HORNSBY
SHIRE COUNCIL

ATTACHMENTS

WORKSHOP MEETING

Wednesday 28 September 2022
at 6:30PM

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OFFICE OF THE GENERAL MANAGER

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REPORT NO. GM31/22

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3. COMMUNITY ENGAGEMENT ACTION PLAN
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LONG TERM FINANCIAL PLAN

2023/24 to 2032/33

HORNSBY
SHIRE COUNCIL

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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.

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- 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. <u>'Base' LTFP - Normal Continuance of Service & Asset Management Requirements</u>

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).

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- 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 Continuance 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.

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- 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.

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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)

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- 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 constriction 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.

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Introduction

Council's LTFP is a requirement under the Integrated Planning and Reporting framework for NSW Local Government and forms part of the Resourcing Strategy. The LTFP must be for a minimum of 10 years with the purpose of making clear the financial direction of Council as well as the impact of that direction on achieving community priorities.

The main purpose of the LTFP is to guide and inform decision making in respect to Council's financial sustainability and to ensure that Council has sufficient financial resources to fund asset maintenance and renewal and provide services to the standard that the community expects. The LTFP establishes the framework for sound financial decisions and provides an insight as to the financial sustainability of the Council over the planning period of this document. The key objectives in developing this Plan are:

- Balanced Budgets and Income Statement results that provide sufficient capacity to respond to budget 'shocks' as they arise
- Maintain into the future a level of service that the community has come to expect
- Assets provided by Council are designed and funded to meet a defined level of demand and/or need of the community
- Continuous Financial Improvement
- Reduction in External Loan Borrowing
- Achieve/Maintain Financial Sustainability Benchmarks (Indicators prescribed by the Office of Local Government).

The LTFP is based on Council's 2022/23 budget, which was adopted on 8 June 2022. The 2022/23 budget forms the first year of the LTFP. Future years are based on a range of forecasted assumptions used to determine:

- Future revenue and expenditure (Income Statement result)
- Balance Sheet and Cash Flow Statements

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- A projection for a range of key financial indicators prescribed by the Office of Local Government.

In addition to the presentation of financial results, information will be provided in respect to:

- Financial planning assumptions used
- An analysis of the factors and/or assumptions that are most likely to affect the plan
- Methods of monitoring financial performance.

This Plan seeks to ensure that Hornsby Shire Council can be financially sustainable and prosperous; achieving the NSW Governments fit for the future benchmarks and delivering services that our community wants and needs now and into the future.

Financial Objectives

In preparing the LTFP a number of key objectives have been considered. These objectives are listed below.

Balanced Budgets/Income Statement Result that provide sufficient capacity to respond to budget 'shocks' as they arise

Council has a 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 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.

This would be considered financially prudent to target an acceptable operating performance range 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. More detail in respect to previous events that has guided a 2%-4% operating performance ratio includes:

- The 2016 boundary adjustment and abandonment of amalgamation plans for the Shire that left Council with a yearly reduction of $10 million in revenue, without a commensurate reduction in costs.
- The implementation of state mandated initiatives such as the Audit Risk and Improvement Committee requirements.
- The urgent program to implement an asbestos remediation plan for Council's administration building from 2020.
- Remediation at Foxglove Oval, Mount Colah which had presented issues due to this site previously being a tip.
- Absorbing reduced income and increased costs as a result of service shutdowns, physical distancing and lock downs from the COVID-19 pandemic throughout 2020 and 2021. As well as the ongoing economic consequences from the pandemic which are still being experienced.
- The ongoing transfer of Crown Land to Council to maintain with no funds provided.
- Investment income returns – Investment returns have fluctuated during the COVID-19 pandemic with the majority of Council's investment products linked to the base rate set by the Reserve Bank of Australia. When the base rate was reduced to 0.1% Council's budget for investment income was reduced significantly. Council's investment in managed funds with NSW Treasury Corporation are also currently experiencing significant volatility

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during the post COVID-19 economic recovery and an unrealised loss of $1.44 million was recorded for the year ended 30 June 2022, which resulted in total investment returns being $2.35 million below the budgeted amount of income for the year.

- The Hornsby Shire Local Government Area has been impacted by multiple severe weather events that were declared Natural Disasters by the NSW Government between 2018 and 2022. Each of these events typically costs Council several hundreds of thousand dollars in clean-up costs that are not always able to be recouped from the NSW Government. Furthermore, flooding caused significant damage at Wisemans Ferry that added $3.57 million in flood related clean up to the cost of Council's project to construct a new boat ramp and associated infrastructure. Costs to rectify damaged roads from the February 2022 and July 2022 floods are also estimated to require several millions of dollars. A key issue that recent Natural Disasters has created is that even when a proportion of Councils expenditure on clean up and recovery can be recouped Council can wait for up to several years for reimbursement. The multiple events that Council has faced over recent years is placing pressure on Councils budgets and unfairly limiting the extent to which Council can respond to communities in need in a timely manner
- Asset Management – As noted on page 27, Asset Management Plans have been revised for 95% of Council's depreciable asset base including all Roads, Stormwater Drainage, Buildings and Open Space assets and this Plan includes forecast costs to maintain these assets at the level desired by the community. However, Asset Management Plans for the remaining 5% of Council's depreciable assets comprising Foreshores and some Other Structures are still being prepared and the funding requirements are not yet available to incorporate into this Plan. A forecast Operating Performance Ratio above 2% each year will provide capacity for the maintenance requirements identified in these Plans to be fully funded once they have been finalised. In this regard it is also noted that Hornsby's Local Government Area spans across a large geographical area from the M2 motorway in the south of the Shire to the Hawkesbury River in the north and Council therefore controls a large and dispersed number of infrastructure assets compared to other Council's in the Sydney metropolitan area. There is an unavoidable level of risk of some unexpected infrastructure asset failure from time to time from an asset base this large that could require additional funding in any given year.
- State Government Costs – There are some costs over which Council has no control such as levies charged by the NSW Government. Over recent years the Emergency Services Levy payable to the State has increased by more than $1 million and in the order of 40%, which is above the level of estimated increases in previous Plans that forecast the annual increase in the levy to track in line with CPI. The LTFP must retain sufficient capacity over the next ten years to fund any further cost increases of this nature without having to resort to cutting other budgets such as those provided for asset management or recurrent services.

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Should a surplus budget be generated at the end of a financial year the surplus amount will be directed towards the Capital Projects and Debt Retirement Restricted Asset account, which is used to fund key strategic capital projects that require reasonable capital investment from the Council or to fund cash shortfalls in future years of the Plan. This is consistent with Council's objective to maintain prudent financial management of its finances and to allocate financial surpluses towards key strategic issues.

