV funds become available over seven years. Please refer to the LTFP for details.

Increased infrastructure maintenance - $11.2m over 10 years

INFRASTRUCTURE MAINTENANCE	COST	DETAILS
Infrastructure maintenance	Recurring cost per annum	As new and upgraded infrastructure is completed, their ongoing maintenance will increase as reflected in the increasing recurring cost across 10 years Per annum amount will increase as SRV funds become available over seven years. Please refer to the LTFP for details.

Paths and cycleways - $9.7m

PATHS AND CYCLEWAYS	COST	DETAILS
Paths and cycleways	$7.7m one off cost	Paths to provide connectivity along major community and tourist centres in accordance with Council's Pathway Plan: • Anna Bay – two missing links on Gan Gan Road • Medowie – Medowie Rd from Ferodale Rd to South St intersection and Waropara Rd from Ferodale Rd to school. • Shoal Bay Foreshore – missing link from Shoal Bay Centre towards Nelson Bay past Anzac Park • Raymond Terrace – multiple missing links across suburb • Tilligerry - The missing Mallabula to Lemon Tree Passage link, LTP Boat ramp to Rudd Reserve, shared waterfront path between Swan Street, Tanilba Bay and Tanilba Sailing Club

Brandy Hill	$2m one off cost	Design and construct safe pedestrian and cycle access in an area where the community has been impacted by increased trucking movements for two quarries.

New and improved community amenities - $8m

COMMUNITY AMENITIES	COST	DETAILS
Art Centre	$2m one off cost	Provide a multi-functional cultural space in Raymond Terrace To construct a facility to replace the modest arts space, currently in Raymond Terrace library, better meeting the community's cultural needs.
Birubi Information Centre	$3m one off cost	To support the implementation of the Birubi Point Aboriginal Place Management Plan, the proposed Birubi Information Centre has been designed to provide increased car and coach parking, reduce congestion and other site access issues around visitor activity at Birubi Point. It will provide a sheltered area and space for dune operators and amenities, including public toilets and a kiosk.
BBQ facilities	$0.500m one off cost	Full replacement of BBQ shelters and seating at: Henderson Park, Lemon Tree Passage Fingal Bay Foreshore Caswell Reserve, Mallabula George Reserve, Soldiers Point Memorial Park, Karuah Boomerang Park, Raymond Terrace Medowie Town Centre Please refer to SAMP 9 (Attachment 4) for details.
Mallabula Hall	$0.500m one off cost	Upgrade of community hall to improve safety, convenience and reliability of current hall Provide potential youth facility adjacent to other youth infrastructure.
Public amenities	$2m one off cost	Provision of toilets, bike racks, drinking fountains and beach showers:

Shoal Bay West Foreshore
Longworth Park, Karuah
Neil Carroll Park, Nelson Bay
Aliceton Reserve, Karuah
Henderson Park, lemon Tree Passage
Fingal Bay North Foreshore
Bettles Park, Raymond Terrace
George Reserve, Soldiers Point
Spencer Park, Soldiers Point
Little Beach Foreshore
One Mile Beach
Shoal Bay East Foreshore
Medowie Town Centre

Please see SAMP 9 (Attachment 4) for details.

Sports facilities upgrades - $6.8m

SPORTS FACILITIES	COST	DETAILS
Tomaree Sports Complex	$3m one off cost	In accordance with the Tomaree Sports Complex Master Plan, undertake renovation and expansion of sporting grounds, new multipurpose amenities buildings, car parking and traffic improvements, accessibility upgrades and improved community and event spaces.
King Park Sports Complex	$3m one off cost	In accordance with the Master Plan (to be completed in 2019), undertake car parking and traffic upgrades, stormwater harvesting, field lighting upgrades, playing surface renovations and landscape improvements.
Stuart Park, Hinton	$0.800m one off cost	Replace out of date facility which is no longer fit for purpose with a new multipurpose sports amenities building.

Depot relocation and rehabilitation - $5m

The existing Raymond Terrace depot has passed its asset and economic life, is functionally obsolete and meets with difficulty current safety and environmental practices. The depot is also physically separated from other functions of Council that it relies on.

Combining the Raymond Terrace depot and Administration Building into a single location would reduce Council's facility footprint and improve overall staffing and services function, hence reducing administration waste and re-work.
This location is also near a small industrial section of Raymond Terrace. Material stockpiles traditionally located at depots are no longer needed and sourced through suppliers and not stored on depot site.

The existing Nelson Bay depot is currently situated on NSW Crown land which is not suitable for this location. Similar to the Raymond Terrace depot, combining Council facilities at the Salamander Bay Waste Transfer Station reduces the overall Council facility footprint and improves the Council's overall staffing and services function, hence reducing administration waste and re-work.

This project also includes the rehabilitation of the existing sites.

SRV funds will be used to part-fund this project with the remaining funds sourced from other Council revenue.

DEPOTS	COST	DETAILS
Depot relocation and rehabilitation	$5m one off cost	Relocate the Raymond Terrace depot adjacent to the Council administration building as a single functioning space in accordance with concept plans and preliminary costings. Relocate Nelson Bay depot to Salamander Bay Waste Transfer Station in accordance with concept plans and preliminary costings. Rehabilitation of the existing site.

Foreshore improvements - $3m

FORESHORE	COST	DETAILS
Foreshore improvements and coastal protection works	$3m one off cost	Conroy Park, Corlette - Coastal Process Study - Precinct 1-4 outcomes stage 1 to 3 Little Beach, Nelson Bay - boat ramp upgrade and sand back passing Soldier's Point – Foreshore revetment and pathway west of Thou Walla Retreat Gibber Point Reserve, Lemon Tree Passage and Tilligerry Habitat and Caswell Reserve, Mallabula - bank stabilisation, vegetation and repair Waterfront Road, Swan Bay - revetment wall upgrade

Shoal Bay drainage - $2m

DRAINAGE	COST	DETAILS
Shoal Bay drainage	$2m one off cost	Stage 2 Creation of a large detention basin between Horace Street and Government Road. Works includes augmentation to trunk system, kerb inlet and infiltration pits from Rigney Street to Shoal Bay Beach outlet.

Street lighting upgrade - $2m

STREET LIGHTING	COST	DETAILS
Street lighting upgrade	$2m one off cost	Part funded project Stage One: Replace approximately 2,600 of 4,400 ageing street lights with LED lights to improve energy efficiency and cost savings.

Soldiers Point carpark - $0.500m

CAR PARK	COST	DETAILS
Soldiers Point	$0.500m one off cost	Improve traffic facilities on the peninsula which is subjected to high levels of traffic during peak seasons. Provide formal car parking adjacent to Spencer Park to ease traffic congestion

Please note:
These figures are rounded and indicative, based on 2018 estimates and are subject to change. More details are available in the within. All IP&R documents are reviewed annually.
Identified priority projects may change over time dependent on ongoing needs such as community preferences (as identified in regular IP&R consultations) and successful grant funding. In this case, Council would notify IPART of the change.

More details on the staged expenditure is available in the within.

Reporting

If the SRV application is approved by IPART, Council would be required to report in Council's Annual Report on the amount collected from the variation and its expenditure on specified projects.
SRV funds collected and unspent for the purpose in which it was intended (eg capital works delivery schedule) will be restricted until such time as an alternate project is identified.

Impact on Ratepayers

The following tables outline the financial impact on ratepayers of the proposed rate rise.
Table One is based on the standard rate peg increase without any special variations (rate rise). Table Two is based on the proposed SRV of 7.5% inclusive of the rate peg increase. The effect of multi-year increases means there is a cumulative impact on ordinary rates. The effect of multi-year increases on the average rate assessment in each land category is shown in the following tables.
Note: IPART has advised NSW councils that the 2019-2020 rate peg is set at 2.7%. Councils have been advised to model any Special Rate Variation application on the actual rate peg for 2019-2020 and assume a rate of 2.5% for 2020-21 and in the future.

Table One – The impact of Rate Peg only increases on average residential, business and farmland rates

Comparison Item	Average Land Value [1]	Current rates 2018-19 [2]	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative Increase
Rate Peg Percentage Increase			2.7%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	19.10%
Average Residential Rate Levy	$224,000	$1,048	$1,077	$1,104	$1,131	$1,159	$1,188	$1,218	$1,249	$201
Average Business Rate Levy	$340,000	$4,451	$4,571	$4,686	$4,803	$4,923	$5,046	$5,172	$5,301	$850
Average Farmland Rate Levy	$422,000	$1,649	$1,693	$1,736	$1,779	$1,824	$1,869	$1,916	$1,964	$315

1. 2016 base date category average land value. 2. Current Rates are ordinary rates excluding annual charges.

Under the rate peg only option, there is a cumulative increase of 19.10% over the seven years which will see rate rises of $201 for the average residential rate assessment, $850 for the average business rate assessment and $315 for the average farmland rate assessment.

Table Two – The impact of Special Rate Variation of 7.5% per annum (including rate peg) on average residential, business and farmland rates

Comparison Item	Average Land Value [1]	Current rates 2018-19 [2.]	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative Increase
Rate Peg Percentage Increase			2.7%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	19.10%
SRV Percentage Increase			4.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	40.44%
Total proposed rate increase			**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**7.5%**	**65.90%**
Average Residential Rate Levy	$224,000	$1,048	$1,127	$1,212	$1,303	$1,401	$1,506	$1,619	$1,739	$691
Average Business Rate Levy	$340,000	$4,451	$4,785	$5,144	$5,530	$5,945	$6,391	$6,870	$7,385	$2,934
Average Farmland Rate Levy	$422,000	$1,649	$1,773	$1,906	$2,049	$2,203	$2,368	$2,546	$2,736	$1,087

1. 2016 base date category average land value. 2. Current Rates are ordinary rates excluding annual charges.

Under a rate increase of 7.5% per annum option, there is a cumulative increase of 65.90% over the seven years which will see rate rises of $691 for the average residential rate assessment, $2,934 for the average business rate assessment and $1,087 for the average farmland rate assessment.

This rate increase will remain permanently in the rate base.

Table Three - Summary of the annual and cumulative increases of a SRV of 7.5% per annum (including rate peg) for seven years

This table shows the annual and cumulative impact of the proposed SRV.

Year	Financial Year	Rate Peg Limit Percentage	Additional Percentage Requested	Total Annual Percentage	Cumulative Percentage Impact from 2019-2020	IPART Application Percentage	Additional annual impact on $1,000	Cumulative Impact on $1000 in rates
1	2019-2020	2.7%	4.8%	7.5%	7.5%	7.5%	$75	$1,075
2	2020-2021	2.5%	5.0%	7.5%	15.56%	7.5%	$81	$1,156
3	2021-2022	2.5%	5.0%	7.5%	24.23%	7.5%	$86	$1,242
4	2022-2023	2.5%	5.0%	7.5%	33.55%	7.5%	$93	$1,335
5	2023-2024	2.5%	5.0%	7.5%	43.56%	7.5%	$101	$1,436
6	2024-2025	2.5%	5.0%	7.5%	54.33%	7.5%	$107	$1,543
7	2025-2026	2.5%	5.0%	7.5%	65.90%	7.5%	$116	$1,659

Table Four - Impact on residential rates of the proposed SRV

Land value	2018-2019 Current rates	Annual increase							Totals 65.90% $	2025-2026 Future rates
		Year 1 7.5%	Year 2 7.5%	Year 3 7.5%	Year 4 7.5%	Year 5 7.5%	Year 6 7.5%	Year 7 7.5%		
50,000	521	39	42	45	49	52	56	60	343	864
100,000	672	50	54	58	63	67	72	78	443	1,115
150,000	824	62	66	71	77	83	89	95	543	1,367
200,000	976	73	79	85	91	98	105	113	643	1,619
224,000*	**1,048**	**79**	**85**	**91**	**98**	**105**	**113**	**121**	**691**	**1,739**
300,000	1,279	96	103	111	119	128	138	148	843	2,122
400,000	1,582	119	128	137	147	158	170	183	1,043	2,625
500,000	1,886	141	152	163	176	189	203	218	1,243	3,128
600,000	2,189	164	176	190	204	219	236	253	1,443	3,631
800,000	2,795	210	225	242	260	280	301	324	1,842	4,638
1,000,000	3,402	255	274	295	317	341	366	394	2,242	5,644

*$224,000 is the category average land value, amounts are subject to rounding.

Table Five - Impact on business rates of the proposed SRV

Land value	2018-2019 Current rates	Annual increase							Totals 65.90% $	2025-2026 Future rates
		Year 1 7.5%	Year 2 7.5%	Year 3 7.5%	Year 4 7.5%	Year 5 7.5%	Year 6 7.5%	Year 7 7.5%		
50,000	1,983	149	160	172	185	199	213	229	1,307	3,289
100,000	2,408	181	194	209	224	241	259	279	1,587	3,996
150,000	2,834	213	228	246	264	284	305	328	1,868	4,702
200,000	3,260	244	263	283	304	326	351	377	2,148	5,408
300,000	4,111	308	331	356	383	412	443	476	2,709	6,820
340,000*	**4,451**	**334**	**359**	**386**	**415**	**446**	**479**	**515**	**2,934**	**7,385**
400,000	4,962	372	400	430	462	497	534	574	3,270	8,233
600,000	6,665	500	537	578	621	668	718	771	4,392	11,057
800,000	8,367	628	675	725	780	838	901	969	5,515	13,882
1,000,000	10,070	755	812	873	938	1,009	1,084	1,166	6,637	16,707
1,200,000	11,773	883	949	1,020	1,097	1,179	1,268	1,363	7,759	19,531

*$340,000 is the category average land value, amounts are subject to rounding.

Table Six - Impact on farmland rates of the proposed SRV

Land value	2018-2019 Current rates	Annual increase							Totals 65.90% $	2025-2026 Future rates
		Year 1 7.5%	Year 2 7.5%	Year 3 7.5%	Year 4 7.5%	Year 5 7.5%	Year 6 7.5%	Year 7 7.5%		
100,000	672	50	54	58	63	67	72	78	443	1,115
200,000	976	73	79	85	91	98	105	113	643	1,619
300,000	1,279	96	103	111	119	128	138	148	843	2,122
400,000	1,582	119	128	137	147	158	170	183	1,043	2,625
422,000*	**1,649**	**124**	**133**	**143**	**154**	**165**	**178**	**191**	**1,087**	**2,736**
500,000	1,886	141	152	163	176	189	203	218	1,243	3,128
600,000	2,189	164	176	190	204	219	236	253	1,443	3,631
700,000	2,492	187	201	216	232	250	268	288	1,642	4,135
800,000	2,795	210	225	242	260	280	301	324	1,842	4,638
900,000	3,099	232	250	269	289	310	334	359	2,042	5,141
1,000,000	3,402	255	274	295	317	341	366	394	2,242	5,644

*$422,000 is the category average land value, amounts are subject to rounding.

Williamtown Management Area subcategory

In 2018-2019, Council made sub-categories of the ordinary residential and farmland rate categories for properties located within the Williamtown Management Area. The Williamtown Management Area is an area defined by the NSW Environment Protection Authority (EPA) consisting of three zones - the Primary Management Zone, the Secondary Management Zone and the Broader Management Zone which have or may potentially have contamination from per- and poly- fluoroalkyl substances (PFAS) associated with the use of fire-fighting foam at the Department of Defence RAAF Base at Williamtown.

Council made sub-categories of the residential rate and farmland rate affecting 471 properties reducing ordinary rates by approximately 50% in the Primary Management Zone, approximately 25% in the Secondary Management Zone and approximately 10% in the Broader Management Zone.

There are 44 business rate assessments within the Williamtown Management Area - primarily aviation industries, service stations, public utilities and sand extraction. Council is unable to make a different business rate for only some of the business premises and there is little justification for reducing rates for Newcastle Airport, Hunter Water, Telstra and Council infrastructure, service stations, hotel, restaurant, tourist facilities, sand extraction and aviation related businesses.

Table Seven shows the cumulative effect of the proposed SRV on the Williamtown Management Area sub-categories since Council implemented reduced rates in 2018-2019.

Table Seven - Special Rate Variation increases of 7.5% per annum (including rate peg) for seven years on average residential and farmland rates in the Williamtown Management Area

Note: Ordinary Rates for 2017-2018 are included in this table to show the decrease that occurred with the introduction of the
Williamtown Management Area sub-categories in 2018-2019. Those average rates in 2017-2018 however are excluded from the cumulative change figures to clearly show the impact of the proposed SRV increases on these sub-categories over the seven
years commencing 1 July 2019.

Comparison Item	Category	Average Land Value [1]	Prior Year 2017-18	Current Year 2018-19 [2]	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative Increase [3]
SRV Percentage Increase					7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	65.90%
Primary Mgt. Zone Average Rate Levy	Residential	$225,454	$1,028	$525	$565	$607	$653	$702	$754	$811	$872	$347
Secondary Mgt. Zone Average Rate Levy	Residential	$198,907	$949	$728	$782	$841	$904	$972	$1,045	$1,123	$1,207	$479
Broader Mgt. Zone Average Rate Levy	Residential	207,618	$975	$897	$964	$1,037	$1,114	$1,198	$1,288	$1,384	$1,488	$591
Primary Mgt. Zone Average Rate Levy	Farmland	$328,444	$1,333	$681	$732	$787	$846	$910	$978	$1,051	$1,130	$449
Secondary Mgt. Zone Average Rate Levy	Farmland	$378,471	$1,481	$1,135	$1,220	$1,312	$1,410	$1,516	$1,630	$1,752	$1,883	$748
Broader Mgt. Zone	Farmland	$360,125	$1,426	$1,312	$1,411	$1,517	$1,630	$1,753	$1,884	$2,025	$2,177	$865

1. 2016 base date sub-category average land value. 2. Current year rates are ordinary rates excluding annual charges.3. Cumulative increase is over the life of the SRV 2019-2020 to 2025-2026

Properties within the Williamtown Management Area are proposed to be subject to the same SRV increases as the rest of Port Stephens, however average residential and farmland rate assessments in the Williamtown Management Primary Zone are expected to have rates in 2025-2026, the seventh year of the SRV, that are lower than they were in 2017-2018, subject to the effect of general revaluations expected in 2019 and 2022. Rates in the secondary and broader management zones are expected to be higher in 2025-2026 than they were in 2017-2018 by approximately 27% and 53% respectively.

Affordability and Hardship

Council is aware that a rate rise may cause hardship for some ratepayers. Council currently has the following hardship mitigation measures in place to assist ratepayers experiencing financial hardship:

- mandatory pensioner rate concession (half up to $250 per annum)
- flexible repayments
- interest reduction
- financial assistance in the year following a general revaluation
- backdating of pensioner rate concessions and extending concessions
- deferral of rates against their estate for aged pensioners
- Williamtown residential and farmland rate sub-categories

Should the SRV proceed, Council proposes to introduce two programs to assist eligible rate payers. These are:

1. domestic waste service annual charge reductions for eligible pensioners; and
2. a new Rates Assistance Program.

Domestic Waste Service annual charge reduction for pensioners

Note: Domestic Waste Management Charges are not subject to rate pegging. They are subject to the reasonable cost of providing the service. Some costs associated with domestic waste management are beyond Council's control including State Waste Levies and potential cost changes when collection, recycling and disposal contracts are renewed, including during the term of the SRV.

If the SRV application is successful, Council plans to phase in domestic waste service charge reductions for eligible pensioners over the term of the SRV. The existing $418 annual charge will be reduced by increments of approximately $30 per annum. The annual charge for eligible pensioners would be pegged at approximately 50% of the non-pensioner domestic waste service annual charge from 2026-2027 onward.

Table Eight shows the effect of reducing domestic waste service annual charges for pensioners.

