



ATTACHMENTS

WORKSHOP MEETING

Wednesday 28 September 2022
at 6:30PM



TABLE OF CONTENTS

OFFICE OF THE GENERAL MANAGER

1	GM31/22	Adoption of a Draft Long Term Financial Plan for 2023/24 – 2032/33 and Progression of a Special Rate Variation Application for 2023/24	
	Attachment 1:	Draft Long Term Financial Plan - 2023/24 - 2032/33	2
	Attachment 2:	Asset Management Strategy - 2023/24 - 2032/33	59
	Attachment 3:	Community Engagement Action Plan	83
	Attachment 4:	SRV Background Paper	102
	Attachment 5:	Capacity to Pay Report	116

ATTACHMENT/S

REPORT NO. GM31/22

ITEM 1

- 1. DRAFT LONG TERM FINANCIAL PLAN - 2023/24 -
2032/33**
- 2. ASSET MANAGEMENT STRATEGY - 2023/24 - 2032/33**
- 3. COMMUNITY ENGAGEMENT ACTION PLAN**
- 4. SRV BACKGROUND PAPER**
- 5. CAPACITY TO PAY REPORT**



LONG TERM FINANCIAL PLAN

2023/24 to 2032/33

ATTACHMENT 1 - ITEM 1

TABLE OF CONTENTS

Executive Summary2

Introduction8

Financial Objectives10

Financial Planning Assumptions17

Expenditure Assumptions.....18

Revenue Assumptions22

Asset Management Planning27

Results - Normal Continuance of Service & Asset Management Requirements31

Special Rate Variation (SRV)39

Strategic Initiatives41

Results - Normal Continuance of Service, Asset Management Requirements, Strategic Initiatives & Special Rate Variation.....43

Financial Risks49

Sensitivity Analysis – Employee Costs51

Action to Improve Future Direction54

ATTACHMENT 1 - ITEM 1

Executive Summary

The previous version of Council's Long Term Financial Plan (LTFP) was recently adopted by Council in July 2022 following a public exhibition period. The Plan predicted Income Statement deficits in eight out of the ten years forecast, which were reflective of a forecast continual decline in Council's financial capacity.

Financial capacity began to decline after the 2016 boundary adjustment with the City of Parramatta Council, which significantly reduced Council's Income Statement results and Annual Budget by approximately \$10 million. Since the boundary adjustment financial capacity has continued to decline because of a range of internal and external factors such as:

- Costs escalating greater than the annual rate peg increase permitted each year.
- An increase in the Emergency Services Levy payable to the NSW State Government of \$1 million per year.
- The need to provide a recurrent budget for Council's largest project, Hornsby Park.
- The need to provide additional funding to meet the requirements identified in Council's revised Asset Management Plans.
- An increase in statutory employee superannuation to 12% amounting to \$1.2 million in additional payments each year from 2026.

A further review of the LTFP document has deemed to be required to further consider the continual decline in Council's financial capacity and a range of factors such as:

- Consumer Price Index (CPI) growth has exceeded earlier projections and far exceeded allowable rate income increases, which has placed pressure on many of Council's budgets.
- The Wages Price Index is also forecast to increase to a greater extent over the next 10 years compared to earlier predictions.
- The external economic environment has changed following recovery from the COVID-19 pandemic.
- Asset Management Strategy – the rising costs in the maintenance and construction sectors have required a revision of the 10-year expenditure projections in Council's updated Asset Management Strategy.

- Special Rate Variation – workshops have been held with Councillors to discuss the need for an SRV to ensure Council's finances are rebalanced within acceptable levels into the future. Following these workshops Councillors have indicated support to prepare a proposal for an SRV to ensure Council is financially sustainable and engage with the community about the need for this approach. Council has also sought to understand the opportunities to deliver on community priorities that cannot be delivered within existing resources.
- Strategic initiatives – a number of initiatives across 36 strategic and technical documents previously adopted by Council that could not be funded because of insufficient financial capacity over the term of the LTFP. During recent workshops, Councillors have considered whether strategic initiatives desired by the community could be progressed if funding could be provided (at least in part) through the SRV. Regard was given to feedback received from the community through numerous surveys and this led to the support by Councillors of 14 key initiatives which they would like to achieve or progress in the next 10 years. These initiatives are discussed in more detail on page 41.

