LEETON

SHIRE COUNCIL

**DRAFT**

# LONG TERM FINANCIAL PLAN

April 2022

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# 1. Executive Summary

## Background

Leeton Shire Council started highlighting **financial sustainability challenges** in its 'general fund' (excluding water and sewer, accounted for as separate businesses) as far back as the 'Council Improvement Proposal' it prepared under the Fit for the Future program in 2015.

Council subsequently flagged the possibility of seeking a **Special Rate Variation** to increase its income above the 'rate peg' – in order to adequately fund asset renewals and meet benchmarks set by NSW Government – in its Long Term Financial Plan adopted in 2016. This did not eventuate largely due to two years of drought which impacted our agriculturally based community, followed by Covid-19.

Over the past 4 years, Council has made several decisions to **increase service levels**, which comes with increased expenses. These decisions have been to address:

- **community priorities** (economic development, cultural and recreational facilities, road maintenance, customer service),
- **corporate risks, regulation and compliance** (project management, work health and safety, governance, records, people management, procurement, IT/cybersecurity, children's services, environmental, internal audit and continuous improvement).

Over this same period, both state and federal governments have offered unprecedented levels of **grants for community projects**. Council has pursued these in order to achieve community priorities (e.g. Leeton Aquatic Centre, Leeton Museum & Gallery, Roxy Theatre, CBD upgrades etc), mindful that this level of investment is unlikely to be repeated in the coming decade. This has increased the level of activity and met community expectations generally but also added to depreciation and ongoing operational expenses.

Council's financial performance has also been impacted by:

- large increases in **depreciation and landfill rehabilitation provisions** to reflect the long term costs of infrastructure and waste management more accurately
- reductions in **interest** revenues due to lower interest rates and lower cash reserves
- reductions in income from the sale of **investment water**
- **cost shifting** from other levels of government (e.g. Council is now responsible for managing a significant amount of Crown Land previously managed by NSW Govt.)

## Council's financial sustainability challenges and the need for robust long term planning

While concerns about Council's financial sustainability were evident in its 2021 annual financial statements, several 'one off' items distorted the figures. Subsequent operating deficits – $5M in the 2022 budget review, $4M in the 2023 (draft) budget – reinforce the reality of Council's financial sustainability challenges and need for action to address these.

The first step has been to develop a clearer picture of where Council is headed. That is the focus of this Long Term Financial Plan and the Strategic Asset Management Plan that goes hand in hand with it. It is vital to recognise that while these plans are an important step forward, the process of developing them has highlighted there is a lot of work left to do.

## How serious is Council's financial situation?

At this point in time, Council needs to be alert but not alarmed about the financial sustainability of its general fund. The 'Head in the Sand' scenario in section 7.1 of this Plan suggests Council isn't under immediate threat, provided it pulls back on the development of further new assets. Council could continue a similar path and still retain a minimal level of cash reserves in 10 years.

It is also important to note that the financial sustainability challenges only relate to Council's general fund. Council's water supply and sewerage businesses are accounted for separately and, at this stage, are assessed as being financially sustainable.

## So why do we need to act now?

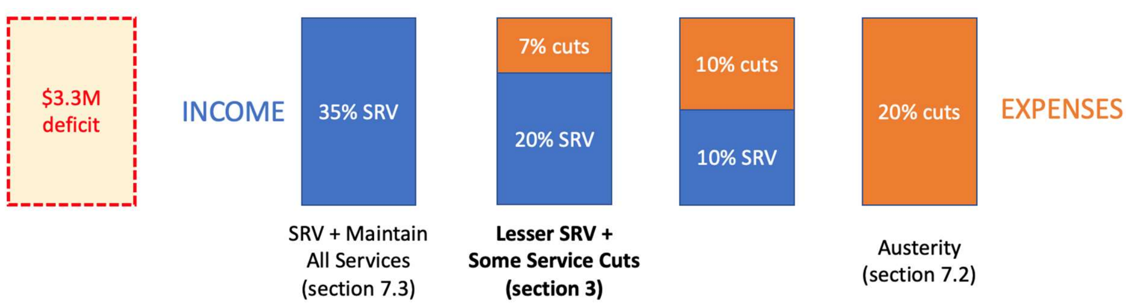
There are two problems with 'putting our head in the sand' and continuing a similar path. Firstly, delaying actions is likely to lead to future decisions being more urgent and difficult. If, instead, Council starts a gradual change process now, informed by meaningful community engagement, it has the best chance of *minimising negative impacts on the community*.

Secondly, while Council isn't in any immediate danger of running short of cash, it can only keep going on a similar path by drawing on reserves to pay for its day to day operations. Spending more than we earn, failing to put anything aside for the future, is not only *unsustainable*, it is also contrary to the principles of *intergenerational equity.*

## Next steps: refine the plans, start the conversation with the community

As noted above, while this Long Term Financial Plan and the accompanying Strategic Asset Management Plan are an important step forward, there is still work to do to refine them. However, Council recognises it needs to start the conversation with the community about its financial sustainability challenges and potential solutions as *there is no 'right answer'.*

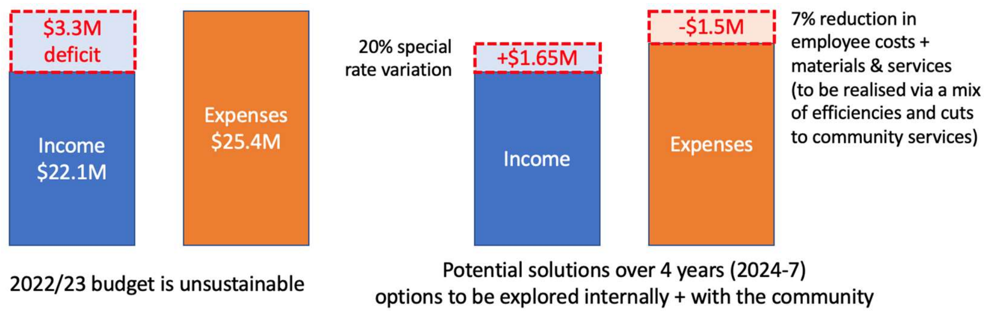
Council's draft 2023 budget is a deficit of around $3.3M excluding one off items. Addressing this will need to involve some combination of increasing income and reducing expenses:




At this stage, Council is of the view that the path that is most likely to be seen as acceptable to the community *and* to address Council's financial sustainability challenges will be a 'middle ground' option that strikes a balance between:

- reducing expenses, ideally via productivity and efficiency gains (often difficult to achieve) and via targeted reductions in community services (more achievable), and
- increasing income via fees & charges, setting up a Council owned business or, more likely, via a Special Rate Variation (increasing rates above the 'rate peg').

That is why the 'Lesser SRV + Some Service Cuts' scenario has been adopted as the 'base case' in this Long Term Financial Plan: Council doesn't consider 'putting its head in the sand' (the scenario mentioned earlier, in section 7.1 of this Plan) is a responsible way forward. The figure below explains the 'Lesser SRV + Some Service Cuts' Scenario in more detail:




As noted, it is suggested these strategies for getting back to black would be implemented over 4 years from 2024 to minimise impacts on the community. This would also allow time to pursue productivity and efficiency gains (avoiding cuts to services as far as possible) while ensuring rate increases are more gradual and affordable for ratepayers.

To ensure rates are collected as fairly as possible across the various rating categories (residential, farming and commercial) Council would also review its rating structure prior to introducing any Special Rate Variation (SRV). The table below provides an indication of what a 20% Special Rate Variation (4.7% p.a. for 4 years on top of a 2.5% rate peg) would equate to in dollar terms for the typical ratepayer in each category.

| Rating category | Typical land value[1] | Typical rates in 2022/23[2] | 2023/24 rate increases | | | 20% total SRV over 4 years[3] |
|---|---|---|---|---|---|---|
| | | | 2.5% rate peg | + 4.7% SRV | = 7.2% total | |
| Residential | $65,000 | $979 | $25 | $46 | $71 | $196 |
| Farmland | $245,000 | $2,660 | $67 | $125 | $192 | $533 |
| Business | $80,000 | $1,065 | $27 | $50 | $77 | $213 |

1. Median ('middle') land value based on 2019 valuations from NSW Valuer General.
2. Based on 0.7% rate peg + 1.1% additional special variation (subject to IPART approval).
3. Based on 20% (4 x 4.7%) increase on top of 2022/23 rates (doesn't include increases from the rate peg).

**In summary, it is important to emphasise that Council still has work to do. This is only the start of its journey toward financial sustainability.**

**Over the coming months, Council will:**

- **refine this LTFP, and the accompanying Strategic Asset Management Plan**
- **engage with the community about its financial sustainability challenges and options to address these, and**
- **explore opportunities to improve its operations (and so limit the need for rate increases and/or service cuts) via a program of internal service reviews.**

**Council will then consider a revised and updated Long Term Financial Plan and Delivery Program setting out a sustainable path for the future by November this year, at which time the community will again have an opportunity to provide input.**

Structure of this document:

2. OBJECTIVES FOR SOUND FINANCIAL MANAGEMENT

*what are we aiming to achieve?*

Spending | Infrastructure Investment | Reserves & Borrowings | Improvement

3, 4 & 5. CURRENT SITUATION AND FORECASTS

*are we expecting to achieve these objectives in future? (why/why not?)*

General | Water | Sewer

6. SENSITIVITY AND RISK ANALYSIS

*what are the risks if our assumptions prove to be incorrect?*

7. SCENARIOS

*what will the future look like under these circumstances?*

Head in the Sand | Austerity | SRV + Maintain All Services

APPENDIX 1

*what are the detailed numbers behind sections 4, 5 & 6?*

## 2. Council's Objectives: Sound Financial Management

The **NSW Local Government Act** section 8B establishes principles of sound financial management as follows:

a) Council **spending** should be responsible and sustainable, aligning general revenue and expenses
b) Councils should invest in responsible and sustainable **infrastructure** for the benefit of the local community
c) Councils should have effective **financial and asset management**, including sound policies and processes for the following:
   (i) performance management and reporting,
   (ii) asset maintenance and enhancement,
   (iii) funding decisions,
   (iv) risk management practices.
d) Councils should have regard to achieving **intergenerational equity**, including ensuring the following:
   (i) policy decisions are made after considering their financial effects on future generations,
   (ii) the current generation funds the cost of its services (which also means the current generation shouldn't bear costs for benefit of future generations)

Council has recognised its improvement journey begins at point (c).

This LTFP and the Strategic Asset Management Plan (SAMP) that sits alongside it are evidence of Council's commitment to adhering to these principles and signals that progress has commenced.

Council also recognises *the financial challenges it faces haven't arisen overnight… and they won't be solved overnight*. A longer-term strategy is needed if Council is to realise longer-term benefits and be sustainable. That is why the LTFP and SAMP have a 10+ year horizon.

**Council has identified four financial sustainability objectives (below) that will serve as 'guard rails' to help keep Council 'on track'. These are also reflected in Council's Delivery Program, so progress will be reported against these in Council's Annual Report.**

## Leeton Shire Council Financial Sustainability Objectives (April 2022)

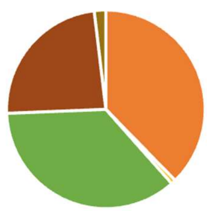
<table>
<tr><th></th><th>Objective</th><th>Details</th></tr>
<tr><td>1</td><td>Responsible and sustainable spending</td><td>Council will work toward aligning general revenues and expenses by:<ul><li>exploring options to be more sustainable (objective 4 below)</li><li>then, formulating a revised LTFP that documents how Council plans to achieve this.</li></ul>Section 3 sets out how Council might reduce its deficit in the general fund and achieve a balanced budget via a mix of increased income/decreased expenses.  Section 7.1 shows the implications of continuing the current path.<br>Sections 4 and 5 show water and sewer funds are close to ‘balanced’ and so appear to be sustainable from this perspective (subject to further analysis).</td></tr>
<tr><td>2</td><td>Responsible and sustainable infrastructure investment</td><td>Council will:<ul><li>allocate funds to infrastructure and other assets in accordance with recommendations in the Strategic Asset Management Plan (SAMP) with a focus on managing risk and renewing existing assets</li><li>identify priorities for new and upgraded assets, and opportunities to dispose of underutilised assets, in the SAMP</li><li>not prioritise funds for further new or upgraded assets over essential renewals except where new assets address unacceptable risks</li><li>only build additional new or upgraded assets if the LTFP shows this is affordable</li><li>pursue grants wherever possible to minimise Council’s investment, but not vary its priorities significantly simply to obtain a grant</li><li>pursue continuous improvement in the management of its assets and infrastructure, guided by actions in the SAMP.</li></ul>Sections 3, 4 and 5 show that Council can afford to fund necessary investments in asset renewals, as well as priority upgrades/new assets.<br>Section 7.1 shows implications of not taking action (as in section 3).</td></tr>
<tr><td>3</td><td>Adequate cash reserves and use of borrowings</td><td>Council will maintain an appropriate level of cash reserves by:<ul><li>responsible and sustainable spending (objective 1),</li><li>responsible and sustainable infrastructure investment (objective 2)</li><li>using borrowings (debt) to overcome shortfalls in available funds to undertake necessary works when they are required.</li></ul>Section 3 shows that with remedial action, Council can maintain adequate reserves in the general fund.  Section 7.1 shows that without action, it will ‘eat into’ its reserves considerably over the next 10 years.<br>Sections 4 and 5 show water and sewer can maintain adequate reserves.</td></tr>
<tr><td>4</td><td>Explore options to improve financial sustainability</td><td>Explore options, internally and externally, to improve financial sustainability in general fund by achieving a balanced budget as discussed in section 3.5.<ul><li>Internally, identify opportunities to improve efficiency and productivity (reduce expenses) via a program of service reviews as well as reviewing accuracy of current depreciation expenses.</li><li>Externally, engage the community about their service priorities and willingness to pay (in general fund): reducing current services (to reduce expenses), increasing user fees and charges and/or ordinary rates via a special rate variation (to increase revenues).</li></ul></td></tr>
</table>

**Table 1: Leeton Shire Council financial sustainability objectives**

# 3. General Fund

Under the NSW Local Government Act, councils must account for their water supply and sewerage functions as separate businesses. These are in section 4 and 5. The remainder of Council's functions fall under the scope of Council's 'general fund'.

Figure 1 below summarises the main operating revenues and expenses in the Income Statement for Council's 2022/23 budget, which is a projected deficit of $3.3M excluding $510,000 for capital grants and contributions (which are not available for operational activities) and $650,000 for net loss on asset sales (which is a one off amount).



| | | |
|---|---|---|
| Rates and annual charges | 9,921,277 | 45% |
| Users charges and fees | 4,866,817 | 22% |
| Interest and investment revenue | 418,791 | 2% |
| Operating grants and contributions | 6,139,824 | 28% |
| Other revenues (inc. rentals) | 475,716 | 2% |
| Other income + net gain asset sales | 301,700 | 1% |
| *Capital grants and contributions* | *510,445* | |
| **Total Income (ex. capital grants)** | **22,124,125** | |
| Employee benefits and on-costs | 9,600,519 | 38% |
| Borrowing costs | 189,198 | 1% |
| Materials and services | 9,143,858 | 36% |
| Depreciation and amortisation | 6,047,859 | 24% |
| Other expenses | 481,000 | 2% |
| *Net loss on asset sales* | *650,000* | |
| **Total Expenses (ex. asset sales)** | **25,462,434** | |
| **Operating Deficit (ex. capital grants and loss on asset sales)** | **(3,338,309)** | **-15%** |

**Figure 1: key income and expense items in 2022/23 general fund budget**

A deficit of this scale (15% of income) is of serious concern. If Council continues this path, it may run short of cash in 4 or 5 years (see 'Head in the Sand' scenario, section 7.1), or, if it cuts its capital works, at least 'eat into its reserves' considerably over the next 10 years.

## 'Lesser SRV + Some Service Cuts' Scenario ('Base Case')

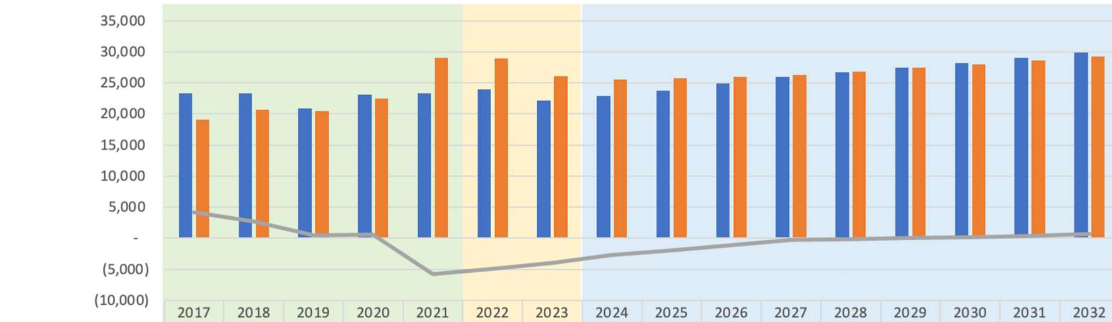
Council recognises it must chart a new course for the future. This section details the 'Lesser SRV + Some Service Cuts' Scenario, which is a *potential* way forward, bridging the $3.3M operating deficit over 4 years primarily via:

- savings of $1.5M (7%) in employee costs and materials and services, ideally achieved in part via efficiencies, but realistically involving targeted cuts to Council services
- a Special Rate Variation of 20% (generating $1.65M) in addition to the rate peg.

The figure below summarises Council's financial performance over the long term including:

- actual historic results over the past 5 years,
- current (as at 2nd quarterly budget review) and
- next year budgets and forecast results under this scenario for the next 9 years.

Note that in charts throughout this LTFP, the financial years as shown are the financial year *ending in…* so, for example, the 2022/23 financial year is identified as "2023".





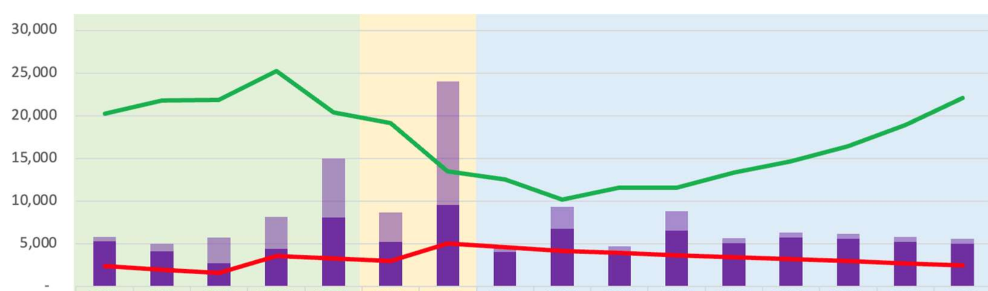
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 23,331 | 23,315 | 20,934 | 23,144 | 23,306 | 23,919 | 22,125 | 22,869 | 23,796 | 24,860 | 25,943 | 26,667 | 27,401 | 28,174 | 29,002 | 29,885 |
| Expenses | 19,115 | 20,633 | 20,497 | 22,511 | 29,047 | 28,880 | 26,112 | 25,594 | 25,791 | 26,018 | 26,250 | 26,817 | 27,398 | 27,991 | 28,597 | 29,217 |
| Operating Result | 4,216 | 2,682 | 437 | 633 | (5,741) | (4,961) | (3,987) | (2,724) | (1,995) | (1,158) | (307) | (150) | 3 | 183 | 405 | 667 |
| | Historic financial statements | | | | | Budgets | | Forecast in LTFP | | | | | | | | |

**Figure 2: trends in income, expenses and operating result in general fund (base case)**

In summary, the 'story' this figure is telling for the general fund is:

- Council's **income** (blue columns) has historically been around **$23M**
- Council's **expenses** (orange columns) have overtaken this income, peaking at **$29M** in 2021 and 2022, although 2021 included significant 'one off' expenses[1]
- expenses are forecast to scale back to **$26M** and increase only slightly between 2024 and 2027, but only after factoring in significant measures to realise these savings[2]
- Consequently, Council also needs to increase income more than the rate peg alone to 'close the gap'; the forecast increases, which would bring income to **$26M**, are based on a **Special Rate Variation** of 4.7% p.a. for 4 years (20% total, compounded[3])
- If Council implements this plan – reducing expenses and increasing income – it will largely 'close the gap' by 2027 (the forecast $307k deficit is only 1% of income, which is of little concern) and go on to achieve a balanced budget by 2029.

Council's financial *performance* is only half of the 'story'. The figure below is the other half: Council's financial *position* (reserves, borrowings, investment in assets/capital works).[4]





| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 470 | 895 | 2,983 | 3,713 | 6,883 | 3,455 | 14,510 | 523 | 2,536 | 549 | 2,313 | 576 | 591 | 606 | 621 | 636 |
| Capital works: LSC $ | 5,331 | 4,141 | 2,744 | 4,468 | 8,134 | 5,207 | 9,545 | 4,080 | 6,809 | 4,163 | 6,534 | 5,081 | 5,770 | 5,623 | 5,222 | 4,996 |
| Borrowings | 2,442 | 1,943 | 1,634 | 3,578 | 3,315 | 3,000 | 5,078 | 4,616 | 4,210 | 3,924 | 3,694 | 3,460 | 3,221 | 2,976 | 2,738 | 2,506 |
| Cash and investments | 20,267 | 21,761 | 21,886 | 25,257 | 20,413 | 19,176 | 13,490 | 12,516 | 10,211 | 11,620 | 11,621 | 13,349 | 14,655 | 16,405 | 18,924 | 22,052 |
| | Historic financial statements | | | | | Budgets | | LTFP forecasts | | | | | | | | |

**Figure 3: trends in capital works, grants and cash and investments (reserves) and borrowings in general fund**

[1] See section 3.2: major 'one offs' in 2021 are materials and services and other expenses.
[2] See section 3.2: reductions are in the areas of employee costs and materials and services.
[3] The effect is more than 4.7% x 4 (= 18.8%) as increases in earlier years are compounded by later increases.
[4] Note: capital works differs from the 2022 and 2023 budgets due to carry overs (see section 3.3).

In summary, the 'story' this figure is telling for the general fund is:

- Council is in the midst of a major **capital works** program (purple columns)[5] far larger than in recent history, and is also forecasting significant programs in future
- While Council has or is expecting to secure significant **capital grants** (light purple portion of column) it is also drawing heavily on its own funds (dark purple portion)
- Council's **cash reserves** (green line) have decreased from a peak of $25M in 2020 partly due to funding these capital works, but also partly due to the operating deficit, but are forecast to remain healthy (based on spending assumptions in this scenario)
- Council has relatively low levels of debt (red line) and could draw on reserves rather than borrowing as intended in 2023, but actual results will depend on spending.
- Council's financial position (reserves) will improve over time as the deficit decreases.