Table Eight – Domestic Waste Service Annual Charges for pensioners: 2019-2020 to 2026-2027

Comparison Item	Current Year 2018-2019	Year 1 2019-2020	Year 2 2020-2021	Year 3 2021-2022	Year 4 2022-2023	Year 5 2023-2024	Year 6 2024-2025	Year 7 2025-2026	Post SRV 2026-2027
No SRV - Waste Service Charges[1]	$418	$428	$439	$450	$461	$473	$485	$497	$509
Proposed SRV - eligible pensioner[2] reduction	$0	$30	$60	$90	$120	$150	$180	$210	$228
Proposed SRV - Pensioner waste service annual charge	$418	$398	$379	$360	$341	$323	$305	$287	$281
Proposed SRV - Non-pensioner waste service charge	$418	$436	$453	$471	$490	$508	$527	$546	$563

1. Estimated domestic waste management service charges assume a 2.5% annual increase. These charges will apply to all ratepayers including eligible pensioners if the SRV does not proceed.

2. An eligible pensioner is a pensioner eligible for a pensioner rate concession under the Local Government Act 1993.

Rates Assistance Program

To further mitigate hardship, Council is reviewing its current Debt Recovery and Hardship Policy and assessing additional ways to assist ratepayers. If the SRV proceeds, Council proposes to incorporate a Rates Assistance Program into the policy.

As part of the Rates Assistance Program, Council would partner with local welfare/financial counselling services to act as a referral points for ratepayers experiencing financial hardship.

Council envisages potential partnering organisations to be delegated to assess ratepayer's individual financial circumstances and recommend to Council that assistance of up to $250 be provided due to financial hardship.

Each participating service would be given an annual limit that they could recommend for financial assistance. Assistance would be limited to non-pensioners to assist individuals or families who are experiencing financial hardship and difficulty paying rates, but are not eligible for a pensioner rate concession.

Council’s Debt Recovery and Hardship Policy provides further detail about existing hardship mitigation measures and the proposed Rates Assistance Program.

3. Introduction

3.1 Purpose of the Long Term Financial Plan

The LTFP is a critical document of the NSW Government's Integrated Planning and Reporting (IP&R) documents required for all local governments. It is one of a number of resourcing strategies that also includes the Strategic Asset Management Plan (SAMP) and the Workforce Plan. These documents show how a council will deliver the community aspirations as outlined in the Community Strategic Plan (CSP) and spelt out in the Delivery Program and Operational Plans.

Council’s key objective when managing its financial resources is to remain financially sustainable and demonstrate our long term capacity to deliver the strategic objectives in the CSP, Delivery Program and Operational Plans.

The LTFP must:

- project financial forecasts for the Council for at least ten years;
- inform Council's decision-making during the finalisation of the CSP, development of the Delivery Program, delivery of priorities outlined in the SAMP; and
- be updated annually as part of the development of the Operational Plan.

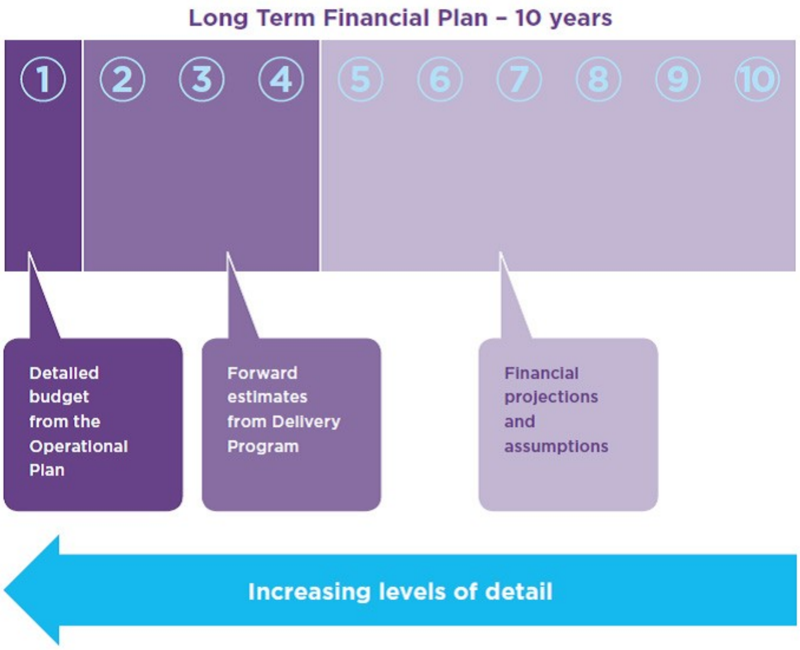
Council’s LTFP needs to ensure financial sustainability for Council and demonstrate our long term capacity to deliver the strategic objectives in the Community Strategic Plan, Delivery Program and Operational Plans.

The LTFP must be structured to include the following:

- projected income and expenditure, a balance sheet and cash flow statement;
- planning assumptions that were used in the Plan’s development;
- a sensitivity analysis which highlights the factors and assumptions most likely to impact on the Plan;
- financial modelling for at least three different scenarios, eg the planned scenario, an optimistic scenario (eg taking into account possible SRV) and a conservative scenario; and
- methods of monitoring financial performance.

It is essential the LTFP adopted by Council provides a level of certainty to the community that Council is financially sustainable, but also demonstrates:

- an acceptable balance of meeting community expectations;
- sound financial management;
- the achievement of strategic objectives within any rate increases;
- outcomes that are clear and measurable; and
- have community and Council support.



In addition to acting as a resource plan, the LTFP further endeavours to:

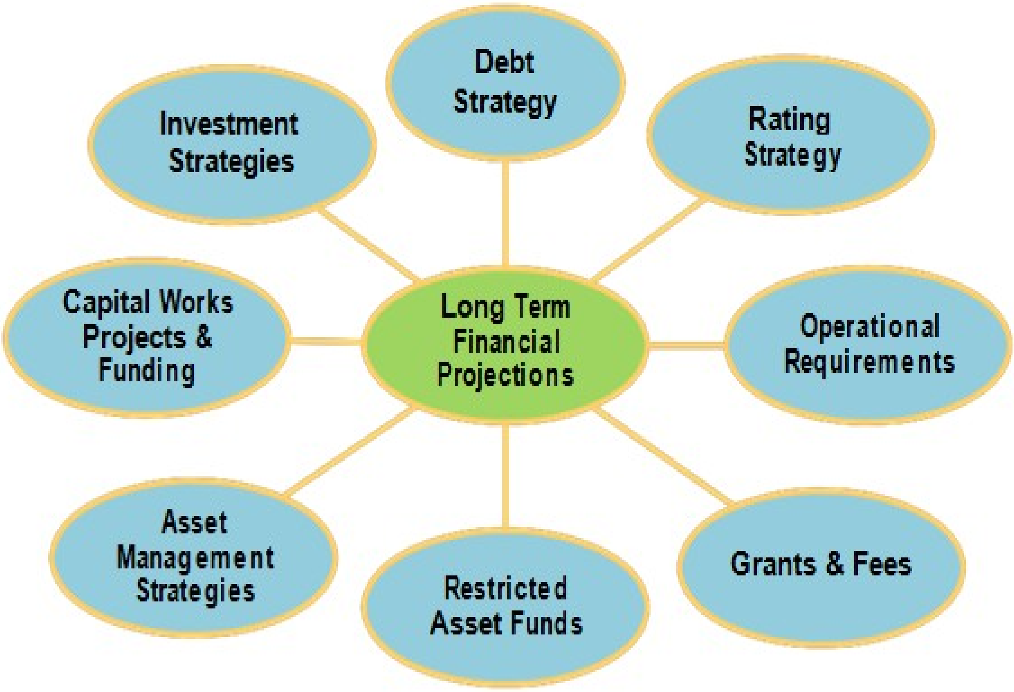
- Establish a prudent and sound financial framework, combining and integrating financial strategies to achieve a planned outcome;

- Establish a financial framework against which Council's strategies, policies, and financial performance can be measured;

- Ensure that Council complies with sound financial management principles and plans for the long term financial sustainability of Council; and

- Enable Council to carry out its functions in a way that facilitates local communities to be strong, healthy and prosperous (Section 8B of the *Local Government Act 1993)*.

This LTFP represents a comprehensive development of long term financial projections by documenting and integrating the various financial strategies of Council. When combined, it produces the financial direction of Council as shown in the following diagram:



3.2 Objectives and Preferred Outcomes

The objectives of this LTFP are:

- An increased ability to fund asset renewal requirements;
- An enhanced funding level for capital works in general;
- Maintenance of Council's financial sustainability in the long term;
- Incorporation of rate and fee increases that are both manageable, sustainable and politically acceptable;
- Inclusion of investment and funding strategies which promote intergenerational equity;
- Demonstration of Council's ability to be Fit For The Future;
- Demonstration that external conditions are considered; eg changes in interest rates and population growth; and
- Thorough financial modelling to consider all financial alternatives.

Preferred Outcomes:

In preparing the LTFP, each of the above objectives has been addressed to achieve the following outcomes.

- maintaining the underlying operating surplus;
- reducing the infrastructure backlog to ensure Council infrastructure is maintained at a satisfactory level;
- achieving a financial structure where new assets or existing asset renewal needs are met from the base operating income of Council; and
- retention of service provision at present levels.

Scenario 3 (SRV) is the preferred option as it enables Council to:

- improve/strengthen/consolidate long term financial sustainability;
- shorten asset maintenance cycles;
- construct important civic infrastructure to enhance the area and support business and tourism; and
- meet community demand for extra services in events, libraries and community services.

It provides unrestricted cash to invest in long term loans to fund recognised local priorities rather than rely on external grant sources that may not match the community's priorities. It would also provide the funds that could be used to apply for matching funds from appropriate grant programs – an increasingly essential element of grant funding.

3.3 Financial Challenges

The challenge of financial sustainability is one faced by the majority of NSW councils and Port Stephens Council is not immune from this issue. Some of the financial challenges affecting Council over the last few years include:

- significant increases in utility prices (phone, water and electricity);
- increase in the Construction Industry Output Price Indexes;
- State and Federal Government cuts to operating grants and subsidies (eg libraries and child care);
- State and Federal Government cost shifting and increased compliance tasks;
- reduced investment income as a result of continued low interest rates; and
- successive rate pegs below labour market increases.

Despite these challenges Council has been successful in developing strategies to remain financially sustainable. These strategies include:

- implementation of a Treasury model across each Group within Council;
- a rolling services review across all areas of Council; and
- ensuring adequate funding strategies are in place and adhered to.
- growing non rate revenue streams
- rationalising of land assets and commercial development

3.4 Sensitivity analysis

Long term financial plans are inherently uncertain given the lengthy period of time which they are required to cover and the assumptions that are required to be made. Some of these assumptions have a relatively limited impact if they are incorrect; others can have a major impact on future financial plans.

The three scenarios within the LTFP allow Council to model the potential impact of various assumptions and is a critical management tool.

Quarterly Budget Reviews provide the ability to regularly monitor the LTFP forecasts against actual activity, update assumptions and make amendments that have a permanent impact on the Plan.
Council also reviews and updates relevant sections and projections of the Long Term Financial Plan on an annual basis.

3.5 Key Assumptions

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

Certainty of Revenue Streams

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

Due to the level of support received from the Financial Assistance Grant (FAG) program, any reduction in the overall available funds for distribution is likely to result in a diminished allocation to Council. This will have a direct impact on the level of works able to be delivered by Council.

A major risk contained within the LTFP relates to the assumed 2.5% rate peg limit for years 2 to 10. A 0.5% reduction, will have an impact of approximately $300K in revenue. This in turn will have a significant impact on the services and asset management functions that can be delivered.

Some of this risk can be mitigated via the use of a SRV, which can be amended to achieve the total percentage increase identified as required in Scenario 3: Strategic.

None of the modelling includes land sales or royalties. This is due to the uncertainty of market expectations. If these transactions do occur they are adjusted for via the QBR process or in the baseline year which the LTFP is projected from.

Accuracy of Expenditure Estimates

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

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

4. Other Resourcing Strategies

4.1 Workforce Plan

As employment costs are a large proportion of Council's operational expenditure, effective workforce planning and management is critical to long term financial sustainability.

The Workforce Plan assists Council plan its human resource requirements for the next three years and to ensure the necessary staff resources are in place when and where they are needed. An appropriate workforce is a critical element to successfully delivering each of Council's plans.

The Workforce Plan establishes Council's human resource hierarchy which informs the required level of employment remuneration in the LTFP. Council delivers a diverse range of more than 300 services which have been grouped into discrete service packages. They are delivered under the following organisation structure:

- Corporate Services Group responsible for internal service provision;
- Development Services Group responsible for enabling balanced growth;
- Facilities and Services Group responsible for external service delivery; and
- General Manager's Office responsible for provision of strategic leadership and governance.

In addition to outlining the resourcing requirements of the organisation, the Workforce Plan outlines a number of strategies that Council has or will implement in order to meet the challenges of providing appropriately qualified staff for today and the future.

The financial modelling suggests that each scenario would affect the Workforce Plan as follows:

Scenario 1 – Conservative

Under this scenario, there would be a need to review the human resource levels and strategies as outlined in the workforce plan due to financial constraints.

Scenario 2 – Standard

Under this scenario, there would be no change to the current human resource levels and strategies as outlined in the Workforce Plan.

Scenario 3 – Strategic (SRV)

Under this scenario, there would be a need to increase human resourcing levels in addition to the levels required under Scenario 2. These increases would be required to adequately deliver the increased services levels and capital works program as outlined in a proposed SRV. These additional requirements are outlined in an addendum to the Workforce Plan.

4.2 Strategic Asset Management Plan

Council is responsible for a large and diverse asset base. These assets include roads, bridges, footpaths, drains, libraries, childcare centres, halls, parks, sporting facilities, fleet, land and information communication technology-related assets.

Council's Strategic Asset Management Plan (SAMP) is a comprehensive record of Council's asset maintenance, renewal and construction of new infrastructure. It aims to prioritise works according to key factors such as asset condition and safety, community priority and efficient service delivery. The LTFP is dependent on information provided in the SAMP to develop long term financial plans to deliver actions articulated in the SAMP.

The *Local Government Act 1993* states:

The following principles of sound financial management apply to councils:

- Council spending should be responsible and sustainable, aligning general revenue and expenses.
- Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.
- Councils should have effective financial and asset management, including sound policies and processes for the following:
  - performance management and reporting;
  - asset maintenance and enhancement;
  - funding decisions; and
  - risk management practices.
- Councils should have regard to achieving intergenerational equity, including ensuring the following:
  - policy decisions are made after considering their financial effects on future generations;
  - the current generation funds the cost of its services.

Over time, Council has greatly increased its assets, which has consequently increased its depreciation, operation and maintenance costs and contributed to the ageing asset base.
Infrastructure assets are a significant part of Council's operations with depreciation alone accounting for around 14-15% of Council’s annual operating budget.

In order to manage this asset base, strategies and plans have been developed and designed to address issues regarding asset life cycles and risk. These strategies and plans ensure that priorities are aligned to organisational objectives. Finance and expenditure should also be planned and controlled in line with these priorities. Resources should be used as effectively and efficiently as possible and technical levels of service that relate to compliance requirements in legislation should be maintained.

The SAMP ensures Council's infrastructure, buildings and other assets are managed to an appropriate standard. The SAMP highlights, based on condition ratings, when and what assets require replacement and forecasts how that can be achieved in a financially sustainable manner. Key issues within the SAMP affecting the LTFP include:

- ensuring appropriate level of asset maintenance expenditure is allocated;
- there is an appropriate mix between asset renewal and the construction of new assets in order to meet community needs; and
- asset renewal programs are prioritised based on condition ratings.

The SAMP also estimates the levels of depreciation required for assets based on asset age, obsolescence and condition rating. Any change to the SAMP estimates would have a significant impact on Council's operating result.

The financial modelling suggests that the SAMP would affect each scenario as follows:

Scenario 1 – Conservative

Under this scenario, there would be an increase in the asset backlog due to financial constraints affecting Council's ability to service and renew its asset base. As a result the capital works and maintenance schedules would have to be scaled back in order to maintain financial sustainability.

Scenario 2 – Standard

Under this scenario, there would be no change to the capital works program outlined in the SAMP. Securing grants or ability to use s7.11 contributions may bring forward some works within the schedule.

Scenario 3 – Strategic (SRV)

Under this scenario, additional income would specifically provide the community with a range of upgraded and new assets. This additional schedule of works (funded by a SRV) is outlined in the SAMP as attachments and would be carried out in conjunction with the normal works program. Once the program of SRV projects is completed, the additional funds raised by the SRV (permanently embedded within the rate base) would be used to continue the capital roads rehabilitation program, maintenance of the new assets constructed and service long term loans to fund the projects.

5. Planning Assumptions

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

Service Levels

For scenarios 1 and 2, the LTFP is based on the assumption that the current levels relating to services other than infrastructure are maintained in line with the CSP within the limits of available funding. The range of services is based on those identified as part of the community consultation process undertaken when developing the CSP, the Delivery Program and Operational plan as adopted by Council.

For scenario 3, additional SRV funding has been modelled to allow for enhanced service delivery and increased infrastructure projects as outlined in the revised Integrated Planning and Reporting documents.

Infrastructure

For scenarios 1 and 2, the LTFP is based on the assumption that no major new capital works are undertaken in the next ten years other than those funded by Contribution Plans, Voluntary Planning Agreements and/or Reserves.

For new major works to be undertaken, existing planned asset renewal funding would need to be reallocated to those works or appropriate grant funding for the works being obtained.

For scenario 3, additional SRV funding has been modelled to allow for enhanced service delivery and increased infrastructure projects as outlined in the revised Delivery Program, Workforce Plan and SAMP.

Population Growth and Demographic changes

The LTFP is based on existing local government area (LGA) boundaries and the assumption that Council's projected population movement over the next ten years will not be significant. This may result in an increasingly older population placing increased pressure on existing infrastructure and services.

Economic Growth

The LTFP is based on minimal economic growth for Council and the LGA. However, as indicated in the CSP, Council will continue to focus on supporting business and local jobs through the tourism and economic strategies.

Interest Rates

The LTFP is based on stable interest rates and an investment portfolio reflecting projected income and expenditure. Interest rates during 2017/2018 were low and stable and, as the rates fall within the current Monetary Policy, it is anticipated that rates will remain within 2-3%. Whilst it is recognised that interest rates will fluctuate over a ten year period, the financial modelling is based on an average constant interest rate over the LTFP timeframe.

Inflation

The LTFP is based on an inflation rate of 2.5% for all scenarios in this LTFP. This projection is based on recommendations provided from IPART, Fit for the Future (FFTF) methodology and the Office of Local Government (OLG).

6. Financial Position

The Balance Sheet discloses the assets, liabilities and equity of Council. The table below displays Council's reported Balance Sheet as at 30 June 2017.

Statement of Financial Position (Balance Sheet)	Actual 2016/2017 (*)
Current Assets	
Cash & Investments	8,093,000
Receivables & Other Assets	14,313,000
Inventories	49,652,000
Total Current Assets	**72,058,000**
Non-Current Assets	
Receivables & Other Assets	27,614,000
Inventories	9,241,000
Infrastructure, Property, Plant, Equipment & Intangibles	860,726,000
Total Non-Current Assets	**897,581,000**
Total Assets	**969,639,000**
Current Liabilities	
Payables & Other Liabilities	9,083,000
Provisions	15,409,000
Borrowings	2,837,000
Total Current Liabilities	**27,329,000**
Non-Current Liabilities	
Payables & Other Liabilities	4,892,000
Provisions	532,000
Borrowings	18,721,000
Total Non-Current Liabilities	**24,145,000**
Total Liabilities	**51,474,000**
Net Assets	918,165,000
Equity	**918,165,000**

(*) The 30 June 2018 figures had not been finalised at the time of reporting this LTFP.