Maintain into the future a level of service that the community has come to expect

Financial sustainability in local government is not only just about balancing budgets; it also involves ensuring that the level of services that the community has come to expect is maintained and continues to be provided into the future. This is a key input into the Financial Planning Assumptions section of this Plan to determine can we afford what the community needs and wants into the future and if not, what action is required.

To establish the level of service that the community has come to expect and desires (referred to in this Plan as the 'Normal Continuance' of service) reference has been made to a range of community consultation. This has included a Quality of Life and Asset Management survey completed in March 2020, asset management workshops in November 2020 and a Community Satisfaction Survey covering 30 Council services in April 2021. A survey on the Community Strategic Plan Review in October 2021 identified a desire from the community for an increased level of services, which supports at least the continuance of normal operations included in this Plan. Community consultation during the preparation of 36 recently adopted strategies and technical documents also supports an increase in the aspirations of the community, which is discussed further within the Strategic Initiatives section of this report (page 41).

Examples of important considerations identified by the community through the surveys noted above are detailed below:

- Maintaining Council's assets to a good standard
- Changing demographics – the community identified that an ageing population increased usage of Council's open spaces and created a desire for improvements to infrastructure of flat and accessible spaces and seating
- Frequency of use – participants in the asset management workshops acknowledged competition for assets that are regularly used by the community and expressed a desire for additional funding for asset maintenance to be allocated according to usage

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- Access and hours of operation – the community expressed that a wide span of opening hours should encourage use. Hornsby Aquatic Centre and Council's Community Recycling Centre were the two most mentioned assets in this regard.
- Quality spaces – the community expressed a desire for Council to invest in maintenance to increase quality and noted that this would likely increase usage.

Accordingly, forecast income and expenditure to fund the normal continuance of services has been included in the 'base' LTFP.

Assets provided by Council are designed and funded to meet a defined level of demand and/or need of the community

The Asset Management Planning section of this report (page 27) includes further information with regards to the communities desired level of service for Council assets that were identified through recently completed asset management workshops. This has also been included in the 'base' LTFP.

Continuous Financial Improvement

Council has a longstanding commitment towards reviewing costs while maintaining existing service levels. This will require ongoing support towards:

- Prioritising funding requirements identified in Council's Asset Management Plans before new initiatives.
- Evaluation on a periodic basis of Council's activities to determine competitiveness in terms of service provision and financial viability.
- To review Council's existing capital decisions ensuring business evaluations are undertaken where necessary to ascertain value and meet Capital Governance Framework requirements.
- Review of fees and charges to ensure closer alignment with costs.
- No new positions to be created as appropriate unless offset by an equivalent position elsewhere, grant funding or income generating.

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Reduction in External Loan Borrowing

Council has a commitment towards reducing the need to externally borrow for annual capital works programs. This has been made possible by various financial improvements achieved over the term of previous and current Councils, that generated savings from financial improvement that have been applied, eliminating the need to borrow annually for recurrent capital projects.

It is forecast that Council will be debt free by 30 June 2023 and the only ongoing borrowing cost in the LTFP after this point represents notional interest that is recognised for leased IT equipment and office space in line with accounting standards. Further external loan borrowing depends on the availability of financial capacity above a budget surplus level of 2% in future years of LTFP and this Plan includes a recommendation for no further loan borrowing to be undertaken unless this requirement is met.

Achieve/Maintain Local Government Performance Indicators

The Office of Local Government has prescribed a range of Performance Indicators that are used to measure Council's financial position to assess its financial sustainability. A benchmark is set for each indicator, which sets the level of financial sustainability that Council should aim to achieve for each indicator, and it is a requirement to report on each of the indicators in Council's annual financial statements.

The Performance Indicators that are considered the most important measure of Council's financial sustainability are listed below:

Indicator	Quantitative Measure	Definition	Benchmarks
Operating Performance Ratio	Measures a council's ability to contain operating expenditure within operating revenue.	Operating revenue (excluding capital grants and contributions less operating expenses)/Operating revenue (excluding capital grants and contributions)	>0% (OLG Benchmark) 2%-4% (Council Benchmark) The OLG set a benchmark of 0%. For this to be achieved it is recommended that an Operating Performance Ratio/Budget Surplus of 2%-4% is forecast at the start of each year to respond to budget shocks that can occur throughout the year.
Own Source Operating Revenue Ratio	Measures the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.	Total operating revenue less (inclusive of capital grants and contributions) / Total operating revenue	>60%
Unrestricted Current Ratio	This ratio is specific to local government and is designed to assess the adequacy of working capital and the ability to satisfy obligations in the short term for unrestricted activities of Council.	Current assets less all external restrictions/current liabilities less specific purpose liabilities	>1.5
Debt Service Cover Ratio	The availability of operating cash to	Operating Result before capital	> 2

	service debt including interest, principal and lease payments.	excluding interest and depreciation / Principal Repayments (from the Statement of Cash Flows + Borrowing Interest Costs (from the Income Statement)	
Asset Maintenance Ratio	Compares actual versus required annual asset maintenance.	Actual maintenance / Required asset maintenance	>100%
Infrastructure Renewals Ratio	Compares the proportion spent on infrastructure asset renewals and the assets deterioration.	Asset renewals/Depreciation of building and infrastructure assets	>100%
Infrastructure Backlog Ratio	This ratio shows what proportion the backlog is against total value of a council's infrastructure.	Estimated cost to bring assets to a satisfactory condition/total infrastructure assets	<2%

Financial Planning Assumptions

As part of undertaking financial modelling, key assumptions that underpin the forecasts must be made. The assumptions utilised in the LTFP have been sourced from several external bodies that are regarded as reputable including the Reserve Bank of Australia, BIS Oxford Economics and Reuters.

The 2022/23 budget has been used as the base point for the LTFP, which then makes a number of market driven and internal assumptions to project revenue and expenditure over the forecasted period. Several one-off recurring adjustments have also been included in the LTFP to provide funding for known expenditure items such as the cost of local government elections, an increase in statutory employee superannuation to 12% by 2026 and for projects that were commenced by the previous term of Council such as a greater allocation to deliver new footpaths across the Shire.