The assumptions behind the overall general fund numbers in Figure 2 are summarised in the table below alongside the historic increases in these items in the last few years.

| Income items | Historic increases (5 yrs) | Assumptions |
|---|---|---|
| *Rates and annual charges* | Rate peg averaged 2.2% p.a.<br>Waste charges averaged 5% p.a. | 2023: 1.8% p.a. (0.7% rate peg + 1.1% additional special variation);<br>2024-2027: 7.5% p.a. (2.5% rate peg + 4.7% special rate variation)<br>2028-2032: 2.5% p.a. |
| *User fees and charges* | Varies: $3.8-6.1M p.a. | $4.9M in 2023, then 2.5% p.a. for 10 years |
| *Interest* | Varies with interest rates and cash reserves | 2.2% p.a. in 2024 increasing 0.25% p.a. to 4.2% in 2032. Actual $ calculated on reserve balance. |
| *Operating grants* | Varies: $5.2-8.5M p.a. | $6.5M p.a. in 2024 (to exclude one-off grants in 2023) then 2.5% p.a. for remaining 9 years. |
| *Other revenues* | Varies: $0.6-1.2M p.a. | Drop back to $476k in 2024 then 2.5% p.a. |
| *Other income* | | $302k in 2023, then 2.5% p.a. |
| **Expense items** | | **Assumptions** |
| *Employee costs* | Increased from $8.1M to $9.3M (3.4% p.a.) over last 5 years to 2021. | Starting point 2023: $9.6M (budget, is a 3.3% p.a. on 2021 actuals or 1.6% p.a. x 2 years).<br>Index 0.5% p.a. in 2025-27 (reduce in real terms)<br>Index at 2% p.a. thereafter (= average of award). |
| *Materials and services + other expenses* | Ongoing M&S + other expenses were $8-8.5M p.a. up to 2021, no clear trend, plus some one-offs. | Starting point: $9.1M (as budgeted, $0.5-0.6M more than 2020-21 actuals, excluding one offs).<br>Index 0.25% in 2024-5, 0.5% in 2026-7, then 2.5% thereafter. |
| *Borrowing costs* | Varied with loans. | Based on proposed loans in Budget. |
| *Depreciation* | Increase of $1.9M (46%) between 2017 and 2023 | 2% p.a. for 10 years (a reduction in real terms given planned investments in new assets). |

**Table 2: Summary of assumptions for operating revenues and expenses for the general fund (base case)**

[5] The 2022 capital budget is $32M (not $8.7M). These figures anticipate significant rollovers (see section 3.3).

Sections 3.1 and 3.2 discuss each of the above items in detail, identifying issues that:

- have contributed to this year's operating result in the current budget (Figure 1), and
- are forecast to impact operating performance in future (Figure 2), including measures proposed to increase income/decrease expenses to reduce the deficit.

The detailed numbers for each item are in the income statement in Appendix 1.

Sections 3.3 and 3.4 discuss assumptions behind Figure 3 including capital works and grants and cash reserves and borrowings. Further details are also in Appendix 1.

## 3.1 Revenues

### Rates, levies and annual charges

Most of Council's income ($7.7M p.a.) is from ordinary (land) rates, with waste management charges ($2M p.a.) making up the bulk of the rest. Council has a policy of subsidising rates for pensioners over and above the statutory requirement (nominated by and shared with NSW Government). The discretionary subsidy reduces income by around $185K, made up of $165k p.a. for rates and another $25k p.a. for waste charges.

Forecast increases in ordinary rates in the 'base case' in this LTFP are as follows:

| Year/s | Assumed increase in ordinary rates |
|---|---|
| 2023 | 2% (0.7% rate peg + 1.1% additional special variation*) |
| 2024-7 | 7.2% p.a. (2.5% rate peg + **4.7% special rate variation**) |
| 2028-32 | 2.5% p.a. rate peg |

*still subject to approval by IPART

**Table 3: assumptions about rate increases**

The table below summarises rates increases for the typical ratepayer in each rates category if Council was to pursue a Special Rate Variation. It should however be noted that Council has also flagged its intention to review the rating structure so actual impacts may differ once the review is completed and if the splits between the rating categories are altered.

| Rating category | Typical land value[1] | Typical rates in 2022/23[2] | 2023/24 rate increases | | | 20% total SRV over 4 years[3] |
|---|---|---|---|---|---|---|
| | | | 2.5% rate peg | + 4.7% SRV | = 7.2% total | |
| Residential | $65,000 | $981 | $25 | $46 | $71 | $196 |
| Farmland | $245,000 | $2,666 | $67 | $125 | $192 | $533 |
| Business | $80,000 | $1,067 | $27 | $50 | $77 | $213 |

**Table 4: typical increases for a 4.7% p.a. and 20% Special Rate Variation**

1. Median ('middle') land value based on 2019 valuations from NSW Valuer General.
2. Based on 0.7% rate peg + 1.3% additional special variation if approved before June 2022 by IPART.
3. Based on 20% (4 x 4.7%) increase on top of 2022/23 rates (does not include increases from any future rate peg as these are already anticipated / included in the LTFP).

For information, the figure below indicates the potential combinations of savings and increased income by which Council could address the deficit and achieve a balanced budget.

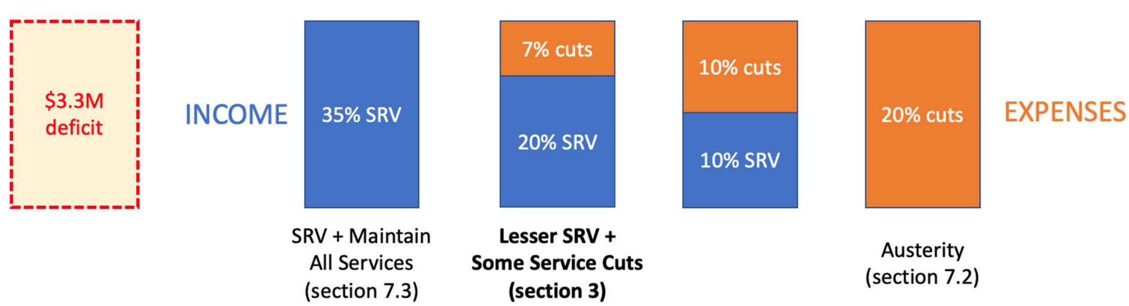



**Figure 4: potential combinations of SRV and savings to achieve a balanced budget in the general fund.**

Waste management charges are assumed to increase by 2.5% p.a., but this may change, depending on strategic decisions informed by the Waste Strategy Council is preparing. A key issue is the mandate on FOGO (food and garden waste) processing by 2030, which is expected to increase costs. The Waste Strategy will inform future revisions of this LTFP.

### User fees and charges

When 'user fees and charges' is seen simply as a total amount in the budget (as in Figure 1) it may appear this is an area where Council has an opportunity to increase its income by adopting more of a "user pays" philosophy. In reality the income sources making up this total are a real 'mixed bag', and most of them have some degree of constraint to increases.

In the first year 2022/23, Council is proposing to increase user fees and charges by an average of 5%. While it is considered unlikely that Council will make a big impact on its general fund deficit via user fees and charges, Council is assuming a 2.5% average increase over 10 years, however it is anticipated that community engagement (discussed in section 3.5) will explore a slightly larger shift of responsibility onto users of services rather than the general ratepayer.

The figure below summarises the main sources of user fees and user charges (in 2023 budget) together with other income for these areas, plus the expenses.

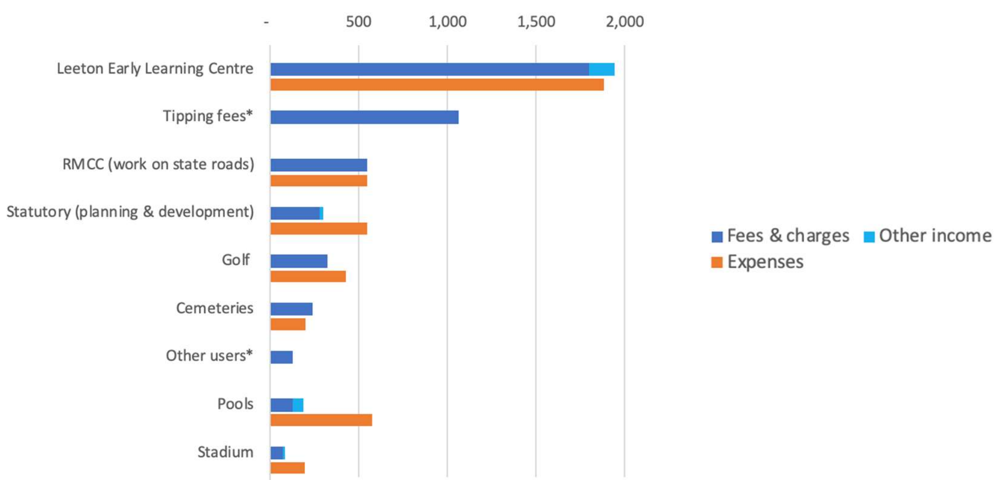



**Figure 5: main sources of user fees and charges in general fund**
*This only includes gate fees. Expenses for waste management have not been added to this graph as there are several other income sources that help contribute to the cost of running services.

Comments about income streams, and potential constraints on increases:

- LELC currently 'pays for itself' in that its income covers its direct expenses plus an amount to cover Council's administrative support costs. Council considers LELC a business unit that needs to pay its own way without ratepayer subsidy.
- Tipping fees at Council's landfill are proposed in the 2023 budget. Council recognises its landfill charges are lower than surrounding councils. This will also be further considered in the context of a new Waste Strategy
- The Road Maintenance Council Contract (RMCC) with Transport for NSW for work on state roads is specifically on a 'cost recovery' basis (no 'profit margin' is permitted,

although an allowance for overheads effectively helps Council in terms of economies of scale). Income generally depends on works ordered by TfNSW on Irrigation Way.
- Statutory fees and charges (e.g. development applications, building inspections) are set by NSW Government. Council is not able to increase them further. The revenue generated does not cover the cost of the service.
- Decisions about increasing income from the golf course, cemeteries, pools, stadium and other user groups needs to strike the appropriate balance between equity of access to community facilities and covering the cost of providing those facilities. This will be a matter for Council to consider and assess as part of community engagement, as discussed in section 3.5).

### Interest and investments

As can be seen in Figure 3, Council's general fund reserves peaked at $25M in 2020 and are forecast to dip to around $10M in 2025 due to a combination of the operating deficit and capital works, but then climb back to $21M by 2032.

The lower reserve *balance*, together with a drop in the interest *rate* means that Council's income from interest on its investments has decreased three fold in recent years (from $0.9M p.a. to $0.3M). This is contributing to the current operating deficit. As Council's reserves rebuild in later years, interest on these will help reduce the deficit.

Interest rates have been assumed to start at 2.2% p.a. in 2024 and increase to 4.2% p.a. 10 years. Actual increases may prove better than this. Reserve balances depend on spending.

### Other revenues and other income

Historically, Council has generated $0.6M to $1.2M from what is accounted for as 'other revenues' and a variable amount in what is accounted for as 'other income'.

The largest single item of 'other revenues' for many years is sale of investment water (distinct from the town water supply, accounted for in the water fund – see section 5). However, given the variability of the market (returns have varied from $75k to $750k in the last 5 years) and water allocations, an average of $50k p.a. has been assumed in the 'base case' forecasts. Water sales is simply not a reliable income source.

Other revenues also include income from fines, levies, rebates, etc.

'Other income' includes gains from asset sales in some years but the majority is rent from Council properties (around $300k p.a.). This was previously accounted as 'other revenues' but has now been separated out in the LTFP as 'other income'.

It is assumed that the basic ongoing amounts for both other revenues and other income will increase by 2.5% p.a. for the 10 years.

### Grants and contributions

The major *ongoing* grants and contributions for operational purposes, together with assumptions about trends over time, are summarised in the table below.

| Source | $M | Forecasts and comments |
|---|---|---|
| Financial Assistance Grants | 4.6 | Forecast to continue, but could drop or not be indexed (see sensitivity and risk analysis, section 6) |
| Roads to Recovery | 1.0 | Forecast to continue, but could drop or not be indexed |
| Regional Roads | 0.4 | Block and Repair Grants. Forecast to continue. |
| Community services operating grants & contributions | 0.5 | Includes grants/contributions (from users and govt) for child care, libraries, environmental weeds, developer contributions (including donated assets), etc. Limited opportunity to increase. Basically used to fund service delivery, so if grants/contributions ceased so would expenditure on delivery, unless Council funded it internally |
| **TOTAL (approx.)** | **6.5** | |

**Table 5: summary of ongoing operating grants and contributions for general fund**

Council often receives various 'one off' grants for specific operational projects, too. These vary considerably, and will generally be associated with additional expenses, so the net impact on Council's financial performance is negligible.

Historically, total operating grants reached highs of $8.5M in 2017 and 2021, and a low of $5.2M in 2019. The 2023 budget figure of $6.15M has been adopted for forecasting, with a 2.5% p.a. index. The analysis in the table above suggests the actual amount may be higher.

The sensitivity and risk analysis in section 6 explores the implications of an 'austerity' approach by other levels of government (i.e. reductions in grants to councils). If governments choose to 'freeze' grants that have become a routine part of Council's operating revenues, this will contribute to further challenging Council's financial sustainability of its general fund.

Grants and contributions for capital purposes are discussed in section 3.3.

### Potential dividends from water supply and sewerage businesses

Under the Local Government Act, councils are permitted to pay a dividend from their utility businesses to their general fund if they have satisfied a list of specified requirements, *and* if those funds have sufficient financial capacity to do so.

If Council was able to pay this dividend, the upper limit is around $30/assessment for each fund, which works out to around $130k p.a. for water and $100k p.a. for sewer.

Sections 4 and 5 show that Council's water and sewer funds are relatively healthy (more so than the general fund), so there may be scope to pay a dividend. However, Council would also need to satisfy other requirements (e.g. forward planning for renewals and capital works and various policies) before being allowed to pay a dividend.

There are, arguably, a few other issues for Council to consider first in the context of immediate challenges in general fund, e.g., ensuring Council accounts appropriately for the internal services (administration, finance, HR, governance, engineering, etc.) delivered 'to' its water and sewer businesses via the allocation of overheads to those businesses. This will be part of the internal service reviews (in section 3.5).

## 3.2 Expenses

### Employee benefits and oncosts

Given that employee benefits and oncosts make up large portion (38%) of overall expenses (Figure 1), savings here will be a key consideration in the strategy to reduce Council's operating deficit, if it wants to avoid relying 'too much' on a Special Rate Variation.

Costs include wages/salaries, leave entitlements, superannuation and related expenses such as worker's compensation insurance, personal protective equipment, and training.

Full-time equivalent employee (FTE) numbers have increased in the past few years because Council has allocated additional resources to a number of functional areas, in response to:

- **community priorities** including:
  - economic development
  - cultural and recreational facilities and programs (Leeton Aquatic Centre, Roxy Theatre, Leeton Museum and Art Gallery, Art Deco Festival)
  - increased road maintenance
  - customer service
- **corporate risks, regulation, compliance and improvement** including:
  - project management
  - work health and safety
  - governance
  - record management
  - people management
  - procurement
  - Smart technology, telemetry, IT and cyber security
  - Children's services (educator to child ratios at Leeton Early Learning Centre)
  - Environmental
  - Internal audit and improvement.

The figure below shows trends in the number of FTEs and employee costs (indexed to 2022 dollars so comparisons are 'apples and apples'). Over the past 5 years, employee costs have increased by $1.0M or 12% in real terms over and above increases associated with the award and superannuation, equivalent to 2.2% p.a.). This is one of the main contributors to Council's current operating deficit (along with materials and depreciation).

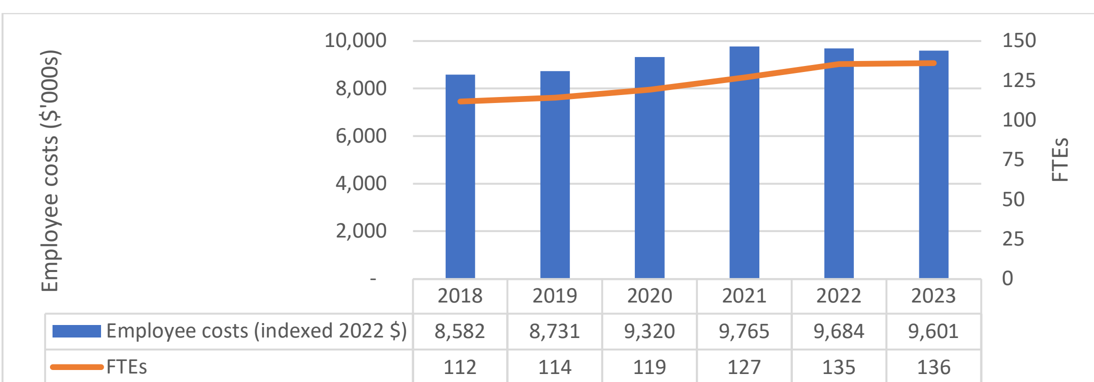



**Figure 6: trends in Full Time Equivalent staff (FTEs) and employee costs**

*Notes:*

1. *To enable 'apples and apples' comparisons between costs in each year, costs in earlier years have been increased by a percentage equal to the State Award + super guarantee levy increases over intervening period (average 2% p.a. for the Award + 0.5% for super for 2020-2023).*
2. *This data differs from FTEs reported in financial statements (which is only on a consolidated basis). Both reports (this one, and in financial statements) rely on internal analysis: they are indicative only.*
3. *2022 is average of 2021 + 2023 (Quarterly Budget Review has a higher figure for employee budget).*

In considering whether Council's staffing numbers are appropriate, Council's FTEs have been compared to other councils of a similar size. The only publicly available data on employee numbers in NSW councils is on a consolidated basis (i.e. including water and sewer funds *in addition to* general fund). Leeton has 21 staff directly employed in the water supply and sewerage area (numbers here have been fairly stable).

The figure below shows the relationship between employee numbers (on a consolidated basis) and population of the local government area. There is a clear link between the two, which is likely explained by the economies of scale realised in larger population centres. The trend line plots FTE numbers for a 'typical' council serving a given population.

**As can be seen, Leeton (in red) sits on the trend line. This suggests that, even after the growth in FTEs in recent years, FTEs are comparable to a 'typical' council of Leeton's size. In other words, Council doesn't appear to be 'overstaffed'.**

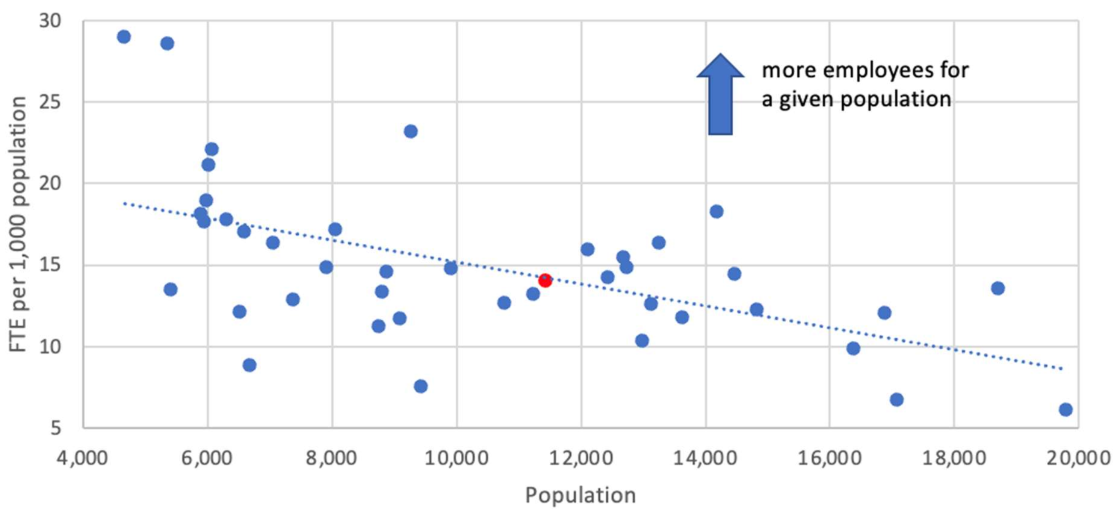



**Figure 7: relationship between FTEs (consolidated basis) and population for group 10 and 11 councils**
*Data source: OLG, 2020, for group 10 and 11 councils ('large rural' councils under/over 10,000 population).*

In making such comparisons, it is important to note that:

- there are some factors that will mean Leeton will naturally need more staff: e.g., Council is responsible for water supply (11 staff) and childcare services (23 staff); these two areas alone represent 20% of total FTEs; Council also staffs its pools and waste centres with its own employees, not contractors and
- other factors that will have the opposite effect (e.g., the small footprint of the Shire and therefore smaller rural road network and few outlying villages to service).

**Above all, it is vital to recognise there is no 'right' number of staff.** The number of employees Council needs will be determined by the services it provides, their productivity and efficiency, its resourcing strategy (e.g. mix of staff versus contractors) and the expectations of the community.  The key issue for Council is to be clear about current costs and monitor changes over time.

For the purposes of this 'Lesser SRV + Some Service Cuts' scenario, is assumed that employee costs will:

- start at $9.6M in 2023 (this is equivalent to 2021 actuals + 1.6% p.a. x 2 years)
- be limited to 0.5% p.a. in 2024-7 and
- increase by 2% p.a. in 2028-32 (equal to average award increases for last 5 years).

Given that employee costs will increase by 2% p.a. with the award, plus 0.5% p.a. each year until 2025 due to the increased superannuation guarantee levy, the 0.5% p.a. index represents a reduction in employee costs in real terms of around $0.7M p.a. (7%) by 2027 compared to the 'Head in the Sand' scenario in section 7.1.

There are several issues Council needs to bear in mind when contemplating such a program.

Firstly, it is unrealistic to expect savings of this magnitude to be realised via productivity and efficiency gains alone.  Council will need to make conscious decisions to reduce expectations for service delivery (informed by community engagement, as discussed in section 3.5), or it will risk burning out its remaining staff who will be left to try to 'do more with less'.

Secondly, Council needs to carefully manage any change in order to avoid discouraging innovation and efficiency/productivity gains. If staff see the consequences of such initiatives being the reduction in FTEs, there may be less motivation to pursue improvements.  Staff should be made aware the 'Head in the Sand' scenario is a genuine concern (if Council took this path, it would get to the point where it needs to take drastic action to contain costs).

Thirdly, savings arising from productivity and efficiency gains, or service level reductions, are only 'banked' when resources are reduced (FTEs drop, or other costs reduce, e.g., savings on workers compensation premiums), not when an efficiency gain is realised, and Council re-invests the resources that are freed up in delivering better services.

The challenges associated with these issues are why it is proposed that improvements to Council's financial sustainability are undertaken over a longer period (2024 to 2027).

Given that Council's turnover rate is around 10-11% p.a. it may be possible for Council to realise ('bank') savings via natural attrition (not replacing/redesigning positions when they become vacant), noting that this will require structural changes from time to time as service reductions will need to be specifically targeted, not just introduced in response to vacancies.

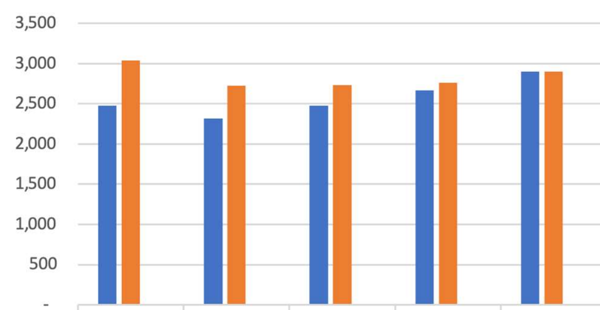
It is important to recognise there are a number of factors other than 'raw' employee numbers (FTEs) that will influence changes in employee costs:

- State Award increases (2% in July 2022 and beyond that subject to new Award negotiations)
- Superannuation guarantee levy (+0.5% p.a. until 2025, i.e. 2% p.a. total on current)
- Employees progressing through salary steps
- Re-evaluation of positions (changing pay rates)
- Span of control / structure (number of employees per manager)

- Redundancy and termination payments
- Management of outstanding leave (as discussed below)
- Amount of overtime (as discussed below)
- Training programs
- Investment in safety programs
- Workers' compensation performance (number and severity of injuries, and rehabilitation), which impacts insurance costs (Council is currently at the 'cap' for premiums now and its ageing workforce means this will be an ongoing challenge).

There are several metrics that will be helpful for Council to monitor to support its efforts to contain employee costs.