In addition to the above, Council wants to maintain its strong commitment to adopting annually a balanced budget and that its Income Statement results meet financially acceptable benchmarks. This includes an annual Operating Performance Ratio (OPR) that is in the range of 2-4% to enable Council to respond in a timely manner towards infrastructure assets that may fail, the impact of natural disasters on local service provision and clean-ups and cost shifting from other tiers of government. It is financially prudent to target an acceptable OPR to respond to one off budget shocks that can occur over the course of the year and not affect the normal continuance of service provision.

To address the above matters two scenarios of the LTFP (as required by the Office of Local Government SRV guidelines) have been prepared that form the basis of this report.

1. 'Base' LTFP - Normal Continuance of Service & Asset Management Requirements

A 'base' LTFP has been prepared that includes forecast income and expenditure from:

- The normal continuance of services, representing costs associated with the continued provision of Council's current service offerings into the future (page 31).

- The recurrent costs to operate Council's largest project, Hornsby Park once construction is complete. \$3.1 million per year is required for this from 2028 as explained further on page 30.
- The revised forecast requirements identified in Council's Asset Management Strategy, which require average additional funding of \$4.1 million per year (page 27).

Results in this version of the LTFP are similar to the previous version that was adopted in July 2022. The Income Statement result over the 10-year period predicts a deficit for eight out of the ten years forecast and there is an average deficit of (\$3.582) million per year. Concurrently, a negative Operating Performance Ratio is forecast for eight years of the Plan, which is below the benchmark set by the Office of Local Government and below the minimum benchmark set by Council of 2% that is required to protect the annual budget against unexpected budget shocks that typically occur throughout the year. The Plan shows that the recurrent budget deficits forecast would also likely result in the use of unrestricted cash during the life of the plan, which would have significant ramifications for Council's continued operation such as limiting the ability of Council to pay creditors as and when they fall due.

Accordingly, the base version of the LTFP concludes that Council's forecast financial capacity is below acceptable levels and action is required to improve future financial direction.

2. Revised LTFP - Normal Continuation of Service, Asset Management Requirements, Strategic Initiatives & Special Rate Variation

This version of the LTFP is fully inclusive of each of the matters discussed throughout this report. It quantifies the size of the Special Rate Variation required to rebalance Council's long term financial capacity to achieve acceptable benchmarks by including:

- All income and expenditure in the 'Base' version of LTFP including the normal continuance of services, the \$4.1 million funding gap identified in Council's Asset Management Strategy and the \$3.1 million of recurrent funding required for Hornsby Park from 2028.
- The cost of funding 14 Strategic initiatives identified as high priority through Council's suite of Integrated Planning Documents, adopted strategies and numerous community surveys which require a total allocation of \$67.26 million across the ten-year period of the Plan.

- Sufficient financial capacity to provide an Operating Performance Ratio of at least 2% per year, which is the minimum historic level required to protect against budget shocks that typically impact Council throughout the year.
- Additional income from a 28% (31.05% cumulative) special rate variation across the first four years of the plan, inclusive of the rate peg. A rate variation of this size is necessary to provide sufficient financial capacity to fund each of the items identified above, as discussed on page 39.

After accounting for the additional forecast income generated from rates the income Statement result over the 10-year period predicts a surplus in all years forecast and there is an average surplus of \$6.584 million per year. A significant portion of this Income Statement surplus will go towards funding capital works. Concurrently, the Operating Performance Ratio forecast averages 3.55% over the life of the Plan which is above the benchmark set by the Office of Local Government of 0% and within the range set by Council of 2%-4% that is required to protect the annual budget against unexpected budget shocks that typically occur throughout the year.