As shown, Councils main assets and liabilities are:

- Cash & Investment
- Infrastructure, Property, Plant, Equipment and Intangibles
- Borrowings
- Provisions

The following discusses strategies, assumptions and risks in ensuring Council's balance sheet remains in a financially sustainable state.

6.1 Cash and Investments

Maintaining adequate cash levels and cash flow is vital in ensuring Council can deliver service to the community. Council has policies in place to ensure its portfolio is managed appropriately however there are challenges with such restrictions. Council is required by statute or other external conditions to restrict assets (predominately cash and investments) for specific purposes in future periods. These restrictions are called Externally Restricted Assets. In addition to external restrictions Council, like other councils in NSW, has also resolved to hold assets in the same way to fund works or expenses in future periods.

Where the decision to restrict assets is made by Council and is not required by legally enforceable external conditions, it is referred to as an Internally Restricted Asset. Internally Restricted Assets held by Council currently fall into five groups (a listing and overview of each restricted asset is attached):

- Net revenue streams held for specific purpose
- Provisions held as cash to meet possible or probable future expense
- Allocations for future projects
- Allocations for asset maintenance
- Investment

In relation to externally restricted reserves, the LTFP reflects projected reserve movements and balances as determined by the programs' respective ten year plans. Internally restricted reserves over the next ten years are projected in line with the expected timing of the specific expenditure the reserves are aimed at funding.

A large part of Council's cash restrictions is to fund future capital work projects. A listing and policy statement on Councils cash reserves can be found at Appendix 1.

Under Scenario's 1 and 2, there is no intention to change the level of cash restrictions provided that restricting the cash does not create undue cash flow pressures.

If a SRV was approved by IPART, Council would be required to report on the amount collected from the variation and its expenditure on specified projects in Council's Annual Report. SRV funds collected that are not spent for the purpose in which it was intended (eg capital works delivery schedule) will be restricted until such times as an alternate project is identified.

6.2 Infrastructure, Property, Plant and Equipment

The Local Government Code of Accounting Practice and Financial Reporting states that full revaluations are to be undertaken on all assets on a five year cycle. The current revaluation cycle is as follows:

Year	Category of revaluations
2012-2013	Operational land, buildings, plant and equipment.
2013-2014	No revaluations scheduled.
2014-2015	Roads, bridges, footpaths, drainage and bulk earthworks.
2015-2016	Community land, all other assets classes, other structures, land improvements.
2016-2017	Water and sewerage networks.
2017-2018	Operational land, buildings, plant and equipment.
2018-2019	Land Under Roads (LUR), if applicable
2019-2020	Roads, bridges, footpaths, drainage, bulk earth works.

The financial modelling presented does not factor in any revaluation increases in any of the asset categories listed above because of the difficulty in quantifying it. Revaluations generally reflect the changes in market conditions or construction costs. As a result, revaluation increases can negatively impact on the rate of annual depreciation incurred, affecting Council's performance indicators.

A revaluation decrement can also indicate the decline in asset values, which can occur for a number of reasons. Decrements may indicate permanent impairment in the asset value and thus require a write down in its value. Such write downs have not been factored into any scenario.

Council also becomes liable for maintenance of assets and spaces provided and paid for by the developers of residential estates one year after they are created. There are a number of areas that have potential for future growth and potential for new residential estates to be built. Council may become liable for maintenance of assets and spaces provided by the developers of these residential estates.

At this stage these maintenance costs have not been quantified. When the costs are quantified, they will be included in future updates of the LTFP.

Future increases in the number of rate assessments has been estimated conservatively taking into consideration the environmental and conservation constraints placed on large scale residential and commercial developments in the Port Stephens LGA.

6.2.1 Fleet Management

Council is committed to ensuring that the current fleet of vehicles and machinery is appropriately maintained and replaced when economically feasible to do so. In line with the ten year fleet purchasing program, an annual sum of $2.0m, in addition to any operating surplus achieved out of the fleet business unit, is recommended to be set aside from general revenue, to the Fleet Fund.

6.2.2 Business technology

As part of Council's ongoing service delivery, an annual sum of $400,000 is made available from general revenue to the Business Technology Fund to provide an ongoing source of funds to ensure that Council's business technology is maintained at an appropriate level.

6.3 Debt Management (Borrowings)

6.3.1 Borrowing Strategies

Many NSW councils are debt averse and view the achievement of a low level of debt or even debt free status as a primary goal. Others see the use of loan funding as being a critical component of the funding mix to deliver much needed infrastructure to the community.

Council recognises that loan borrowings for capital works are an important funding source for local government and that the full cost of infrastructure should not be borne entirely by present day ratepayers, but be contributed to by future ratepayers who will also benefit. This concept is frequently referred to as 'intergenerational equity'.

Council will utilise loan funds to undertake capital works only when the asset is of a long term nature. The term of the loan will not exceed the useful life of the asset. A key performance measure of Council's debt strategy will be the Debt Service Ratio.

6.3.2 Current Debt Portfolio

Historically, Council’s policy regarding the use of loan funding has been that loan funding is only available where the proposed expenditure will result in a future revenue stream that will fund the loan repayments. As a result, the majority of Council’s existing debt portfolio relates to its commercially focused activities being the holiday parks, Newcastle Airport and the commercial property portfolio.

In 2017, Council resolved to borrow $6.0m in 2018 to fund and fast track various new capital infrastructure projects which in turn freed up internal cash reserves to be used on more focused asset renewal. Council intends to use funds earned from the commercial property portfolio to repay this loan.

At a Council meeting held on 8 December 2015, it was resolved to borrow $2.367m to fund Medowie Sports & Community Facility – stage one implementation. The proposal expands the opportunity for organised sporting events as well as informal community interaction at a range of levels. This loan is expected to be drawn down during the 2019 financial year.

The table below outlines Council's position in respect of all interest bearing liabilities and the break down between loan borrowings and other long term debt during the past six financial years.

Debt type	30 June 2012 $'000	30 June 2013 $'000	30 June 2014 $'000	30 June 2015 $'000	30 June 2016 $'000	30 June 2017 $'000
Loan borrowings	30,716	26,319	20,497	16,768	13,422	15,308
Other long term debt	2,173	1,472	6,548	6,365	6,290	6,250
Total	**32,889**	**27,791**	**27,045**	**23,133**	**19,712**	**21,558**

6.3.3 Future loan strategies

The cost of borrowing has decreased over recent years making it a favourable time to borrow. Future loan strategies under each scenario are as follows:

Scenario 1 – Conservative

Under this scenario, there the following loans will be introduced into the portfolio:

Purpose of loan	2019-2020 $'000
Koala Hospital	3,000
Medowie Sports Facility	3,500

Scenario 2 – Standard

Under this scenario, there the following loans will be introduced into the portfolio:

Purpose of loan	2019-2020 $'000
Koala Hospital	3,000
Medowie Sports Facility	3,500

Scenario 3 – Strategic (SRV)

Under scenario 3, this LTFP reviews the possibilities of expanding the debt portfolio in order to assist in fast tracking the infrastructure needs of residents in conjunction with the SRV.

Council will raise all external borrowings at the most competitive rates available and from sources available as defined by legislation. Loan drawdowns will be timed to optimise cash flow and minimise interest expenses. A summary of expected loan drawdowns over the next 4 years based on the capital works delivery schedule attached to the SRV is as follows:

Purpose of loan	2019-2020 $'000	2020-2021 $'000	2021-2022 $'000	2022-2023 $'000
• Town Centre Revitalisation • Community Amenities • Carparking • Sport Facilities • Paths and Cycleways • Drainage • Roads	11,000	11,000	10,000	8,000

It is the intention for the SRV to remain permanently in place within the rating structure in order to service and maintain the assets constructed, increase community services and also service the loan requirements.

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

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

6.4 Provisions

Council's main form of provision relates to that of accrued employee leave entitlements. The growth of leave provisions are expensed as they are earned by the employee however the cash outflow may not happen for a period of time. This can expose Council to large sum payments upon employees leaving the organisation. As part of the Workforce Plan, Council has policies in place to ensure employees cannot accrue excessive amounts of leave however there are certain entitlements where employees cannot be directed to reduce. These provisions include:

6.4.1 Vested sick leave

Staff employed by Council prior to or on 26 September 2000, who have not previously waived their right to this provision, continue to have an entitlement for the payment of unused sick leave arising out of the termination of employment. A provision for vested sick leave of $3,204,000 has been included as a liability in the balance sheets of each scenario in this Plan. For the purpose of the forecast, payments from the provision have been estimated when the eligible employee reaches the age of 65.

6.4.2 Long Service Leave liability

Long service leave entitlements are governed primarily by the *Long Service Leave Act 1955* and by conditions in the Port Stephens Council Enterprise Agreement 2018. Council has not actively required employees to take long service leave as it falls due however if the amount of liability becomes excessive it is likely that employees will be encouraged to keep balances within reasonable limits. A provision of $7.1m has been included as a liability in the balance sheets of each scenario in this plan. For the purpose of the forecast, payments from the provision have been estimated when the eligible employee reaches the age of 65.

7. Financial Performance

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

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

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

The tables below show Council's audited financial results for the 2016/2017 financial year.

Statement of Financial Performance (Income Statement)	Actual 2016/2017(*) $'000
Income from continuing operations	
Rates and annual charges	53,415
User charges and fees	37,971
Interest and investment revenue	1,192
Other revenues	8,593
Grants and contributions	30,797
Net gains from the disposal of assets	259
Total income from continuing operations	**132,227**
Expenses from continuing operations	
Employee benefits and on-costs	41,795
Borrowing costs	714
Materials and contracts	36,275
Depreciation and amortisation	14,985
Impairment	696
Other expenses	15,046
Total expenses from continuing operations	**109,511**
Operating result from continuing operations	**22,716**
Net operating result for the year before grants and contributions provided for capital purposes	**8,407**

(*) The 30 June 2018 figures had not been finalised at the time of reporting this LTFP.

Potential Impacts on Income and Expenditure

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

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

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

The following analysis provides additional information on each class of income and expenditure shown in the income statement as well as highlighting past trends. A clear statement on future trends and economic assumptions is provided to assist the user of this plan in interpreting the projected outcomes.

7.1 Income

7.1.1 Rates and charges

Ordinary Rates

Approximately 30-40% of Council's annual operating income (not including capital) is derived from the levying of rates and charges. The following table shows the historical trend of rate increases (peg) over the past few years.

Financial Year	Rate Peg	No. Assessments†	Ordinary Rate Yield
2012-2013	3.68%	32,037	$34,915,940
2013-2014	3.47%	32,128	$36,263,573
2014-2015	2.34%	32,324	$37,307,437
2015-2016	2.44%	32,671	$38,490,462
2016-2017	1.832%	33,199	$39,685,207
2017-2018	1.53%	33,608	$40,767,105
2018-2019	2.32%	33,748	$41,806,000

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

7.1.2 Comparison of rates with other councils

Comparison of rating between councils is affected by the rating and charging strategies they have each adopted. Some councils rely solely on the ordinary rate for rate income while others levy special rates and annual charges for specific purposes that supplement ordinary rate income.

Income from ordinary rates, special rates and drainage services are subject to State government rate pegging while domestic waste management service annual charges are limited to recovering the reasonable cost of providing those services.

Councils may choose a mix of ordinary and special rates and vary those from year to year, however the annual increase in total rate income from all rates is not to exceed the percentage specified by IPART each year. Council currently has no special rates.

The Office of Local Government (OLG) publishes annual comparative information on council rating, financial indicators, service costs and service performance. The information is separated into 11 groups of similar councils based on size and character. Port Stephens Council is placed within OLG's Group 5. The data published by the OLG indicates Councils ordinary rates are low compared with other Hunter Councils and other Group 5 Councils.

Rating assumptions

Scenario 1 and 2 of the LTFP are based on the assumption that Council's rating structure remains unchanged over the next ten years. Any changes in the rating structure would not impact on the total revenue but merely redistribute the income amongst the different categories and sub-categories thereof. Council's rating income or notional yield may be increased from one year to the next up to the rate-pegging limit as determined by the IPART. Apart from grants and contributions, the next largest funding source of the capital works programs is rates. Due to rate pegging, Council's ability to increase the scale of the capital works program or introduce new and enhanced services is restricted.

Scenario 1 – Conservative

Under this scenario, only a 2% rate increase has been applied.

Scenario 2 – Standard

Annual rate-pegging increases have been assumed at 2.7% for 2019/2020 based on the IPART's determination, and 2.5% each year for each consecutive year thereafter.

Scenario 3 – Strategic (SRV)

Higher increases by way of a SRV of 7.5% (including rate pegging) over 7 years are assumed. The cumulative increase, inclusive of rate pegging, over the 7 years is 65.9%. If approved by IPART, the SRV would result in ordinary rates increasing for the average residential rate assessment (land value $224,000) from $1,048 in 2018-2019 to $1,740 in 2025-2026. The average farmland rate assessment (land value $422,000) ordinary rates would increase from $1,649 in 2018-2019 to $2,737 in 2025-2026. The average business rate assessment (land value $340,000) ordinary rates would increase from $4,451 in 2018-2019 to $7,385 in 2025-2026. Further detail on the impact of the proposed rate increases and Council's proposals to mitigate the impact of increases for vulnerable ratepayers is included in the introduction of this Plan.

Domestic Waste Charges

Council's Domestic Waste Management Program is self-funded by way of an externally restricted reserve. The *Local Government Act 1993* limits annual domestic waste management charges to an amount sufficient to recover the costs of providing the service. As such, revenue from Council's annual domestic waste charges included in this LTFP is based on the projected full cost to provide the waste service over the next ten years. It is to be noted that the projected increases in domestic waste charges also reflect projected increases in the Section 88 Waste and Environment Levy imposed on Council by NSW Government.

7.1.3 User charges and fees

For scenarios 2 and 3, user charges and fees have been modelled to increase by 2.5% per year for the life of this plan. This has been modelled off the inflation rate forecast by the Reserve Bank of Australia which is expected to be 2.5% by 2020.

7.1.4 Other income

Other income has been modelled to increase by between 2% and 3% per year for the life of this plan depending on the revenue stream. This income stream is less reliant on inflation therefore a more conservative increase has been used in comparison to the user charges and fees.

7.1.5 Grants and contributions

For scenarios 2 and 3, all operating grants and contributions with the exception of the Roads to Recovery Program grant have been modelled to increase by 2.5% per year for the life of this plan, which is the predicted increase in those grants for 2019.

The NSW Government's Financial Assistance Grant program was paid in advance (50%) prior to the start of the 2018 financial year. It is expected that the payment schedule will revert back to being paid within the financial year that it relates. The Federal Government's Roads to Recovery Program will revert back to 2013-2014 levels of funding from 2020 and beyond.

Operating grants are quite unpredictable and if a grant has been received in one year there is no guarantee that it will be received again in the following year. Even though the modelling of future operating grants is contained in this plan if a significant number of operating grants are no longer received then the levels of service provided may need to be decreased.

The only capital grants or contributions that have been modelled in the LTFP are those grants confirmed for the immediate financial year, Section 7.11 Developer Contributions and dedicated subdivisions. Any un-forecasted capital grants or contributions that are received would be applied to the Capital Works Plus Program attached to the SAMP.

7.1.6 Interest income

The level of interest income is dependent on the forecasted cash levels in conjunction with an estimated rate of return. The rate of return has been linked to the expected rate of inflation set for each scenario.

7.2 Expenditure

7.2.1 Employee benefits

7.2.1.1 Port Stephens Council Enterprise Agreement

The Port Stephens Council Enterprise Agreement (EA) applies to all employees of Port Stephens Council. This agreement was recently renewed for three years starting 1 July 2018. An employee benefit increase factor of 2.75% has been assumed for the life of the plan based on the current EA. The projected expenditure is based on the current staff establishment.

7.2.1.2 Compulsory Superannuation Guarantee rates increase

The Federal government has changed the phasing of the increases in the Superannuation Guarantee rate as per the table below. The impact of this change has been factored into all three scenarios of the LTFP.

Year	Rate
2018-2019	9.50%
2019-2020	9.50%
2020-2021	9.50%
2021-2022	10.00%
2022-2023	10.50%
2023-2024	11.00%
2024-2025	11.50%

7.2.1.3 Learning and development

Council's Workforce Plan identifies future skill and workforce requirements.

Council provides extensive learning and development opportunities and there are education and training opportunities for people of all ages. A yearly learning and development expenditure of $330,000 has been included in the salaries and wages expense in the income statement of each scenario in this Plan.

7.2.1.4 Workers compensation

Council places a high priority on workplace safety, commitment to performing safety observations, reporting near misses and implementing many safe workplace policies, Council's Workers Compensation premiums have been reduced dramatically in recent years because of this commitment to worker safety and wellbeing. These savings have already been factored into the LTFP and Council is committed to maintaining a safe workplace and ensuring that the Workers Compensation premium remains stable.

7.2.2 Borrowing costs

Council has taken advantage of a declining cash rate over the past two years by installing the majority of its loan portfolio at fixed interest rates. This allows for borrowing costs to be forecasted accurately using existing loan schedules, which remains the same across all three scenarios as well as providing security against impending cash rate increases. Council benchmarks the performance of its loans portfolio against the Reserve Bank of Australia's national average lending rate for large business.

7.2.3 Materials and contracts

The LTFP assumes that budgets are sufficient in order to meet service level expectations. Therefore material and contractor costs for 2018 have been increased based on the Local Government Cost Index (LGCI) and Consumer Price Index (CPI) thereafter. An additional $600,000 has been made available every four years to allow for the outsourcing of local government elections.

7.2.4 Depreciation

Council's major non-cash operating expense is depreciation. Council infrastructure, property, plant, and equipment are depreciated using various methods which are specific to the asset category. These methods include, condition based, consumption based, straight line and diminishing value.

Condition based depreciation methods rely upon a known correlation between the physical characteristics of the asset (for example, cracking, rutting, roughness, oxidisation) and the relevant remaining useful life.

Consumption-based depreciation is based on measuring the level of the asset’s remaining service potential after taking into account both holistic and component specific factors. It relies upon the determination of a pattern of consumption consistent with the asset’s residual value and path of transition through the various stages of an asset’s lifecycle.

The straight line method of depreciation ensures that there will be no major peaks or troughs in depreciation expense from year to year as this method ensures a uniform rate of depreciation of infrastructure, property, plant and equipment.

The diminishing value method provides for a higher depreciation charge in the first year of an asset’s life and gradually decreasing charges in subsequent years. It is based on the assumption that the asset loses most of its value as soon as it is put into use and the rate of depreciation then reduces over time.

For each scenario the growth in depreciation expense is linked to the annual investment in infrastructure, property, plant and equipment. The depreciation expense ignores the effect of any asset revaluation that is mandatory.

7.3 Other factors

7.3.1 Newcastle Airport Partnership

Under the Australian Accounting Standards, Council is required to consolidate and report on its 50% proportionate ownership of Newcastle Airport Partnership (NAP). The consolidation process requires the net profit to be included in the income statement and any related transactions eliminated; eg the annual dividend.

To calculate Council's underlying result the NAP profit is deducted and the dividend received from NAP is added back. The consolidated profit from NAP has been forecasted out to the financial year 2029. The expected dividend to be received from NAP has been calculated at 50% of the consolidated profit.

8. Financial Performance Indicators

8.1 Fit For The Future

The NSW Government's Fit For The Future (FFTF) Program aims to improve the strength and effectiveness of local government in providing services and infrastructure for the community. It is intended to ensure that councils will be financially sustainable into the future and more capable of being strategic partners with other levels of government. The FFTF Program requires councils to demonstrate that they have the capacity to generate sufficient income to fund the expenditure needed to deliver core services and maintain community assets to a satisfactory standard.

The table below shows Council's current performance against the NSW State Government's FFTF Program and have been taken from the 2016/2017 audited financial results.