Firstly, outstanding leave liability (the value of leave owed to staff including long service and annual leave, which is reported in the annual financial statements). Changes over the last 5 years are shown in the figure below. While the 'raw' numbers appeared to indicate liabilities were building up over time, once the increases associated with the award and super guarantee were included, and also the growth in FTEs, there has been far less change. The drop in 2018 is probably due to the high turnover rate (18%), which would have resulted in pay out of leave on exit. The growth in 2021 is understandable due to COVID.




| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| ELE provision (raw numbers) | 2,474 | 2,317 | 2,479 | 2,666 | 2,898 |
| Exc. award + super & FTE increases | 3,038 | 2,726 | 2,733 | 2,765 | 2,898 |
| Change | | -10% | +0% | +1% | +5% |

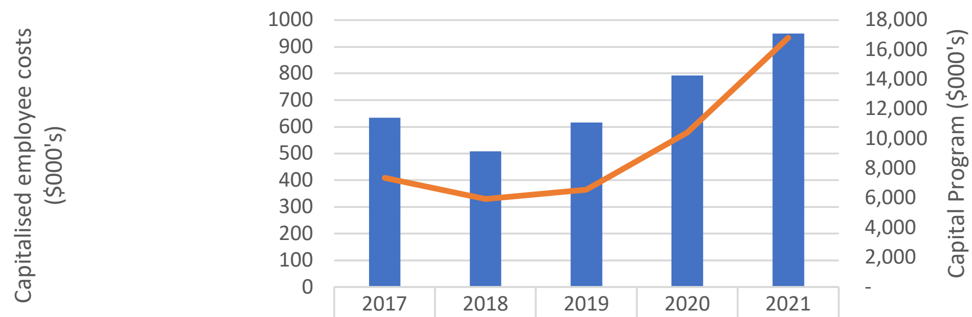
**Figure 8: trends in employee leave entitlements provision**

Council is actively managing leave, recognising that a growth in employee leave entitlements may be of concern from the perspectives of:

- Health and wellbeing of employees (leave is provided for a reason)
- Additional costs associated with progression through the salary system and award increases (e.g., leave is accrued at a pay rate of $10/hr and paid out at $20/hr).

The second metric to monitor over time is the amount of employee costs capitalised. In a perfect world Council will match its resources to its program perfectly, but in reality, there is a movement between operations and capital works depending on resourcing priorities.

The figure below (which is consolidated, including water and sewer, not just general fund) suggests there is a correlation between capitalised labour costs and the capital program.




| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Capitalised employee costs | 634 | 509 | 616 | 793 | 949 |
| Capital works program | 7,348 | 5,933 | 6,570 | 10,442 | 16,817 |

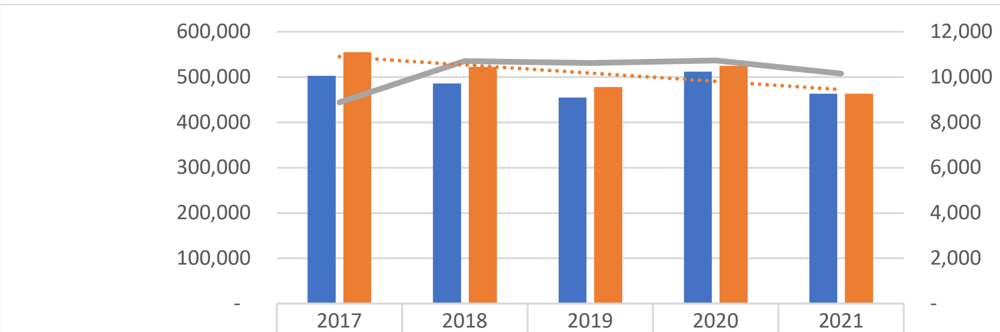
**Figure 9: History of capitalised employee costs and capital works program (consolidated basis)**

There are opportunities to improve the meaningfulness of this chart: 1. distinguish general fund only, and also within general fund (e.g. focus on roads crews); 2. eliminate the inclusion of capital works undertaken by contractors; 3. include construction works on state roads and other assets not owned by Council (which aren't capitalise).

The key issue here is that Council needs to manage its resources carefully. Specifically, to avoid building up resources to deliver a 'peak' capital works program, but then to have these resources move back to operational areas in a 'quiet' year (increasing costs, working against Council's efforts to reduce expenses). Now that Council has a longer term works program (in the Strategic Asset Management Plan) it can develop a more robust workforce strategy to match its capital works requirements with employee numbers.

An increase or decrease in capitalised costs relative to the capital works program isn't necessary good or bad – instead (like most measures that Council needs to monitor) it should be viewed as a way of better understanding what's going on in the business.

The final item suggested here to be monitored is the amount of overtime paid out each year and/or the hours of overtime worked. Again, the figures are on a consolidated basis, but have been adjusted to 2022 $ by increasing earlier years to account for award + super increases.




| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Overtime (raw $) | 502,907 | 485,488 | 455,200 | 511,996 | 463,306 |
| Overtime (2022 $) | 555,116 | 522,818 | 478,244 | 524,796 | 463,306 |
| Overtime hours | 8,891 | 10,711 | 10,628 | 10,735 | 10,149 |

**Figure 10: History of overtime (consolidated basis)**

While numbers were stable for some time (and COVID related activities, e.g. cleaning, tended to increase it), the hours have started to trend down in the last year. An initiative that Council has introduced during 2022 is an afterhours customer service system which triages customer requests so that only urgent / critical requests are responded to afterhours and routine requests are followed up on working days.

A drop in overtime isn't necessarily a good thing. As with capitalisation, Council needs to avoid resourcing for the peaks. Overtime is a good way to cover the peaks. It also needs to be remembered that while staff get paid extra for overtime, Council doesn't actually pay much more (e.g. superannuation isn't calculated on overtime, only to normal hours).

As with the other metrics, the downward trend in overtime isn't necessarily good or bad, rather it is an opportunity to ask questions.

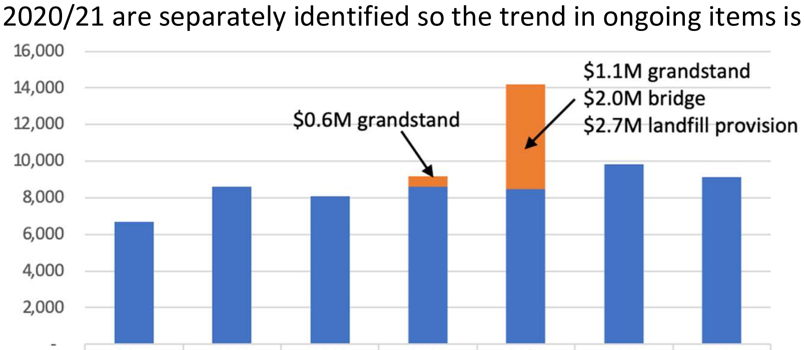
### Materials and services + other expenses

Historic analysis and future forecasts of 'materials and services' are complicated by a change in the code of accounting in 2022. This moved most 'other expenses' to what was 'materials and contracts' and is now 'materials and services'. For simplicity, all such expenses are considered together in this LTFP. Appendix 1 has the details as per the financial statements.

As noted in Figure 1, materials and services + other expenses make up large portion (36% + 2%) of Council's overall expenses. This includes:

- Raw materials and consumables such as bitumen and gravel for road maintenance, materials for repairs and maintenance of facilities (buildings and open spaces)
- Fuel and spares for plant operations
- Electricity, telecommunications, water, sewerage and rates on Council properties as well as streetlighting costs
- Contractors (e.g. waste collection, some road and facilities maintenance, cleaning)
- Consultants, auditors and legal expenses
- Advertising, banking, office expenses
- Subscriptions, licences and permits, and
- Councillor expenses.

Trends in the expenses listed above are shown overall in the figure below (blue columns). 'One off' items in 2020/21 are separately identified so the trend in ongoing items is clearer.




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| One offs | - | - | - | 551 | 5,717 | | |
| Materials + other exp. | 6,673 | 8,626 | 8,082 | 8,610 | 8,473 | 9,847 | 9,144 |
| TOTAL | **6,673** | **8,626** | **8,082** | **9,161** | **14,190** | **9,847** | **9,144** |

**Figure 11: trends in materials and services + other expenses (including one-offs)**

As can be seen, once 'one off' items are excluded, 'ongoing' expenses were relatively stable ($8M to $8.5M) between 2018 and 2021 but increased by $1.5M or so in 2022 (to $9.8M) before dropping back to $9.1M in the 2023 budget ($0.5-0.6M more than historic trend). This is one of the main contributors to the deficit (alongside employees and depreciation).

The internal service review process outlined in section 3.5 will examine these changes in more detail in relation to individual functions and also consider the relationship between these expenses and service levels.

Along with employee costs, materials and services is the main area Council can influence to reduce its operating deficit over time. This might be through savings in procurement (joint purchasing, changes to methods), by doing more in-house (without increasing employee costs) and/or by varying service levels (doing less overall).

For this 'Lower SRV + Some Service Cuts' scenario, it is assumed materials and services will:

- Increase by only 0.25% p.a. in 2024-5, 0.5% p.a. in 2026-7 and then
- Increase by 2.5% p.a. for the period 2028-2032.

This is a decrease of close to $1M (10%) by 2027 compared to the 'Head in the Sand' scenario (section 7.1), which assumes continued increases of 2.5% p.a.

It is important to note, though, that Council can't influence the 'other expenses' in the same way. One of the main items is contributions to other levels of government (RFS, SES and NSW Fire Brigades). These were proposed to increase considerably last year, but the NSW Government reversed its decision to do so in response to lobbying from local government. Note: Council does receive some grants for RFS offsetting these contributions.

The other main item in 'other expenses' is $30-50k p.a. donations to community groups. This is not considered high for a population of 11,500 residents that has over 200 groups servicing the community across a range of sporting, cultural, health and wellbeing type services.

It is assumed other expenses will increase by 2.5% p.a. over the next 10 years.

### Depreciation

Depreciation is sometimes dismissed as unimportant as it isn't a 'cash' expense, but it is fundamental to sound financial management. It represents the 'cost of asset consumption'.

**Depreciation is best understood as *the means by which Council generates cash to fund work on infrastructure and other assets* in the context of a balanced budget:**

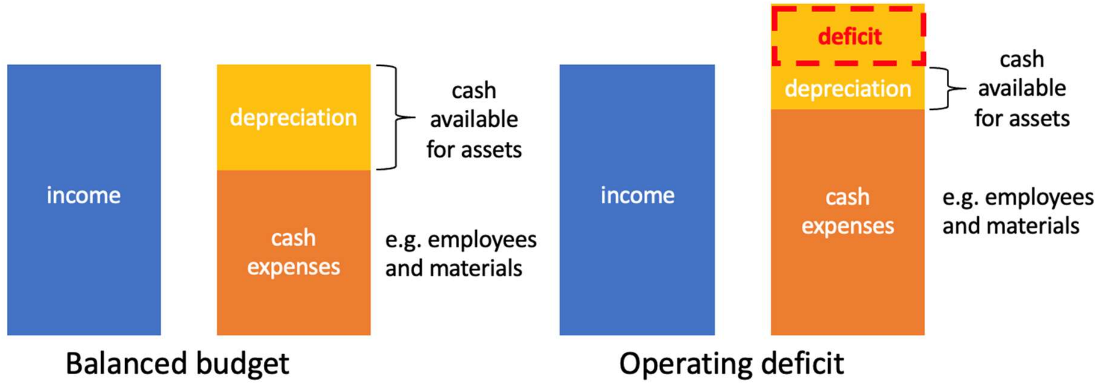



**Figure 12: Why depreciation can be understood as the means of generating cash for work on assets**

Ongoing operating deficits mean Council will have enough income to cover its cash expenses (employees, materials, etc.) but not its depreciation, so it may struggle to afford to invest what it needs to in its assets (capital works, e.g., renew a road in poor condition).

It is important to note, though, that infrastructure investment needs vary considerably over time (as discussed in section 3.3).

Consequently, cash generated 'from' depreciation won't necessarily be spent in the year Council receives it.  Works on Council's assets are financed in 3 ways:

- *after* the income is received, which means Council will keep it in a **reserve** until it is needed
- *at the same time* as the **income** is received (current year income, including grants)
- *before* the income is received, so Council will need to **borrow** to pay for the works, and then repay the loan as income comes in over time.

The other side of this issue is that Council needs to ensure its depreciation expenses are reasonable (not too high or too low).  This will be reviewed as part of the service review process (section 3.5).  Reasonable estimates are important in terms of:

- achieving intergenerational equity (so the current generation pays for the cost of its services, including infrastructure – not too much or too little, and future generations also pay their fair share of the costs of built services).
- financial sustainability (so Council is confident it will have sufficient money available when it needs it – either as cash reserves or as the capacity to repay borrowings).

As can be seen in the figure below, depreciation expenses have increased considerably in recent years.  The $1M (20%) jump in 2021 was due to the revaluation of Council's largest asset class, transport, which make up 82% of general fund assets in terms of replacement value and 57% in terms of depreciation expenses.

The increases budgeted in 2022 and 2023 are largely associated with investments in new or upgraded assets (such as the Leeton Aquatic Centre, Chelmsford Place Town Square and the Roxy Theatre).

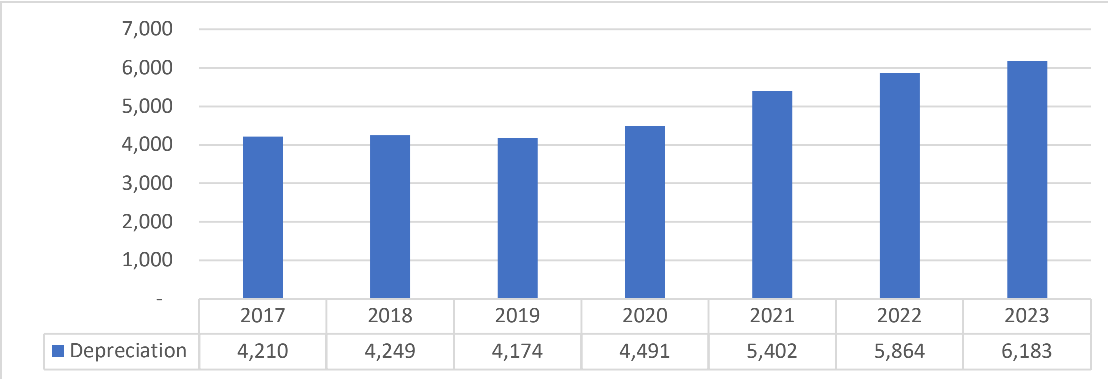



**Figure 13: trends in depreciation over time**

It is important to note that Council has in recent years started to use external consultants (valuers) to undertake these assessments (of asset values and service lives) in accordance with best practice.  Valuers consult council staff when they do their valuations so that local knowledge is considered and the final assessments must be signed off by the NSW Auditor General.

The questions surrounding depreciation are a strong argument for investing adequately in Council’s asset management systems so Council is confident of their accuracy.  The scale of depreciation is also a good argument to invest adequately in activities to prolong the life of existing assets (especially resealing of sealed roads) as longer life = lower depreciation.

It is only assumed that depreciation will increase by 2% p.a. for the next 10 years.  This is likely to prove optimistic, particularly given that:

- Council is planning to build a number of new or upgraded assets and
- Anecdotal evidence is that the index for construction of roads (which make up half of depreciation in the general fund) as well as buildings and drainage (which make up the majority of the remainder) are above inflation generally due to market forces.

Council’s ARIC Committee has suggested that depreciation seems to be over-inflated and needs to be reviewed.  Depreciation is something that Council needs to monitor over time and also review via the internal service reviews and the revaluation process.

### Interest on loans

Council’s current and proposed loans, including assumed interest rates (and so the operating expense associated with these), are detailed in section 3.4.

## 3.3 Investment in Infrastructure and Other Assets (+ Asset Sales)

As noted in section 2, responsible and sustainable infrastructure investment is one of Council's primary financial sustainability objectives.

The Strategic Asset Management Plan (SAMP) is the primary document to guide Council's pursuit of this objective, but it is critical that the numbers in the SAMP align with those in this LTFP and Council's other IP&R documents. The table below explains the level of detail for capital works planning in each document, and how the figures in each are related.

| Document | Level of detail provided |
|---|---|
| Strategic Asset Management Plan | Total capital works program set out in section 3.1. Includes amounts for each *asset class* (e.g. transport, buildings, plant) and *programs* within these (e.g. unsealed roads within transport). Major *projects* may also be identified. Figures are current year $ |
| Long Term Financial Plan | Total capital works from SAMP shown as 'capital works' in Figure 3 above, and in Appendix 1 in the cashflow statement (at 'purchase of infrastructure, property, plant and equipment). Figures are indexed (so they differ from those in the SAMP). |
| Delivery Program (financial forecasts) | Similar level of detail to what is in the SAMP, numbers align with years 1-3 of the LTFP. Figures are indexed. |
| Operational Plan (annual budget) | Total of capital works equals total for year 1 of SAMP. Individual *projects* within each *program* identified in the SAMP are identified. Only current year projects are 'locked in'. Projects for future years may be listed for information but are subject to change. Unfunded projects may be included to guide grant applications. |

**Table 6: Alignment between financial information in IP&R documents**

A significant uncertainty in preparing this LTFP is the amount of works forecast to be carried over from the 2022 financial year to 2023. At this stage, it has been estimated that $14.9M of the $23.6M of projects in the 2022 capital works program for general fund will be carried over (i.e. only $8.7M will be completed). This means the $14.9M will be added to the $9.6M budgeted in 2023 (total $24.5M). It is estimated this includes around $6M in renewals, with the remainder being upgrades and new assets.

### Performance against infrastructure investment benchmarks (asset renewals)

As noted in section 2, OLG prescribes several performance measures councils must report on in their annual financial statements. One of these is the *Building and Asset Renewals Ratio,* which compares asset renewal expenditure to depreciation (the benchmark being > 100%, i.e. councils should spend equal to, or more than depreciation on asset renewals).

Based on the amounts in the SAMP and this LTFP, Council will <u>not</u> meet this ratio over the next 10 years, however, the ratio is not considered an appropriate measure where a council has undertaken robust asset management planning. The calculations for performance against the ratio are shown below.

As noted above, it is estimated there is an additional $6M in asset renewals to carry over from the 2022 budget. This would increase 10 year renewals to $54M (renewal ratio 89%).

| | |
|---|---|
| 10 year capital works program (section 3.1 of SAMP) | $60.1M |
| Less funds earmarked for new assets and/or upgrades | -$12.2M |
| **Renewal funding forecast for 10 years** | **$47.9M** |
| Depreciation expenses for 10 years ($6.1M p.a. x 10 years) | $61M |
| ***Building and Infrastructure Asset Renewals Ratio* (10 years)** | **78%** |

**Table 7: 10 year Building and Infrastructure Renewals Ratio calculation for general fund**

In section 5 of the SAMP, it is explained why Council considers this OLG benchmark to be inappropriate. In summary, Council should spend *what is required* (as forecast in the SAMP) not an amount equal to depreciation on asset renewals. Doing what is required is most certainly Council's objective (refer section 2). Since Council's assets are in relatively good condition, Council currently only needs to spend an amount less than depreciation.

It is important to recognise, however, that this means Council is likely to need to spend *more* than depreciation in future years as assets currently in good condition deteriorate. For this reason, Council must maintain adequate reserves and/or borrowing capacity. Figure 3 shows this is what is forecast to happen: Council's reserves will drop below $10M in 2025 (as it invests heavily capital projects, and also due to the operating deficit), but the reserves will build up again to over $20M in 2032.

So long as depreciation estimates are accurate, Council should expect that it will need to spend those reserves beyond 10 years renewing assets that are in good condition now. If Council *doesn't* build up these reserves over the next 10 years, future generations are likely to be faced with larger rate increases and/or service cuts to pay for the higher level of renewals required at that time. **This is what intergenerational equity is all about.**

### Capital grants

Council relies on a range of ongoing grants to help fund its asset-related activities. These ongoing grants are identified in section 3.1 of this LTFP.

Council also relies on specific one-off grants to help fund some projects. These are identified in the 'specific grants' (far left) column of the capital works program in section 3.1 of the SAMP for the full 10 years. The table below explains which projects they relate to. Note that these projects are not yet confirmed by Council as proceeding (indicative only).

| Capital works program | Specific grants Confirmed (C) / Unconfirmed (U) | Project |
|---|---|---|
| Local road upgrades | $1.75M (U) | Eurolly Road widening (50%) 2027 |
| Stadium | $1M (U) | Leeton Stadium expansion (50%) 2027 |
| Caravan Parks | $1M (U) | Gogeldrie Weir redevelopment (66%) 2026 (additional to work in 2023 budget) |

**Table 8: Forecast capital grants over 10 years for general fund**

These grants are shown at 'capital grants' in the income statement and 'grants and contributions' in the cashflow statement in Appendix 1. If the unconfirmed grants are not secured, the projects they relate to may not proceed unless Council resolves to fund them by other means, at which time this LTFP should be reviewed.

Council will also pursue additional capital grant opportunities as and when they arise, with a focus on asset renewals and priority projects (as noted in the objective in section 2).

Note that the capital grants in 2023 include an additional amount over and above what is in the 2023 budget considering the carry over works from 2022 (as discussed in section 3.3).

### Asset Sales

The 2023 capital works program includes $4M for development of Vance Industrial Estate. It is assumed that Council will sell this off over the period 2025-2032 at a rate of $500k p.a. (effectively paying back the $4M investment).

No other asset sales are proposed at this time, although internal service reviews (discussed in section 3.5) will seek opportunities to do so as part of that process.

One possibility of another asset sale is developing Brobenah Dog Park into housing estate and selling off the blocks at a profit.  Council will need to invest capital up front for infrastructure to service the blocks.

## 3.4 Reserves and Borrowing

As noted in section 2, one of Council's primary financial sustainability objectives is maintaining adequate cash reserves and use borrowings where required to supplement this. The two are closely related:

- Council builds up **cash reserves** when it receives income *ahead of* time compared to expenditure outlays
- Council utilises **borrowings** as a way of overcoming "timing mismatches" [6] where outlays need to occur *before the time* it receives income to pay for these.

The following sections outline key issues in relation to reserves and borrowing.

### Cash reserves

Council had almost $47M in reserves across the water, sewer and general funds as at 30 June 2021 (as noted in section 3.3, the capital works in the 2022 budget to be carried over is uncertain; this will impact reserves, hence 2021 is adopted as the starting point).

The table below summarises these. There are 3 main types:

- *externally restricted* (legislation restricts what Council can spend these funds on)
- *internally restricted* (Council has resolved to restrict the funds for specific things)
- *unrestricted* (cash available to spend on anything, in accord with Council's budget)

| Reserve type | Details | $000's |
|---|---|---|
| **Total funds** (all cash, investments and cash equivalents) | | **46,982** |
| Externally restricted (water and sewer) | Funds within the water and sewer funds e.g. reserves and headworks developer contributions | -26,569 |
| Externally restricted (general fund) | Funds in the general fund, use restricted by legislation (e.g. domestic waste management, stormwater levy, developer contributions, unexpended grants) | -7,057 |
| **Total funds** (excluding external restrictions) | | **13,356** |
| Internal restrictions | Funds in the general fund, use restricted by resolution of council (e.g. employee leave entitlements, plant replacement, infrastructure, buildings, etc.) | -11,417 |
| **Total unrestricted funds** (available for allocation to any purpose) | | **1,939** |

**Table 9: Summary of reserves with external and internal restrictions**

Council can, by resolution, vary its internal restrictions at any time. **In other words, the $13,356,000 above is available for Council to allocate to any operational or capital activity**. This is why the *Unrestricted Current Ratio* (one of the performance measures councils are required to report against in their annual financial statements) includes both 'unrestricted' and 'internally restricted' funds. Effectively, all such funds are 'unrestricted'.

In the past, like most councils, Leeton Shire Council has used internal restrictions as a substitute for strategic planning. This use dates back to the era of cash accounting and absence of long term planning. For example, Council previously set aside $2M for

[6] *Debt is not a Dirty Word,* page 2 (Comrie, 2014).