Service Levels – Normal Continuance of Service

Council's future financial position has been forecast based on a continuance of 'normal operations'. This is difficult to define but can be regarded as the provision of services to stakeholders at levels of service that they have come to expect on a regular basis which in this Plan has been determined through a range of community consultation. It is noted that levels of service may not remain the same given changes in community expectations in future years of the Plan. In this regard it is noted that 'normal operations' has been forecast as a minimum level over the life of the Plan as the community has indicated.

Accordingly, forecast income and expenditure to fund the normal continuance of services has been included in the 'base' LTFP.

The Asset Management Planning section of this report (page 27) includes further information with regards to the communities desired level of service for Council assets that were identified through recently completed asset management workshops. This is also another key component considered to be part of the normal continuance of services and has been included in the 'base' LTFP.

Expenditure Assumptions

The major expense categories for Council's operating budget are:

- Employee Benefits and On-costs
- Borrowing Costs
- Materials and Contracts
- Depreciation
- Other Expenses

Employee Benefits and On-costs

Employee costs include salaries, wages, superannuation, leave entitlements, workers compensation premiums and other employee related expenses.

The majority of employee related costs increase based on the local government award increase each year, for which the last published year is the year ending 30 June 2023. Further Local Government Award increases are not yet known therefore the forecast expenditure increase has been based on the forecast Wage Price Index, which is deemed to appropriately reflect the impact of the current inflationary environment over the next 10 years. The forecast Wage Price Index has been sourced from the Reserve Bank of Australia to the extent available (until mid-2024) and from BIS Oxford Economics from 2025 until the end of the Plan.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Salary Movement	3.8%	3.5%	3.1%	3.3%	3.3%	3.3%	3.3%	3.3%	3.2%	3.2%

Additional employee related assumptions include:

- Superannuation increases in line with salaries and wages growth each year, plus an additional 0.5% increase in the legislated superannuation guarantee rate from 10.5% in 2023 to 12% in 2026
- No material change is expected in existing staff numbers and employee working hours noting that Council's previous two Long Term Financial Plans have included a recommendation for a freeze on FTE headcount as a method of cost containment
- Workers' compensation expense is expected to increase in line with salaries and wages
- As a method of cost containment and to account for savings from vacancies that occur from normal operations the Plan includes a budget for 50 weeks of the year for each position in Council's approved organisation chart, which results in an effective annual productivity measure of 4% compared to if the Plan included costs for all 52 weeks of the year. This matter is analysed further in a sensitivity analysis on page 51.

Borrowing Expenses

A key objective by Council has been to reduce the level of external borrowing and so this Plan has been predicated on no loan borrowing. The level of debt servicing from previous external loan borrowing will cease at the end of 2022/23 and the only remaining borrowing expenses in Council's Income Statement will relate to notional interest on leases for IT equipment and the Thornleigh Office that are recognised in the Income Statement as required by Australian Accounting Standards.

External borrowing could be a strategy considered by Council to assist in funding significant capital projects to benefit future generations or to acquire assets that are income producing or that hold strategic value. The beneficiaries of these future projects would assist in their funding as their rates would be applied in part to repaying the loans. This contrasts with current ratepayers bearing the entire burden in one year, possibly at the expense of other worthy expenditures. Whilst this strategy could be considered by Council in future years the use of loan borrowing would be an unsuitable option for Council at this time. Forecast recurrent budget deficits should be funded prior to committing Council to interest and principal repayments that would require further recurrent funding. In this regard it is also noted that Council's current annual capital works program is significant in size, most of which is funded from external sources such as grants and development contributions therefore the more prominent challenge facing Council is the need to identify recurrent funds to operate and maintain projects once construction has been completed, rather than a need to identify further funds to construct new capital works.

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Materials and Contracts

Local government expenditure is characterised by high levels of materials and contracts. Materials and contracts are used in the creation and maintenance of assets and to provide recurrent operational services.

The Consumer Price Index (CPI) has been chosen as the relevant factor in modelling these expenses over the term of the Plan. This has been sourced from the Reserve Bank of Australia to the extent available (until mid-2024) and from BIS Oxford Economics from 2025 until the end of the Plan using the compound annual growth rate estimated for this timeframe.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
CPI	3.5%	2.9%	2.8%	2.4%	2.4%	2.4%	2.4%	2.4%	2.5%	2.5%

Additional material and contract related assumptions include:

- Maintain cost increases to modest levels in regards to non-labour related expenses.
- The inclusion of 10-year forecasts for asset maintenance as required by Council's Asset Management Plans, as noted within the Asset Management Planning section of this report (page 27)

Depreciation

Depreciation is an allowance or provision made in the financial records for "wear and tear" and "technical obsolescence" of plant and equipment. The idea of depreciation is to spread the cost of that capital asset over the period of its "useful life to the entity" that currently owns it. Council's existing depreciation schedule, plus an allowance for new projects less retirements and the estimated impact of infrastructure asset revaluations has been used as the basis for determining the depreciation expense.

Depreciation forecasts relate to existing assets and to Council's extensive capital works program. The Council's assets are also being progressively revalued to fair value in accordance with asset revaluation cycles issued by the Office of Local Government, which typically cause increases to the depreciation expense from the recognition of asset replacement cost increases that occur over time.

It is forecast that Council's depreciation expense will increase by an average of 4.17% each year because of new depreciation associated with Council's large capital works program and the increase in gross replacement cost of existing assets that is recognised each time a revaluation is undertaken.

Other Expenses

This consolidation of costs under this category includes items such as street lighting, utility costs, insurances, legal costs, statutory charges and other program expenditure.

The Consumer Price Index has been chosen as the relevant factor in modelling these expenses over the term of the Plan. This has been sourced from the Reserve Bank of Australia to the extent available (until mid-2024) and from BIS Oxford Economics from 2025 until the end of the Plan using the compound annual growth rate estimated for this timeframe.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
CPI	3.5%	2.9%	2.8%	2.4%	2.4%	2.4%	2.4%	2.4%	2.5%	2.5%

Additional other expense related assumptions include:

- Election expenses provided for in relevant years
- Maintain cost increases to modest levels regarding non-labour related expenses

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Revenue Assumptions

The major revenue categories for Council's operating budget are:

- Rates and Annual Charges
- User Charges and Fees
- Interest and Investment Revenue
- Other Revenue
- Grants and Contributions provided for Operating Purposes
- Grants and Contributions provided for Capital Purposes

Rates and Annual Charges

Rates and Charges are a major source of Council's revenue, typically representing more than 80% of own source revenue each year. The amount of rates income a council may levy is limited by an approved rate peg set by the Independent Pricing and Regulatory Tribunal (IPART). The Rate peg refers to the process in which the State Government determines annually the total allowable increase in rates expressed as a percentage. This allowable increase is announced annually by the Independent Pricing and Regulatory Tribunal (IPART).