Ratio	Benchmark	Actual 2016/2017	Benchmark Met
Operating Performance Ratio (OPR)	>0%	7%	Yes
Own Source Revenue Ratio	>60%	77%	Yes
Debt Service Ratio	>0%<20%	6.35x	Yes
Asset Renewal Ratio	100%	100%	Yes
Infrastructure Backlog Ratio	<2%	1.91%	Yes
Asset Maintenance Ratio	100%	93%	No
Real Operating Performance Ratio	Decreasing	Decreasing	Yes

8.2 Additional Performance Monitoring

In addition to the annual FFTF Framework, Council also uses other financial performance indicators on a monthly and quarterly basis. These indicators are intended to be indicative of the financial health and good business management practices at Council.

The endorsed annual budgets aim to achieve identified financial indicator benchmarks. Consequently, budget control and monitoring is paramount for Council achieving the outcomes of the LTFP. Budgets are monitored internally on an on-going basis. Monthly financial reports are reported to senior management and Quarterly Budget Reviews are reported to Council every four months to inform on the progress against the adopted budgets.

Each of the following indicators is used in reviewing the reasonableness and financial sustainability of each scenario modelled.

Operating performance ratio

Definition	This ratio measures a council's achievement of containing operating expenditure within operating revenue. Ratio = Operating revenue excluding capital grants and contributions – operating expenses / operating revenue excluding capital grants and contributions.
Analysis	The Code of Accounting Practice and Financial Reporting uses a benchmark for the operating performance ratio of greater than 0%.

Own source operating revenue ratio

Definition	It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue. Ratio = rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions).
Analysis	NSW Treasury Corporation uses a benchmark for the Own Source Revenue Ratio of greater than 60%.

Debt service cover ratio

Definition	This ratio measures the availability of cash to service debt including interest, principal and lease payments. Ratio = operating results before interest and depreciation (EBITDA) / principal repayments (from the Statement of Cash Flows) + borrowing interest costs (from the Income Statement).
Analysis	Council uses a benchmark for the Debt Service Cover Ratio of greater than zero.

Asset Renewal Ratio

Definition	The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.
Analysis	Performance of less than 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Infrastructure Backlog

Definition	The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability
Analysis	TCorp adopted a benchmark of less than 2% to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Asset Maintenance Ratio

Definition	The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council. The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.
Analysis	Performance of less than 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Real Operating Expenditure per Capita

Definition	The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover
Analysis	The benchmark adopted is greater than 100%, which implies that asset maintenance expenditure exceeds the council identified requirements.

Underlying Surplus

Definition	The underlying surplus is a key measure of Council's true operating result. The calculation involves subtracting income and expenditure transactions that are abnormal in nature (eg disaster recovery efforts) and or as a result of a timing difference (eg capital grants).
Analysis	Performance of less than 100% indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Cash expense cover ratio

Definition	This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow. Ratio = current year's cash and cash equivalents / total expenses – depreciation – interest costs.
Analysis	NSW Treasury Corporation uses a benchmark for the cash expense ratio of greater than three.

Rates and annual charges outstanding

Definition	Used to assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.
Analysis:	The Office of Local Government states a maximum of 5% for metropolitan councils and 10% for all other councils.

The performance indicators for each scenario are projected in conjunction with the primary financial statements as appendices to the LTFP.

9. Financial Modelling Assumptions and Results

The LTFP is structured as a series of 'scenarios', each of which shows a specific financial outlook. Each of the scenarios relates to particular Council plans or policies. The scenarios are cumulative so that each scenario incorporates the assumptions and financial outcomes of the previous scenarios. The scenarios can also be looked at in isolation.

This iteration of the LTFP presents financial forecasts associated with the following scenarios:

Income	Conservative	Standard	SRV
Rates			
Pegging factor applied 2020	2.7%	2.7%	2.7%
SRV peg factor applied 2020	-	-	4.8%
Ongoing peg factor beyond 2020	2.0%	2.5%	2.5%
SRV peg factor beyond 2020	-	-	5.0%
New annual rates assessment	100	150	150
User fees and charges Annual factor	2.2%	2.5%	2.5%
Operating grants and Contributions Annual factor	2.2%	2.5%	2.5%
Other			
Other income	2.2%	2.5%	2.5%
Cash investment returns	2.5%	2.5%	2.5%
Airport dividend	50.0%	50.0%	50.0%

Expenses	Conservative	Standard	SRV
Salaries and allowances	2.75%	2.75%	2.75%
Materials and contracts	2.3%	2.5%	2.5%
Capital spend over 10 years	$208M	$210M	$210M
SRV capital spend over 10 years	-	-	$115M
Other expenses	2.3%	2.5%	2.5%

Projected Result	Conservative	Standard	SRV
2019-2020	677,000	677,000	471,000
2020-2021	(161,000)	122,000	1,875,000
2021-2022	94,000	103,000	2,552,000
2022-2023	245,000	(11,000)	3,652,000
2023-2024	529,000	995,000	4,949,000
2024-2025	42,000	651,000	6,384,000
2025-2026	(1,026,000)	891,000	8,919,000
2026-2027	(1,321,000)	614,000	7,885,000
2027-2028	(1,441,000)	1,584,000	7,473,000
2028-2029	(2,392,000)	1,260,000	7,215,000

There are many factors that can affect Councils ability to meet all benchmarks which are outside of its control. Some of these factors include:

- Changes to State and Federal government policies;
- Natural disasters;
- Economic downturn;
- Cost shifting; and
- Low level rate pegging.

If any of these factors were to occur it would affect Councils forecasting and benchmarks. In turn this would require an of service levels to ensure Council remains financially sustainable. The base point used for modelling is the September Quarterly Budget Review for the financial year ended 30 June 2019.

The following information provide more detail on each financially model scenario.

Scenario 1 – Conservative

The Conservative Model represented in Scenario 1 reflects Council's financial position over a ten year period. The basis for the scenario is adopting an assumed 2% rate peg. The financial modelling indicates that the performance indicators of Council will not be met which would require a reduction in expenditure on infrastructure assets, or reducing services delivered to the community.

In summary, based on Council's projected income and expenditure over a ten year period, based on existing services and existing service levels, this will mean that Council has a funding gap in regard to its infrastructure funding. Council will therefore need to restrict the level of asset maintenance and renewal in line with funding available. This would be at the cost of rapidly deteriorating assets, therefore pushing the cost to the community potentially resulting in compromised safety and increased residents' dissatisfaction.

The main assumptions underpinning the Conservative model are as follows:

- rating income indexed by 2% from 2019/2020 onwards;
- fees and charges indexed by CPI, or other relevant index;
- current service levels maintained (non-infrastructure asset services);
- materials and contracts expenditures indexed by CPI;
- employee costs indexed by projected EA increases;
- infrastructure asset maintenance costs based on asset planning models; and
- infrastructure asset renewal costs based on funding available after all other service levels have been maintained.

Under this Model, Council will not to generate sufficient revenue to renew infrastructure assets at the rate they are deteriorating. This Model demonstrates that based on current budget settings, Council may face an on-going sustainability challenge.

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

This Model places the Port Stephens Council financial sustainability in its current form at risk, and is therefore not the optimal long term model to pursue.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Capital Budget Statement, Balance Sheet and Cash Flow Statement and the resulting Sustainability Measures are included as Appendix 2: Conservative Model.

Scenario 2 – Standard

The Standard Model represented in Scenario 2 reflects Council's financial position over a ten year period based on all the FFTF indicators attempting to be met. The basis for the scenario is adopting an assumed full 2.5% rate peg, which is yet to be issued IPART along with other normal economic factors.

Under this scenario Council will attempt to reduce its infrastructure backlog and continue to renew infrastructure assets at the rate they are deteriorating provided sufficient funding levels are maintained.

Under this scenario Council can maintain its financial sustainability in its current form. This Model identifies however that there is minimal room to offer additional or enhanced service levels. Doing so without a compensating revenue increase or expenditure decrease would create financial stress on Council resources. This model would not be able to address any residents' expectations on increased service levels or fast tracking of asset renewal.

The main assumptions underpinning the Standard Model are as follows:

- rating income indexed by estimated rate pegging of 2.5% from 2019/2020 onwards;
- fees and charges indexed by CPI, or other relevant index;
- current service levels maintained (non-infrastructure asset services);
- materials and contracts expenditures indexed by CPI;
- employee costs indexed by projected EA increases;
- infrastructure asset maintenance costs based on asset planning models; and
- infrastructure asset renewal costs based on funding available after all other service levels have been maintained.

This Model also attempts to meet all the benchmarks over the set timeframe with a view that continued improvement program strategies will be delivered.

Financial modelling has been undertaken based on the assumptions above. A projected Income Statement, Balance Sheet and Cash Flow Statement and the resulting Sustainability Measures are included as Appendix 3: Standard Model.

Scenario 3 – Strategic (SRV Model)

The Strategic Model represented in Scenario 3 reflects Council's financial position over a ten year period based on all the FFTF indicators attempting to be met. This scenario assumes a full 2.7% rate peg as well as a special rate variation of 4.8%. The rate for 2020 is broken down as follows: rate peg 2.7% + SRV 4.8% = 7.5%. The rate for 2021 to 2026 is broken down as follows: rate peg 2.5% + SRV 5% = 7.5%. At the conclusion of 2026 the rate peg of 2.5% only applies. This Model also reflects increased service levels, new and enhanced infrastructure as well as an existing renewal program in order to meet the community's aspirations.

The main assumptions underpinning the Strategic Model are as follows:

- rating income annually increased by an SRV of 7.5% (inclusive of rate peg) for 7 years, subject to required Council endorsement, community consultation and IPART approval from 2019/2020 onwards.

    - Increased borrowings program of $60 million over 10 years targeting new and enhanced assets as well as renewal of existing assets

    - enhanced program of works including a program of road sealing & resealing, building improvements, central business district improvements and the extension of the footpath and cycleway network

    - Increased infrastructure asset maintenance costs for sports facilities, tree management and drainage networks

    - enhanced service levels such as increased library opening hours and event promotion

- fees and charges indexed by CPI, or other relevant index;
- current service levels maintained (non-infrastructure asset services) ;
- materials and contracts expenditures indexed by CPI; and
- employee costs indexed by projected EA increases.

This Model ensures inter-generational equity, spreading the cost of long-life assets over a period of time, therefore limiting the financial burden on its residents.

This Model demonstrates the impact of implementing a combination of funding strategies that enable an upfront injection of funds to address the community aspirations on infrastructure and service needs as well continuing to meet existing asset renewal and maintenance plans.

The assumptions in regard to the magnitude, implementation and timing of the strategies is for financial modelling purposes only and would require further community consultation, Council endorsement and the necessary legislative approvals before implementation.

Community Engagement to Identify Optimal Model

Council will undertake further consultation with the community about the impact of the Standard and Strategic options and the scope of works that can be delivered under these options. This consultation will involve presenting a comprehensive works program which identifies individual projects by locality, projected cost and timelines.

10. Financial Statements – Strategic Scenario (SRV)

10.1 Strategic Scenario – Income Statement

For the period ended 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue										
Rates & Annual Charges	61,106	65,048	69,259	73,756	78,563	83,700	89,192	91,576	94,019	96,523
User Fees and Charges	41,682	42,875	44,286	45,742	47,228	48,408	49,619	50,859	52,131	53,434
Interest & Investment Revenue	1,421	1,230	1,210	1,265	1,307	1,355	1,440	1,473	1,517	1,529
Other Revenues	7,084	7,261	7,443	7,629	7,819	8,015	8,215	8,421	8,631	8,847
Operating Grants and Contributions	12,339	12,648	12,964	13,288	13,620	13,961	14,310	14,668	15,034	15,410
Capital Grants and Contributions	5,866	5,983	6,102	6,225	6,349	6,476	6,606	6,738	6,872	7,010
Gain on Sale of assets	250	250	250	250	250	250	250	250	250	250
Total Revenue	**129,748**	**135,295**	**141,514**	**148,156**	**155,137**	**162,165**	**169,632**	**173,984**	**178,454**	**183,003**
Operating Expenses										
Employee Benefits & On-Costs	47,967	49,325	51,761	55,088	58,404	61,140	64,097	67,381	70,172	72,887
Borrowing Costs	1,317	1,823	2,174	2,408	2,726	2,904	2,724	2,693	2,500	2,302
Materials & Contracts	40,113	41,616	42,144	43,226	44,327	46,187	46,828	48,048	49,349	51,182
Depreciation & Amortisation	16,293	16,823	17,953	18,246	18,525	19,265	19,582	19,836	20,144	20,395
Amortisation - intangibles	263	294	321	345	367	386	404	421	436	451
Other	14,394	14,754	15,123	15,501	15,939	16,337	16,746	17,164	17,593	18,033
Total Operating Expenses	**120,348**	**124,635**	**129,477**	**134,814**	**140,288**	**146,218**	**150,381**	**155,543**	**160,195**	**165,252**
Operating Surplus / (Deficit)	**9,400**	**10,660**	**12,037**	**13,342**	**14,849**	**15,947**	**19,251**	**18,441**	**18,259**	**17,752**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**9,400**	**10,660**	**12,037**	**13,342**	**14,849**	**15,947**	**19,251**	**18,441**	**18,259**	**17,752**
Net Operating Result before Capital Grants	**3,534**	**4,677**	**5,935**	**7,117**	**8,500**	**9,471**	**12,646**	**11,703**	**11,386**	**10,742**
Adjustments for Underlying Result										
Gain on Sale of assets	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Investment property fair value increases	(787)	(996)	(1,026)	(1,057)	(1,088)	(1,121)	(1,155)	(1,189)	(1,225)	(1,262)
NAP Profit	(4,012)	(4,111)	(4,213)	(4,318)	(4,424)	(4,533)	(4,645)	(4,759)	(4,876)	(5,230)
Local election costs	-	500	-	-	-	550	-	-	-	600
NAP dividend	1,985	2,056	2,107	2,159	2,212	2,267	2,323	2,380	2,438	2,615
Underlying result	**471**	**1,875**	**2,552**	**3,652**	**4,949**	**6,384**	**8,919**	**7,885**	**7,473**	**7,215**
Less: SRV loan repayments	(550)	(1,129)	(1,685)	(2,155)	(2,780)	(3,247)	(3,247)	(3,478)	(3,478)	(3,478)
Revised underlying result	(79)	746	868	1,496	2,169	3,137	5,672	4,407	3,996	3,737

10.2 Strategic Scenario – Balance Sheet

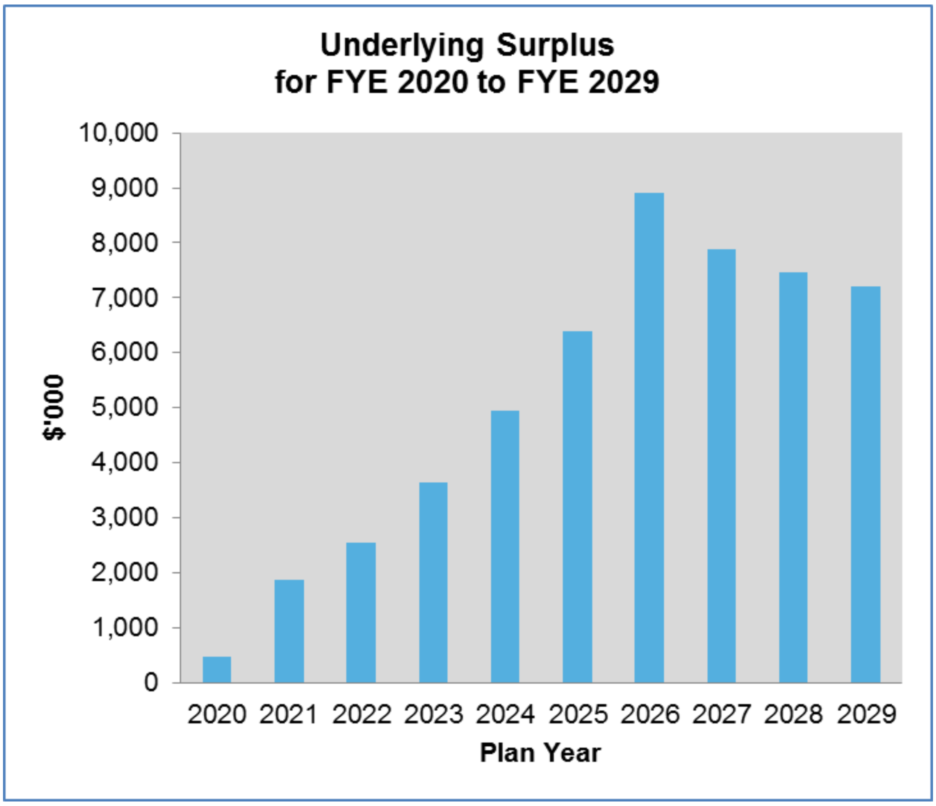
As at 30 June	2020 $'000	2021 $'000	2022 $'000	2023 $'000	2024 $'000	2025 $'000	2026 $'000	2027 $'000	2028 $'000	2029 $'000
ASSETS										
Current Assets										
Cash and Cash Equivalents	7,941	7,158	9,376	11,059	12,967	16,409	17,725	19,474	20,008	24,258
Investments	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241
Receivables	6,908	7,234	7,591	7,967	8,365	8,764	9,187	9,426	9,671	9,922
Inventories	2,675	2,675	2,675	2,675	2,675	2,675	2,675	2,675	2,675	2,675
Total Current Assets	**58,765**	**58,308**	**60,882**	**62,942**	**65,248**	**69,089**	**70,828**	**72,817**	**73,595**	**78,097**
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	927,505	944,889	960,291	975,010	992,873	1,009,581	1,022,971	1,039,169	1,052,385	1,064,440
Inventories	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651
Investment Properties	33,201	34,197	35,223	36,279	37,368	38,489	39,643	40,833	42,058	43,319
Intangibles	1,061	1,187	1,296	1,392	1,478	1,556	1,627	1,694	1,757	1,818
Total Non-Current Assets	**978,418**	**996,924**	**1,013,461**	**1,029,333**	**1,048,370**	**1,066,277**	**1,080,893**	**1,098,347**	**1,112,851**	**1,126,229**
Total Assets	**1,037,183**	**1,055,232**	**1,074,343**	**1,092,275**	**1,113,618**	**1,135,366**	**1,151,721**	**1,171,163**	**1,186,446**	**1,204,326**
LIABILITIES										
Current Liabilities										
Trade & Other Payables	8,825	9,156	9,272	9,503	9,752	10,117	10,246	10,502	10,764	11,166
Borrowings	4,366	4,095	4,652	4,794	3,899	3,924	4,180	4,265	3,999	3,999
Provisions	15,815	15,962	16,686	17,344	18,003	19,943	20,411	21,629	21,635	24,346
Total Current Liabilities	**29,007**	**29,213**	**30,610**	**31,641**	**31,655**	**33,984**	**34,837**	**36,396**	**36,398**	**39,511**
Non Current Liabilities										
Trade & Other Payables	3,564	3,019	2,473	1,928	1,382	837	291	0	0	0
Borrowings	27,971	34,876	40,224	43,430	49,530	52,607	48,426	47,161	43,162	39,164
Provisions	811	1,635	2,510	3,409	4,334	5,275	6,251	7,249	8,269	9,283
Total Non-Current Liabilities	**32,347**	**39,530**	**45,207**	**48,766**	**55,246**	**58,718**	**54,968**	**54,410**	**51,431**	**48,448**
Total Liabilities	**61,353**	**68,743**	**75,817**	**80,407**	**86,901**	**92,702**	**89,805**	**90,806**	**87,829**	**87,959**
Net Assets	**975,830**	**986,490**	**998,527**	**1,011,868**	**1,026,717**	**1,042,664**	**1,061,916**	**1,080,357**	**1,098,616**	**1,116,367**
EQUITY										
Accumulated Surplus	607,271	617,931	629,968	643,309	658,158	674,106	693,357	711,799	730,057	747,807
Asset Revaluation Reserves	368,559	368,559	368,559	368,559	368,559	368,558	368,559	368,558	368,559	368,560
Total Equity	**975,830**	**986,490**	**998,527**	**1,011,868**	**1,026,717**	**1,042,664**	**1,061,916**	**1,080,357**	**1,098,616**	**1,116,367**