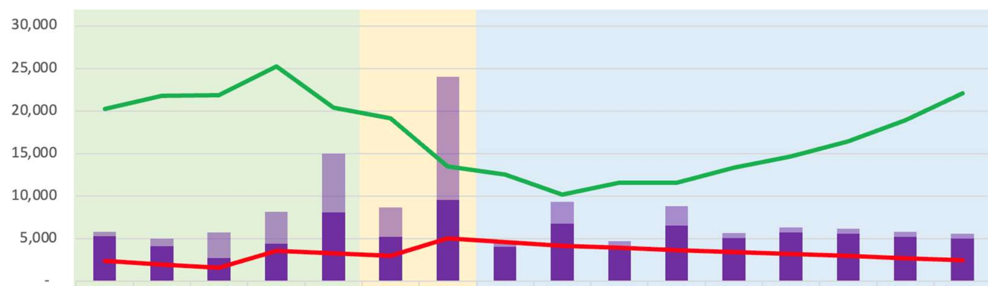
‘infrastructure replacement’ and last year added $100k for cemetery expansion as it anticipated it will need these funds in future.

Now that Council has an up-to-date SAMP (albeit in need of further refinement) and LTFP setting out what it *does* need into the future, there is good reason not to use reserves in this way.  Doing so confuses the strategic planning framework established in this LTFP and accompanying SAMP.

Instead of putting funds aside in ‘biscuit tins’ for specific purposes, Council needs to focus on forecasting what it intends to *spend* to achieve its objectives, and to ensure it has sufficient *funds* overall to cover these outlays (whether these funds be current year earnings including grants, cash reserves and/or borrowings if reserves are insufficient).

Figure 3 (from above, reproduced here for ease of reference) is a visual representation of this different approach to financial strategic planning:

- outlays for capital works (purple columns), can vary considerably from year to year, and often have grants (light purple top of column) to help fund them
- in addition to Council’s operating performance (from Figure 2), capital works and grants impact Council’s cash reserves (green line)
- Council then uses borrowings (red line) to supplement its cashflow so that its cash reserves don’t dip below a minimum ‘acceptable’ amount if required (as discussed further below)




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 470 | 895 | 2,983 | 3,713 | 6,883 | 3,455 | 14,510 | 523 | 2,536 | 549 | 2,313 | 576 | 591 | 606 | 621 | 636 |
| Capital works: LSC $ | 5,331 | 4,141 | 2,744 | 4,468 | 8,134 | 5,207 | 9,545 | 4,080 | 6,809 | 4,163 | 6,534 | 5,081 | 5,770 | 5,623 | 5,222 | 4,996 |
| Borrowings | 2,442 | 1,943 | 1,634 | 3,578 | 3,315 | 3,000 | 5,078 | 4,616 | 4,210 | 3,924 | 3,694 | 3,460 | 3,221 | 2,976 | 2,738 | 2,506 |
| Cash and investments | 20,267 | 21,761 | 21,886 | 25,257 | 20,413 | 19,176 | 13,490 | 12,516 | 10,211 | 11,620 | 11,621 | 13,349 | 14,655 | 16,405 | 18,924 | 22,052 |

Historic financial statements | Budgets | LTFP forecasts

**Figure 3: trends in capital works, grants and cash and investments (reserves) and borrowings in general fund**

Two issues perhaps need clarifying in the context of this change in the way Council utilises internal reserves.  Firstly, councils commonly hold **employee leave entitlements** (ELE) reserves.  Council had $1.3M in its ELE reserve as at 30 June 2021.  This is close to what it estimated would be settled in the next 12 months (as reported note C3-4 of the financial statements).  But if Council is managing employee leave appropriately (as discussed in section 3.1), then ‘what goes in’ should equal ‘what comes out’ (e.g. an employee accrues 4 weeks annual leave in a year, but they should also be taking 4 weeks leave).

A second issue relates to functions Council wants to treat as a ‘self funding business unit’ (e.g. Council already treats LELC this way and may like to work towards Gogeldrie Weir Riverside Park being a business unit).  It is less important to quarantine cash generated from LELC over and above its cash operating expenses (and only permit LELC to draw on this reserve, or to require it to borrow over and above this) than it is to ensure it achieves at least ‘break even’ operating performance including depreciation. So long as LELC does so, it is ‘paying its own way’. Any re-investment of funds by Council for capital works will be covered by depreciation.

There may be circumstances where Council does need to establish internal reserves for distinct operations, but for all such operations currently, internal reserves are unwarranted. A first step if Council does need/wish to do so is to ensure that these operations keep a distinct set of accounts.

## Borrowings

The table below lists existing loans in Council’s general fund.[7]

| Description | Loan % Rate | Final Payment Date | Principal 1 July 2022 | New Loans 2021/22 | New Loans 2022/23 | Total Loans 2022/23 | Annual Repayment | Principal Repayments | Interest Repayments | Principal Outstanding |
|---|---|---|---|---|---|---|---|---|---|---|
| **Community Servces** | | | | | | | | | | |
| LIRS 1 Loan - Community Multi-Purpose Centre | 5.52% | 19/09/2022 | 66,530 | | | | 68,362 | 66,530 | 1,831 | 0 |
| **Roads** | | | | | | | | | | |
| LIRS 2 Loan - Petersham Road Works | 4.85% | 18/08/2023 | 198,051 | | | | 138,483 | 130,418 | 8,065 | 67,633 |
| **Sporting Grounds and Facilities** | | | | | | | | | | |
| LIRS 3 Loan - Leeton Ovals Complex Dressing Shed Development | 4.34% | 22/07/2024 | 346,344 | | | | 124,345 | 110,560 | 13,785 | 235,783 |
| Showground Grandstand | 2.59% | 30/04/2030 | 163,903 | | | | 22,751 | 18,738 | 4,013 | 145,166 |
| Leeton Pool Refurbishment | 2.99% | 30/04/2040 | 2,076,106 | | | | 147,625 | 90,120 | 57,505 | 1,985,986 |
| **Existing Loans** | | | **2,850,934** | | | | **501,565** | **416,367** | **85,198** | **2,434,567** |

**Table 10: Summary of current borrowings**

As discussed in relation to depreciation (section 3.2) and cash reserves (above) it is best to think of borrowings simply as a means of supplementing a shortfall in cash reserves (i.e., Council should only borrow if it forecasts its cash reserves will drop below the minimum it determines it needs to have sufficient flexibility to overcome shocks). Further risk analysis on the minimum ‘comfortable’ level is required, but at this stage it is suggested that $5M of unrestricted and/or internally restricted funds should be sufficient as a minimum.

Current modelling (Figure 3 above) suggests that Council won’t drop below the $5M ‘minimum’ amount, so borrowing may not be required. *However,* this relies on Council achieving savings and increasing its income. If Council doesn’t do so, it may need to borrow to maintain sufficient cash. The 2022/23 budget includes new loans of $5.2M.

| Description | Loan % Rate | Final Payment Date | Principal 1 July 2022 | New Loans 2021/22 | New Loans 2022/23 | Total Loans 2022/23 | Annual Repayment | Principal Repayments | Interest Repayments | Principal Outstanding |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic Development** | | | | | | | | | | |
| Vance Estate Development | 4.77% | 1/05/2032 | | 1,400,000 | 0 | 1,400,000 | 88,833 | 57,619 | 28,000 | 1,342,381 |
| *Roxy Theatre | 4.77% | 1/05/2042 | | 1,131,100 | 1,868,900 | 3,000,000 | 190,357 | 49,667 | 60,000 | 2,950,333 |
| LELC | 4.77% | 1/05/2032 | | 500,000 | 0 | 300,000 | 19,036 | 12,347 | 6,000 | 287,653 |
| Gogelderie Caravan Park Cabins | 4.77% | 1/05/2032 | | 500,000 | 500,000 | 500,000 | 31,726 | 20,578 | 10,000 | 479,422 |
| **New Loans** | | | 0 | **3,531,100** | **2,368,900** | **5,200,000** | **329,952** | **140,212** | **104,000** | **5,059,788** |

**Table 11: Summary of proposed borrowings**

[7] The Local Government Regulation requires Council to include a statement of borrowings in the Revenue Policy (part of the Operational Plan) but this information is also included in this LTFP for completeness.

## 3.5 Options to Improve Financial Sustainability

As noted in section 2, exploring opportunities to improve the financial sustainability of its general fund, both internally and externally, is one of Council's key objectives.

### Opportunities to be explored internally (service reviews)

Council will explore opportunities to improve its financial sustainability internally via a program of service reviews. These will focus on:

- each of Council's functions as defined in its Delivery Program,
- specific principal activities within a particular function, and/or
- broader issues relevant to the organisation more generally (where similar issues arise in different functional areas).

Council's Delivery Program identifies the service reviews it currently intends to undertake. It is anticipated there will be additional reviews undertaken over Council's term, and particularly in preparation for community engagement (below) and for a revised LTFP.

**Service reviews will examine issues such as:**

- internal and external operating environment:
    - legislative obligations and other corporate risks
    - stakeholder needs and expectations
    - Council's role and organisation, alignment with other functions
- finances (trends in income and expenses in the past and forecasts for the future, true cost of service delivery, review of depreciation, capital works needs)
- resourcing (employees, materials and services, use of technology and management systems to support operations)
- performance monitoring, measurement and reporting (including benchmarking opportunities, while taking care to understand differences compared to others)
- relationship between service levels and cost of service delivery (to inform service level options to explore with the community, including asset rationalisation).

**Key outcomes of the service review process will include:**

- opportunities to improve productivity and efficiency, and to better manage risk
- options to vary levels of service, and the cost and risk implications of these
- options to vary current fees and charges (if any) and issues to consider.

Council will report on the outcomes of service reviews undertaken in its Annual Report, as required by the IP&R Guidelines mandated by OLG.

### Opportunities to be explored externally (community engagement)

Council will pursue opportunities to improve productivity and efficiency to improve its financial sustainability. This is the first 'outcome of service reviews' above.

The other 'outcomes' also need to be pursued, but **these will impact the community** either:

- specifically in relation to a **particular service** (via changes to service levels and/or user fees and charges, the second and third dot points in 'outcomes' above) or

- generally, in that *maintaining* current service levels (and, to a lesser extent, current fees and charges) across the board will mean that Council will need to pursue a **Special Rate Variation** to address its deficit.

**As such, it is vital that Council meaningfully engages with the community about the options to improve its financial sustainability that will affect them including:**

- **their priorities, in terms of the services Council delivers and**
- **their willingness to pay for these either:**
  - **specifically (via user fees and charges) or**
  - **generally (via a Special Rate Variation).**

The Community Engagement Strategy guiding this engagement will be developed soon. Council will be utilising a variety of methods to engage meaningfully including:

- generalised approaches (e.g. surveys, public meetings)
- more in-depth engagement (e.g. a 'community sounding board' who have an opportunity to learn more details, and to provide more robust, informed feedback)
- targeted engagement with specific user groups
- tailored approaches to ensure all voices have an opportunity to be heard.

The scenarios in section 7 are intended to help people picture what the 'extremes' of alternative options might look like:

- the 'Head in the Sand' scenario explains that Council will run short of cash, and need to cut services to maintain its liquidity, if it continues its current path
- the 'Austerity' scenario explains the scale of cuts that would be required to make Council financially sustainable without extra income from a Special Rate Variation
- the 'SRV + Maintain All Services' scenario explains the scale of Special Rate Variation to 'close the gap' without any cuts to services.

As discussed at the start of section 3, this 'Lesser SRV + Some Service Cuts' scenario takes the 'middle ground':

- reductions in operating expenses of 7% (employee costs + materials and services), around $1.5M p.a. (ideally via productivity and efficiency gains, but realistically, this will include a considerable amount of service cuts) and
- a 20% Special Rate Variation over 4 years, totalling $1.65M on top of the rate peg.

**While it is acknowledged that no one wants to pay more in rates, it is also expected that the community will be unwilling to accept significant service cuts. Council doesn't need to come up with 'the solution' now, but rather to meaningfully engage with the community about Council's current challenges and the community's aspirations for the future.**

But Council also needs to reinforce that it has an obligation under the NSW Local Government to adhere to the principles of sound financial management (the 'Head in the Sand' scenario in section 7.1 highlights that avoiding this issue is not an option anyway).

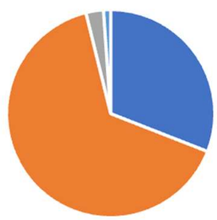
### Revising this LTFP

Once Council has explored its opportunities to improve financial sustainability, it intends to revise this LTFP and its Delivery Program covering the remainder of its term in office.

## 4. Water Fund

Council accounts for its water supply function as a separate business, as required by the NSW Local Government Act and National Competition Policy.

The figure below summarises the main operating revenues and expenses in the Income Statement for Council's 2022/23 budget, including the projected surplus of $268,000. This excludes $54,000 forecast to be received for capital grants and contributions.

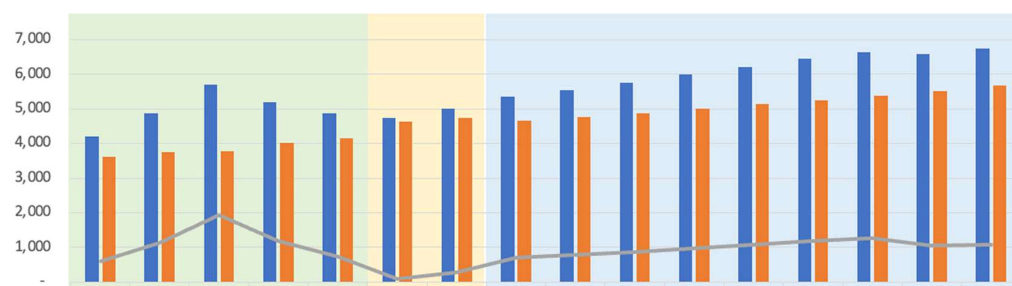


| | | |
|---|---|---|
| Rates and annual charges | 1,539,595 | 31% |
| Users charges and fees | 3,246,690 | 65% |
| Interest and investment revenue | 165,514 | 3% |
| Operating grants and contributions | - | 0% |
| Other revenues | 55,546 | 1% |
| Other income + net gain asset sales | - | 0% |
| *Capital grants and contributions* | *53,858* | |
| **Total Income (ex. capital grants)** | **5,007,345** | |

| | | |
|---|---|---|
| Employee benefits and on-costs | 1,673,216 | 35% |
| Borrowing costs | - | 0% |
| Materials and contracts | 1,597,995 | 34% |
| Depreciation and amortisation | 1,467,545 | 31% |
| Other expenses | - | 0% |
| Net loss asset sales | - | 0% |
| **Total Expenses** | **4,738,756** | |
| **Operating Surplus (ex capital grants)** | **268,589** | **5%** |

**Figure 14: key income and expense items in 2022/23 water fund budget**

A surplus of this size (5% of total revenues) should give some confidence the water fund is sustainable. But it is important to put this in perspective with a longer term view in the figure below.



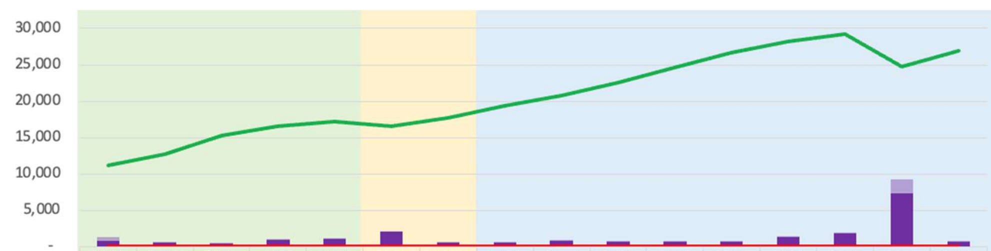

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 4,212 | 4,872 | 5,691 | 5,196 | 4,879 | 4,727 | 5,009 | 5,347 | 5,544 | 5,756 | 5,979 | 6,213 | 6,434 | 6,644 | 6,571 | 6,733 |
| Expenses | 3,617 | 3,738 | 3,767 | 4,006 | 4,157 | 4,635 | 4,738 | 4,644 | 4,760 | 4,879 | 5,001 | 5,126 | 5,254 | 5,386 | 5,520 | 5,658 |
| Operating Result | 595 | 1,134 | 1,924 | 1,190 | 722 | 92 | 271 | 702 | 784 | 877 | 978 | 1,086 | 1,179 | 1,259 | 1,051 | 1,075 |
| | Historic financial statements | | | | | Budgets | | Forecast in LTFP | | | | | | | | |

**Figure 15: trends in income, expenses and operating result in water fund**

In summary, the 'story' that can be told with Figure 2 and some historic context is:

- Historically, the water fund performed strongly (often, with 20%+ surplus)
- Council's **income** (blue columns) increased considerably in 2019 due to higher water usage (contributing factors are likely to include weather, but possibly also the installation of new water meters throughout the Shire, with consumers subsequently choosing to reduce their consumption to reduce their bills)
- Non-residential (commercial) consumption was down in 2019 and 2020, most likely due to lower agricultural production (resulting in lower demand from factories), but is anticipated to increase in 2021 and 2022 (figures to be confirmed)
- Council's **expenses** (orange columns) have increased consistently over time, although there was a jump in 2021 due to a revised staff roster (due to COVID 19) and in 2022 due to higher depreciation following the revaluation of Council's assets.
- Financial performance of the water fund will improve over time, building on the current surplus and also generating more income from interest on growing reserves.

Council's financial *performance* in Figure 2 is only part of the 'story'. Figure 3 (below) presents the other part of the story: Council's financial *position* (reserves, borrowings and investment in infrastructure).




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 504 | 27 | 152 | 92 | 32 | - | 54 | 60 | 62 | 63 | 65 | 66 | 68 | 70 | 2,000 | 75 |
| Capital works: LSC $ | 807 | 586 | 431 | 962 | 1,101 | 2,098 | 586 | 596 | 821 | 626 | 642 | 658 | 1,370 | 1,880 | 7,309 | 724 |
| Borrowings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash and investments | 11,188 | 12,727 | 15,314 | 16,563 | 17,162 | 16,551 | 17,704 | 19,308 | 20,805 | 22,629 | 24,577 | 26,659 | 28,162 | 29,277 | 24,800 | 26,974 |
| | Actuals: financial statements | | | | | Budgets | | LTFP forecasts | | | | | | | | |

**Figure 16: trends in capital works, grants and cash and investments (reserves) and borrowings in water fund**

In summary, the 'story' that Figure 3 is telling is:

- Council's **capital works** needs (purple columns) have been fairly low historically and are forecast to remain so over the next 10 years (as discussed in section 4.3).
- Council is building up significant **cash reserves** (green line) because of its operating surpluses and relatively low levels of capital works, although it is also budgeting for a $2M **capital grant** (light purple column) to help fund the upgrade of Leeton Water Treatment Plant in 2031
- Council doesn't need any **borrowings** (red line) as it has plenty of cash reserves.

It is important to recognise that 10 years is a short time in the life of most water supply infrastructure assets, and so section 4.3 takes a longer term look at potential capital works needs. In summary, it is forecast that the 30 year capital works program (which exceeds depreciation expenses, but includes some upgrades) can be funded without even needing to borrow. This suggests that the water fund is financially sustainable, and potentially there is scope to reduce charges.

The assumptions behind the overall numbers in Figure 15 are summarised in the table below alongside the historic increases in these items in the last few years.

| Income items | Historic increases (5 yrs) | Assumptions |
|---|---|---|
| *Rates and annual charges* | Increases in access charges have averaged 2.6% over the past 4 years | 2023: budget is 6% higher than 2021 actuals.<br>2024-2032: 2.5% p.a. |
| *User fees and charges* | Increases in usage charges have averaged 3.7% over the past 4 years. | 2023: budget is about equal to 2020 actuals, less than the peak in 2019. Depends on usage.<br>2024: average of 2020+2021 + 3%.<br>2025-2032: 2.5% p.a. |
| *Interest* | Varies with interest rates and cash reserves | 2.2% p.a. in 2024 increasing 0.25% p.a. to 4.2% in 2032. Actual $ calculated on reserve balance. |
| *Operating grants* | | Note: pensioner subsidies are budgeted for under ‘rates’ in general fund |
| *Other revenues* | Average $125k p.a. | 2023-2032: $100k p.a. + 2.5% p.a. |
| **Expense items** | | **Assumptions** |
| *Employee costs* | Were around $1.7M 2018 to 2020, increased in 2021 to $1.9M (some one-offs). | Starting point 2023: $1.7M (as budgeted, close to 2021 actuals).<br>2024-2032: 2.5% p.a. |
| *Materials and services + other expenses* | $1.2-1.3M p.a. | Starting point: $1.6M (as budgeted 2023, includes some operational projects - planning)<br>2024: drops by $200k.<br>2025-2032: 2.5% p.a. |
| *Borrowing costs* | No debt. | No debt. |
| *Depreciation* | Around $950k p.a. | Jump to $1.45M after revaluation, then 2.5% p.a. |

**Table 12: Summary of assumptions for operating revenues and expenses – water fund**

Sections 4.1 and 4.2 discuss each of the above items in detail, identifying issues that:

- have contributed to this year’s operating result in the current budget (Figure 1), and
- are forecast to impact operating performance in future (Figure 2).

The detailed numbers for each item are in the income statement in Appendix 1.

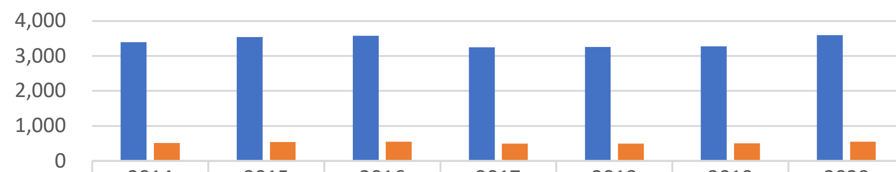
Sections 4.3 and 4.4 discuss assumptions behind Figure 3 including capital works and grants and cash reserves and borrowings. Further details are also in Appendix 1.

## 4.1 Revenues

### Rates and annual charges

Access charges make up 31% of income for the water fund overall. These only vary with the number and size of connections, and so can be forecast consistently over time. An increase of 2.5% p.a. has been assumed in revenues.

This doesn't allow for any particular increase in the number of connections as further analysis is required to determine this. Figures reported historically show no clear trend (further analysis is required e.g. based on number of DAs and amount of developer contributions received, but also considering Council's land use planning strategies).




| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Residential connections | 3,395 | 3,543 | 3,577 | 3,248 | 3,255 | 3,274 | 3,594 |
| Non-res. connections | 515 | 541 | 551 | 500 | 501 | 504 | 554 |

**Figure 17: trends in number of connections to Council's water supply as reported over time**

Growth in connections over and above the basic current assumption that numbers will remain static will have a positive impact on revenue forecasts.

### User fees and charges

User fees and charges make up 65% of revenues in the 2023 budget (68% of direct rates and charges, excluding grants and interest).

The proportion of direct revenues from user charges peaked at 73% in 2019. While this may have been associated with installation of new water meters (the old meters were reading lower than actual consumption), it is also likely to be due to weather. As such, consumption may increase again due to weather. Further analysis on demand is being undertaken as part of the preparation of Council's new Integrated Water Cycle Management Strategy.

Best practice guidelines for management of water supply and sewerage require utilities with over 4,000 connections to set charges so as to raise more than 75% of residential revenues from usage charges (under 4,000 connections, utilities only need to raise 50% from usage). Leeton just exceeds the 4,000 threshold.