Forecasting expected income from rates is notoriously challenging as the rate peg is based on a Local Government Cost Index calculated by IPART, which is typically only available 6 to 9 months before the start of any given year. Forward projections of the rate peg for future years are also not published. In some years IPART may also apply a productivity factor to the rate peg, which reduces the amount of income that Council can generate. Nonetheless over time the rate peg can be seen to broadly track with the overall trend in CPI. Accordingly, in the absence of forward projections of the Local Government Cost Index this Plan assumes that the rate peg will align with CPI over the next 10 years. This is appropriate as CPI has also been used as the forecast driver for the majority of expense items in the Plan. Using the same driver to set the rate peg ensures a linear relationship between rating income and the majority of Council's expenses, which mirrors IPART's intention of basing the rate peg on the Local Government Cost Index.

The rate peg for the first year of the plan in 2024 has been based on a detailed estimate of the Local Government Cost Index from the most recent data available for 2022, which is the year that will inform the rate peg for 2024 when it is available. The rate peg forecast for 2025 and 2026 are based on the trend required for the rate peg to align with CPI over the life of the plan.

2024 Rate Peg Calculation

Estimate of 2023-24 LGCI	**Indices**	**Change**	**Weighting**	**Timeframe for data**
Employee costs	WPI - Public Sector	2.40%	40%	March 2021 - March 2022
Materials, contracts and other	CPI - Sydney	5.30%	60%	June 2021- June 2022
Productivity factor		0.20%		
Total		**3.90%**		

10 Year Rate Peg Assumptions

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate peg forecast	3.9%	3.5%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

User Charges and Fees

Many of the services provided by Council are offered on a user pays basis. There is however a range of other factors that Council considers in determining an appropriate fee for its services.

The Consumer Price Index has been chosen as the relevant factor in modelling these expenses over the term of the Plan. This has been sourced from the Reserve Bank of Australia to the extent available (until mid-2024) and from BIS Oxford Economics from 2025 until the end of the Plan using the compound annual growth rate estimated for this timeframe.

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	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
CPI	3.5%	2.9%	2.8%	2.4%	2.4%	2.4%	2.4%	2.4%	2.5%	2.5%

Interest and Investment Revenue

Interest on investments will vary over the planning period due to cash-flow levels and interest rate percentages. The LTFP calculates interest on investments based on estimated cash-flow (allowing for estimated infrastructure project expenditure) and a forecast of the base rate set by the Reserve Bank of Australia. The margins earned on each of Council's investment products above the base rate have been sourced from Council's investment advisor, Prudential Investment Services and are based on forecasts from Reuters.

The percentage investment return on Council's portfolio is forecast to increase over the term of the LTFP in line with expected increases to the base rate set by the Reserve Bank of Australia. The total average expected return ranges from 2.45% in 2023/24 to 3.12% in 2032/33.

Other Revenue

Miscellaneous revenue is obtained from a variety of sources including insurance recoveries, parking fines, legal costs recovered, property rentals, etc. It is anticipated that other revenue will be maintained at current levels with CPI adjustments as reported above.

Grants and Contributions

Council receives a number of operational and capital grants from various Federal and State Government agencies. Capital contributions such as Section 7.11 Development Contributions are expected to continue in line with current income levels, which represents a decline in development activity since the peak in Hornsby Shire between 2015 and 2017. Capital contributions received in respect to Council's Section 7.11 Development Contribution Plan are to be spent in accordance with the works program identified in this Plan.

It is anticipated that grants and contributions revenue will be maintained at current levels with CPI adjustments being applied.

Capital Expenditure

This represents expenditure towards both the creation of new infrastructure assets and the renewal of existing assets (i.e. roads, drainage, footpaths and sportsgrounds). This expenditure category also includes capital purchases (i.e. information technology, fleet and plant assets).

Council's average capital works program in the base LTFP is forecast at $48.212 million each year and is largely funded by external grants and restricted asset funding, as well as from general funds. The most significant capital cash flows are for major projects such as Hornsby Park, Council's largest project and are funded from external grants and restricted assets. Recurrent capital budgets such as for routine asset renewal are funded from general funds and other recurrent income sources.

This Plan has forecast capital expenditure at the following levels. This excludes the additional requirements identified in Council's adopted strategies as discussed within the Strategic Initiatives section of this report (page 41).

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Capital Expenditure	$48,788,725	$92,232,336	$29,158,863	$79,325,114	$38,264,258	$47,345,834	$47,133,425	$32,398,469	$33,301,394	$34,172,679

It is noted that capital expenditure has increased above historical annual levels of approximately $25 to $30 million due to several one-off infrastructure projects as listed below:

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- Hornsby Quarry Revitalisation and Westleigh Sportsground allocated at the amount received through the NSW Government's Stronger Community Funding, available S7.11 development contribution funds and estimated capital contributions from third parties included within the master pan for the project.
- Mark Taylor oval revitalisation (funded from the NSW Government's Stronger Community Fund).
- Public Domain improvements for Asquith to Mt Colah and Galston with other sites to progress as part of investigations into public domain
- Increase in new footpath construction
- Improvements to Wallarobba Arts and Cultural Centre – Stage 2
- Projects funded by development contributions in accordance with the timings identified in Council's 2020 – 2030 Development Contributions Plan noting that the timing of some projects has been brought forward in line with a commitment made by Council to the Department of Planning, Industry and Environment to accelerate expenditure to provide economic stimulus following the COVID-19 pandemic.
- Increased asset renewal expenditure to fund the requirements identified in Council's recently revised asset management plans, as noted within the Asset Management Planning section of this report (page 27).

Council's Best Estimate from Applying Financial Assumptions

The key financial information that follows in the form of financial statements and indicators are results based on a range of forecast financial assumptions. These assumptions can change due to variations in economic conditions and/or a change in priorities set by Council. It is therefore intended that the financial assumptions be reviewed annually and compared to the actual results on an annual basis. This will be achieved via reporting in Council's Annual Report, by comparing the actual results on key financial statements and indicators to the forecasted figures for that year. Any issues identified through this process will be considered in the updating of the LTFP for the following year.