10.3 Strategic Scenario – Statement of Cashflows

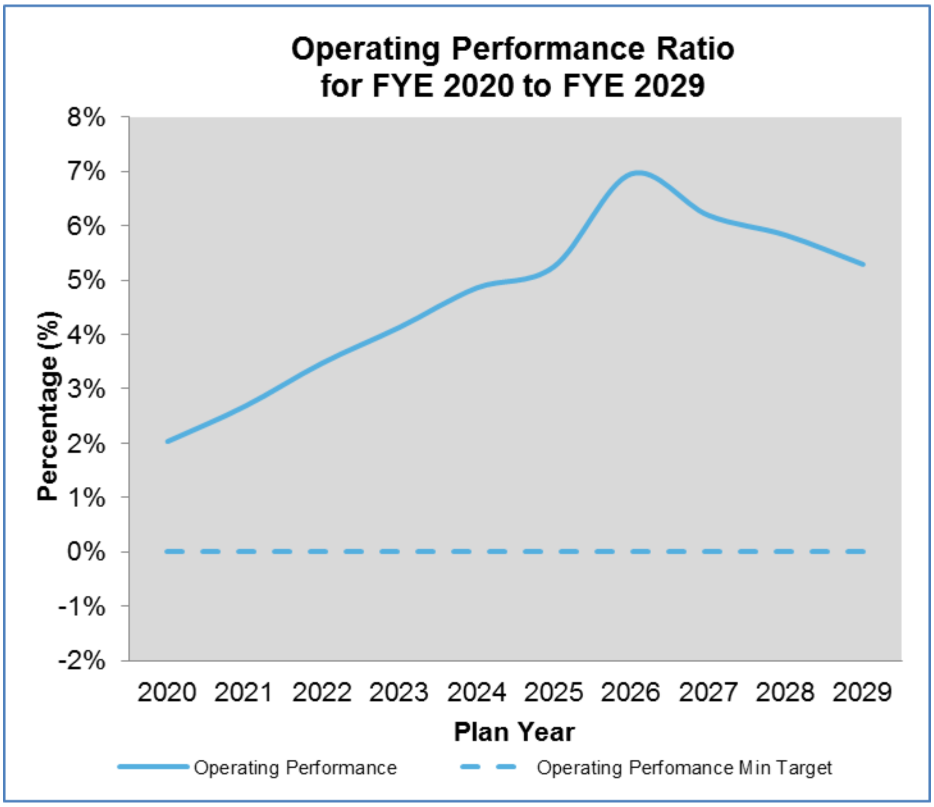
For the period ended 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash Flows from Operating Activities	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Receipts:										
Rates & Annual Charges	60,668	64,721	68,902	73,380	78,165	83,300	88,769	91,337	93,774	96,271
User Charges & Fees	41,682	42,875	44,286	45,742	47,228	48,408	49,619	50,859	52,131	53,434
Interest & Investment Revenue Received	1,421	1,230	1,210	1,265	1,307	1,355	1,440	1,473	1,517	1,529
Grants & Contributions	16,063	16,446	16,838	17,240	17,651	18,072	18,503	18,945	19,397	19,860
Other	6,297	6,265	6,417	6,572	6,731	6,894	7,061	7,231	7,406	7,585
Payments:										
Employee Benefits & On-Costs	(48,790)	(50,296)	(53,360)	(56,633)	(60,000)	(63,945)	(65,519)	(69,576)	(71,157)	(76,608)
Materials & Contracts	(40,259)	(41,401)	(41,714)	(42,918)	(44,024)	(46,050)	(46,424)	(48,025)	(49,635)	(51,587)
Borrowing Costs	(1,317)	(1,823)	(2,174)	(2,408)	(2,726)	(2,904)	(2,724)	(2,693)	(2,500)	(2,302)
Other	(12,459)	(13,243)	(12,784)	(13,025)	(13,354)	(11,000)	(14,710)	(12,820)	(15,051)	(9,783)
Net Cash provided (or used in) Operating Activities	**23,307**	**24,775**	**27,620**	**29,214**	**30,978**	**34,131**	**36,015**	**36,731**	**35,881**	**38,400**
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities										
Sale of Real Estate Assets	-	-	-	-	-	-	-	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	250	250	250	250	250	250	250	250	250	250
Payments:										
Purchase of Infrastructure, Property, Plant & Equipment	(31,479)	(32,022)	(31,126)	(30,692)	(34,069)	(33,608)	(30,560)	(33,574)	(30,850)	(29,890)
Purchase of Intangible Assets	(410)	(420)	(431)	(442)	(453)	(464)	(475)	(487)	(500)	(512)
Net Cash provided (or used in) Investing Activities	**(31,639)**	**(32,192)**	**(31,307)**	**(30,883)**	**(34,272)**	**(33,822)**	**(30,785)**	**(33,811)**	**(31,100)**	**(30,153)**
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	17,500	11,000	10,000	8,000	10,000	7,000	-	3,000	-	-
Payments:										
Repayment of Borrowings & Advances	(3,852)	(4,366)	(4,095)	(4,652)	(4,794)	(3,899)	(3,924)	(4,180)	(4,265)	(3,999)
Net Cash Flow provided (used in) Financing Activities	**13,648**	**6,634**	**5,905**	**3,348**	**5,206**	**3,101**	**(3,924)**	**(1,180)**	**(4,265)**	**(3,999)**
Net Increase/(Decrease) in Cash & Cash Equivalents	**5,317**	**(784)**	**2,218**	**1,678**	**1,913**	**3,410**	**1,306**	**1,740**	**516**	**4,249**
plus: Cash - beginning of year	2,625	7,941	7,158	9,376	11,054	12,967	16,377	17,683	19,423	19,939
Cash - end of the year	**7,941**	**7,158**	**9,376**	**11,054**	**12,967**	**16,377**	**17,683**	**19,423**	**19,939**	**24,188**
plus: Investments - end of the year	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241
Total Cash & Investments - end of the year	**49,182**	**48,399**	**50,617**	**52,295**	**54,208**	**57,618**	**58,924**	**60,664**	**61,180**	**65,429**
Less restricted Cash (NAL)	(13,937)	(14,363)	(16,337)	(18,359)	(20,432)	(22,555)	(24,731)	(26,960)	(29,244)	(31,702)
Cash, Cash Equivalents & Investments - end of the year	**35,245**	**34,036**	**34,280**	**33,936**	**33,777**	**35,063**	**34,193**	**33,704**	**31,936**	**33,727**

10.4 Strategic Scenario – Graphs

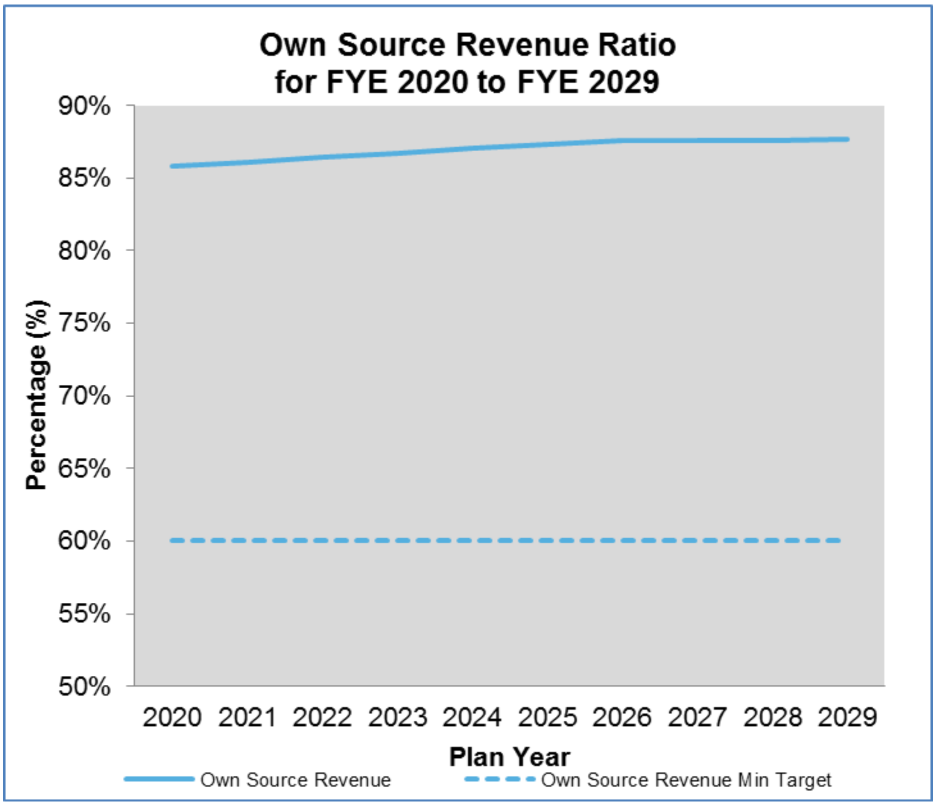
Strategic Scenario Graph – Underlying Surplus



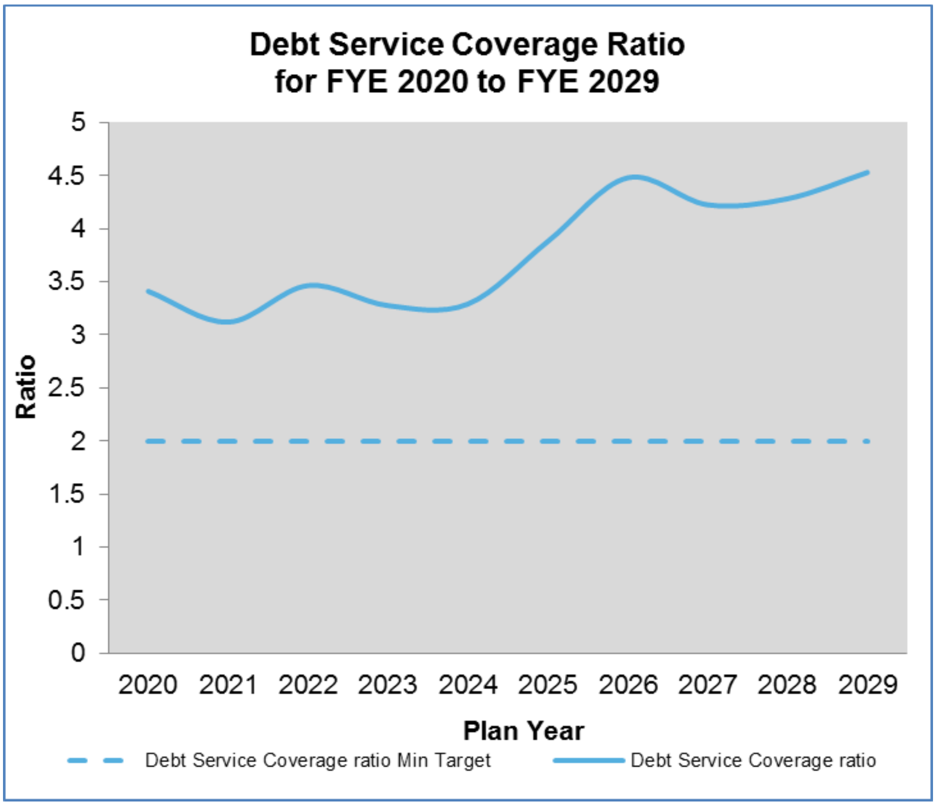
Strategic Scenario Graph - Operating Performance Ratio



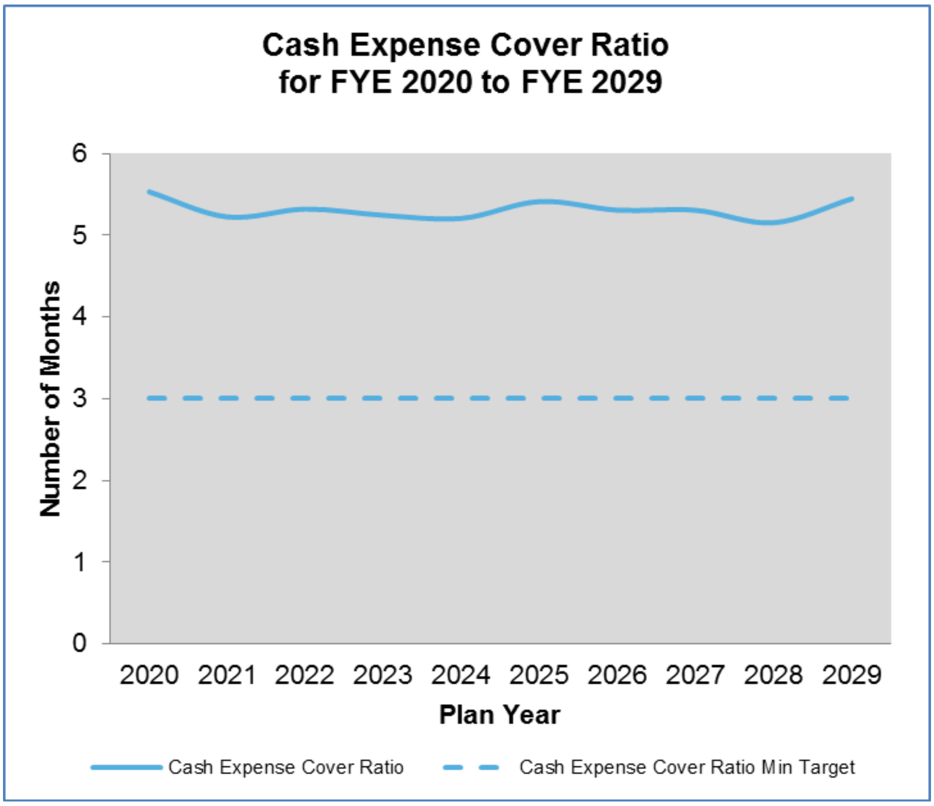
Strategic Scenario Graph – Own Source Revenue Ratio



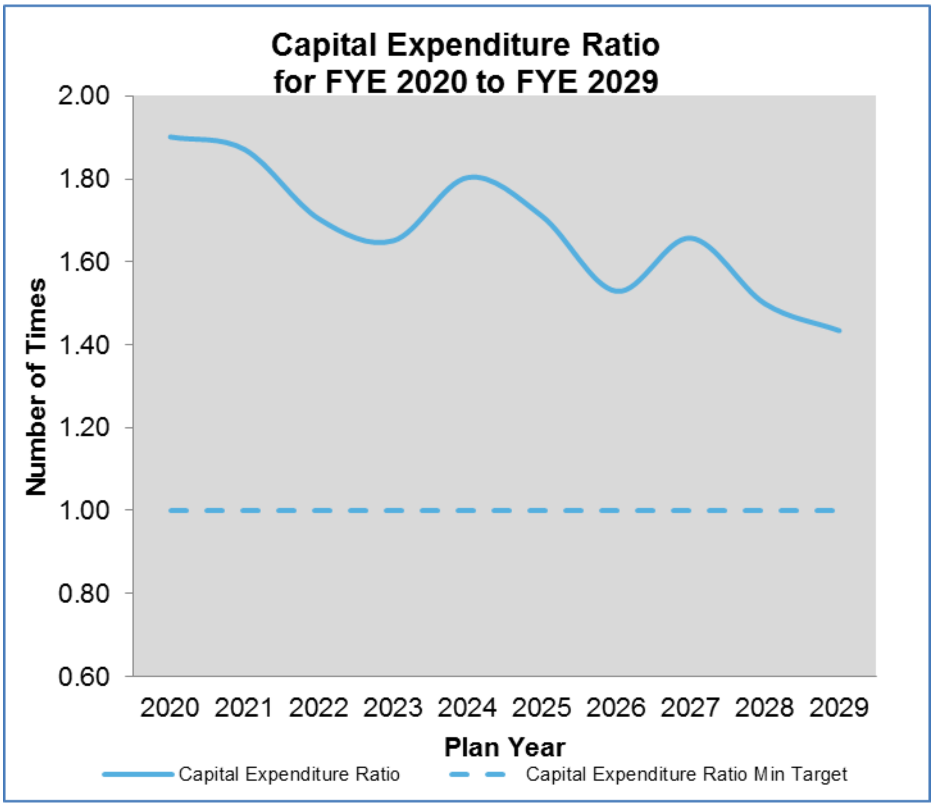
Strategic Scenario Graph – Debt Service Coverage Ratio



Strategic Scenario Graph - Cash Expense Cover Ratio



Strategic Scenario Graph - Capital Expenditure Ratio



Appendices

Appendix 1: Statement of Restricted Cash

Councils in NSW have traditionally operated with Restricted Asset funds that are amounts of money set aside for specific purposes in later years. In general, these funds do not have bank accounts of their own but are a theoretical split up of the accumulated cash surplus that a council has on hand.

Background

Local government will continue into the foreseeable future to be challenged by a tightening cash position through increasing demands for cash for daily operations, restricted rate income levels, increasing demands for expenditure on new infrastructure and the maintenance and rehabilitation of existing infrastructure. Port Stephens Council is certainly subject to these same pressures, exacerbated by high growth in population and development activity, significant environmental responsibilities and an added responsibility as a quality tourist destination.

A strategic financial response to these pressures is necessary for Port Stephens Council to remain a sustainable community leader.

Objective

Council will from time to time decide, or be required by legislation, to set aside funds for specific purposes for which clear guidelines are set to ensure Council's cash position and investment portfolio are adequate and managed responsibly.

Principles

- Council is the custodian of financial and built assets on behalf of the Port Stephens Council community;
- Council provides works, services and facilities to the community through limited financial means;
- Council is required to operate within the framework and supporting guidelines of:
    - *Local Government Act 1993;*
    - Local Government Code of Accounting Practice and Financial Reporting;
    - Local Government Asset Accounting Manual;
    - Australian Accounting Standards.
- A strategic financial plan and associated policies are required to support Council's service delivery and asset management strategies, ensuring long term financial viability.

Statement

- Council will set aside funds as required by specific legislation. These funds will be managed and accounted for so as to comply with the relevant legislation;

- Council will also from time to time set aside additional funds for Council's specific purposes;

- Restricted Funds will be reported in the Annual Financial Statements and reviewed annually against the specified requirements of each fund;

- Restricted Funds will be reviewed quarterly against the Annual Budget by the Section Manager accountable for that fund;

- Each specific fund shall be approved by Council and must be supported by a statement which outlines the following:
    - Purpose of Restricted Funds;
    - Source of funds;
    - The apportionment of interest earned on cash held for that fund;
    - A specific statement including targets, sinking funds, timeframes for accumulation and expenditure of funds;
    - Accountability for the collection, management and expenditure of that fund;
    - Relevant legislation or Council Minute supporting the creation of the fund;

- Creation of all restricted funds shall be in accordance with this policy;

- Expenditure of Restricted Funds shall be in strict accordance with the approved budget, and expenditure shall not exceed funds available without specific Council Resolution;

- Budgeting for the expenditure of profits from land development activities will only occur after the physical receipt of sale proceeds by Council; and

- All Restricted Funds are to be 100% cash backed.

Related Council policies

- Cash Investment Policy
- Property Investment Policy
- Community Groups Loans Policy
- Land Acquisition and Divestment Policy

Review date

Review of this policy will be undertaken 12 months after the date of its adoption by Council. Should amendments to the relevant legislation occur within that 12 month period, review will take place as near as possible to the commencement of such amendments.