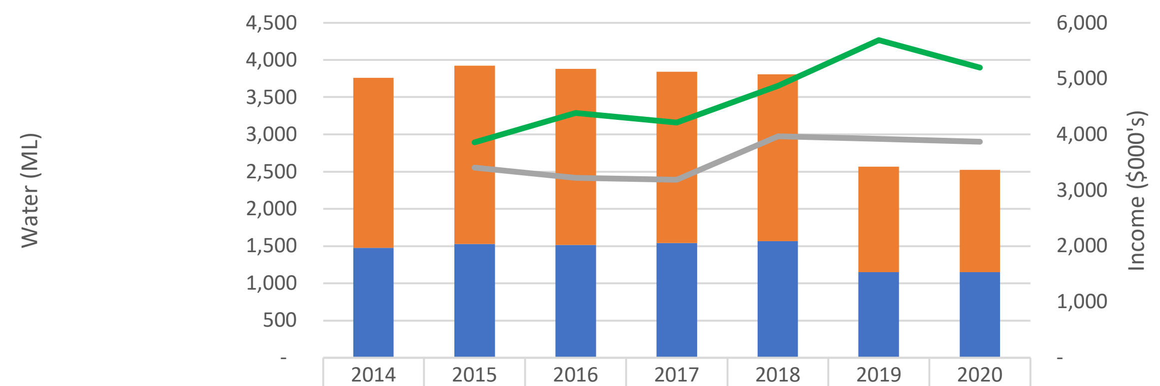
The last available data on residential usage distinct from overall revenues (from 2017 and 2018) shows Council hasn't ever quite reached the benchmark (it has been 65-70%).

Shifting more emphasis onto user charges (which vary with usage) and off access charges (which are consistent each year) is risky given that current information on usage is unclear, as shown in the figure below.

Historically, residential and non-residential usage as reported to NSW Government (blue and orange columns) was very consistent from year to year.

But the amount supplied was obviously overstated because:

- the raw water purchased from Murrumbidgee Irrigation (grey line) as actually lower than these amounts – the figures since 2019 make more sense
- the income (green line) varied considerably, and while this would have changed with increases in water charges, the 'ups and downs' in revenue aren't reflected in usage.

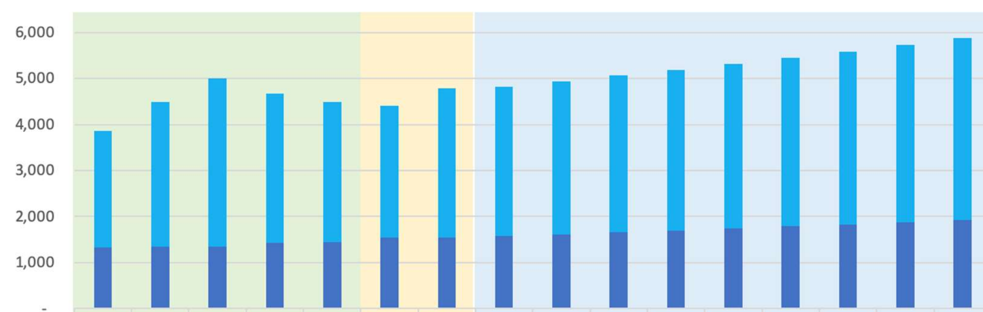



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Non-res. supplied | 2,285 | 2,397 | 2,365 | 2,303 | 2,242 | 1,422 | 1,374 |
| Residential supplied | 1,475 | 1,528 | 1,515 | 1,541 | 1,566 | 1,148 | 1,148 |
| Raw water (MI purchase) | | 2,554 | 2,415 | 2,389 | 2,975 | 2,938 | 2,903 |
| Water income | | 3,855 | 4,384 | 4212 | 4872 | 5691 | 5196 |

**Figure 18: trends in water supplied (as reported), water purchased, and water fund income**

This highlights that Council needs to do more work to better understand actual usage in dry, average and wet years for both residential and non-residential customers. This work is currently underway and will inform future revisions of this LTFP. Council is also working to reduce water losses (the difference between the grey line – water from MI – and the column – water supplied to customers – above).

When the historic and forecast revenues (access + usage) are plotted in the figure below, it shows that assumptions currently adopted in this LTFP are conservative given that revenues from usage charges have been higher in the past.




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| User Charges & Fees | 2,533 | 3,149 | 3,666 | 3,248 | 3,042 | 2,856 | 3,247 | 3,239 | 3,320 | 3,403 | 3,488 | 3,576 | 3,665 | 3,757 | 3,851 | 3,947 |
| Rates & Annual Charges | 1,329 | 1,340 | 1,342 | 1,429 | 1,448 | 1,545 | 1,540 | 1,579 | 1,618 | 1,658 | 1,700 | 1,742 | 1,786 | 1,831 | 1,876 | 1,923 |

| Historic financial statements | Budgets | Forecast in LTFP |
|---|---|---|

**Figure 19: trends in water supplied (as reported), water purchased, and water fund income**

A review of actual water usage figures for 2021 and 2022 will help refine these assumptions, as will the strategic analysis and planning work currently underway.

Given that forecasts of financial performance (Figure 15 above) suggest a surplus growing to around $1M p.a. in 2028, and the actual revenues could be higher (depending on usage), it may be possible to reduce water charges to some extent.

This should be done in the context of a review of the split between access and usage to achieve the benchmark of 75% of revenues from usage, as per the Best Practice Framework (noted above).

But as an indication, a $500k reduction equates to a 10% reduction in water charges overall. This would equate to a reduction of $68 in bills:

| | |
|---|---|
| Access charge | $294 |
| Usage charge (typical usage was 320kL/residential property in 2020, down from 350kL/property in 2019) | 300kL x $1.18/kL = $354<br>20kL x $1.7/kL = $34 |
| Typical bill | $682 |
| Saving of 10% | $68 |

**Table 13: calculation of typical residential water bill and potential savings if charges are reduced**

This is more than the impact of year 1 of the 4.7% Special Rate Variation assumed for general fund, as discussed in section 3.1.

It is important to recognise that there is <u>no</u> link between ordinary rates and water charges. Council is required, under the Local Government Act, to account for its water supply business distinct from its general fund.

## 4.2 Expenses

### Employee costs

Historically, employee costs in water fund have not seen the same level of increases as general fund.

It is important to recognise that attracting and retaining skilled staff in this very important area of Council business has been recognised as a challenge across the industry.

This, and other drivers such as increasing complexity associated with new technology and compliance requirements, as well as the age of existing infrastructure (e.g. Leeton Water Plant itself) could push employee costs higher than what has been forecast.

### Materials and services

Materials and services are budgeted to increase by around $300k p.a. over the 2021 figures. Part of this is associated with operational projects (mostly planning work) and so part of this increase is assumed to drop off from 2024 onwards.

This will need to be monitored as there is an upward pressure on costs associated with increasing compliance and actions to decrease risks / increase reliability.

Council is investing in sustainable power for some sites, which should help offset any increases in electricity over and above normal CPI.

### Depreciation

Depreciation jumped by over $500k (55%) between 2021 and the 2023 budget due to a revaluation of Council's water supply assets and some new assets.

As discussed in section 4.3, the forecast 30 year capital works program is approximately equal to depreciation expenses, so this appears to be reasonable although it is certainly something Council needs to monitor and review over time.

## 4.3 Investment in Water Supply Infrastructure Assets

As noted in section 2, responsible and sustainable infrastructure investment is one of Council's primary financial sustainability objectives.

Section 3.3 explains why it is critical that financial projections in this LTFP align with other IP&R documents, particularly the SAMP.

### Performance against infrastructure investment benchmarks (asset renewals)

Based on the amounts in the SAMP and this LTFP, Council will not meet the *Asset Renewals Ratio* (discussed in section 3.3) over the next 10 years. Calculations for this are below.

| | |
|---|---|
| 10 year capital works program (section 3.1 of SAMP) | $21.0M |
| Less funds earmarked for new assets and/or upgrades | -$8.5M |
| **Renewal funding forecast for 10 years** | **$10.6M** |
| Depreciation expenses for 10 years ($1.45M p.a. + 2% p.a. x 10 years) | $16.4M |
| ***Building and Infrastructure Asset Renewals Ratio* (10 years)** | **58%** |

**Table 14: Calculation of 10 year asset renewal ratio for water fund**

As discussed in section 3.3, Council considers the OLG performance benchmark for the renewal ratio to be inappropriate. Renewal needs depend on asset condition and vary considerably over time. *However,* Council does recognise that if its depreciation expenses are reasonable, it should be spending an amount close to depreciation over the long term.

Figure 20 below shows an *indicative* 30 year forecast for capital works and cash reserves. These figures differ from Figure 16 above as they are all in 2022 dollars (no indexation).

Total capital works needs are estimated at $48.4M, of which all but $8M (Leeton Water Treatment Plant upgrade + new reservoir at Yanco) are renewals, i.e. the forecast need is $40.4M in renewals. This equates to 93% of depreciation expenses ($1.45M x 30 years).

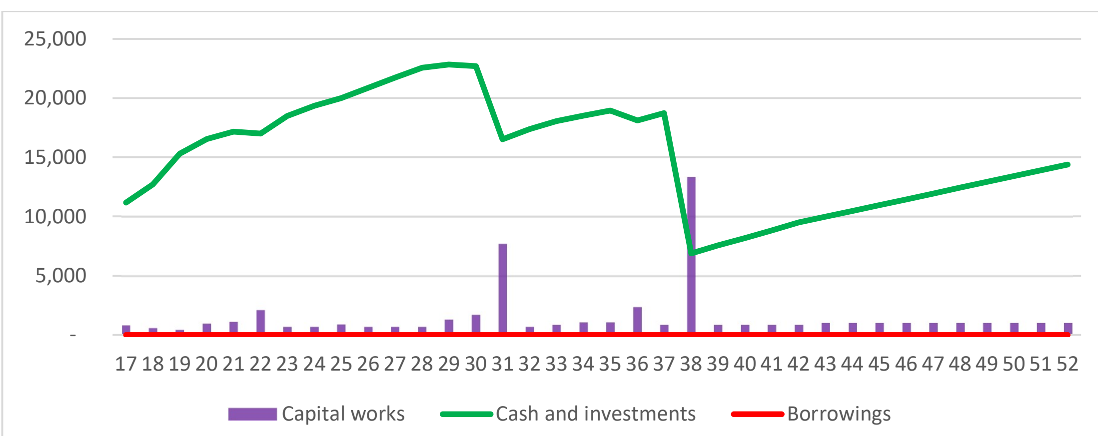



**Figure 20: 30 year projection for capital works and cash reserves for water fund**

Key assumptions:

- cash surplus from operations = $1.5M p.a. (surplus + depreciation)

- interest rate on investments = 3% p.a. for 30 years
- capital works consider all water supply asset categories, major works are Leeton Water Plant upgrade ($7M in 2031) and refurbishment ($12M in 2038)

While these financial projections are indicative only, it should provide Council with some confidence that there is sufficient capacity to meet future capital works requirements, particularly given there is no borrowing required to fund this program.

Perhaps the key point to note is that the significant operating surplus (discussed above) coupled with the growing income from interest (due to higher reserves) are both contributing to healthy cash reserves being maintained over the entire 30 year period. As noted above, this suggests Council may be able to reduce charges, although further analysis is required to confirm this.

### Capital grants

Minor grants of $50k p.a. have been assumed to continue. The only grant for major works included in the modelling is $2M for the upgrade of Leeton Water Treatment Plant in 2031.

## 4.4 Reserves and Borrowing

As can be seen in Figure 16 above, Council is forecasting to build its reserves in its water fund (currently around $17M) by around $9M over the next 10 years, even after accounting for a $21M capital works program.

Figure 20 suggests that if Council continues on the current path, reserves won't drop below $6.8M (in 2038, following refurbishment of Leeton Water Treatment Plant).

No borrowing is forecast as being required.

## 5. Sewer Fund

Council accounts for its sewerage function as a separate business, as required by the NSW Local Government Act and National Competition Policy.

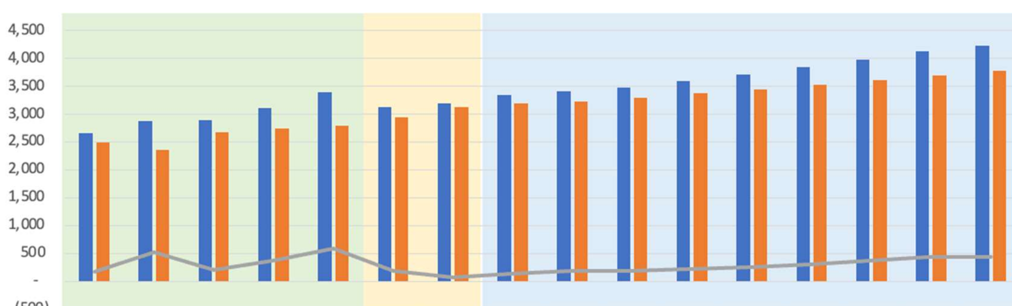
The figure below summarises the main operating revenues and expenses in the Income Statement for Council's 2022/23 budget, including a projected surplus of $69,000. This excludes $29,000 forecast for capital grants and contributions.

| | | |
|---|---|---|
| Rates and annual charges | 2,678,590 | 84% |
| Users charges and fees | 393,720 | 12% |
| Interest and investment revenue | 111,179 | 3% |
| Operating grants and contributions | - | 0% |
| Other revenues | 6,259 | 0% |
| Other income + net gain asset sales | - | 0% |
| *Capital grants and contributions* | *28,763* | |
| **Total Income (ex. capital grants)** | **3,189,748** | |

| | | |
|---|---|---|
| Employee benefits and on-costs | 1,158,171 | 37% |
| Borrowing costs | - | 0% |
| Materials and services | 907,348 | 29% |
| Depreciation and amortisation | 1,054,644 | 34% |
| Other expenses | - | 0% |
| Net loss asset sales | - | 0% |
| **Total Expenses** | **3,120,163** | |
| **Operating Surplus (ex capital grants)** | **69,585** | **2%** |

**Figure 21: key income and expense items in 2022/23 sewer fund budget**

A surplus, even of this size (2% of total revenues) should give some confidence the sewer fund is sustainable. But it is important to put this in perspective with a longer term view in the figure below.



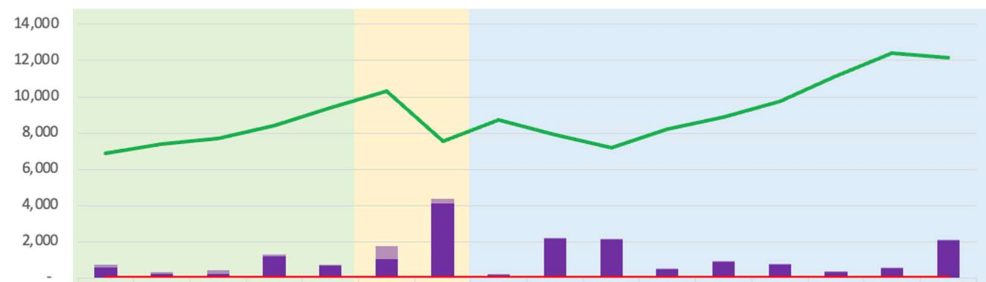

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 2,666 | 2,876 | 2,886 | 3,112 | 3,391 | 3,135 | 3,190 | 3,344 | 3,414 | 3,485 | 3,603 | 3,715 | 3,839 | 3,985 | 4,133 | 4,225 |
| Expenses | 2,492 | 2,352 | 2,676 | 2,737 | 2,797 | 2,948 | 3,120 | 3,197 | 3,220 | 3,295 | 3,372 | 3,450 | 3,530 | 3,612 | 3,696 | 3,782 |
| Operating Result | 174 | 524 | 210 | 375 | 594 | 187 | 70 | 147 | 194 | 190 | 231 | 265 | 309 | 373 | 437 | 443 |

**Figure 22: trends in income, expenses and operating result in sewer fund**

In summary, the ‘story’ that can be told with Figure 2 and some historic context is:

- Historically, the sewer fund performed strongly, averaging a surplus (grey line) of more than 10% p.a. over the past 5 years
- Council’s **income** (blue columns) increased in 2021 due to additional income from trade waste charges, however this is forecast to drop back down as customers make improvements to the quality of sewage they are discharging
- Council’s **expenses** (orange columns) have increased faster than its income between 2021 and 2023 due to a range of factors including:
    - Revaluation of sewerage assets, and consequent increase in depreciation
    - One-off projects (servicing strategy, and 2023 due to higher depreciation following the revaluation of Council’s assets
    - Operating costs of Wamoon sewerage scheme
- The **operating surplus** is forecast to increase over time, but the improvement is largely due to increasing interest income (due to higher reserves + higher interest rates), so financial sustainability needs to be monitored over time.

Council’s financial *performance* in Figure 2 is only part of the ‘story’. Figure 3 (below) presents the other part of the story: Council’s financial *position* (reserves, borrowings and investment in infrastructure).




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 151 | 77 | 206 | 130 | 11 | 750 | 250 | 30 | 30 | 31 | 32 | 33 | 34 | 34 | 35 | 36 |
| Capital works: LSC $ | 589 | 234 | 206 | 1,169 | 688 | 1,010 | 4,107 | 164 | 2,164 | 2,111 | 453 | 860 | 707 | 309 | 500 | 2,073 |
| Borrowings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash and investments | 6,884 | 7,409 | 7,674 | 8,393 | 9,407 | 10,286 | 7,554 | 8,700 | 7,916 | 7,205 | 8,218 | 8,883 | 9,770 | 11,144 | 12,419 | 12,153 |

Actuals: financial statements | Budgets | LTFP forecasts

**Figure 23: trends in capital works, grants and cash and investments (reserves) and borrowings in sewer fund**

In summary, the ‘story’ that Figure 3 is telling is:

- Council’s **capital works** needs (purple columns) have been fairly low historically, but there are a few projects underway and/or forecast to be required over the next 10 years (as discussed in section 5.3).
- Council is building up some **cash reserves** (green line) due to its relatively low levels of capital works
- Council doesn’t need any **borrowings** (red line) as it has sufficient cash reserves.

It is important to recognise that 10 years is a short time in the life of most sewerage infrastructure assets, and so section 5.3 takes a longer term look at potential capital works needs. In summary, it is forecast that the 30 year capital works program is less than depreciation, but there are sufficient cash reserves to spend an amount close to depreciation on asset renewals if required. There is also borrowing capacity over and above this. This suggests the sewer fund is financially sustainable.

The assumptions behind the overall numbers in Figure 22 are summarised in the table below alongside the historic increases in these items in the last few years.

| **Income items** | **Historic increases (5 yrs)** | **Assumptions** |
|---|---|---|
| *Rates and annual charges* | Increases in access charges have averaged 4% over the past 4 years | 2023: around 3% on 2021 actuals, plus $20k for the 30 new connections at Wamoon<br>2024-2032: 2.5% p.a. |
| *User fees and charges* | Usage charges increased significantly in 2021 (due to trade waste) | 2023: budgeted to drop back as trade waste improvements implemented.<br>2024-2032: 2.5% p.a. |
| *Interest* | Varies with interest rates and cash reserves | 2.2% p.a. in 2024 increasing 0.25% p.a. to 4.2% in 2032. Actual $ calculated on reserve balance. |
| *Operating grants* | | Pensioner subsidies budgeted under general fund 'rates'. |
| *Other revenues* | Minimal | Minimal |
| **Expense items** | | **Assumptions** |
| *Employee costs* | Have been around $1.1M for several years. | Starting point 2023: $1.2M (as budgeted, close to 2021 actuals).<br>2024: allow $50k extra for Wamoon (one year)<br>2025-32: 2.5% p.a. |
| *Materials and services + other expenses* | $0.5-0.7M p.a. | Starting point: $1.2M (as budgeted 2023, includes $200k operational projects for planning)<br>2024: drops by $100k (less projects, but plus Wamoon scheme operating costs)<br>2025-2032: 2.5% p.a. |
| *Borrowing costs* | No debt. | No debt. |
| *Depreciation* | Around $750k p.a. | Jump to $1.1M after revaluation and allowance for Wamoon, then 2% p.a. |

**Table 15: Summary of assumptions for operating revenues and expenses – sewer fund**

Sections 5.1 and 5.2 discuss each of the above items in detail, identifying issues that:

- have contributed to this year's operating result in the budget (Figure 21), and
- are forecast to impact operating performance in future (Figure 22).

The detailed numbers for each item are in the income statement in Appendix 1.

Sections 5.3 and 5.4 discuss assumptions behind Figure 23 including capital works and grants and cash reserves and borrowings.

## 5.1 Revenues

### Rates and annual charges

Access charges make up the majority (84% in 2023) of income for the sewer fund overall. These only vary with the number and size of connections, and so can be forecast consistently over time. An increase of 2.5% p.a. has been assumed in revenues.

This doesn't allow for any increase in the number of connections as further analysis is required to determine this, apart from the assumed 30 new connections when Wamoon sewer scheme is completed.

Figures reported historically (below) show growth has been less than 1% over the last 4 years (further analysis is required e.g. based on number of DAs and amount of developer contributions received, but also considering Council's land use planning strategies).

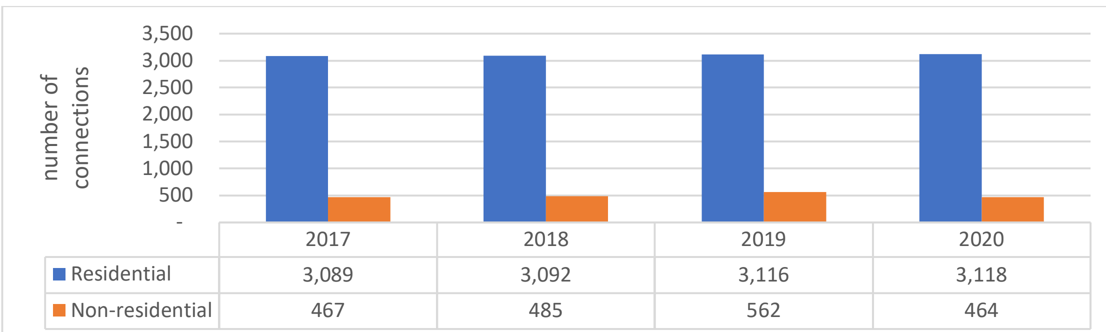



**Figure 24: trends in number of connections to Council's sewerage system as reported over time**

Growth in connections over and above the basic current assumption that numbers will remain static will have a positive impact on revenue forecasts.

### User fees and charges

User fees and charges make up 13% of revenues 2023 budget. These are mostly trade waste charges. While these have doubled in recent years, it is forecast they will drop back down to something like historic figures as customers implement improvements to improve the quality of discharges.

## 4.2 Expenses

### Employee costs

Employee costs in sewer fund have not seen the same level of increases as general fund.

It is important to recognise that – as with water fund – attracting and retaining skilled staff in this area has been recognised as a challenge across the industry, and that there are other drivers that will put upward pressure on employee costs.

There will also be some increased operating requirements associated with Wamoon sewer.

### Materials and services

Materials and services are budgeted to increase from around $700k in 2021 to $0.9M in 2023. This includes around $200k operational projects (mostly planning work), which is assumed to drop off from 2024 onwards, but an allowance of $100k has been added from 2024 to account for increased operating expenses associated with the Wamoon scheme.

This will need to be monitored as there is an upward pressure on costs associated with increasing compliance and actions to decrease risks / increase reliability.

Council is investing in sustainable power for some sites, which should help offset any increases in electricity over and above normal CPI.

### Depreciation

Depreciation jumped by 170k (23%) in 2021 due to a revaluation of Council's sewerage assets, and are forecast to increase by another $60k in 2024 ($4M / 70 years).

As discussed in section 5.3, the forecast 30 year capital works program is less than depreciation expenses, but the investment forecast to be required at Leeton Sewage Treatment Plant (the largest single asset) is relatively low compared to its total value, so it appears that current estimates are reasonable.

This needs monitoring and reviewing over time.

## 5.3 Investment in Sewerage Infrastructure Assets

As noted in section 2, responsible and sustainable infrastructure investment is one of Council's primary financial sustainability objectives.