Asset Management Planning

Previous versions of the LTFP have recommended that Council's Asset Management Plans be updated to provide evidence-based estimates for future asset maintenance and renewal expenditures. A significant project to undertake this work is well progressed and revised asset management plans are available for 95% of Council's depreciable asset base comprising:

- Roads, bridges, footpaths, kerb and guttering
- Stormwater drainage
- Specialised and non-specialised buildings including aquatic centres
- Open spaces (largely related to Park assets such as playing surfaces and equipment, and park furniture).

The process undertaken by Council Officers has centred around producing detailed data based ten-year forecasts for maintenance, renewal and operational expenditure from 'the bottom up' by calculating the individual forecast requirements for each of Council's assets at a granular level (for example at the level of road section, park bench, kitchen, bathroom, pipe length etc). The asset management plans have been created using the following methodology:

- Review of existing granular data with the aim of ensuring data exists for each individual asset within each class
- Identification of data omissions
- The collection of new data where omissions are present including the engagement of consultants and contractors to survey assets at a detailed level (based on the condition assessment of each component of each asset)
- Independent physical asset inspections for each asset class by qualified experts to test asset data including an independent review of condition compared to Council's recorded condition levels
- Community satisfaction survey to assess current service levels compared to desired levels of service which is covered in more detail in Council's Asset Management Strategy
- The creation of ten-year expenditure forecasts for each class compared to available budgets which is covered in more detail in Council's Asset Management Strategy.

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Results from Council's Community Satisfaction survey (Asset Management Community Insights Report – November 2020) have been used to inform the basis of forecasted maintenance and renewal requirements for each of Council's assets where a rating was provided to survey participants with 1 being Excellent, 2 - Good, 3 - Satisfactory and 4 - Poor:

- Buildings – participants preferred a level of service of 2 for libraries and amenities buildings and a level of service of 3 for aquatic centres, community centres and indoor sporting facilities.
- Open Spaces – participants preferred a level of service of 2 for sporting fields, park facilities and playgrounds and a level of service of 3 for trees, gardens and mountain bike tracks. Safety was considered a high priority for playgrounds.
- Roads and related infrastructure - participants preferred a level of service of 2 for footpaths, bridges and roads and a level of service of 3 for carparks, shared paths, kerb and guttering. Emphasis was placed on the importance of flat, safe and unobstructed footpaths and pedestrian crossings.
- Stormwater infrastructure – participants preferred a level of service of 3 for stormwater drainage.

As detailed in Council's Asset Management Strategy, cost forecasts from revised asset management plans indicate that there is an average funding gap of $4.1 million per year over the next ten years:

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Buildings	$538,000	$128,000	$252,000	$931,000	$2,388,000	$2,292,000	$602,000	$542,000	$442,000	$337,000
Roads/Road Infrastructure	$104,000	$96,000	$580,000	$594,000	$597,000	$623,000	$638,000	$641,000	$670,000	$686,000
Stormwater Drainage	$1,087,000	$1,118,000	$1,314,000	$1,357,000	$1,401,000	$1,434,000	$1,481,000	$1,516,000	$1,567,000	$1,606,000
Open Space	$621,000	$724,000	$1,412,000	$942,000	$3,306,000	$1,023,000	$927,000	$1,109,000	$1,491,000	$1,684,000
Shortfall	**$2,350,000**	**$2,066,000**	**$3,558,000**	**$3,824,000**	**$7,692,000**	**$5,372,000**	**$3,648,000**	**$3,808,000**	**$4,170,000**	**$4,313,000**

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The funding gap is attributable to:

- Inflationary cost increases since the plans were last revised including recent construction cost and CPI increases during recovery from the COVID-19 pandemic. The Plans have been updated using the same CPI forecast as disclosed within the Expenditure Assumptions section of this report (page 19)
- The cost of providing for recurrent expenditure for new assets constructed since the plans were last revised
- The cost of providing for recurrent expenditure for new assets that are fully funded from external grants and development contributions over the next ten years in the LTFP, noting that construction for many of Council's major projects has already commenced.

The funding gap excludes:

- Forecast recurrent costs for Hornsby Park, Council's largest ever major project. Because of its significance recurrent costs have been forecast separately for this project as detailed below.
- The remaining 5% of Council's depreciable asset base for which Asset Management Plans are still being revised. This includes foreshore assets and some 'other structures'.

The revised Asset Management Plans have informed Council's Asset Management Strategy, which will be referred to Council to be adopted for public exhibition at the same time as this LTFP as part of the Resourcing Strategy. The Strategy notes that present funding levels are insufficient and identifies a number of consequences of providing inadequate funding into the future:

- Deteriorating quality of existing assets (e.g.: reduction in road network condition)
- Inability to renew ageing assets
- Inability to adequately maintain newly constructed assets
- Increased exposure of Council to litigation relating to deteriorating assets
- Failure to meet the industry benchmarks set by the Office of Local Government for infrastructure asset ratios.

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Accordingly, the Strategy recommends that funding is provided within this LTFP to meet the requirements identified in the Asset Management Plans. Therefore, the forecast requirements including the average funding gap of $4.1 million per year has been included within the base LTFP.

Hornsby Park

This project involves the redevelopment of the abandoned Hornsby Quarry and surrounding lands covering approximately 60 hectares into open space for a broad range of recreation purposes.

This is a significant project and the largest ever undertaken for Hornsby Shire Council with the total estimated cost of the facilities canvassed in the Master Plan for the park at $130 million. This is to be funded from the NSW Government's Stronger Communities Fund, Section 7.11 development contributions and capital contributions from commercial arrangements.

Due to the size and scale of this capital project a review of forecasted costs was undertaken by a specialist external consulting firm – Capital Insight. Their review concluded that the average asset life cycle costs were forecast at $3.1 million per year upon completion of the project. This amount has been used as an input into the financial requirements of this Plan and listed separately to the 'core' infrastructure assets needs identified in the development of the Asset Management Strategy.

Further due diligence was exercised through a peer review of the capital and recurrent costs by specialist consulting firm, WT Australia. Their review validated the forecasts used in the Plan to be appropriate. Accordingly, the LTFP includes forecast recurrent costs of $3.1 million per year which have been allocated in the Plan in line with the most recent construction cash flow for the project. A $1.4 million recurrent allocation is provided in 2026 and 2027, which increases to $3.1 million from 2028 reflecting the timeline for the completion of key components at the park.

Results – Normal Continuance of Service & Asset Management Requirements

As noted in the previous sections of this report, Council's base LTFP includes forecast income and expenditure to fund a continuance of 'normal" operations, the requirements of Council's revised Asset Management Plans and forecast recurrent costs for Hornsby Park.