Relevant legislative provisions

- *Local Government Act (NSW) 1993*
- *Code of Accounting Practice and Financial Reporting*
- *Environmental Planning and Assessment Act (NSW) 1979*
- *Crown Lands Act (NSW) 1989*
- *Department of Lands – Crown Lands Caravan Park Policy (April 1990)*

Implementation responsibility

Financial Services Section

Definitions

Externally Restricted Funds refers to those funds which have an external restriction, whether by statute or otherwise, which governs the management of money held within the fund.

Internally Restricted Funds refers to those funds which Council has resolved to set up, to hold monies for specific purposes. The operation of such funds is solely governed by Council.

Internal Pooling refers to those monies transferred within Council to cover identified projects, where the money is to be repaid to the restricted fund from a specified source. Internal pooling is subject to specific Council approval and must demonstrate that the pooling of monies for the project will not be unreasonably, over a period of time, prejudice to other future projects.

The following section outlines what restricted assets Council currently holds, their purpose and recommendations for their future.

1.1 Nature and purpose of current restricted assets

The more material current restricted asset funds held by Port Stephens Council are:

- Deposits, retentions and bonds;
- Bonds held for developers' works;
- Section 7.11 developer contributions;
- Specific purpose unexpended grants;
- Domestic waste management;
- Holiday Parks on Crown Land;
- Parking meters on Crown Land;
- Employee leave entitlements;
- Capital asset restricted asset/asset rehabilitation;
- Drainage restricted assets;
- Election restricted assets;
- Business technology fund;
- Newcastle Airport Partnership;
- Fleet;
- Section 355c committees;
- Unexpended loan funds;

- Community loans;
- Parking meters;
- Commercial properties;
- Other waste;
- Sustainable energy and water;
- Roads/environmental special rate;
- Administration building;
- Ward funds.

Deposits, retentions and bonds

Purpose	An external restriction is placed on deposits, retentions and bonds held by Council.
Source of Funds	Any person or company that has paid a deposit, retention monies or bond to Council.

Bonds held for developers' works

Purpose	An external restriction is placed on bonds held by Council.
Source of Funds	Any developer that has paid a bond to Council.

Section 7.11 developer contributions

Purpose	Section 7.11 of the *Environmental Planning & Assessment Act 1979* enables Council to levy contributions as a consequence of development. These contributions are essential in providing quality facilities and services to an expanding local population. The Act requires Council to set these funds aside to be used specifically for the provision of these facilities and services.
Source of Funds	Developer contributions as levied in accordance with Council's adopted Section 7.11 Plan.

Specific purpose unexpended grants

Purpose	An external restriction is placed on grant funding that has been received for a specific purpose that has not been spent by the end of the financial year.
Source of Funds	Grant funding that is for a specific purpose is provided to Council from various sources.

Domestic waste management

Purpose	By virtue of Section 496 of the *Local Government Act 1993* (as amended), Council must levy a separate charge for domestic waste management services, which include garbage and recycling services. Under the legislation Council cannot finance these services from ordinary rates so the charge must be

	sufficient to recover reasonable costs of providing these services. Council is obliged to set these funds aside and use them for their specific purpose.
Source of Funds	Domestic Waste Services & Management Levy.

Holiday Parks on Crown Land

Purpose	Net profits from Holiday Parks on Crown Land are retained for reinvestment back into Holiday Parks on Crown Land.
Source of Funds	Surplus from the Holiday Parks on Crown Land.

Parking meters on Crown Land

Purpose	This restricted asset is to set aside funds that are collected from parking meters situated on Crown Land, which is then required to be reinvested into that area.
Source of Funds	Revenue collected from parking meters on Crown Land.

Employee leave entitlements

Purpose	To provide funds for employee leave entitlements which have been accrued but not yet paid.
Source of Funds	General revenue.

Capital restricted assets/asset rehabilitation

Purpose	This restricted asset is to set aside monies for major capital works projects.
Source of Funds	Various sources.

Drainage restricted assets

Purpose	This restricted asset is to set aside funds to fund drainage works.
Source of Funds	Various sources.

Election restricted assets

Purpose	To provide funds for the Local Government Elections which are conducted every four years.
Source of Funds	Funds provided annually from general revenue.

Business technology fund

Purpose	This restricted asset is to fund the information technology needs of Council.
Source of Funds	General revenue.

Newcastle Airport Partnership

Purpose	To set aside Council's share of Newcastle Airport Partnership's cash, cash equivalents and investments.
Source of Funds	Newcastle Airport Partnership.

Fleet

Purpose	To provide funds for the purchase of fleet assets.
Source of Funds	General revenue.

Section 355c committees

Purpose	Section 355(c) of *the Local Government Act, 1993* allows Council to delegate certain functions. A section 355(c) Committee is an entity of Port Stephens Council and as such is subject to the same legislation, accountability and probity requirements as Council. Funds are set aside for Section 355(c) purposes.
Source of Funds	Various sources.

Unexpended loan funds

Purpose	To restrict the use of cash which has been borrowed externally for a specific purpose but not yet spent.
Source of Funds	Funds borrowed from banks.

Community loans

Purpose	To provide loan funds for community recreational groups to assist with major asset upgrades on Council owned property.
Source of Funds	General revenue.

Parking meters

Purpose	This restricted asset is to set aside funds that are collected from parking meters on Council land to fund future works.
Source of Funds	General revenue.

Commercial properties

Purpose	To set aside net proceeds received from commercial investment property and property development to fund future commercial investments.
Source of Funds	Surplus from investment property portfolio

Other waste

Purpose	To set aside the net proceeds from the Salamander Waste Transfer Station to fund future works.
Source of Funds	General revenue.

Sustainable energy and water

Purpose	To provide a pool of funds that could be used to attract further funding for sustainable developments on Council owned properties.
Source of Funds	General revenue.

Roads/environmental special rate

Purpose:	To set aside revenue received from the roads and environmental special rate for those specific purposes.
Source of Funds:	General revenue.

Administration Building

Purpose	To provide funds for future upgrade and improvement works to the Administration Building.
Source of Funds	General revenue.

Ward funds

Purpose	To provide an annual allocation of funds to assist Councillors to provide facilities in each ward under section 356 of the local government Act.
Source of Funds	General revenue allocation and an allocation of net proceeds from the sale of commercially developed property.

Appendix 2: Scenario 1: Conservative

2.1 Introduction

Scenario 1 of the LTFP shows the financial results of applying the following assumptions:

Income	Conservative
Rates	
Pegging factor applied 2020	2.7%
SRV peg factor applied 2020	-
Ongoing peg factor beyond 2020	2.0%
SRV peg factor beyond 2020	-
New annual rates assessment	100
User fees and charges Annual factor	2.2%
Operating grants and contributions Annual factor	2.2%
Other	
Other income	2.2%
Cash investment returns	2.5%
Airport dividend	50.0%

Expenses	Conservative
Salaries and allowances	2.75%
Materials and contracts	2.3%
Capital spend over 10 years	$208M
SRV capital spend over 10 years	-
Other expenses	2.3%

2.2 Financial Results

In Scenario 1 the forecast underlying result is regularly in deficit culminating in a combined loss of $4.7m over 10 years. The financial modelling suggests this Scenario is not financially sustainable due to the cumulative deficit which would require a review of service levels and infrastructure investment.

2.3 Financial Statements

Scenario 1: Conservative – Income Statement

For the period ended 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue										
Rates & Annual Charges	59,037	60,320	61,628	62,962	64,324	65,712	67,128	68,573	70,046	71,549
User Fees and Charges	41,571	42,637	43,914	45,229	46,566	47,590	48,637	49,707	50,801	51,918
Interest & Investment Revenue	1,421	1,259	1,236	1,273	1,311	1,378	1,445	1,511	1,561	1,641
Other Revenues	7,066	7,221	7,380	7,543	7,709	7,878	8,052	8,229	8,410	8,595
Operating Grants and Contributions	12,362	12,634	12,912	13,196	13,487	13,783	14,087	14,397	14,713	15,037
Capital Grants and Contributions	5,877	6,006	6,138	6,273	6,412	6,553	6,697	6,844	6,995	7,148
Gain on Sale of assets	250	250	250	250	250	250	250	250	250	250
Total Revenue	**127,584**	**130,327**	**133,458**	**136,727**	**140,057**	**143,145**	**146,296**	**149,510**	**152,776**	**156,139**
Operating Expenses										
Employee Benefits & On-Costs	46,766	48,619	49,992	51,669	53,096	54,571	56,682	58,250	59,844	62,109
Borrowing Costs	767	750	658	577	502	469	451	432	414	390
Materials & Contracts	40,070	41,492	41,963	42,928	43,937	45,497	45,981	47,039	48,121	49,828
Depreciation & Amortisation	15,740	16,015	16,056	16,049	16,140	16,678	17,176	17,473	17,575	17,884
Amortisation - intangibles	263	294	321	344	365	384	401	416	431	445
Other	14,367	14,697	15,064	15,410	15,786	16,149	16,521	16,901	17,289	17,687
Total Operating Expenses	**117,973**	**121,867**	**124,053**	**126,977**	**129,826**	**133,748**	**137,211**	**140,511**	**143,674**	**148,342**
Operating Surplus / (Deficit)	**9,612**	**8,460**	**9,405**	**9,750**	**10,231**	**9,397**	**9,085**	**8,999**	**9,101**	**7,797**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**9,612**	**8,460**	**9,405**	**9,750**	**10,231**	**9,397**	**9,085**	**8,999**	**9,101**	**7,797**
Net Operating Result before Capital Grants	**3,735**	**2,454**	**3,267**	**3,476**	**3,820**	**2,844**	**2,388**	**2,155**	**2,107**	**648**
Adjustments for Underlying Result										
Gain on Sale of assets	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Investment property fair value increases	(787)	(826)	(847)	(868)	(890)	(912)	(935)	(958)	(982)	(1,007)
NAP Profit	(4,005)	(4,078)	(4,152)	(4,226)	(4,303)	(4,380)	(4,458)	(4,537)	(4,632)	(4,767)
Local election costs	-	500	-	-	-	550	-	-	-	600
NAP dividend	1,985	2,039	2,076	2,113	2,151	2,190	2,229	2,269	2,316	2,383
Underlying result	**677**	**(161)**	**94**	**245**	**529**	**42**	**(1,026)**	**(1,321)**	**(1,441)**	**(2,392)**

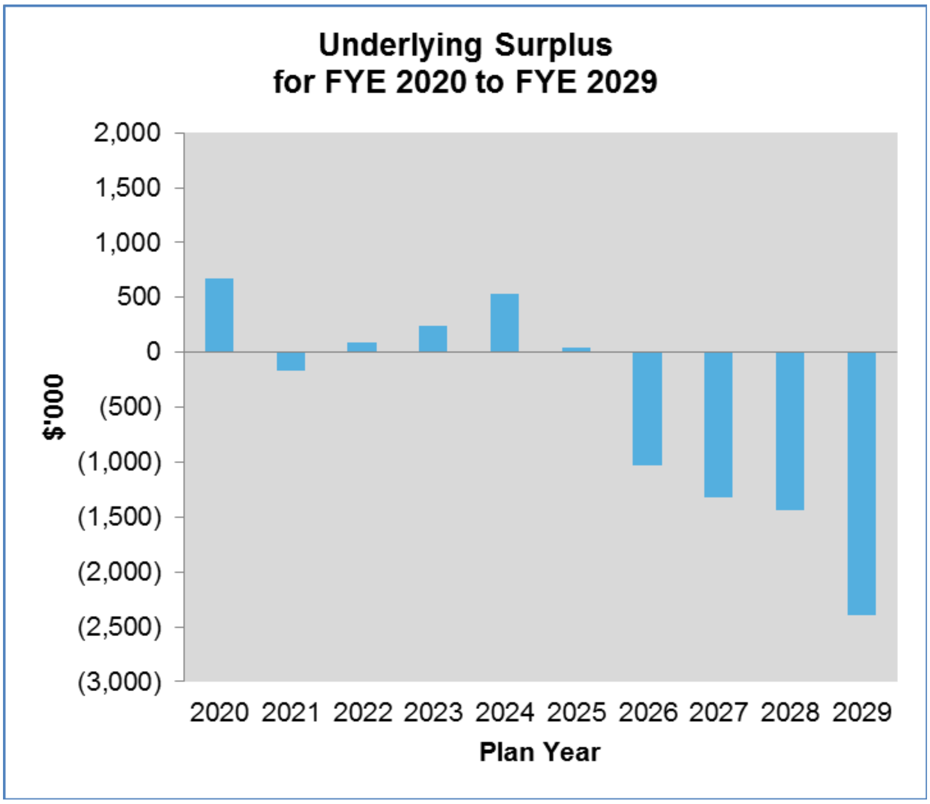
Scenario 1: Conservative – Balance Sheet

As at 30 June:	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ASSETS										
Current Assets										
Cash and Cash Equivalents	9,101	8,194	9,675	11,186	13,871	16,556	19,194	21,193	24,391	25,114
Investments	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241
Receivables	11,297	11,559	11,845	12,139	12,438	12,709	12,985	13,268	13,556	13,850
Inventories	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875
Total Current Assets	**65,514**	**64,869**	**66,637**	**68,440**	**71,425**	**74,381**	**77,296**	**79,577**	**83,063**	**84,080**
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	906,551	912,353	917,079	922,288	927,893	933,457	939,033	944,833	951,063	957,530
Inventories	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651
Investment Properties	33,043	33,870	34,716	35,584	36,474	37,386	38,320	39,278	40,260	41,267
Intangibles	1,060	1,185	1,292	1,386	1,470	1,545	1,613	1,676	1,736	1,793
Total Non-Current Assets	**957,305**	**964,059**	**969,739**	**975,910**	**982,487**	**989,038**	**995,618**	**1,002,438**	**1,009,711**	**1,017,241**
Total Assets	**1,022,819**	**1,028,927**	**1,036,376**	**1,044,350**	**1,053,912**	**1,063,419**	**1,072,913**	**1,082,015**	**1,092,773**	**1,101,322**
LIABILITIES Current										
Liabilities Trade & Other										
Payables	7,213	7,468	7,553	7,727	7,909	8,190	8,277	8,467	8,662	8,969
Borrowings	3,237	2,411	2,497	2,014	652	677	703	788	521	521
Provisions	13,302	13,666	13,717	13,934	14,750	14,851	15,450	15,389	16,677	16,657
Total Current Liabilities	**23,752**	**23,545**	**23,768**	**23,675**	**23,311**	**23,718**	**24,429**	**24,644**	**25,860**	**26,148**
Non-Current Liabilities										
Trade & Other Payables	3,564	3,019	2,473	1,928	1,382	837	291	0	0	0
Borrowings	18,650	16,240	13,742	11,728	11,076	10,399	9,696	8,908	8,387	7,866
Provisions	811	1,622	2,485	3,362	4,255	5,181	6,127	7,094	8,055	9,041
Total Non-Current Liabilities	**23,026**	**20,880**	**18,700**	**17,018**	**16,713**	**16,416**	**16,114**	**16,002**	**16,442**	**16,908**
Total Liabilities	**46,778**	**44,425**	**42,468**	**40,693**	**40,024**	**40,134**	**40,543**	**40,646**	**42,302**	**43,055**
Net Assets	**976,042**	**984,502**	**993,907**	**1,003,657**	**1,013,889**	**1,023,285**	**1,032,370**	**1,041,369**	**1,050,471**	**1,058,267**
EQUITY										
Accumulated Surplus	607,483	615,943	625,348	635,098	645,330	654,726	663,811	672,810	681,912	689,708
Asset Revaluation Reserves	368,559	368,559	368,559	368,559	368,559	368,559	368,559	368,559	368,559	368,559
Total Equity	**976,042**	**984,502**	**993,907**	**1,003,657**	**1,013,889**	**1,023,285**	**1,032,370**	**1,041,369**	**1,050,471**	**1,058,267**

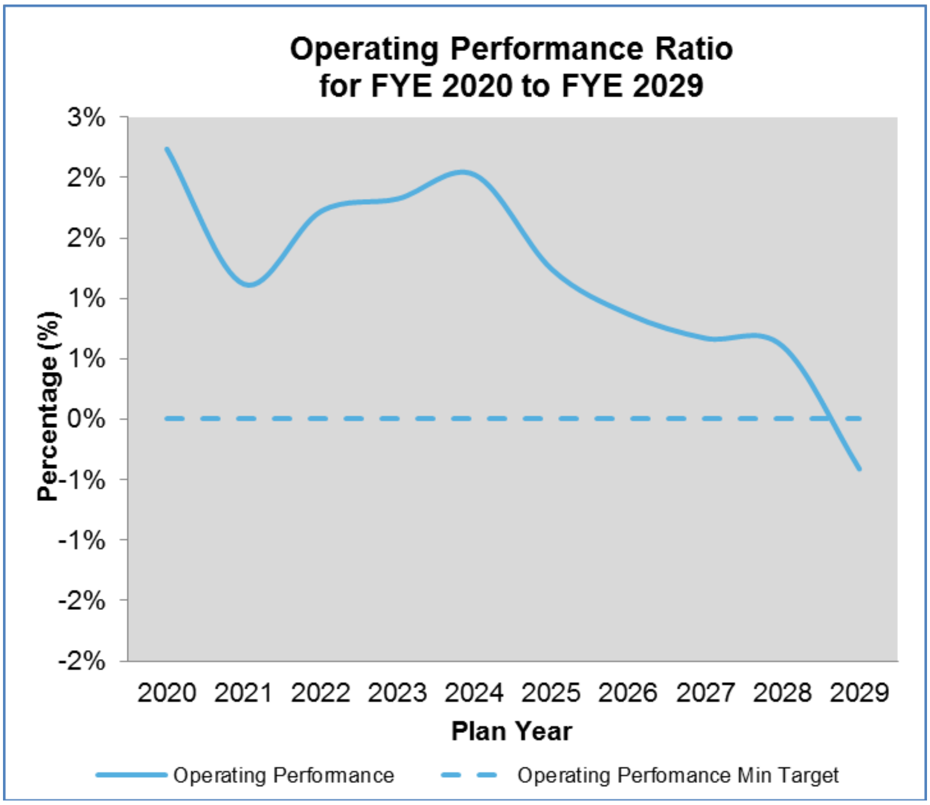
Scenario 1: Conservative – Statement of Cash Flows