Section 3.3 explains why it is critical that financial projections in this LTFP align with other IP&R documents, particularly the SAMP.

### Performance against infrastructure investment benchmarks (asset renewals)

Based on the amounts in the SAMP and this LTFP, Council will not meet the *Asset Renewals Ratio* (discussed in section 3.3) over the next 10 years. Calculations for this are below.

| | |
|---|---|
| 10 year capital works program (section 3.1 of SAMP) | $9.7M |
| Less funds earmarked for new assets and/or upgrades | -$0.2M |
| **Renewal funding forecast for 10 years** | **$9.5M** |
| Depreciation expenses for 10 years ($1.1M p.a. + 2% p.a. x 10 years) | $12.1M |
| ***Building and Infrastructure Asset Renewals Ratio* (10 years)** | **107%** |

**Table 16: Calculation of 10 year asset renewal ratio for sewerage fund**

As discussed in section 3.3, Council considers the OLG performance benchmark for the renewal ratio to be inappropriate. Renewal needs depend on asset condition and vary considerably over time. *However,* Council does recognise that if its depreciation expenses are reasonable, it should be spending an amount close to depreciation over the long term.

Figure 25 below shows an *indicative only* 30 year forecast for capital works and cash reserves. These figures differ from Figure 23 above as they are all in 2022 dollars (no indexation).

Total capital works needs are estimated at $27M, of which all but $4M (Wamoon sewerage) are renewals, i.e. the forecast capital works needed is $23M in renewals. This equates to 72% of deprecation expenses ($32M, $1.06M x 30 years). While Council isn't forecasting it needs to spend the additional $9M in renewals over this period, it is clear from the forecast below that it has the money available to spend this as required (and/or borrowing capacity).

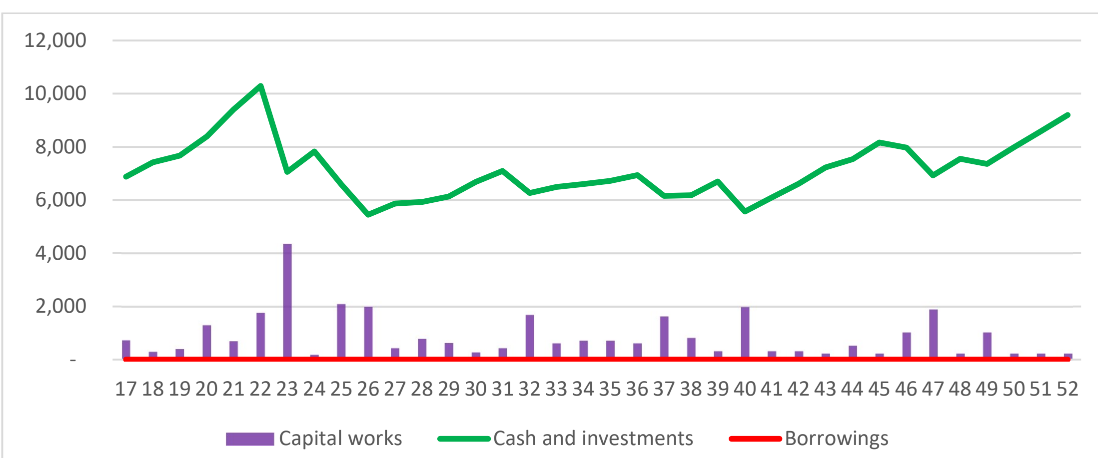



**Figure 25: 30 year projection for capital works and cash reserves for sewer fund**

Key assumptions:

- cash surplus from operations = $0.85M p.a. (surplus + depreciation)
- interest rate on investments = 3% p.a. for 30 years
- capital works consider all asset categories over an extensive number of projects including pipe relining, pump stations and treatment plants.

While these financial projections are indicative only, it should provide Council with some confidence that there is sufficient capacity to meet future capital works requirements (not only directly via cash reserves, but also additionally via borrowings).

Given that there is no trend of increasing reserves over time (as was seen in the water fund) it appears that the current charges are probably appropriate. However, it is obviously vital that the numbers in this forecast are revised and improved over time.

### Capital grants

Minor grants of $50k p.a. have been assumed to continue. No other major grants are assumed to be helping to fund the forecast capital works.

## 5.4 Reserves and Borrowing

As can be seen in Figure 23 above, Council is forecasting to maintain sufficient reserves over the next 10 years and beyond, although a larger capital program and/or poorer than forecast financial performance will of course impact this.

No borrowing is forecast as being required. This will provide additional flexibility for Council to manage variations from what has been forecast on top of reasonably healthy reserves.

## 6. Sensitivity and Risk Analysis

The table below provides an indication of the impacts of key parameters on Council's ability to achieve its financial sustainability objectives (in section 2), particularly the minimising operating deficits and maintaining cash reserves, over the next 10 years.

This section is referred to in terms of 'risk' not just 'sensitivity' as the uncertainty about these issues is considered most likely to result in Council failing to achieve its objectives (by definition, risk is 'the effect of uncertainty on objectives'). It is vital that these risks are monitored annually in an ongoing way, but particularly as Council implements its revised LTFP once options to improve its sustainability (section 3.5) have been explored.

| Parameter | 10 year impact on Financial Sustainability Objectives<br>(operating deficit and maintaining cash reserves) |
|---|---|
| **Increased employee costs** | The 2023 general fund budget for employee costs is $9.6M.<br>The 'Lesser SRV + Some Service Cuts' scenario (section 3) assumes considerable savings will be made on this over 4 years amounting to around $0.7M, 7% in real terms, compared to the 'Head in the Sand' scenario in section 7.1.<br>These savings would be a significant turn-around from the last 5 years, which saw an average of 2.2% p.a. increases in real terms, in accordance with Council's adopted budgets, reflecting decisions about service delivery.<br>Council can only realise such savings by making significant efficiency gains and, realistically, generating the majority of these savings from reductions in service levels. Neither of these options will be easy. Every 1% that Council falls short equates to $100k p.a. ($1M over 10 years).<br>If Council achieves half the savings it is estimating (3.5%), its general fund deficit will be $340k higher, and its cash reserves around $3M lower in 10 years, *and* the gap will need to be bridged by other means (materials, or a bigger SRV). |
| **Increased materials and services** | Similar to employees, section 3 assumes considerable savings in materials and services: around $0.8M or 8% relative to 'Head in the Sand' scenario, which again is a turn-around from recent years.<br>These savings won't be easy to achieve, but again every 1% p.a. that isn't realised equates to $100k p.a. higher deficit and $1M in reserves in 10 years. |
| **Increased depreciation expenses** (and so higher capital works needs) | Council does not have a lot of control over depreciation except to cease new builds or asset upgrades, or to dispose of assets. A 0.5% increase on the $6M baseline for depreciation over and above the forecast 2% p.a. over 10 years would increase Council's operating deficit in 10 years by around $0.3M p.a.<br>Depreciation isn't a cash expense, so this increase won't impact reserves, but it is likely to be accompanied by higher funding needs for capital works programs (which will need to come from reserves or borrowings).<br>It will also call into question Council's financial sustainability (if its operating deficit isn't eliminated) and whether it is equitable to future generations. |
| **Unreliable interest rates on cash reserves** | An increase of 0.25% p.a. is assumed (starting at 2.2%, increasing over 10 years to 4.2%). If those increases were half as much again, or half what is assumed (0.125% or 0.375%), the impact on Council's operating result in 10 years would be $385k p.a. and the impact on reserves would be $1.3M p.a.<br>Borrowings are minimal, so changes in interest rates are less material. |

| | |
|---|---|
| **Increasing energy** costs | Council spends around $300k p.a. on electricity, so higher costs would have some impacts. The renewable energy initiative is intended to reduce Council's risks here. |
| **Unreliable income from sale of investment water** | The 'Lesser SRV + Some Service Cuts' scenario estimates $50k p.a., although historic returns have been $50-750k p.a. While returns are likely to remain low for the next few years, it is likely they will be better than $50k p.a. in later years. |
| **Cost shifting from other levels of government** | Council's expenditure is increased by 'cost shifting' from other levels of government. Potential areas of concern are the Fire and Emergency Services Levy (which Council pays) or regulatory functions currently undertaken by NSW Government and/or additional compliance obligations (for which Council might need to add resources to achieve compliance). |
| **Austerity approach by NSW and/or Australian governments** | As noted in Figure 1, operating grants and contributions make up $6.1M (28%) of Council's operating revenues in the 2023 budget.<br>If Council was to lose a significant portion of this income, either through a 'one-off' change or through gradual decreases over time, it would have a significant impact on its operating deficit.<br>A recent example of such an impact was the freeze on Financial Assistance Grants (FAGs) by the Australian government for 3 years between 2015 and 2017. FAGs represents $4.6M p.a. of total operating grants. If another 3 year freeze was implemented sometime over the 10 years, this would increase Council's operating deficit by $0.4M p.a. in 10 years, and decrease its cash by $3M in 2032.<br>Other areas where Council could be impacted include Roads to Recovery (currently $1M p.a.), Regional Roads ($0.4M p.a.) and support for children's services (although Council could increase fees to offset this).<br>As discussed in section 3.3, Council has also forecast it will secure several grants for capital works (these are summarised in Table 8). Without these grants, Council would need to fund these works by drawing on its own cash reserves, or not proceed with the projects. |
| **Changes in water usage** | As discussed in section 4.1, there is uncertainty over water usage into the future, which has a major impact on future income. Further work is required to clarify these forecasts. |
| **Changes in the pace of development** | As discussed in sections 4 and 5, current assumptions in relation to the number of new customers for water supply and sewerage are conservative, and are likely to be exceeded in reality. |

**Table 17: Key parameters for sensitivity or 'risk' analysis**

## 7. Alternative Scenarios for the General Fund

Three alternatives to the 'Lesser SRV + Some Service Cuts' scenario for general fund (in section 3) are considered below:

- a 'Head in the Sand' scenario, which explores the implications of Council continuing its current path of operating deficits (which is unsustainable, with Council facing liquidity problems within 4-5 years if it retains the same capital budget, which is obviously something that cannot be allowed to happen, or – if capital works are reduced – Council will deplete its reserves over the next 10 years),
- an 'Austerity' scenario, which explores the extent of savings needed to avoid a Special Rate Variation (which might be achieved partly via efficiencies but will realistically involve substantial service level reductions which will likely also be unsustainable as community needs will not be met), and
- an 'SRV + Maintain All Services' scenario, which explores the extent of a Special Rate Variation that would be required to maintain current services (avoiding any cuts, and at this stage ignoring the impact of gains in efficiency and productivity).

As discussed in section 3, Council anticipates the most appropriate way forward will be to strike a balance between reducing expenses and increasing revenues. Council needs to be financially sustainable. The community is likely to want to retain many/most current services but will also want to minimise the extent of any rate increases.

The key question is what the 'right balance' looks like. As discussed in section 3.5, this is something that Council needs to determine in conversation with the community, supported by a program of internal service reviews.

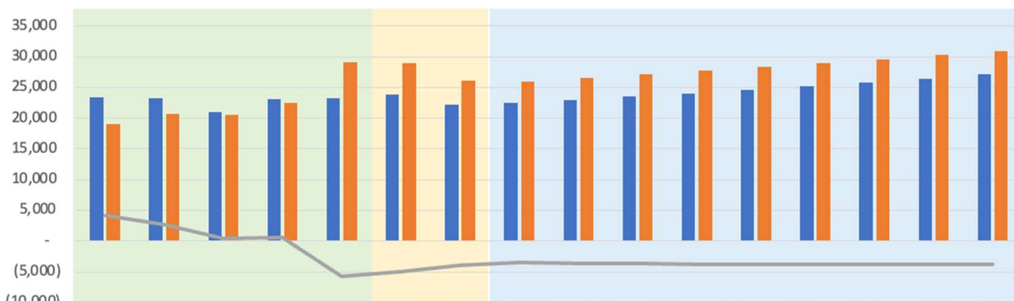
Future revisions of this LTFP will need to update and reconsider all scenarios. Further scenarios may also be appropriate for water and sewer, although the issues there are generally able to be addressed via sensitivity/risk analyses (section 6).

## 7.1 Head in the Sand Scenario

This scenario explains what is forecast to happen if Council takes no action to address its financial challenges in its general fund.

It could be argued that this scenario is better than 'status quo' though, since – for example – employee costs are assumed to be a steady 2 or 2.5% p.a. in this scenario to reflect Award and superannuation increases only, and increases were higher than this in recent years.

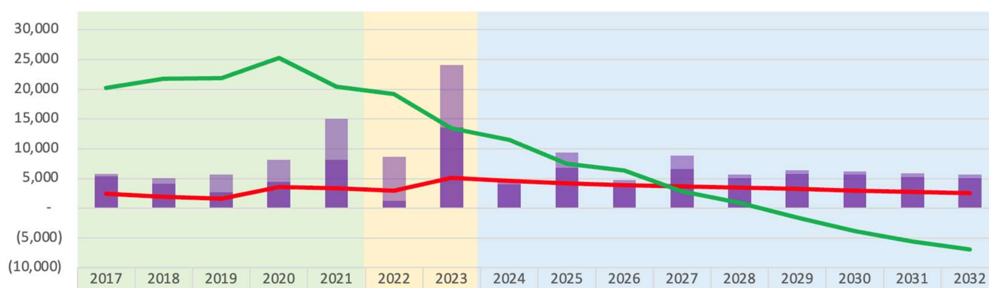
The figure below shows Council's operating performance under this scenario. As can be seen, the operating deficit of around $3.3M in 2023 basically continues in future.




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 23,331 | 23,315 | 20,934 | 23,144 | 23,306 | 23,919 | 22,125 | 22,502 | 22,973 | 23,520 | 24,030 | 24,589 | 25,172 | 25,802 | 26,447 | 27,108 |
| Expenses | 19,115 | 20,633 | 20,497 | 22,511 | 29,047 | 28,880 | 26,112 | 25,992 | 26,597 | 27,172 | 27,761 | 28,363 | 28,979 | 29,607 | 30,250 | 30,908 |
| Operating Result | 4,216 | 2,682 | 437 | 633 | (5,741) | (4,961) | (3,987) | (3,489) | (3,625) | (3,653) | (3,731) | (3,774) | (3,806) | (3,806) | (3,804) | (3,800) |
| | Historic financial statements | | | | | Budgets | | Forecast in LTFP | | | | | | | | |

**Figure 26: trends in income, expenses and operating result in general fund –'Do nothing' Scenario**

The figure below shows Council's financial position under this scenario based on retaining the capital works program in the 'Lesser SRV + Some Service Cuts' scenario. As can be seen, Council's cash reserves would be used up within 5 years because of the ongoing operating deficits, as well as the capital works. There would be no point borrowing to meet the shortfall (around $11M in 10 years) as Council wouldn't be able to afford to repay the loan.




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 470 | 895 | 2,983 | 3,713 | 6,883 | 7,455 | 10,510 | 523 | 2,513 | 525 | 2,288 | 551 | 565 | 579 | 594 | 608 |
| Capital works: LSC $ | 5,331 | 4,141 | 2,744 | 4,468 | 8,134 | 1,207 | 13,545 | 4,080 | 6,833 | 4,186 | 6,559 | 5,106 | 5,796 | 5,650 | 5,249 | 5,024 |
| Borrowings | 2,442 | 1,943 | 1,634 | 3,578 | 3,315 | 3,000 | 5,078 | 4,616 | 4,210 | 3,924 | 3,694 | 3,460 | 3,221 | 2,976 | 2,738 | 2,506 |
| Cash and investments | 20,267 | 21,761 | 21,886 | 25,257 | 20,413 | 19,176 | 13,490 | 11,441 | 7,491 | 6,340 | 2,863 | 922 | (1,613) | (3,870) | (5,567) | (6,899) |
| | Historic financial statements | | | | | Budgets | | LTFP forecasts | | | | | | | | |

**Figure 27: trends in general fund capital, grants and cash and investments – 'Head in the Sand' Scenario (assuming same capex as 'Lesser SRV + Some Service Cuts' scenario)**

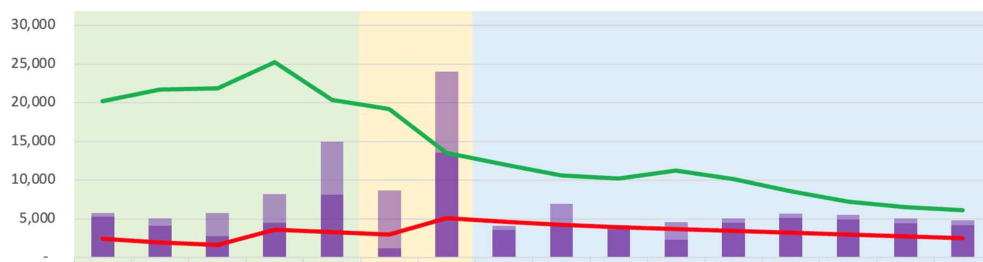
Council could avoid liquidity problems in 5 years by cutting its capital works program. The figure below is based on cutting $13M (15%) in capital works (plus associated grants), which is deemed the minimum below which Council would face a 'downward spiral' of asset failures such as increasing deterioration of sealed and unsealed roads.

As can be seen, these cuts would stop Council from running out of cash inside of 10 years in its general fund (it would still have around $6M left in 2032), but the key issues are **intergenerational equity** and **financial sustainability**.

As can be seen with the downward trend in the green line, Council would need to eat into its reserves over the 10 years to fund capital works (as discussed in the 'depreciation' part of section 3.2, an operating deficit means Council won't be generating enough cash 'from deprecation' to pay for its capital works). This means in 10 years, Council will have:

- minimal cash reserves (it would be of concern if they dropped much further)
- limited capacity to borrow (particularly given the significant operating deficit) and
- increasing asset renewal needs (particularly given the relatively low asset renewals undertaken over the past 10 years in areas such as buildings and drainage, as discussed in section 3.3).

Consequently, Council will have little option but to seek a Special Rate Variation to make up the shortfall. That will mean the *next* generation will be paying more than they should at that time for Council services because the *current* generation hasn't been paying enough.




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 470 | 895 | 2,983 | 3,713 | 6,883 | 7,455 | 10,510 | 500 | 2,513 | 525 | 2,288 | 551 | 565 | 579 | 594 | 608 |
| Capital works: LSC $ | 5,331 | 4,141 | 2,744 | 4,468 | 8,134 | 1,207 | 13,545 | 3,590 | 4,416 | 3,648 | 2,309 | 4,484 | 5,100 | 4,936 | 4,457 | 4,212 |
| Borrowings | 2,442 | 1,943 | 1,634 | 3,578 | 3,315 | 3,000 | 5,078 | 4,616 | 4,210 | 3,924 | 3,694 | 3,460 | 3,221 | 2,976 | 2,738 | 2,506 |
| Cash and investments | 20,267 | 21,761 | 21,886 | 25,257 | 20,413 | 19,176 | 13,490 | 12,038 | 10,652 | 10,196 | 11,224 | 10,166 | 8,569 | 7,225 | 6,499 | 6,149 |
| | Historic financial statements | | | | | Budgets | | LTFP forecasts | | | | | | | | |

**Figure 28: trends in capital, grants and cash and investments – 'Head in the Sand' Scenario (assuming reduced capex compared to 'Lesser SRV + Some Service Cuts' scenario)**

**The conclusion to be drawn is that Council 'putting its head in the sand' is not an option. In particular, if Council doesn't take action to improve its financial sustainability, it won't satisfy the principles of intergenerational equity or responsible and sustainable spending set out in the NSW Local Government Act (as discussed in section 2).**

The table below summarises the differences between this scenario and the 'Lesser SRV + Some Service Cuts' scenario in section 3. It is important to note that increases in expenses here, while reasonable, are still lower than increases in recent years.

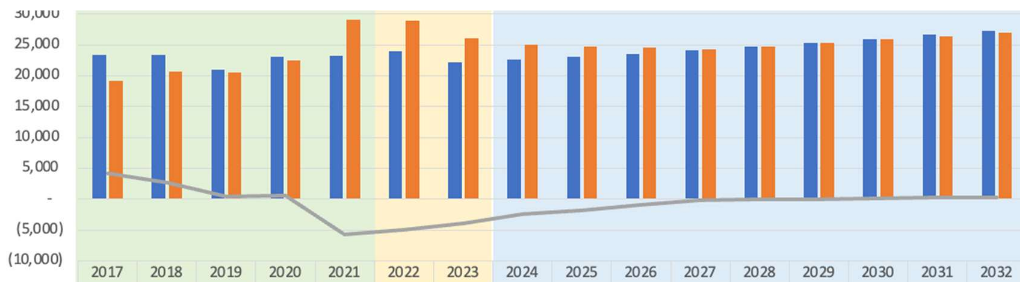
| Income items | Historic increases (5 yrs) | Assumptions |
|---|---|---|
| *Rates and annual charges* | Rate peg averaged 2.2% p.a.<br>Waste charges averaged 5% p.a. | 2023: 1.8% p.a. (0.7% rate peg + 1.1% additional special variation);<br>2024-2032: 2.5% p.a.<br>Waste: 2.5% p.a. in all years |
| **Expense items** | | **Assumptions** |
| *Employee costs* | Increased from $8.1M to $9.3M (3.4% p.a.) over last 5 years to 2021. | Starting point: $9.6M<br>2.5% p.a. in 2024-25 (including super), then 2% p.a. 2026-32 (Award increases only). |
| *Materials and services + other expenses* | Ongoing M&S + other expenses were $8-8.5M p.a. up to 2021, no clear trend. | Starting point: $9.1M.<br>M&S: 2.5% p.a. for 10 years<br>Other: 2.5% p.a. for 10 years |

**Table 18: Summary of assumptions for operating revenues and expenses – 'Head in the Sand' Scenario**

## 7.2 Austerity Scenario

This scenario explores the cuts to operational expenses and capital works in the general fund that would be required to avoid a Special Rate Variation (as proposed in the 'Lesser SRV + Some Service Cuts' scenario in section 3) whilst also achieving its objectives of sound financial management in section 2.

The figure below shows Council's operating performance under this scenario. As can be seen, there is a considerable drop in expenses (orange columns) from the peak of $29M in 2021 (which includes some one-off expenses) down to $24.3M in 2027, after which expenses increase roughly in line with income for the rest of the 10 years.

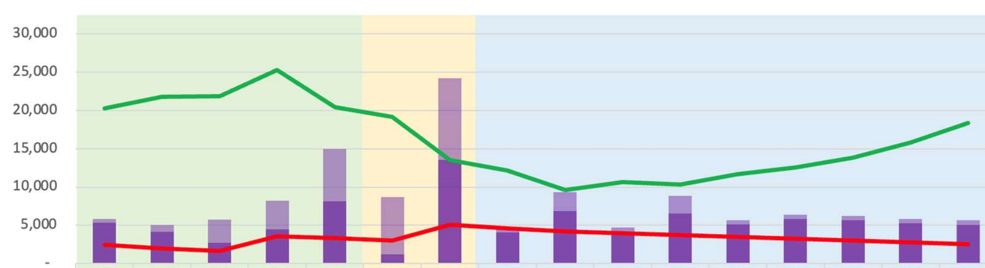



| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 23,331 | 23,315 | 20,934 | 23,144 | 23,306 | 23,919 | 22,125 | 22,588 | 23,033 | 23,604 | 24,135 | 24,734 | 25,337 | 25,970 | 26,643 | 27,352 |
| Expenses | 19,115 | 20,633 | 20,497 | 22,511 | 29,047 | 28,880 | 26,112 | 25,100 | 24,812 | 24,542 | 24,284 | 24,808 | 25,344 | 25,891 | 26,451 | 27,023 |
| Operating Result | 4,216 | 2,682 | 437 | 633 | (5,741) | (4,961) | (3,987) | (2,512) | (1,779) | (938) | (149) | (74) | (7) | 79 | 192 | 329 |
| | Historic financial statements | | | | | Budgets | | Forecast in LTFP | | | | | | | | |

**Figure 29: trends in income, expenses and operating result in general fund – Austerity Scenario**

The only areas Council can realise such savings in expenses are employees and materials (although it is also important that Council reviews depreciation, as noted in section 3.5). The savings required are around 19% overall in employees and in materials and services (almost 3 times what was proposed under the 'Lesser SRV + Some Service Cuts' scenario).