Income Statement

Hornsby Shire Council 10 Year Financial Plan for the Years ending 30 June 2033 INCOME STATEMENT - GENERAL FUND	Actuals 2021/22 $	Current Year 2022/23 $	Projected Years 2023/24 $	2024/25 $	2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $
Income from Continuing Operations												
Revenue:												
Rates & Annual Charges	103,081,000	109,152,098	113,273,518	117,027,708	120,466,378	123,440,947	126,488,989	129,612,321	132,812,803	136,092,341	139,494,650	143,585,593
User Charges & Fees	11,611,000	14,233,154	14,731,617	15,158,826	15,583,267	15,957,267	16,340,244	16,732,412	17,133,992	17,545,211	17,983,841	18,433,437
Other Revenues	4,045,000	6,784,074	7,021,517	7,225,141	7,427,445	7,605,703	7,788,240	7,975,158	8,166,562	8,362,559	8,571,623	8,785,914
Grants & Contributions provided for Operating Purposes	14,814,000	12,770,694	13,217,668	13,600,981	13,981,808	14,317,371	14,660,988	15,012,852	15,373,161	15,742,116	16,135,669	16,539,061
Grants & Contributions provided for Capital Purposes	29,601,000	8,350,000	9,327,953	9,450,564	9,572,379	58,289,717	9,789,630	9,902,181	10,017,433	10,135,452	10,261,338	10,390,371
Interest & Investment Revenue	3,064,000	4,929,651	5,491,284	4,882,424	3,678,321	3,769,582	3,830,572	3,836,224	3,867,236	3,895,739	3,850,908	3,804,681
Other Income:												
Fair value increment on investment properties	-	100,000	103,500	106,502	109,484	112,111	114,802	117,557	120,378	123,268	126,349	129,508
Other Income	2,209,000	-	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**168,425,000**	**156,319,672**	**163,167,057**	**167,452,145**	**170,819,082**	**223,492,699**	**179,013,465**	**183,188,706**	**187,491,566**	**191,896,686**	**196,424,379**	**201,668,565**
Expenses from Continuing Operations												
Employee Benefits & On-Costs	48,302,000	52,421,816	54,682,236	56,872,826	58,921,174	60,865,572	62,874,136	64,948,983	67,092,299	69,306,345	71,524,148	73,812,921
Borrowing Costs	84,000	223,161	192,158	159,071	121,216	77,525	28,162	10,000	10,000	10,000	10,000	10,000
Materials & Contracts	70,118,000	66,681,605	69,615,633	72,082,880	74,909,510	77,122,150	80,197,262	83,012,084	82,740,869	84,767,616	86,822,242	89,828,407
Depreciation & Amortisation	20,461,000	21,215,275	22,170,866	23,078,601	24,024,189	25,009,208	25,946,946	26,742,065	27,876,769	29,036,655	30,266,158	31,441,781
Other Expenses	3,331,000	3,874,130	4,009,724	4,126,006	4,241,534	4,343,331	4,447,571	4,554,313	4,663,616	4,775,543	4,894,932	5,017,305
Net Losses from the Disposal of Assets	2,586,000	-	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**144,882,000**	**144,415,987**	**150,670,617**	**156,319,384**	**162,217,623**	**167,417,786**	**173,494,078**	**179,267,444**	**182,383,554**	**187,896,159**	**193,517,479**	**200,110,413**
Operating Result from Continuing Operations	**23,543,000**	**11,903,684**	**12,496,440**	**11,132,761**	**8,601,459**	**56,074,913**	**5,519,388**	**3,921,262**	**5,108,012**	**4,000,526**	**2,906,900**	**1,558,152**
Net Operating Result for the Year	**23,543,000**	**11,903,684**	**12,496,440**	**11,132,761**	**8,601,459**	**56,074,913**	**5,519,388**	**3,921,262**	**5,108,012**	**4,000,526**	**2,906,900**	**1,558,152**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**(6,058,000)**	**3,553,684**	**3,168,487**	**1,682,197**	**(970,920)**	**(2,214,803)**	**(4,270,242)**	**(5,980,919)**	**(4,909,421)**	**(6,134,925)**	**(7,354,438)**	**(8,832,220)**