For the period ended 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash Flows from Operating Activities	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Receipts:										
Rates & Annual Charges	58,523	60,057	61,342	62,669	64,025	65,441	66,852	68,291	69,758	71,254
User Charges & Fees	41,571	42,637	43,914	45,229	46,566	47,590	48,637	49,707	50,801	51,918
Interest & Investment Revenue Received	1,421	1,259	1,236	1,273	1,311	1,378	1,445	1,511	1,561	1,641
Grants & Contributions	16,093	16,447	16,809	17,179	17,557	17,943	18,338	18,741	19,154	19,575
Other	6,279	6,395	6,534	6,675	6,819	6,966	7,117	7,271	7,428	7,588
Payments:										
Employee Benefits & On-Costs	(48,675)	(49,794)	(50,906)	(52,763)	(54,804)	(55,598)	(58,227)	(59,156)	(62,094)	(63,074)
Materials & Contracts	(40,082)	(41,202)	(41,502)	(42,556)	(43,573)	(45,233)	(45,523)	(46,938)	(48,315)	(50,136)
Borrowing Costs	(767)	(750)	(658)	(577)	(502)	(469)	(451)	(432)	(414)	(390)
Other	(10,525)	(12,927)	(14,157)	(13,966)	(13,097)	(14,624)	(14,348)	(15,290)	(12,401)	(15,141)
Net Cash provided (or used in) Operating Activities	**23,838**	**22,122**	**22,611**	**23,163**	**24,301**	**23,395**	**23,840**	**23,705**	**25,477**	**23,236**
Cash Flows from Investing Activities										
Receipts:										
Sale of Infrastructure, Property, Plant & Equipment	250	250	250	250	250	250	250	250	250	250
Payments:										
Purchase of Infrastructure, Property, Plant & Equipment	(20,716)	(19,624)	(18,541)	(18,967)	(19,403)	(19,850)	(20,306)	(20,773)	(21,251)	(21,740)
Purchase of Intangible Assets	(409)	(419)	(428)	(438)	(448)	(458)	(469)	(480)	(491)	(502)
Net Cash provided (or used in) Investing Activities	**(20,875)**	**(19,792)**	**(18,719)**	**(19,155)**	**(19,601)**	**(20,058)**	**(20,525)**	**(21,003)**	**(21,492)**	**(21,992)**
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	6,500									
Payments:										
Repayment of Borrowings & Advances	(3,302)	(3,237)	(2,411)	(2,497)	(2,014)	(652)	(677)	(703)	(788)	(521)
Net Cash Flow provided (used in) Financing Activities	**3,198**	**(3,237)**	**(2,411)**	**(2,497)**	**(2,014)**	**(652)**	**(677)**	**(703)**	**(788)**	**(521)**
Net Increase/(Decrease) in Cash & Cash Equivalents	**6,161**	**(907)**	**1,482**	**1,511**	**2,686**	**2,685**	**2,638**	**1,999**	**3,198**	**723**
plus: Cash - beginning of year	2,940	9,101	8,194	9,675	11,186	13,871	16,556	19,194	21,193	24,391
Cash - end of the year	**9,101**	**8,194**	**9,675**	**11,186**	**13,871**	**16,556**	**19,194**	**21,193**	**24,391**	**25,114**
plus: Investments - end of the year	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241
Total Cash & Investments - end of the year	**50,342**	**49,435**	**50,916**	**52,427**	**55,112**	**57,797**	**60,435**	**62,434**	**65,632**	**66,355**
Less restricted Cash (NAL)	(13,226)	(13,678)	(15,669)	(17,699)	(19,770)	(21,882)	(24,036)	(26,233)	(28,479)	(30,797)
Cash, Cash Equivalents & Investments - end of the year	**37,116**	**35,757**	**35,247**	**34,728**	**35,342**	**35,915**	**36,399**	**36,202**	**37,152**	**35,558**

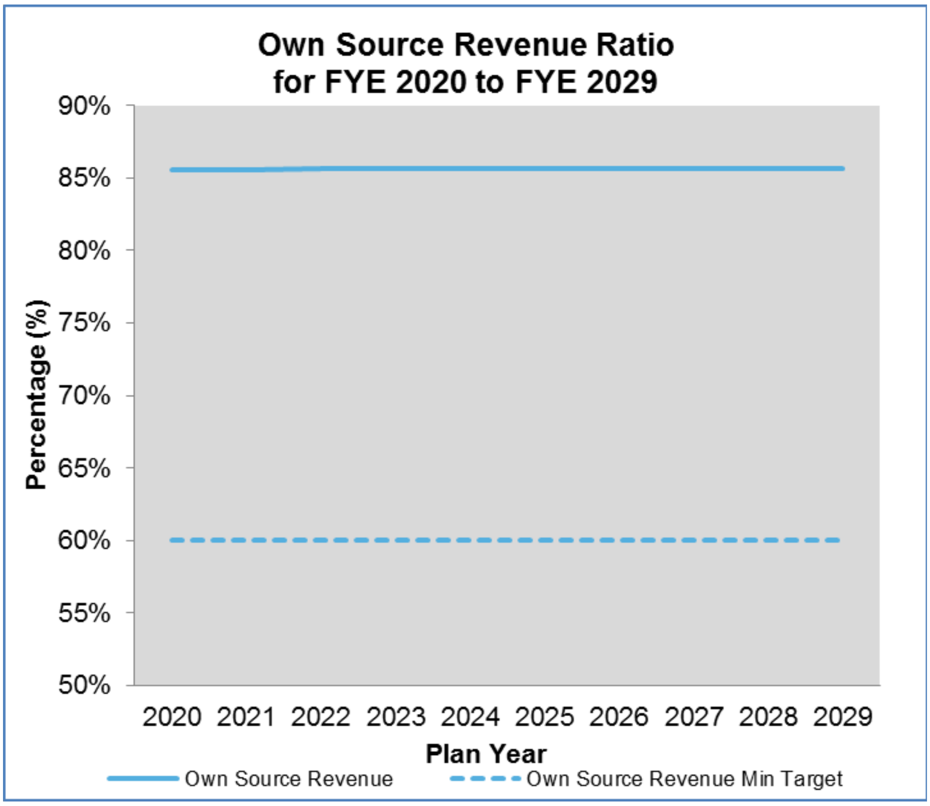
Scenario 1: Conservative Graph - Underlying Surplus



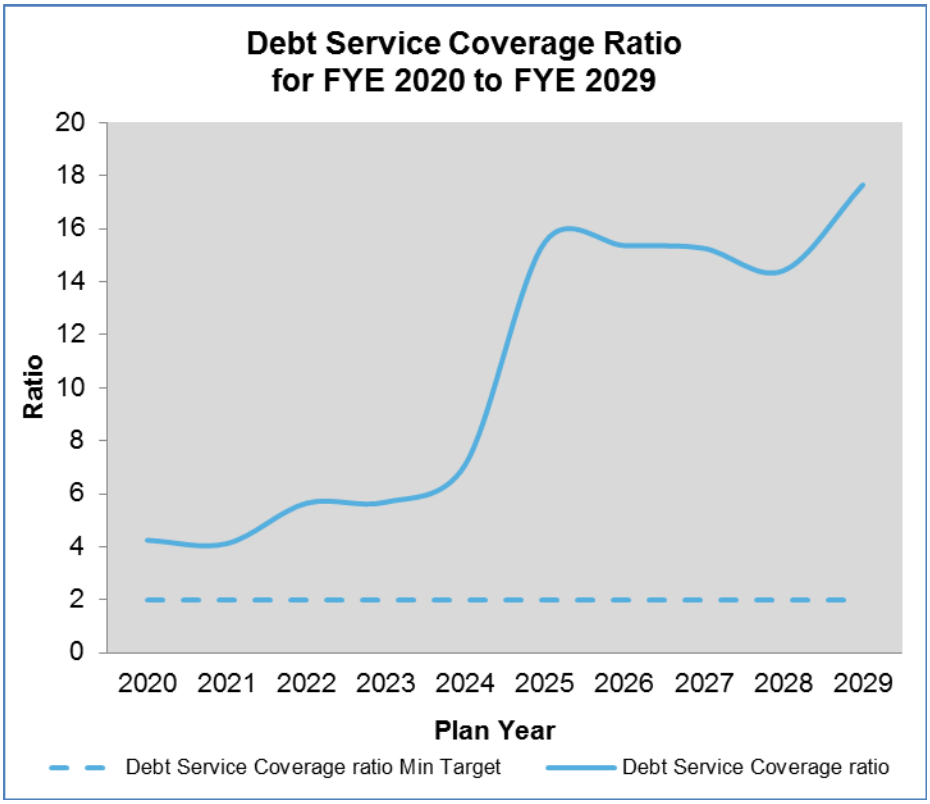
Scenario 1: Conservative Graph - Operating Performance Ratio



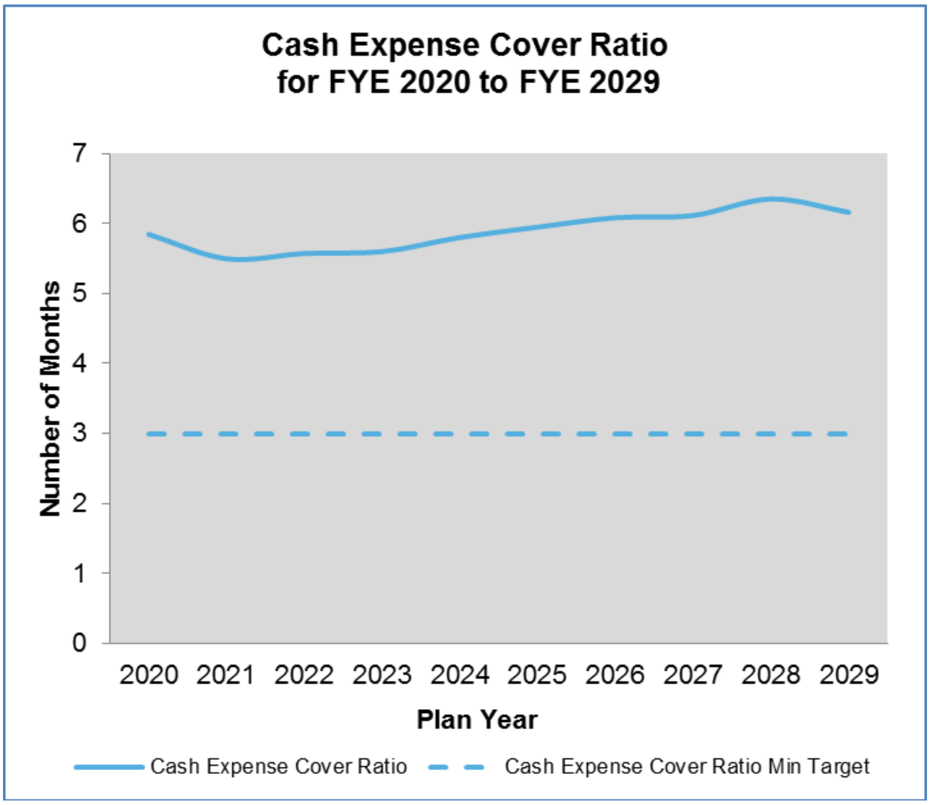
Scenario 1: Conservative Graph - Own Source Revenue Ratio



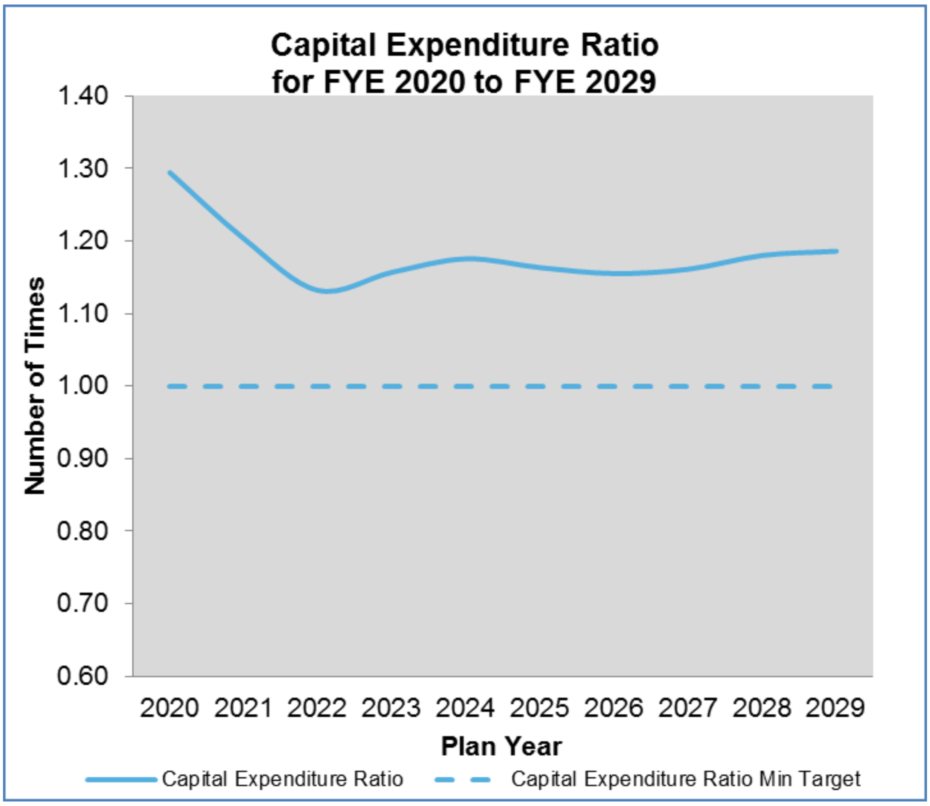
Scenario 1: Conservative Graph - Debt Service Coverage Ratio



Scenario 1: Conservative Graph - Cash Expense Cover Ratio



Scenario 1: Conservative Graph - Capital Expenditure Ratio



Appendix 3: Scenario 2: Standard

3.1 Introduction

The Standard Scenario of the LTFP shows the financial results of applying the following assumptions:

Income	Standard
Rates	
Pegging factor applied 2020	2.7%
SRV peg factor applied 2020	-
Ongoing peg factor beyond 2020	2.5%
SRV peg factor beyond 2020	-
New annual rates assessment	150
User fees and charges Annual factor	2.5%
Operating grants and Contributions Annual factor	2.5%
Other	
Other income	2.5%
Cash investment returns	2.5%
Airport dividend	50.0%

Expenses	Standard
Salaries and allowances	2.75%
Materials and contracts	2.5%
Capital spend over 10 years	$210M
SRV capital spend over 10 years	-
Other expenses	2.5%

3.2 Financial Results

In the Standard Scenario the underlying operating result is regularly in surplus which is largely due to increased income being derived from continued economic growth and inflationary factors. The financial modelling suggests that provided the growth and service levels remain constant Council can remain financially sustainable. The modelling does not allow for any increased level of service or infrastructure investment beyond current base line levels.

3.3 Financial Statements

Scenario 2: Standard – Income Statement

For the period ended 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue										
Rates & Annual Charges	59,087	60,718	62,389	64,103	65,859	67,659	69,505	71,396	73,335	75,322
User Fees and Charges	41,682	42,875	44,286	45,742	47,228	48,408	49,619	50,859	52,131	53,434
Interest & Investment Revenue	1,421	1,260	1,239	1,295	1,352	1,440	1,560	1,671	1,791	1,915
Other Revenues	7,084	7,261	7,443	7,629	7,819	8,015	8,215	8,421	8,631	8,847
Operating Grants and Contributions	12,339	12,648	12,964	13,288	13,620	13,961	14,310	14,668	15,034	15,410
Capital Grants and Contributions	5,866	5,983	6,102	6,225	6,349	6,476	6,606	6,738	6,872	7,010
Gain on Sale of assets	250	250	250	250	250	250	250	250	250	250
Total Revenue	**127,729**	**130,994**	**134,673**	**138,532**	**142,478**	**146,210**	**150,064**	**154,002**	**158,044**	**162,187**
Operating Expenses										
Employee Benefits & On-Costs	46,766	48,616	50,289	51,947	53,044	54,832	56,385	58,488	59,289	61,613
Borrowing Costs	767	750	658	577	502	469	451	432	414	390
Materials & Contracts	40,113	41,616	42,144	43,226	44,328	46,186	46,827	48,048	49,349	51,183
Depreciation & Amortisation	15,740	16,015	16,507	17,183	17,356	17,536	17,721	17,913	18,111	18,316
Amortisation - intangibles	263	294	321	345	367	386	404	421	436	451
Other	14,393	14,754	15,123	15,530	15,939	16,538	17,001	17,476	18,013	18,464
Total Operating Expenses	**118,042**	**122,046**	**125,042**	**128,808**	**131,537**	**135,946**	**138,790**	**142,779**	**145,613**	**150,417**
Operating Surplus / (Deficit)	**9,686**	**8,948**	**9,631**	**9,724**	**10,941**	**10,264**	**11,275**	**11,223**	**12,432**	**11,771**
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	**9,686**	**8,948**	**9,631**	**9,724**	**10,941**	**10,264**	**11,275**	**11,223**	**12,432**	**11,771**
Net Operating Result before Capital Grants	**3,821**	**2,966**	**3,529**	**3,500**	**4,592**	**3,788**	**4,669**	**4,486**	**5,559**	**4,761**
Adjustments for Underlying Result										
Gain on Sale of assets	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Investment property fair value increases	(787)	(996)	(1,026)	(1,057)	(1,088)	(1,121)	(1,155)	(1,189)	(1,225)	(1,262)
NAP Profit	(4,092)	(4,195)	(4,300)	(4,407)	(4,518)	(4,631)	(4,747)	(4,865)	(5,000)	(5,177)
Local election costs	-	500	-	-	-	550	-	-	-	600
NAP dividend	1,985	2,097	2,150	2,204	2,259	2,316	2,373	2,433	2,500	2,589
Underlying result	**677**	**122**	**103**	**(11)**	**995**	**651**	**891**	**614**	**1,584**	**1,260**

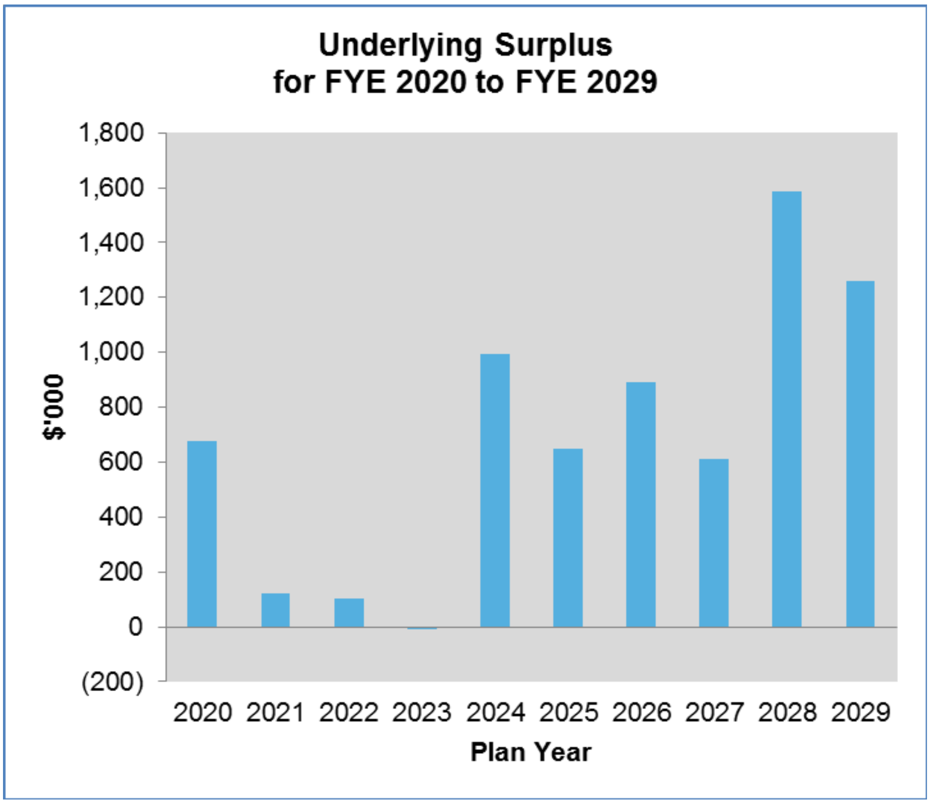
Scenario 2: Standard – Balance Sheet

As at 30 June:	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS										
Current Assets										
Cash and Cash Equivalents	9,144	8,312	10,573	12,838	16,366	21,157	25,593	30,408	35,342	41,400
Investments	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241
Receivables	11,311	11,624	11,964	12,313	12,671	13,003	13,343	13,692	14,050	14,417
Inventories	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875	3,875
Total Current Assets	**65,571**	**65,052**	**67,653**	**70,267**	**74,152**	**79,276**	**84,052**	**89,216**	**94,508**	**100,933**
Non Current Assets										
Infrastructure, Property, Plant & Equipment	906,559	912,401	916,748	920,930	925,461	930,348	935,599	941,220	947,219	953,603
Inventories	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651	16,651
Investment Properties	33,201	34,197	35,223	36,279	37,368	38,489	39,643	40,833	42,058	43,319
Intangibles	1,061	1,187	1,296	1,392	1,478	1,556	1,627	1,694	1,757	1,818
Total Non Current Assets	**957,472**	**964,435**	**969,918**	**975,253**	**980,958**	**987,044**	**993,521**	**1,000,398**	**1,007,685**	**1,015,393**
Total Assets	**1,023,043**	**1,029,487**	**1,037,571**	**1,045,520**	**1,055,110**	**1,066,320**	**1,077,573**	**1,089,614**	**1,102,194**	**1,116,325**
LIABILITIES Current										
Liabilities Trade & Other										
Payables	7,220	7,491	7,586	7,781	7,979	8,314	8,429	8,649	8,883	9,213
Borrowings	3,237	2,411	2,497	2,014	652	677	703	788	521	521
Provisions	13,444	13,632	14,073	14,250	14,340	15,209	15,318	15,913	15,595	17,132
Total Current Liabilities	**23,902**	**23,533**	**24,156**	**24,045**	**22,971**	**24,199**	**24,450**	**25,349**	**24,999**	**26,867**
Non Current Liabilities										
Trade & Other Payables	3,564	3,019	2,473	1,928	1,382	837	291	0	0	0
Borrowings	18,650	16,240	13,742	11,728	11,076	10,399	9,696	8,908	8,387	7,866
Provisions	810	1,631	2,503	3,398	4,320	5,261	6,236	7,234	8,253	9,267
Total Non Current Liabilities	**23,024**	**20,889**	**18,718**	**17,054**	**16,778**	**16,496**	**16,223**	**16,142**	**16,640**	**17,134**
Total Liabilities	**46,926**	**44,422**	**42,874**	**41,099**	**39,749**	**40,695**	**40,673**	**41,491**	**41,639**	**44,001**
Net Assets	**976,117**	**985,065**	**994,697**	**1,004,421**	**1,015,362**	**1,025,625**	**1,036,900**	**1,048,123**	**1,060,555**	**1,072,324**
EQUITY										
Accumulated Surplus	607,558	616,506	626,138	635,862	646,803	657,066	668,341	679,564	691,996	703,765
Asset Revaluation Reserves	368,559	368,559	368,559	368,559	368,559	368,559	368,559	368,559	368,559	368,559
Total Equity	**976,117**	**985,065**	**994,697**	**1,004,421**	**1,015,362**	**1,025,625**	**1,036,900**	**1,048,123**	**1,060,555**	**1,072,324**