The figure below charts changes in Council's financial position and investment in assets over the 10 years under this scenario (the capital works assumed here are unchanged from the 'Lesser SRV + Some Service Cuts' scenario). As can be seen, Council's cash reserves build up over this time due to the improving financial performance (reduced operating deficit) and relatively low level of capital works (relative to depreciation).




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 470 | 895 | 2,983 | 3,713 | 6,883 | 7,455 | 10,650 | 500 | 2,513 | 525 | 2,288 | 551 | 565 | 579 | 594 | 608 |
| Capital works: LSC $ | 5,331 | 4,141 | 2,744 | 4,468 | 8,134 | 1,207 | 13,545 | 4,102 | 6,833 | 4,186 | 6,559 | 5,106 | 5,796 | 5,650 | 5,249 | 5,024 |
| Borrowings | 2,442 | 1,943 | 1,634 | 3,578 | 3,315 | 3,000 | 5,078 | 4,616 | 4,210 | 3,924 | 3,694 | 3,460 | 3,221 | 2,976 | 2,738 | 2,506 |
| Cash and investments | 20,267 | 21,761 | 21,886 | 25,257 | 20,413 | 19,176 | 13,490 | 12,155 | 9,576 | 10,679 | 10,333 | 11,674 | 12,556 | 13,838 | 15,829 | 18,359 |
| | Historic financial statements | | | | | Budgets | | LTFP forecasts | | | | | | | | |

**Figure 30: trends in general fund capital, grants and cash and investments – Austerity Scenario (assuming same capex as 'Lesser SRV + Some Service Cuts' scenario)**

While the increasing cash reserves might seem to suggest that Council can afford to scale back the size of the cuts to operational expenses, it is critical to recognise that cash reserves are building up because asset renewal needs are relatively low (less than depreciation) over this period because Council's assets are currently in relatively good condition (as noted in section 3.3).

The key issue in terms of financial sustainability and intergenerational equity is that Council's asset renewal needs can be expected to increase considerably over time (up to and/or exceeding depreciation in future). If Council doesn't have sufficient reserves, it may need to increase rates beyond 10 years, which isn't equitable for the next generation. This issue was discussed in section 7.1 above.

The table below summarises the differences between this scenario and the base case.

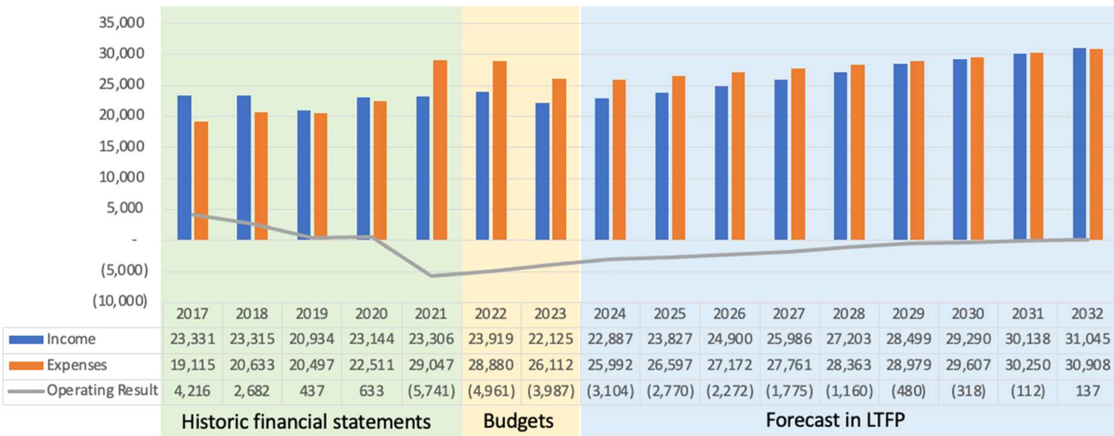
| Income items | Historic increases (5 yrs) | Assumptions |
|---|---|---|
| *Rates and annual charges* | Rate peg averaged 2.2% p.a.<br>Waste charges averaged 5% p.a. | 2023: 1.8% p.a. (0.7% rate peg + 1.1% additional special variation);<br>2024-2032: 2.5% p.a.<br>Waste: 2.5% p.a. in all years |
| **Expense items** | | **Assumptions** |
| *Employee costs* | Increased from $8.1M to $9.3M (3.4% p.a.) over last 5 years to 2021. | Starting point: $9.6M.<br>2024-2027: -2.5% p.a. (i.e. a reduction in real terms of around 5% p.a. for 4 years in a row).<br>2028-2032: +2% p.a. |
| *Materials and services + other expenses* | Ongoing M&S + other expenses were $8-8.5M p.a. up to 2021, no clear trend. | Starting point: $9.1M.<br>M&S: 2024-2027: -2% (i.e. a reduction in real terms of around 5% p.a. for 4 years in a row).<br>2028-2032: +2.5% p.a.<br>Other: 2.5% p.a. for 10 years |

**Table 19: Summary of assumptions for operating revenues and expenses – Austerity Scenario**

## 7.3 SRV + Maintain All Services Scenario

This scenario explores the size of the Special Rate Variation (SRV) that would be required to avoid cuts to services (as proposed in the 'Lesser SRV + Some Service Cuts' scenario in section 3, and the Austerity Scenario in section 7.2) whilst also achieving its objectives of sound financial management in section 2.

The figure below shows Council's operating performance under this scenario. As can be seen, there is a steady increase in income (blue columns) up to 2029, after which income and expenses increase roughly in line with each other for the rest of the 10 years.




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 23,331 | 23,315 | 20,934 | 23,144 | 23,306 | 23,919 | 22,125 | 22,887 | 23,827 | 24,900 | 25,986 | 27,203 | 28,499 | 29,290 | 30,138 | 31,045 |
| Expenses | 19,115 | 20,633 | 20,497 | 22,511 | 29,047 | 28,880 | 26,112 | 25,992 | 26,597 | 27,172 | 27,761 | 28,363 | 28,979 | 29,607 | 30,250 | 30,908 |
| Operating Result | 4,216 | 2,682 | 437 | 633 | (5,741) | (4,961) | (3,987) | (3,104) | (2,770) | (2,272) | (1,775) | (1,160) | (480) | (318) | (112) | 137 |

**Figure 31: trends in income, expenses and operating result in general fund – 'SRV + Maintain All Services' Scenario**

The actual increases in rates in over and above the rate peg would be 5.1% p.a., which is very close to the 4.7% p.a. in the 'Lesser SRV + Some Service Cuts' scenario (in section 3), but they would continue for an additional 2 years (6 years in total), resulting in a total cumulative increase of 35% over the rate peg. The increases have been stretched over an extra 2 years to reduce impacts on ratepayers (note that the maximum allowable time over which an SRV will be approved is 7 years).

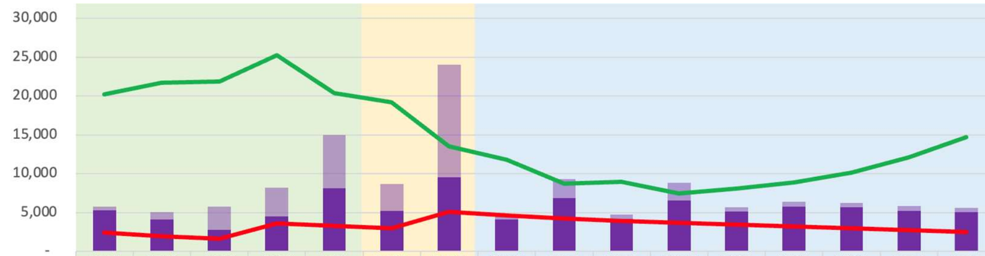
The table below summarises rates increases for the typical ratepayer in each rates category if Council was to pursue an SRV. It should however be noted that Council has also flagged its intention to review the rating structure so actual impacts may differ once the review is completed and if the splits between the rating categories are altered.

| Rating category | Typical land value[1] | Typical rates in 2022/23[2] | 2023/24 rate increases | | | 35% total SRV over 6 years[3] |
|---|---|---|---|---|---|---|
| | | | 2.5% rate peg | + 5.1% SRV | = 7.6% total | |
| Residential | $65,000 | $979 | $25 | $50 | $75 | $343 |
| Farmland | $245,000 | $2,660 | $67 | $136 | $203 | $931 |
| Business | $80,000 | $1,065 | $27 | $54 | $81 | $373 |

**Table 20: typical increases for a 5.1% p.a. and 35% Special Rate Variation**

1. Median ('middle') land value based on 2019 valuations from NSW Valuer General.
2. Based on 0.7% rate peg + 1.1% additional special variation if approved before June 2022 by IPART.
3. Based on 35% (6 x 5.1%) increase on top of 2022/23 rates (does not include increases from any future rate peg as these are already anticipated / included in the LTFP).

The figure below charts changes in Council's financial position and investment in assets over the 10 years under this scenario (the capital works assumed here are unchanged from the 'Lesser SRV + Some Service Cuts' scenario). As can be seen, Council's cash reserves build up over this time due to the improving financial performance (reduced operating deficit) and relatively low level of capital works (relative to depreciation).




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital works: Grants | 470 | 895 | 2,983 | 3,713 | 6,883 | 3,455 | 14,510 | 500 | 2,513 | 525 | 2,288 | 551 | 565 | 579 | 594 | 608 |
| Capital works: LSC $ | 5,331 | 4,141 | 2,744 | 4,468 | 8,134 | 5,207 | 9,545 | 4,102 | 6,833 | 4,186 | 6,559 | 5,106 | 5,796 | 5,650 | 5,249 | 5,024 |
| Borrowings | 2,442 | 1,943 | 1,634 | 3,578 | 3,315 | 3,000 | 5,078 | 4,616 | 4,210 | 3,924 | 3,694 | 3,460 | 3,221 | 2,976 | 2,738 | 2,506 |
| Cash and investments | 20,267 | 21,761 | 21,886 | 25,257 | 20,413 | 19,176 | 13,490 | 11,804 | 8,708 | 8,938 | 7,417 | 8,089 | 8,881 | 10,112 | 12,107 | 14,712 |
| | Historic financial statements | | | | | Budgets | | LTFP forecasts | | | | | | | | |

**Figure 32: trends in general fund capital, grants and cash and investments – 'SRV + Maintain All Services' Scenario**

As with the scenarios discussed in sections 7.1 and 7.2, the increasing cash reserves aren't an indication that a lower SRV would be sufficient since capital works needs are relatively low over this period. Council needs to build up these reserves in the later years to achieve intergenerational equity and financial sustainability.

The table below summarises the differences between this scenario and the base case.

| **Income items** | **Historic increases (5 yrs)** | **Assumptions** |
|---|---|---|
| *Rates and annual charges* | Rate peg averaged 2.2% p.a.<br>Waste charges averaged 5% p.a. | 2023: 1.8% p.a. (0.7% rate peg + 1.1% additional special variation);<br>2024-2029: 7.6% p.a.<br>2030-2032: 2.5% p.a.<br>Waste: 2.5% p.a. in all years |
| **Expense items** | | **Assumptions** |
| *Employee costs* | Increased from $8.1M to $9.3M (3.4% p.a.) over last 5 years to 2021. | Starting point: $9.6M.<br>2024-2027: -2.5% p.a. (i.e. a reduction in real terms of around 5% p.a. for 4 years in a row).<br>2028-2032: +2% p.a. |
| *Materials and services + other expenses* | Ongoing M&S + other expenses were $8-8.5M p.a. up to 2021, no clear trend. | Starting point: $9.1M.<br>M&S: 2024-2027: -2% (i.e. a reduction in real terms of around 5% p.a. for 4 years in a row).<br>2028-2032: +2.5% p.a.<br>Other: 2.5% p.a. for 10 years |

**Table 21: Summary of assumptions for operating revenues and expenses – 'SRV + Maintain All Services' Scenario**

## Appendix 1: Forecast Financial Statements

The centrepiece of an LTFP are the 3 primary financial statements, forecast into the future:

- an **Income Statement**, which forecasts income and expenditure
- a **Statement of Financial Position** or Balance Sheet which forecasts changes in Council's assets (cash reserves and infrastructure) and liabilities (borrowings) over time, particularly as Council invests in its infrastructure
- a **Cash Flow Statement**, which shows where Council generates and spends its cash.

At this stage, Council has only prepared a basic version of the Statement of Financial Position and Cash Flow Statement for the forecast years in the Water and Sewer Funds. In preparing this LTFP, Council has identified that it needs to either purchase a proprietary software package or develop a financial model in-house to make this process easier. At this stage, only basic versions covering the key information are included. Future revisions of this LTFP will include full versions of the statements.

This information in this Appendix relates to the scenarios in sections 3, 4 and 5 (detailed statements aren't included for the scenarios in section 7).

Each of these includes actual historic figures to put the current situation and future forecasts into context.

The capital works and grants for general fund differs from the 2023 budget because it takes account of carry over works (as discussed in section 3.3).

Notes:

- All figures in $000's
- Historic actual figures in income statement and balance sheet (statement of financial position) are taken from annual financial statements (historic cashflows are not included as this isn't reported separately by fund in statements)
- "Total Capital Works" line at bottom of page:
  - Historic from note C1-5 or equivalent of financial statements (plus an estimate of work in progress, although this isn't clear in all years)
  - Budget/forecast from cashflow statement
- "Materials and contracts" was reclassified in the NSW Local Government Code of Accounting Practice and Financial Reporting as "materials and services" in 2021 (in the income statement) and the majority of "other expenses" transferred there
- "Other expenses" includes loss on disposal of assets in some years and a $2.7M provision for landfill remediation in 2021.

| | Historic Actuals | | | | | Budget | | Forecast | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GENERAL FUND INCOME STATEMENT** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** |
| Rates & Annual Charges | 8,251 | 8,489 | 8,941 | 9,177 | 9,579 | 9,842 | 9,921 | 10,516 | 11,163 | 11,853 | 12,590 | 12,905 | 13,227 | 13,558 | 13,897 | 14,244 |
| User Charges & Fees | 5,221 | 5,481 | 4,910 | 6,056 | 3,866 | 4,922 | 4,867 | 4,989 | 5,113 | 5,241 | 5,372 | 5,507 | 5,644 | 5,785 | 5,930 | 6,078 |
| Interest and investment revenue | 640 | 529 | 889 | 383 | 387 | 221 | 419 | 273 | 251 | 316 | 345 | 429 | 507 | 607 | 746 | 922 |
| Other Revenues | 611 | 569 | 947 | 1,156 | 957 | 2,370 | 476 | 488 | 500 | 513 | 525 | 539 | 552 | 566 | 580 | 594 |
| Grants & Contributions: Operating | 8,471 | 7,850 | 5,247 | 6,372 | 8,517 | 6,314 | 6,140 | 6,294 | 6,451 | 6,612 | 6,777 | 6,947 | 7,121 | 7,299 | 7,481 | 7,668 |
| *Grants & Contributions: Capital Purposes* | *470* | *895* | *2,983* | *3,713* | *6,883* | *3,455* | *14,510* | *523* | *2,536* | *549* | *2,313* | *576* | *591* | *606* | *621* | *636* |
| Other income | 137 | 397 | - | - | - | 250 | 302 | 310 | 317 | 325 | 333 | 342 | 350 | 359 | 368 | 377 |
| **Total Income from Continuing Operations** | **23,801** | **24,210** | **23,917** | **26,857** | **30,189** | **27,374** | **36,635** | **23,392** | **26,331** | **25,409** | **28,256** | **27,243** | **27,991** | **28,779** | **29,622** | **30,521** |
| **TOTAL INCOME (ex. Capital)** | **23,331** | **23,315** | **20,934** | **23,144** | **23,306** | **23,919** | **22,125** | **22,869** | **23,796** | **24,860** | **25,943** | **26,667** | **27,401** | **28,174** | **29,002** | **29,885** |
| Employee Benefits & On-Costs | 8,111 | 7,660 | 7,988 | 8,655 | 9,294 | 11,663 | 9,601 | 9,649 | 9,697 | 9,746 | 9,794 | 9,990 | 10,190 | 10,394 | 10,602 | 10,814 |
| Materials & Contracts/Services | 4,889 | 6,903 | 6,189 | 7,225 | 11,286 | 7,332 | 9,144 | 9,167 | 9,190 | 9,236 | 9,282 | 9,514 | 9,752 | 9,996 | 10,245 | 10,502 |
| Borrowing Costs | 121 | 101 | 90 | 82 | 119 | 106 | 189 | 117 | 107 | 101 | 97 | 92 | 88 | 83 | 78 | 74 |
| Depreciation & Amortisation | 4,210 | 4,249 | 4,174 | 4,491 | 5,402 | 5,864 | 6,047 | 6,168 | 6,291 | 6,417 | 6,545 | 6,676 | 6,810 | 6,946 | 7,085 | 7,227 |
| Other expenses | 1,784 | 1,720 | 2,056 | 2,058 | 2,946 | 3,915 | 481 | 493 | 505 | 518 | 531 | 544 | 558 | 572 | 586 | 601 |
| Net loss on sale of assets | | | | | | | 650 | | | | | | | | | |
| **TOTAL EXPENSES: Continuing Operations** | **19,115** | **20,633** | **20,497** | **22,511** | **29,047** | **28,880** | **26,112** | **25,594** | **25,791** | **26,018** | **26,250** | **26,817** | **27,398** | **27,991** | **28,597** | **29,217** |
| **Net Operating Result for the Year** | **4,686** | **3,577** | **3,420** | **4,346** | **1,142** | **(1,506)** | **10,523** | **(2,202)** | **541** | **(609)** | **2,006** | **426** | **594** | **789** | **1,026** | **1,304** |
| **OPERATING SURPLUS/DEFICIT exc. Capital** | **4,216** | **2,682** | **437** | **633** | **(5,741)** | **(4,961)** | **(3,987)** | **(2,724)** | **(1,995)** | **(1,158)** | **(307)** | **(150)** | **3** | **183** | **405** | **667** |

| **GENERAL FUND BALANCE SHEET** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2031** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash & Cash Equivalents | 1,925 | 2,425 | 3,258 | 5,719 | 5,610 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Investments | 11,205 | 14,575 | 13,628 | 14,151 | 11,436 | 11,809 | 9,490 | 8,516 | 6,211 | 7,620 | 7,621 | 9,349 | 10,655 | 12,405 | 14,924 | 18,052 |
| Receivables | 1,683 | 1,737 | 3,475 | 1,572 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 |
| Inventories | 1,758 | 1,529 | 691 | 982 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 |
| Other | - | | 47 | 67 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 |
| **Total Current Assets** | **16,571** | **20,266** | **21,099** | **22,491** | **20,311** | **19,074** | **16,755** | **15,781** | **13,476** | **14,885** | **14,886** | **16,614** | **17,920** | **19,670** | **22,189** | **25,317** |
| Investments | 7,137 | 4,761 | 5,000 | 5,387 | 3,367 | 3,367 | - | - | - | - | - | - | - | - | - | - |
| Receivables | 105 | 67 | 72 | 47 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Infrastructure, Property, Plant & Equipment | 143,546 | 148,042 | 151,339 | 210,540 | 220,377 | 217,489 | 239,506 | 237,694 | 240,200 | 237,941 | 239,686 | 237,902 | 236,887 | 236,222 | 234,423 | 232,056 |
| Intangible Assets | 4,236 | 6,027 | 8,343 | 8,371 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 | 8,316 |
| **Total Non-Current Assets** | **155,024** | **158,897** | **164,754** | **224,345** | **232,075** | **229,187** | **247,837** | **246,025** | **248,531** | **246,272** | **248,017** | **246,233** | **245,218** | **244,553** | **242,754** | **240,387** |
| **TOTAL ASSETS** | **171,595** | **179,163** | **185,853** | **246,836** | **252,386** | **248,261** | **264,592** | **261,806** | **262,006** | **261,157** | **262,903** | **262,847** | **263,137** | **264,223** | **264,943** | **265,704** |
| Payables | 1,498 | 2,060 | 1,436 | 2,629 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 | 2,741 |
| Income received in advance | 490 | 345 | 1,591 | 381 | | | | | | | | | | | | |
| Contract liabilities | | | | 1,931 | 2,405 | | | | | | | | | | | |
| Borrowings | 384 | 309 | 325 | 442 | 464 | 417 | 589 | 542 | 437 | 453 | 470 | 487 | 506 | 501 | 518 | 518 |
| Provisions | 2,396 | 2,171 | 2,323 | 2,405 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 | 2,621 |
| **Total Current Liabilities** | **4,768** | **4,885** | **5,675** | **7,788** | **8,231** | **5,779** | **5,951** | **5,904** | **5,799** | **5,815** | **5,832** | **5,849** | **5,868** | **5,863** | **5,880** | **5,880** |
| Payables | 3 | | | | | | | | | | | | | | | |
| Borrowings | 2,058 | 1,634 | 1,309 | 3,316 | 2,851 | 2,434 | 7,770 | 7,133 | 6,597 | 6,041 | 5,464 | 4,865 | 4,243 | 4,243 | 3,621 | 2,978 |
| Employee benefit provision | | | | | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 |
| Provisions | 78 | 146 | 156 | 261 | 3,336 | 3,586 | 3,886 | 3,986 | 4,286 | 4,586 | 4,886 | 4,986 | 5,286 | 5,586 | 5,886 | 5,986 |
| **Total Non-Current Liabilities** | **2,139** | **1,780** | **1,465** | **3,577** | **6,464** | **6,297** | **11,933** | **11,396** | **11,160** | **10,904** | **10,627** | **10,128** | **9,806** | **10,106** | **9,784** | **9,241** |
| **TOTAL LIABILITIES** | **6,907** | **6,665** | **7,140** | **11,365** | **14,695** | **12,076** | **17,884** | **17,300** | **16,959** | **16,719** | **16,459** | **15,977** | **15,674** | **15,970** | **15,664** | **15,121** |
| **Net Assets** | **164,688** | **172,498** | **178,713** | **235,471** | **237,691** | **236,185** | **246,708** | **244,506** | **245,047** | **244,438** | **246,444** | **246,870** | **247,464** | **248,253** | **249,279** | **250,583** |
| Retained Earnings | 74,912 | 78,488 | 81,908 | 85,077 | 86,218 | 84,712 | 95,235 | 93,033 | 93,574 | 92,965 | 94,971 | 95,397 | 95,991 | 96,780 | 97,806 | 99,110 |
| Revaluation Reserves | 89,776 | 94,010 | 98,805 | 150,394 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 | 151,473 |
| **Total Equity** | **164,688** | **172,498** | **180,713** | **235,471** | **237,691** | **236,185** | **246,708** | **244,506** | **245,047** | **244,438** | **246,444** | **246,870** | **247,464** | **248,253** | **249,279** | **250,583** |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **TOTAL CAPITAL WORKS (FROM SAMP, CURRENT YEAR $)** | | | | | | | **9,558** | **4,490** | **5,495** | **5,375** | **10,015** | **5,000** | **5,485** | **5,240** | **4,795** | **4,510** |
| **ESTIMATED WORKS CARRIED FORWARD FROM CURRENT YEAR** | | | | | | | **14,900** | | | | | | | | | |
| **TOTAL CAPITAL WORKS (indexed 2.5% p.a.)** | **5,801** | **5,036** | **5,727** | **8,181** | **15,017** | **8,662** | **24,458** | **4,602** | **9,345** | **4,711** | **8,847** | **5,657** | **6,361** | **6,229** | **5,842** | **5,632** |