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Balance Sheet

Hornsby Shire Council
10 Year Financial Plan for the Years ending 30 June 2033

BALANCE SHEET - GENERAL FUND	Actuals	Current Year	Projected Years									
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	$	$	$	$	$	$	$	$	$	$	$	$
ASSETS												
Current Assets												
Cash & Cash Equivalents	47,763,000	9,209,420	6,324,833	4,880,839	4,815,694	4,913,332	4,850,438	4,532,994	4,226,616	4,175,829	4,229,610	4,251,192
Investments	81,171,000	102,783,874	97,784,083	75,459,446	77,272,769	77,976,434	76,198,221	70,323,395	65,348,964	66,332,622	67,002,931	67,336,594
Receivables	9,867,000	9,077,308	9,325,513	9,297,101	9,550,109	12,303,362	9,935,322	10,089,896	10,248,336	10,482,611	10,726,378	10,984,061
Inventories	182,000	196,145	204,763	212,011	220,308	226,807	235,825	244,084	243,332	249,292	255,335	264,159
Contract assets and contract cost assets	68,000	69,680	71,722	73,815	75,960	78,159	80,413	82,724	85,092	87,519	90,007	92,557
Other	388,000	261,493	272,855	282,418	293,301	301,867	313,619	324,422	323,876	331,800	339,857	351,429
Total Current Assets	139,439,000	121,597,921	113,983,769	90,205,630	92,228,142	95,799,961	91,613,839	85,597,515	80,476,215	81,659,672	82,644,119	83,279,992
Non-Current Assets												
Investments	173,922,000	152,309,126	144,900,241	111,818,730	114,505,782	115,548,499	112,913,475	104,207,930	96,836,625	98,294,248	99,287,538	99,781,972
Receivables	1,332,000	1,616,032	1,673,648	1,723,829	1,772,663	1,815,499	1,859,370	1,904,302	1,950,320	1,997,450	2,047,387	2,100,686
Infrastructure, Property, Plant & Equipment	1,708,393,000	1,752,594,879	1,778,604,209	1,847,121,853	1,851,593,334	1,905,223,134	1,916,742,631	1,936,251,026	1,954,409,310	1,956,648,049	1,958,554,926	1,960,047,381
Investment Property	29,710,000	29,810,000	29,913,500	30,020,002	30,129,485	30,241,596	30,356,398	30,473,955	30,594,333	30,717,601	30,843,950	30,973,458
Intangible Assets	1,081,000	961,000	950,996	939,114	925,116	908,381	888,743	866,028	840,054	810,630	777,691	741,035
Right of use assets	331,000	2,530,447	2,113,981	1,696,938	1,339,294	921,024	590,458	602,976	523,537	443,361	421,167	401,187
Total Non-Current Assets	1,914,769,000	1,939,821,483	1,958,156,575	1,993,320,465	2,000,265,674	2,054,658,133	2,063,351,076	2,074,306,218	2,085,154,180	2,088,911,340	2,091,932,659	2,094,045,719
TOTAL ASSETS	**2,054,208,000**	**2,061,419,404**	**2,072,140,345**	**2,083,526,095**	**2,092,493,816**	**2,150,458,094**	**2,154,964,914**	**2,159,903,733**	**2,165,630,395**	**2,170,571,012**	**2,174,576,777**	**2,177,325,711**
LIABILITIES												
Current Liabilities												
Payables	13,472,000	11,940,608	12,422,524	12,841,189	13,292,830	13,670,510	14,152,538	14,607,926	14,706,838	15,078,065	15,454,587	15,950,497
Contract liabilities	2,440,000	1,933,791	2,023,654	2,077,556	2,131,108	3,750,618	2,226,616	2,276,095	2,326,762	2,378,646	2,433,988	2,490,713
Lease liabilities	358,000	495,784	512,755	520,351	548,564	309,662	10,000	30,000	30,000	10,000	10,000	10,000
Borrowings	257,000	-	-	-	-	-	-	-	-	-	-	-
Employee benefit provisions	14,802,000	14,016,528	14,215,414	14,444,720	14,705,389	14,998,392	15,324,732	15,685,444	16,083,877	16,521,278	16,998,932	17,518,168
Other provisions	4,985,000	2,022,425	229,790	229,790	229,790	229,790	229,790	229,790	229,790	229,790	229,790	229,790
Total Current Liabilities	36,314,000	30,409,136	29,404,137	30,113,606	30,907,681	32,958,972	31,943,676	32,829,255	33,377,269	34,217,780	35,127,298	36,199,169
Non-Current Liabilities												
Contract liabilities	200,000	438,395	454,745	467,716	480,602	563,298	503,585	515,491	527,683	540,168	553,485	567,135
Lease liabilities	-	1,901,332	1,388,577	868,226	369,662	60,000	50,000	90,000	60,000	50,000	120,000	110,000
Employee benefit provisions	2,111,000	3,111,403	3,155,552	3,206,453	3,264,317	3,329,358	3,401,799	3,481,870	3,570,315	3,667,409	3,773,440	3,888,700
Other provisions	3,308,000	1,380,454	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210
Total Non-Current Liabilities	5,619,000	6,831,584	6,061,084	5,604,605	5,176,790	5,014,865	5,017,593	5,149,571	5,220,207	5,319,787	5,509,134	5,628,045
TOTAL LIABILITIES	**41,933,000**	**37,240,720**	**35,465,221**	**35,718,210**	**36,084,472**	**37,973,837**	**36,961,269**	**37,978,826**	**38,597,476**	**39,537,567**	**40,636,432**	**41,827,214**
Net Assets	**2,012,275,000**	**2,024,178,684**	**2,036,675,124**	**2,047,807,885**	**2,056,409,344**	**2,112,484,257**	**2,118,003,645**	**2,121,924,907**	**2,127,032,919**	**2,131,033,446**	**2,133,940,345**	**2,135,498,497**
EQUITY												
Retained Earnings	1,306,412,000	1,318,073,018	1,330,326,790	1,341,216,885	1,349,818,344	1,405,893,257	1,411,412,645	1,415,333,907	1,420,441,919	1,424,442,446	1,427,349,345	1,428,907,497
Revaluation Reserves	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000
Other Reserves	(728,000)	(485,333)	(242,667)	-	-	-	-	-	-	-	-	-
Total Equity	**2,012,275,000**	**2,024,178,684**	**2,036,675,124**	**2,047,807,885**	**2,056,409,344**	**2,112,484,257**	**2,118,003,645**	**2,121,924,907**	**2,127,032,919**	**2,131,033,446**	**2,133,940,345**	**2,135,498,497**

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Cash Flow Statement

Hornsby Shire Council
10 Year Financial Plan for the Years ending 30 June 2033
CASH FLOW STATEMENT - GENERAL FUND