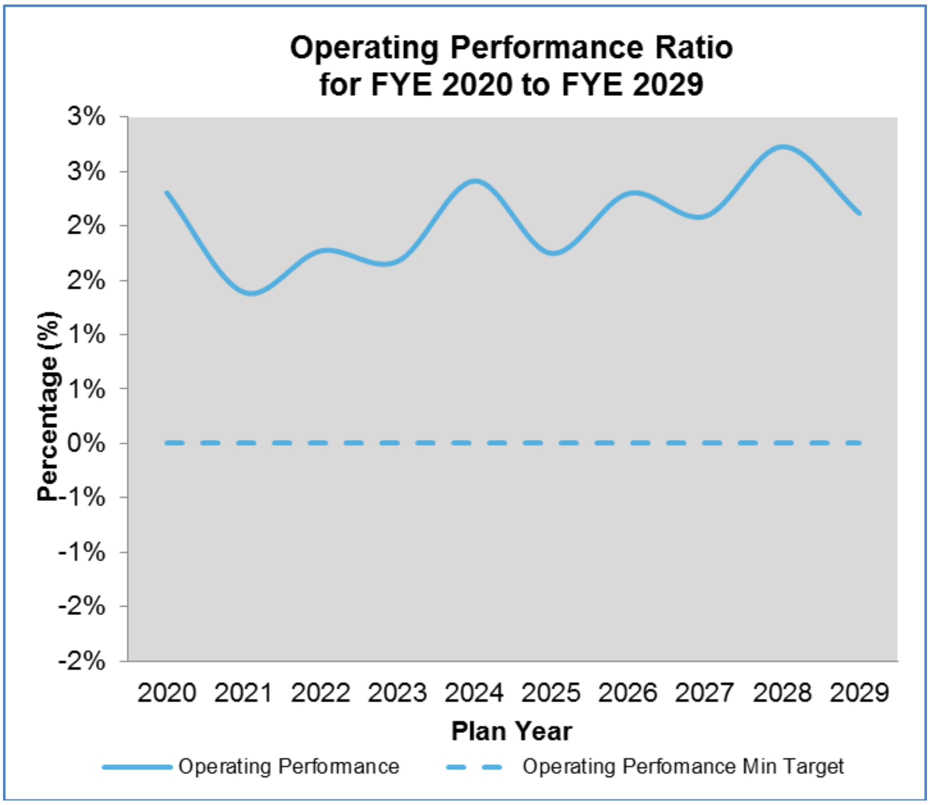
Scenario 2: Standard – Statement of Cash Flows

For the period ended 30 June	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash Flows from Operating Activities	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Receipts:										
Rates & Annual Charges	58,559	60,404	62,050	63,754	65,502	67,327	69,164	71,047	72,977	74,954
User Charges & Fees	41,682	42,875	44,286	45,742	47,228	48,408	49,619	50,859	52,131	53,434
Interest & Investment Revenue Received	1,421	1,260	1,239	1,295	1,352	1,440	1,560	1,671	1,791	1,915
Grants & Contributions	16,063	16,446	16,838	17,240	17,651	18,072	18,503	18,945	19,397	19,860
Other	6,297	6,265	6,417	6,572	6,731	6,894	7,061	7,231	7,406	7,585
Payments:										
Employee Benefits & On-Costs	(48,815)	(49,625)	(51,602)	(53,020)	(54,055)	(56,642)	(57,471)	(60,081)	(59,990)	(64,164)
Materials & Contracts	(40,133)	(41,341)	(41,693)	(42,875)	(43,981)	(45,975)	(46,397)	(47,977)	(49,583)	(51,514)
Borrowing Costs	(767)	(750)	(658)	(577)	(502)	(469)	(451)	(432)	(414)	(390)
Other	(10,255)	(13,287)	(13,397)	(14,086)	(14,612)	(13,340)	(15,690)	(14,435)	(16,143)	(12,699)
Net Cash provided (or used in) Operating Activities	**24,052**	**22,247**	**23,479**	**24,045**	**25,313**	**25,716**	**25,898**	**26,829**	**27,572**	**28,981**
Cash Flows from Investing Activities										
Receipts:										
Sale of Real Estate Assets	-	-	-	-	-	-	-	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	250	250	250	250	250	250	250	250	250	250
Payments:										
Purchase of Infrastructure, Property, Plant & Equipment	(20,728)	(19,672)	(18,626)	(19,092)	(19,569)	(20,058)	(20,560)	(21,074)	(21,600)	(22,140)
Purchase of Intangible Assets	(410)	(420)	(431)	(442)	(453)	(464)	(475)	(487)	(500)	(512)
Net Cash provided (or used in) Investing Activities	**(20,888)**	**(19,842)**	**(18,807)**	**(19,283)**	**(19,771)**	**(20,272)**	**(20,785)**	**(21,311)**	**(21,850)**	**(22,402)**
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	6,500									
Payments:										
Repayment of Borrowings & Advances	(3,302)	(3,237)	(2,411)	(2,497)	(2,014)	(652)	(677)	(703)	(788)	(521)
Net Cash Flow provided (used in) Financing Activities	**3,198**	**(3,237)**	**(2,411)**	**(2,497)**	**(2,014)**	**(652)**	**(677)**	**(703)**	**(788)**	**(521)**
Net Increase/(Decrease) in Cash & Cash Equivalents	**6,361**	**(833)**	**2,261**	**2,265**	**3,528**	**4,792**	**4,435**	**4,815**	**4,934**	**6,058**
plus: Cash - beginning of year	2,783	9,144	8,312	10,573	12,838	16,366	21,157	25,593	30,408	35,342
Cash - end of the year	**9,144**	**8,312**	**10,573**	**12,838**	**16,366**	**21,157**	**25,593**	**30,408**	**35,342**	**41,400**
plus: Investments - end of the year	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241	41,241
Total Cash & Investments - end of the year	**50,385**	**49,553**	**51,814**	**54,079**	**57,607**	**62,398**	**66,834**	**71,649**	**76,583**	**82,641**
Less restricted Cash (NAL)	(13,296)	(13,794)	(15,842)	(17,941)	(20,092)	(22,298)	(24,558)	(26,875)	(29,257)	(31,724)
Cash, Cash Equivalents & Investments - end of the year	**37,089**	**35,758**	**35,972**	**36,138**	**37,514**	**40,101**	**42,275**	**44,773**	**47,326**	**50,917**

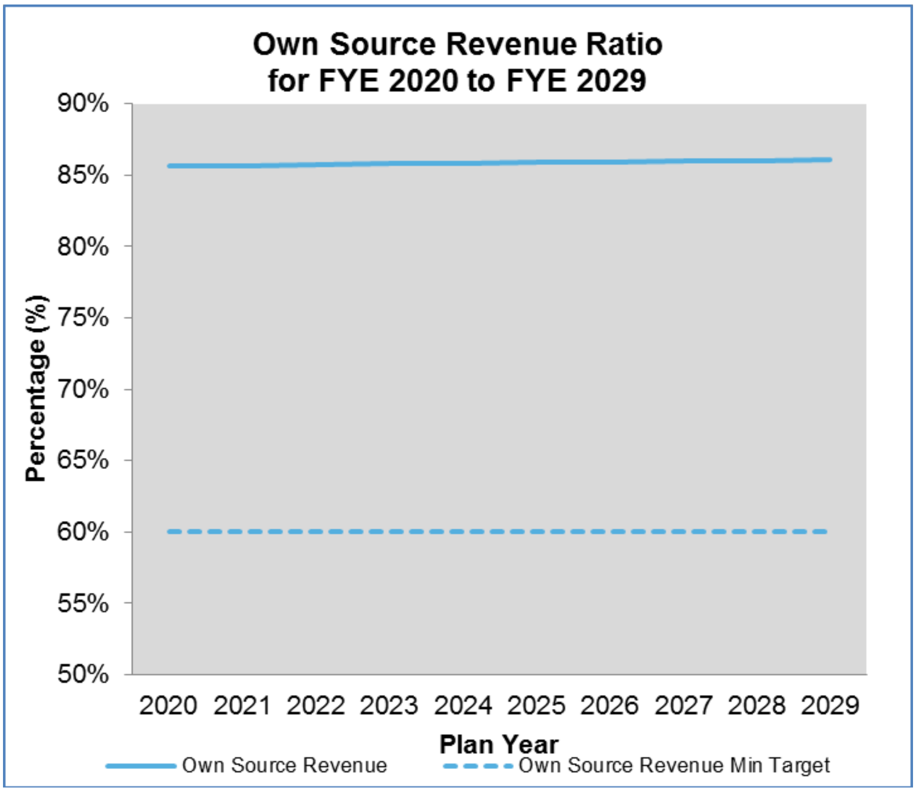
Scenario 2: Standard Graph - Underlying Surplus



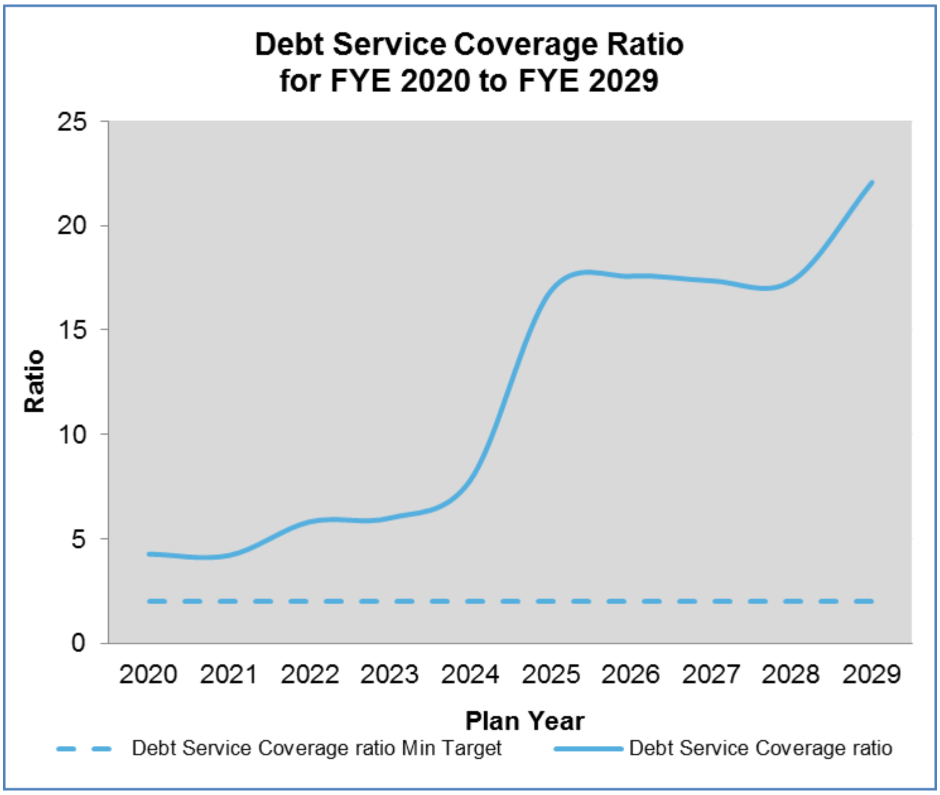
Scenario 2: Standard Graph - Operating Performance Ratio



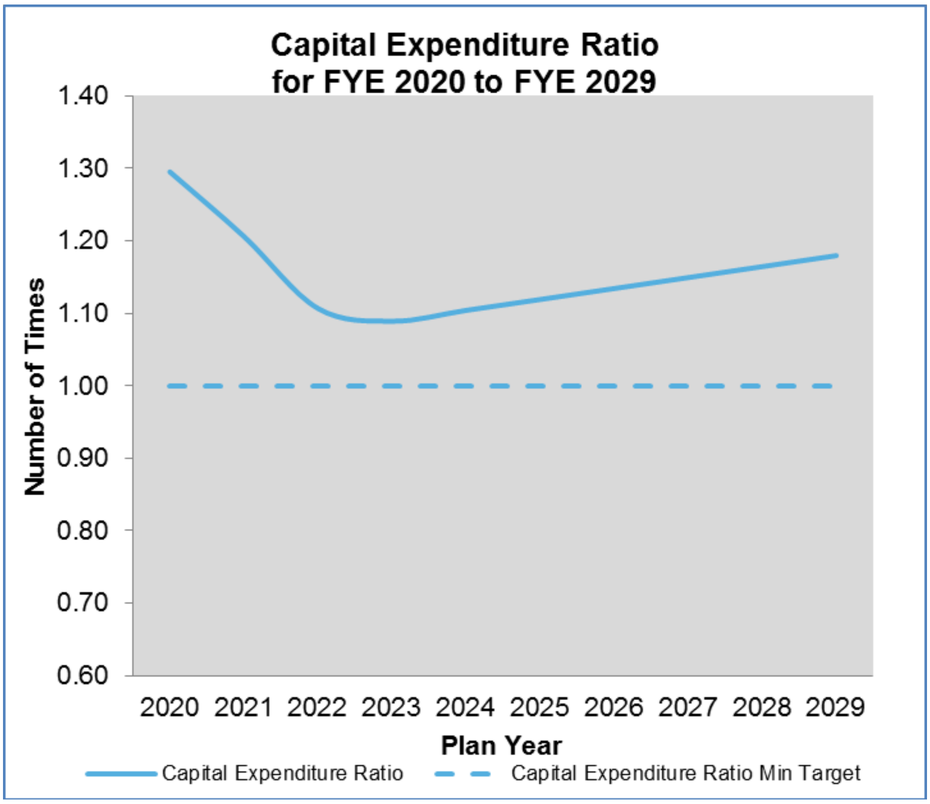
Scenario 2: Standard Graph - Own Source Revenue Ratio



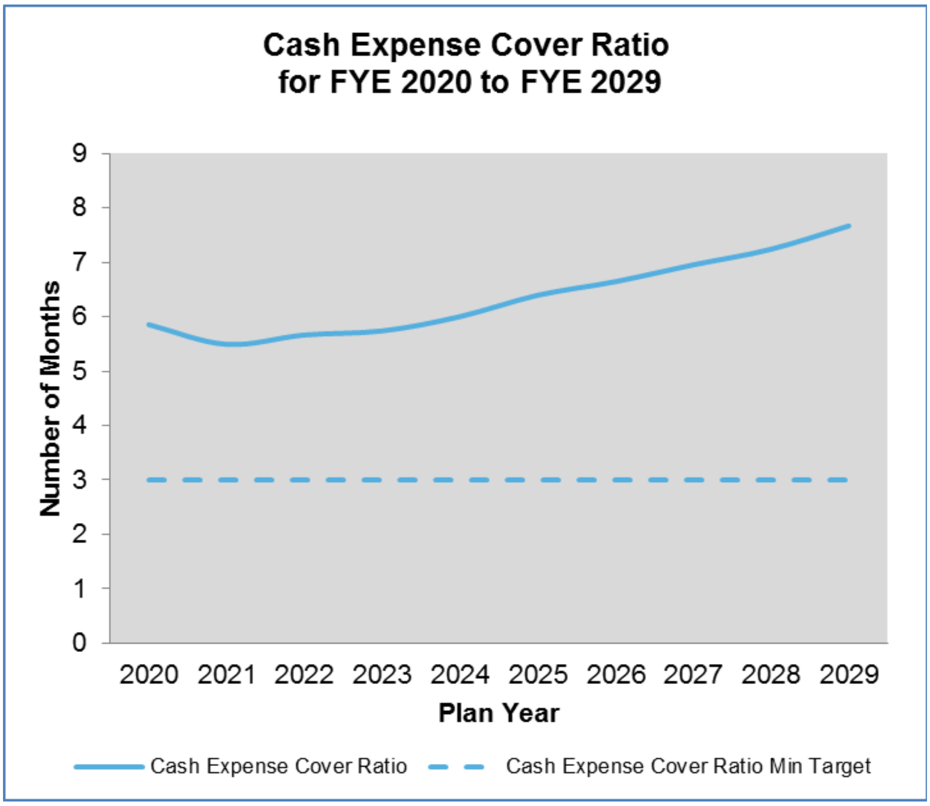
Scenario 2: Standard Graph - Debt Service Coverage Ratio



Scenario 2: Standard Graph - Capital Expenditure Ratio



Scenario 2: Standard Graph - Cash Expense Cover Ratio



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RM8 container No.	PSC2017-03014	**RM8 record No.**	18/139527
Audience	General community		
Process owner	Financial Services Section Manager		
Author	Financial Services Section Manager		
Review timeframe	Annually	**Next review date**	2019
Adoption date	XXXXX		

Version History

Version	Date	Author	Details
1.0	01/12/2017	Financial Services Section Manager	First draft.
2.0	12/02/2018	Financial Services Section Manager	Second draft.
3.0	07/03/2018	Financial Services Section Manager	Third draft.
4.0	13/03/2018	Financial Services Section Manager	Fourth draft.
5.0	20/03/2018	Financial Services Section Manager	Fifth draft.
6.0	20/03/2018	Financial Services Section Manager	Sixth draft.
7.0	21/03/2018	Financial Services Section Manager	Seventh draft.
8.0	20/06/2018	Financial Services Section Manager	Final draft.
9.0	27/06/2018	Financial Services Section Manager	Adopted by Council and uploaded

IP&R Framework

Long Term Financial Plan

2019-2029: **Our place. Our plan.**
November 2018
Revised to include Special Rate Variation

p (02) 4988 0255 | **e** council@portstephens.nsw.gov.au
116 Adelaide Street | PO Box 42 Raymond Terrace NSW 2324
PORTSTEPHENS.NSW.GOV.AU

PORT STEPHENS COUNCIL