The Balance Sheet results over the 10-year period maintain equity, liabilities and non-current assets within acceptable levels and each of the ratios that are based on the primary financial statements are above acceptable benchmarks over the life of the Plan including the Operating Performance Ratio, the Own Source Operating Revenue Ratio, the Unrestricted Current Ratio and the Debt Service Cover Ratio. Infrastructure asset ratios are also regarded as acceptable over the life of the plan despite the average Asset Maintenance Ratio of 97% falling slightly below the benchmark of 100% as there is sufficient financial capacity within the Plan to allocate additional funding for asset maintenance once revised Asset Management Plans for Foreshore Assets and Other Structures are finalised, noting that the gap in maintenance funding is related to these asset classes only.

The results from this version of the LTFP demonstrate that a Special Rate Variation of 28% (31.05% cumulative) over four years (page 39) is sufficient to rebalance Council's projected finances over the life of the Plan within acceptable levels. Most importantly these financial results address the key financial objectives identified at the beginning of this Plan by meeting desired levels of community service, providing for the ongoing maintenance and renewal of a completed Hornsby Park and providing sufficient operating capacity to respond to financial challenges when they arise.

Future Direction

Current operating capacity is insufficient to fund each of the items desired by the community that are discussed throughout this report, notably:

- The normal continuance of services into the future (page 12)
- The asset management funding gap of \$4.1 million per year (page 27)
- Recurrent funding for Hornsby Park of up to \$3.1 million per year (page 30)
- Strategic initiatives totalling \$67.26 million over ten years (page 41)
- Sufficient capacity to achieve at least a 2% Operating Performance Ratio each year (page 10)

Modelling undertaken in this version of the LTFP has indicated that a special rate variation of 28% (31% cumulative) over four years inclusive of the rate peg is necessary to fund each of the items listed above. Therefore, actions to improve future direction are as follows:

- Apply to IPART for a total special rate variation of 28% (31% cumulative) over the first four years of the LTFP inclusive of the rate peg each year, as detailed on page 39.
- Review other income streams such as fees and charges to ensure appropriate price setting and assess whether price increases could be used to generate additional income.
- No new positions to be created as appropriate unless offset by an equivalent position elsewhere, or grant funded or income generating positions.
- Maintain cost increases to modest levels regarding non-labour related expenses each year excluding the additional allowances that have been made in this Plan including annual allocations for asset management and strategic initiatives.
- No new loan borrowing to be undertaken unless financial capacity above a 2% budget surplus/operating performance ratio is available each year in the Plan.
- Continuance of financial improvement initiatives (the development of business improvement plans)

- Consider whether there is a case to rationalise underutilised assets to reduce ongoing cost requirements and/or provide one off capital funding from sale proceeds towards other capital investment decisions.

If the above actions are unaddressed, notably the recommendation for Council to apply to IPART for a 28% (31% cumulative) Special Rate Variation, Council will be limited in a number of ways as a result of insufficient financial capacity:

1. Normal Operations

There is insufficient capacity within the LTFP to fund the continuance of normal operations into the future. Additional funding must be identified to fund forecast deficits or services may need to be reduced to ensure a balanced budget each year. Without action budget reductions will be required that will reduce levels of service such as through the closure of facilities or reduction in hours of operation.

2. Asset Management

There is insufficient capacity within the LTFP to fund the requirements identified in Council's Asset Management plans to maintain assets in a satisfactory condition. As a result, the condition of Council's assets is expected to decline, and the level of infrastructure backlog will increase unless funding is identified.

3. Major Capital Projects

There is insufficient capacity to fund the recurrent cost of operating major new capital projects once construction is complete. This includes Hornsby Park and Westleigh Park, noting that the capital construction of these projects is funded from external sources such as the NSW Stronger Communities Fund and Development Contributions. If funding is not provided future versions of this Plan are likely to recommend that projects are paused until a funding source can be identified.

4. Strategic Initiatives

Without an increase in Council's financial capacity no funding is available to fund key strategic initiatives as detailed on page 41.