| | Actual | Budget | | Forecast | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GENERAL FUND CASHFLOW STATEMENT** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** |
| **Cash Flows from Operating Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Rates & Annual Charges | 9,579 | 9,842 | 9,921 | 10,516 | 11,163 | 11,853 | 12,590 | 12,905 | 13,227 | 13,558 | 13,897 | 14,244 |
| User Charges & Fees | 3,866 | 4,922 | 4,867 | 4,989 | 5,113 | 5,241 | 5,372 | 5,507 | 5,644 | 5,785 | 5,930 | 6,078 |
| Investment & Interest Revenue Received | 387 | 221 | 419 | 273 | 251 | 316 | 345 | 429 | 507 | 607 | 746 | 922 |
| Grants & Contributions | 15,400 | 9,769 | 20,650 | 6,817 | 8,987 | 7,161 | 9,090 | 7,523 | 7,712 | 7,905 | 8,102 | 8,304 |
| Other | 957 | 2,620 | 778 | 798 | 817 | 838 | 858 | 881 | 902 | 925 | 948 | 971 |
| **Payments:** | | | | | | | | | | | | |
| Employee Benefits & On-Costs | (9,294) | (11,663) | (9,601) | (9,649) | (9,697) | (9,746) | (9,794) | (9,990) | (10,190) | (10,394) | (10,602) | (10,814) |
| Materials & Contracts | (11,286) | (7,332) | (8,894) | (8,917) | (8,940) | (8,986) | (9,032) | (9,264) | (9,502) | (9,746) | (9,995) | (10,252) |
| Borrowing Costs | (119) | (106) | (189) | (117) | (107) | (101) | (97) | (92) | (88) | (83) | (78) | (74) |
| Other | (2,946) | (3,915) | (1,131) | (493) | (505) | (518) | (531) | (544) | (558) | (572) | (586) | (601) |
| **Net Cash from Operating Activities** | **6,544** | **4,358** | **16,820** | **4,217** | **7,082** | **6,058** | **8,801** | **7,355** | **7,654** | **7,985** | **8,362** | **8,778** |
| **Cash Flows from Investing Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Sale of Investment Securities | | | | | | | | | | | | |
| Sale of Infrastructure, Property, Plant & Equipment | | | | | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| **Payments:** | | | | | | | | | | | | |
| Purchase of Investment Securities | | | | | | | | | | | | |
| Purchase of Infrastructure, Property, Plant & Equipment | (15,017) | (8,662) | (24,458) | (4,602) | (9,345) | (4,711) | (8,847) | (5,657) | (6,361) | (6,229) | (5,842) | (5,632) |
| **Net Cash from Investing Activities** | **(15,017)** | **(8,662)** | **(24,458)** | **(4,602)** | **(8,845)** | **(4,211)** | **(8,347)** | **(5,157)** | **(5,861)** | **(5,729)** | **(5,342)** | **(5,132)** |
| **Cash Flows from Financing Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Proceeds from Borrowings & Advances | | 3,531 | 2,369 | | | | | | | | | |
| **Payments:** | | | | | | | | | | | | |
| Repayment of Borrowings & Advances | | (464) | (417) | (589) | (542) | (437) | (453) | (470) | (487) | (506) | (501) | (518) |
| **Net Cash from Financing Activities** | **-** | **3,067** | **1,952** | **(589)** | **(542)** | **(437)** | **(453)** | **(470)** | **(487)** | **(506)** | **(501)** | **(518)** |
| **Net Increase/(Decrease) in Cash & Cash Equivalents** | **(8,473)** | **(1,237)** | **(5,686)** | **(974)** | **(2,305)** | **1,409** | **1** | **1,728** | **1,306** | **1,751** | **2,518** | **3,128** |
| Plus: Cash & Cash equivalents - beginning of year | 25,257 | 20,413 | 19,176 | 13,490 | 12,516 | 10,211 | 11,620 | 11,621 | 13,349 | 14,655 | 16,405 | 18,924 |
| **Investments, Cash & Cash Equivalents - end of the year** | **20,413** | **19,176** | **13,490** | **12,516** | **10,211** | **11,620** | **11,621** | **13,349** | **14,655** | **16,405** | **18,924** | **22,052** |

| | Historic Actuals | | | | | Budget | | Forecast | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **WATER FUND INCOME STATEMENT** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2031** |
| Rates & Annual Charges | 1,329 | 1,340 | 1,342 | 1,429 | 1,448 | 1,545 | 1,540 | 1,579 | 1,618 | 1,658 | 1,700 | 1,742 | 1,786 | 1,831 | 1,876 | 1,923 |
| User Charges & Fees | 2,533 | 3,149 | 3,666 | 3,248 | 3,042 | 2,856 | 3,247 | 3,239 | 3,320 | 3,403 | 3,488 | 3,576 | 3,665 | 3,757 | 3,851 | 3,947 |
| Interest and investment revenue | 284 | 302 | 365 | 333 | 191 | 138 | 166 | 429 | 503 | 589 | 683 | 784 | 869 | 941 | 726 | 741 |
| Other Revenues | 27 | 43 | 282 | 149 | 126 | 159 | 56 | 100 | 103 | 105 | 108 | 110 | 113 | 116 | 119 | 122 |
| Grants & Contributions: Operating | 39 | 38 | 36 | 37 | 72 | 29 | - | - | - | - | - | - | - | - | - | - |
| *Grants & Contributions: Capital Purposes* | *504* | *27* | *152* | *92* | *32* | - | *54* | *60* | *62* | *63* | *65* | *66* | *68* | *70* | *2,000* | *75* |
| Other income | | | | | | | | | - | - | - | - | - | - | - | - |
| **Total Income from Continuing Operations** | **4,716** | **4,899** | **5,843** | **5,288** | **4,911** | **4,727** | **5,063** | **5,407** | **5,605** | **5,819** | **6,044** | **6,279** | **6,501** | **6,714** | **8,571** | **6,808** |
| **TOTAL INCOME (ex. Capital)** | **4,212** | **4,872** | **5,691** | **5,196** | **4,879** | **4,727** | **5,009** | **5,347** | **5,544** | **5,756** | **5,979** | **6,213** | **6,434** | **6,644** | **6,571** | **6,733** |
| Employee Benefits & On-Costs | 1,170 | 1,711 | 1,653 | 1,708 | 1,900 | 1,450 | 1,673 | 1,715 | 1,758 | 1,802 | 1,847 | 1,893 | 1,940 | 1,989 | 2,038 | 2,089 |
| Materials & Contracts/Services | 847 | 555 | 710 | 883 | 1,311 | 1,520 | 1,597 | 1,432 | 1,468 | 1,504 | 1,542 | 1,581 | 1,620 | 1,661 | 1,702 | 1,745 |
| Borrowing Costs | | | | | | | | | - | - | - | - | - | - | - | - |
| Depreciation & Amortisation | 1,176 | 966 | 942 | 929 | 946 | 1,395 | 1,468 | 1,497 | 1,535 | 1,573 | 1,612 | 1,653 | 1,694 | 1,736 | 1,780 | 1,824 |
| Other expenses | 424 | 506 | 462 | 486 | - | 270 | - | - | - | - | - | - | - | - | - | - |
| **TOTAL EXPENSES: Continuing Operations** | **3,617** | **3,738** | **3,767** | **4,006** | **4,157** | **4,635** | **4,738** | **4,644** | **4,760** | **4,879** | **5,001** | **5,126** | **5,254** | **5,386** | **5,520** | **5,658** |
| **Net Operating Result for the Year** | **1,099** | **1,161** | **2,076** | **1,282** | **754** | **92** | **271** | **702** | **784** | **877** | **978** | **1,086** | **1,179** | **1,259** | **1,051** | **1,075** |
| **OPERATING SURPLUS/DEFICIT exc. Capital** | **595** | **1,134** | **1,924** | **1,190** | **722** | **92** | **271** | **702** | **784** | **877** | **978** | **1,086** | **1,179** | **1,259** | **1,051** | **1,075** |

| **WATER FUND BALANCE SHEET** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2031** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash & Cash Equivalents | 189 | 223 | 204 | 3,414 | 5,047 | | | | | | | | | | | |
| Investments | 7,060 | 9,475 | 12,312 | 9,523 | 9,359 | | | | | | | | | | | |
| Receivables | 317 | 359 | 511 | 367 | 416 | | | | | | | | | | | |
| Inventories | - | - | | | | | | | | | | | | | | |
| Contract assets | - | - | | | | | | | | | | | | | | |
| Other | - | - | | | 4 | | | | | | | | | | | |
| **Total Current Assets** | **7,566** | **10,057** | **13,027** | **13,304** | **14,826** | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 3,939 | 3,029 | 2,798 | 3,626 | 2,756 | | | | | | | | | | | |
| Receivables | 8 | - | 4 | 25 | 20 | | | | | | | | | | | |
| Inventories | - | - | | | | | | | | | | | | | | |
| Infrastructure, Property, Plant & Equipment | 25,438 | 25,438 | 25,194 | 25,591 | 42,250 | | | | | | | | | | | |
| Intangible Assets | - | | | | | | | | | | | | | | | |
| **Total Non-Current Assets** | **29,385** | **28,467** | **27,996** | **29,242** | **45,026** | - | - | - | - | - | - | - | - | - | - | - |
| **TOTAL ASSETS** | **36,951** | **38,524** | **41,023** | **42,546** | **59,852** | - | - | - | - | - | - | - | - | - | - | - |
| Payables | 1 | 1 | 1 | 13 | 1 | | | | | | | | | | | |
| Income received in advance | - | - | | | | | | | | | | | | | | |
| Contract liabilities | - | - | | | | | | | | | | | | | | |
| Borrowings | - | - | | | | | | | | | | | | | | |
| Provisions | - | - | | | | | | | | | | | | | | |
| **Total Current Liabilities** | **1** | **1** | **1** | **13** | **1** | - | - | - | - | - | - | - | - | - | - | - |
| Payables | - | - | | | | | | | | | | | | | | |
| Borrowings | - | - | | | | | | | | | | | | | | |
| Employee benefit provision | - | - | | | | | | | | | | | | | | |
| Provisions | - | - | | | | | | | | | | | | | | |
| **Total Non-Current Liabilities** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **TOTAL LIABILITIES** | **1** | **1** | **1** | **13** | **1** | - | - | - | - | - | - | - | - | - | - | - |
| **Net Assets** | **36,950** | **38,523** | **41,022** | **42,533** | **59,851** | - | - | - | - | - | - | - | - | - | - | - |
| Retained Earnings | 20,349 | 21,510 | 23,586 | 24,869 | 25,623 | | | | | | | | | | | |
| Revaluation Reserves | 16,601 | 17,013 | 17,436 | 17,665 | 34,228 | | | | | | | | | | | |
| **Total Equity** | **36,950** | **38,523** | **41,022** | **42,534** | **59,851** | - | - | - | - | - | - | - | - | - | - | - |

| | Actual | Budget | | Forecast | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **WATER FUND CASHFLOW STATEMENT** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** |
| **Cash Flows from Operating Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Rates & Annual Charges | 1,448 | 1,545 | 1,540 | 1,579 | 1,618 | 1,658 | 1,700 | 1,742 | 1,786 | 1,831 | 1,876 | 1,923 |
| User Charges & Fees | 3,042 | 2,856 | 3,247 | 3,239 | 3,320 | 3,403 | 3,488 | 3,576 | 3,665 | 3,757 | 3,851 | 3,947 |
| Investment & Interest Revenue Received | 191 | 138 | 166 | 429 | 503 | 589 | 683 | 784 | 869 | 941 | 726 | 741 |
| Grants & Contributions | 104 | 29 | 54 | 60 | 62 | 63 | 65 | 66 | 68 | 70 | 2,000 | 75 |
| Other | 126 | 159 | 56 | 100 | 103 | 105 | 108 | 110 | 113 | 116 | 119 | 122 |
| **Payments:** | | | | | | | | | | | | |
| Employee Benefits & On-Costs | (1,900) | (1,450) | (1,673) | (1,715) | (1,758) | (1,802) | (1,847) | (1,893) | (1,940) | (1,989) | (2,038) | (2,089) |
| Materials & Contracts | (1,311) | (1,520) | (1,597) | (1,432) | (1,468) | (1,504) | (1,542) | (1,581) | (1,620) | (1,661) | (1,702) | (1,745) |
| Borrowing Costs | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | (270) | - | - | - | - | - | - | - | - | - | - |
| **Net Cash from Operating Activities** | **1,700** | **1,487** | **1,793** | **2,260** | **2,380** | **2,513** | **2,655** | **2,805** | **2,941** | **3,065** | **4,831** | **2,974** |
| **Cash Flows from Investing Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Sale of Investment Securities | | | | | | | | | | | | |
| Sale of Infrastructure, Property, Plant & Equipment | | | | | | | | | | | | |
| **Payments:** | | | | | | | | | | | | |
| Purchase of Investment Securities | | | | | | | | | | | | |
| Purchase of Infrastructure, Property, Plant & Equipment | (1,101) | (2,098) | (640) | (656) | (883) | (689) | (706) | (724) | (1,438) | (1,949) | (9,309) | (799) |
| **Net Cash from Investing Activities** | **(1,101)** | **(2,098)** | **(640)** | **(656)** | **(883)** | **(689)** | **(706)** | **(724)** | **(1,438)** | **(1,949)** | **(9,309)** | **(799)** |
| **Cash Flows from Financing Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Proceeds from Borrowings & Advances | | | | | | | | | | | | |
| **Payments:** | | | | | | | | | | | | |
| Repayment of Borrowings & Advances | | | - | - | - | - | - | - | - | - | - | - |
| **Net Cash from Financing Activities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net Increase/(Decrease) in Cash & Cash Equivalents** | **599** | **(611)** | **1,153** | **1,604** | **1,497** | **1,824** | **1,948** | **2,081** | **1,503** | **1,115** | **(4,478)** | **2,175** |
| Plus: Cash & Cash equivalents - beginning of year | 16,563 | 17,162 | 16,551 | 17,704 | 19,308 | 20,805 | 22,629 | 24,577 | 26,659 | 28,162 | 29,277 | 24,800 |
| **Cash & Cash Equivalents - end of the year** | **17,162** | **16,551** | **17,704** | **19,308** | **20,805** | **22,629** | **24,577** | **26,659** | **28,162** | **29,277** | **24,800** | **26,974** |

| | Historic Actuals | | | | | Budget | | Forecast | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **SEWER FUND INCOME STATEMENT** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2031** |
| Rates & Annual Charges | 2,103 | 2,273 | 2,331 | 2,406 | 2,412 | 2,591 | 2,679 | 2,762 | 2,831 | 2,902 | 2,975 | 3,049 | 3,125 | 3,203 | 3,283 | 3,366 |
| User Charges & Fees | 329 | 375 | 399 | 499 | 837 | 407 | 394 | 404 | 414 | 424 | 435 | 446 | 457 | 468 | 480 | 492 |
| Interest and investment revenue | 202 | 196 | 123 | 172 | 103 | 91 | 111 | 172 | 163 | 152 | 187 | 214 | 251 | 307 | 364 | 362 |
| Other Revenues | 1 | 1 | 3 | 5 | 10 | 10 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Grants & Contributions: Operating | 31 | 31 | 30 | 30 | 29 | 37 | | | | | | | | | | |
| *Grants & Contributions: Capital Purposes* | *151* | *77* | *206* | *130* | *11* | *750* | *250* | *256* | *263* | *269* | *276* | *283* | *290* | *297* | *305* | *312* |
| Other income | - | | | | | | | | | | | | | | | |
| **Total Income from Continuing Operations** | **2,817** | **2,953** | **3,092** | **3,242** | **3,402** | **3,885** | **3,440** | **3,601** | **3,677** | **3,754** | **3,879** | **3,998** | **4,129** | **4,282** | **4,438** | **4,537** |
| **TOTAL INCOME (ex. Capital)** | **2,666** | **2,876** | **2,886** | **3,112** | **3,391** | **3,135** | **3,190** | **3,344** | **3,414** | **3,485** | **3,603** | **3,715** | **3,839** | **3,985** | **4,133** | **4,225** |
| Employee Benefits & On-Costs | 637 | 964 | 1,132 | 1,161 | 1,158 | 1,064 | 1,158 | 1,237 | 1,217 | 1,247 | 1,278 | 1,310 | 1,343 | 1,376 | 1,411 | 1,446 |
| Materials & Contracts/Services | 822 | 419 | 570 | 552 | 719 | 675 | 907 | 827 | 848 | 869 | 891 | 913 | 936 | 959 | 983 | 1,008 |
| Borrowing Costs | | | | | | | | | | | | | | | | |
| Depreciation & Amortisation | 779 | 699 | 734 | 753 | 920 | 952 | 1,055 | 1,133 | 1,156 | 1,179 | 1,203 | 1,227 | 1,251 | 1,276 | 1,302 | 1,328 |
| Other expenses | 254 | 270 | 240 | 271 | - | 257 | | | | | | | | | | |
| **TOTAL EXPENSES: Continuing Operations** | **2,492** | **2,352** | **2,676** | **2,737** | **2,797** | **2,948** | **3,120** | **3,197** | **3,220** | **3,295** | **3,372** | **3,450** | **3,530** | **3,612** | **3,696** | **3,782** |
| **Net Operating Result for the Year** | **325** | **601** | **416** | **505** | **605** | **937** | **320** | **403** | **457** | **459** | **507** | **548** | **599** | **670** | **742** | **756** |
| **OPERATING SURPLUS/DEFICIT exc. Capital** | **174** | **524** | **210** | **375** | **594** | **187** | **70** | **147** | **194** | **190** | **231** | **265** | **309** | **373** | **437** | **443** |

| **SEWER FUND BALANCE SHEET** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2031** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash & Cash Equivalents | 115 | 139 | 102 | 1,730 | 2,475 | | | | | | | | | | | |
| Investments | 4,345 | 5,560 | 6,170 | 4,826 | 5,355 | | | | | | | | | | | |
| Receivables | 336 | 400 | 190 | 261 | 216 | | | | | | | | | | | |
| Inventories | | | | | | | | | | | | | | | | |
| Contract assets | | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | |
| **Total Current Assets** | **4,796** | **6,099** | **6,462** | **6,817** | **8,046** | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 2,424 | 1,710 | 1,402 | 1,837 | 1,577 | | | | | | | | | | | |
| Receivables | 121 | 4 | 8 | 4 | 10 | | | | | | | | | | | |
| Inventories | | | | | | | | | | | | | | | | |
| Infrastructure, Property, Plant & Equipment | 28,895 | 29,654 | 30,468 | 30,463 | 37,263 | | | | | | | | | | | |
| Intangible Assets | | | | | | | | | | | | | | | | |
| **Total Non-Current Assets** | **31,440** | **31,368** | **31,878** | **32,304** | **38,850** | - | - | - | - | - | - | - | - | - | - | - |
| **TOTAL ASSETS** | **36,236** | **37,467** | **38,340** | **39,121** | **46,896** | - | - | - | - | - | - | - | - | - | - | - |
| Payables | 53 | | | 7 | | | | | | | | | | | | |
| Income received in advance | | | | | | | | | | | | | | | | |
| Contract liabilities | | | | | | | | | | | | | | | | |
| Borrowings | | | | | | | | | | | | | | | | |
| Provisions | | | | | | | | | | | | | | | | |
| **Total Current Liabilities** | **53** | - | - | **7** | - | - | - | - | - | - | - | - | - | - | - | - |
| Payables | - | - | | | | | | | | | | | | | | |
| Borrowings | - | - | | | | | | | | | | | | | | |
| Employee benefit provision | - | - | | | | | | | | | | | | | | |
| Provisions | - | - | | | | | | | | | | | | | | |
| **Total Non-Current Liabilities** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **TOTAL LIABILITIES** | **53** | - | - | **7** | - | - | - | - | - | - | - | - | - | - | - | - |
| **Net Assets** | **36,183** | **37,467** | **38,340** | **39,114** | **46,896** | - | - | - | - | - | - | - | - | - | - | - |
| Retained Earnings | 18,902 | 19,504 | 19,920 | 20,423 | 21,029 | | | | | | | | | | | |
| Revaluation Reserves | 17,281 | 17,963 | 18,420 | 18,691 | 25,867 | | | | | | | | | | | |
| **Total Equity** | **36,183** | **37,467** | **38,340** | **39,114** | **46,896** | - | - | - | - | - | - | - | - | - | - | - |

| | Actual | Budget | | Forecast | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **SEWER FUND CASHFLOW STATEMENT** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** |
| **Cash Flows from Operating Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Rates & Annual Charges | 2,412 | 2,591 | 2,679 | 2,762 | 2,831 | 2,902 | 2,975 | 3,049 | 3,125 | 3,203 | 3,283 | 3,366 |
| User Charges & Fees | 837 | 407 | 394 | 404 | 414 | 424 | 435 | 446 | 457 | 468 | 480 | 492 |
| Investment & Interest Revenue Received | 103 | 91 | 111 | 172 | 163 | 152 | 187 | 214 | 251 | 307 | 364 | 362 |
| Grants & Contributions | 40 | 787 | 250 | 256 | 263 | 269 | 276 | 283 | 290 | 297 | 305 | 312 |
| Other | 10 | 10 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Payments:** | | | | | | | | | | | | |
| Employee Benefits & On-Costs | (1,158) | (1,064) | (1,158) | (1,237) | (1,217) | (1,247) | (1,278) | (1,310) | (1,343) | (1,376) | (1,411) | (1,446) |
| Materials & Contracts | (719) | (675) | (907) | (827) | (848) | (869) | (891) | (913) | (936) | (959) | (983) | (1,008) |
| Borrowing Costs | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | (257) | - | - | - | - | - | - | - | - | - | - |
| **Net Cash from Operating Activities** | **1,525** | **1,889** | **1,375** | **1,536** | **1,613** | **1,638** | **1,710** | **1,775** | **1,850** | **1,946** | **2,044** | **2,083** |
| **Cash Flows from Investing Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Sale of Investment Securities | | | | | | | | | | | | |
| Sale of Infrastructure, Property, Plant & Equipment | | | | | | | | | | | | |
| **Payments:** | | | | | | | | | | | | |
| Purchase of Investment Securities | | | | | | | | | | | | |
| Purchase of Infrastructure, Property, Plant & Equipment | (699) | (1,760) | (4,357) | (195) | (2,196) | (2,143) | (486) | (894) | (742) | (345) | (536) | (2,111) |
| **Net Cash from Investing Activities** | **(699)** | **(1,760)** | **(4,357)** | **(195)** | **(2,196)** | **(2,143)** | **(486)** | **(894)** | **(742)** | **(345)** | **(536)** | **(2,111)** |
| **Cash Flows from Financing Activities** | | | | | | | | | | | | |
| **Receipts:** | | | | | | | | | | | | |
| Proceeds from Borrowings & Advances | | | | | | | | | | | | |
| **Payments:** | | | | | | | | | | | | |
| Repayment of Borrowings & Advances | | | | | | | | | | | | |
| **Net Cash from Financing Activities** | - | - | - | - | - | - | - | - | - | - | - | - |
| **Net Increase/(Decrease) in Cash & Cash Equivalents** | **826** | **129** | **(2,982)** | **1,342** | **(583)** | **(505)** | **1,224** | **881** | **1,108** | **1,601** | **1,507** | **(27)** |
| Plus: Cash & Cash equivalents - beginning of year | 8,393 | 9,407 | 9,536 | 6,554 | 7,895 | 7,312 | 6,807 | 8,031 | 8,912 | 10,020 | 11,622 | 13,129 |
| **Cash & Cash Equivalents - end of the year** | **9,407** | **9,536** | **6,554** | **7,895** | **7,312** | **6,807** | **8,031** | **8,912** | **10,020** | **11,622** | **13,129** | **13,102** |