	Actuals	Current Year	Projected Years									
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	$	$	$	$	$	$	$	$	$	$	$	$
Cash Flows from Operating Activities												
Receipts:												
Rates & Annual Charges	103,203,000	109,150,833	113,213,094	116,972,669	120,415,964	123,397,337	126,444,302	129,566,531	132,765,881	136,044,261	139,444,769	143,525,617
User Charges & Fees	12,686,000	14,047,625	14,781,486	15,201,250	15,625,350	15,994,040	16,377,897	16,770,966	17,173,469	17,585,633	18,027,059	18,477,736
Investment & Interest Revenue Received	2,127,000	4,470,419	5,551,662	5,142,170	3,649,876	3,743,765	3,869,679	3,888,161	3,920,303	3,878,086	3,836,471	3,792,984
Grants & Contributions	43,726,000	21,737,748	22,559,051	23,056,312	23,558,925	73,069,391	23,996,764	24,919,410	25,395,076	25,882,158	26,401,903	26,934,450
Other	14,571,000	7,174,633	6,785,213	7,042,307	7,245,796	6,100,613	8,969,372	7,807,324	7,994,700	8,186,573	8,383,904	8,593,502
Payments:												
Employee Benefits & On-Costs	(48,871,000)	(52,489,904)	(54,385,394)	(56,541,177)	(58,555,484)	(60,455,771)	(62,421,889)	(64,452,971)	(66,548,369)	(68,712,915)	(70,881,429)	(73,117,501)
Materials & Contracts	(73,679,000)	(66,930,231)	(69,327,517)	(71,840,357)	(74,633,567)	(76,904,922)	(79,899,371)	(82,738,188)	(82,754,378)	(84,566,626)	(86,617,849)	(89,534,990)
Borrowing Costs	(82,000)	(228,161)	(192,158)	(159,071)	(121,216)	(77,525)	(28,162)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Bonds & Deposits Refunded	(13,000)	-	-	-	-	-	-	-	-	-	-	-
Other	(1,795,000)	(9,772,056)	(6,029,189)	(4,044,168)	(4,156,036)	(4,270,342)	(4,358,819)	(4,468,785)	(4,629,157)	(4,700,881)	(4,819,547)	(4,924,519)
Net Cash provided (or used in) Operating Activities	51,873,000	27,160,905	32,956,247	34,829,934	33,029,608	80,596,586	32,949,772	31,282,447	33,307,526	33,586,288	33,765,282	33,737,279
Cash Flows from Investing Activities												
Receipts:												
Sale of Investment Securities	120,185,000	-	12,408,675	55,406,149	-	-	4,413,236	14,580,371	12,345,737	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	1,157,000	1,000,000	1,035,000	1,065,015	1,094,835	1,121,111	1,148,018	1,175,571	1,203,784	1,232,675	1,263,492	1,295,079
Payments:												
Purchase of Investment Securities	(125,899,000)	-	-	-	(4,500,375)	(1,746,382)	-	-	-	(2,441,282)	(1,663,598)	(828,097)
Purchase of Infrastructure, Property, Plant & Equipment	(44,648,000)	(65,965,434)	(48,673,725)	(92,114,001)	(29,037,215)	(79,200,546)	(38,136,700)	(47,215,215)	(46,999,671)	(32,261,505)	(33,161,006)	(34,028,781)
Purchase of Intangible Assets	-	-	(115,000)	(118,335)	(121,648)	(124,568)	(127,558)	(130,619)	(133,754)	(136,964)	(140,388)	(143,898)
Net Cash provided (or used in) Investing Activities	(49,205,000)	(64,965,434)	(35,345,050)	(35,761,172)	(32,564,402)	(79,950,384)	(32,703,004)	(31,589,892)	(33,583,903)	(33,607,076)	(33,701,500)	(33,705,697)
Cash Flows from Financing Activities												
Payments:												
Repayment of lease liabilities (principal repayments)	(438,000)	(492,051)	(495,784)	(512,755)	(530,351)	(548,564)	(309,662)	(10,000)	(30,000)	(30,000)	(10,000)	(10,000)
Net Cash Flow provided (used in) Financing Activities	(680,000)	(749,051)	(495,784)	(512,755)	(530,351)	(548,564)	(309,662)	(10,000)	(30,000)	(30,000)	(10,000)	(10,000)
Net Increase/(Decrease) in Cash & Cash Equivalents	1,988,000	(38,553,580)	(2,884,587)	(1,443,994)	(65,145)	97,638	(62,894)	(317,445)	(306,378)	(50,787)	53,781	21,582
plus: Cash & Cash Equivalents - beginning of year	45,775,000	47,763,000	9,209,420	6,324,833	4,880,839	4,815,694	4,913,332	4,850,438	4,532,994	4,226,616	4,175,829	4,229,610
Cash & Cash Equivalents - end of the year	**47,763,000**	**9,209,420**	**6,324,833**	**4,880,839**	**4,815,694**	**4,913,332**	**4,850,438**	**4,532,994**	**4,226,616**	**4,175,829**	**4,229,610**	**4,251,192**
Cash & Cash Equivalents - end of the year	47,763,000	9,209,420	6,324,833	4,880,839	4,815,694	4,913,332	4,850,438	4,532,994	4,226,616	4,175,829	4,229,610	4,251,192
Investments - end of the year	255,093,000	255,093,000	242,684,325	187,278,176	191,778,551	193,524,933	189,111,697	174,531,326	162,185,588	164,626,870	166,290,468	167,118,566
Cash, Cash Equivalents & Investments - end of the year	**302,856,000**	**264,302,420**	**249,009,157**	**192,159,015**	**196,594,244**	**198,438,265**	**193,962,135**	**179,064,319**	**166,412,204**	**168,802,699**	**170,520,078**	**171,369,758**
Representing:												
- External Restrictions	200,551,000	163,154,928	150,173,912	92,350,791	95,486,645	97,312,071	95,817,289	82,821,576	70,656,628	73,840,385	77,066,110	80,109,817
- Internal Restricitons	82,415,000	84,040,090	81,105,540	78,662,722	79,761,690	80,853,420	81,937,740	83,014,470	84,083,428	85,144,429	86,196,942	87,240,753
- Unrestricted	19,890,000	17,107,402	17,729,706	21,145,502	21,345,909	20,272,774	16,207,106	13,228,273	11,672,148	9,817,884	7,257,027	4,019,187
	302,856,000	**264,302,420**	**249,009,157**	**192,159,015**	**196,594,244**	**198,438,265**	**193,962,135**	**179,064,319**	**166,412,204**	**168,802,699**	**170,520,078**	**171,369,758**

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Local Government Performance Indicators

Indicator	Benchmark	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating Performance Ratio	>2% (>0% OLG)	1.99%	1.00%	-0.67%	-1.41%	-2.59%	-3.52%	-2.84%	-3.45%	-4.02%	-4.69%
Own Source Operating Revenue Ratio	>60%	86.17%	86.23%	86.20%	67.50%	86.33%	86.39%	86.45%	86.51%	86.55%	86.64%
Unrestricted Current Ratio	>1.5	6.75	5.43	5.39	5.26	5.22	4.73	4.39	4.35	4.29	4.19
Debt Service Cover Ratio	>2	36.96	36.93	35.40	36.35	63.91	1032.68	571.42	569.71	1139.77	1124.50
Asset Maintenance Ratio	>100%	96.77%	96.57%	96.92%	97.08%	97.39%	97.33%	96.92%	96.88%	96.83%	96.77%
Asset Renewals Ratio	>100%	91.97%	93.49%	95.02%	94.92%	96.46%	96.87%	97.07%	97.73%	98.46%	99.17%
Infrastructure Backlog Ratio	<2%	0.73%	0.73%	0.73%	0.73%	0.74%	0.74%	0.74%	0.74%	0.75%	0.75%

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Commentary on Results – Normal Continuance of Service & Asset Management Requirements

Income Statement results forecast over the period of this Plan have diminished compared to historic results. The Income Statement result over the 10-year period predicts a deficit in eight out of ten years and there is an average deficit of ($3.582) million per year. Concurrently, a negative Operating Performance Ratio is also forecast in eight years of the Plan, which is below the benchmark set by the Office of Local Government of 0% and below the benchmark set by Council of 2% that is required to protect the annual budget against unexpected budget shocks that typically occur throughout the year.

An average deficit of ($3.582) million per year for the Income Statement result clearly demonstrates that the normal continuance of services based on current projections can not be afforded and is financially unsustainable. These Income Statement results are in line with the previous version of the LTFP that was adopted by Council in July 2022 which concluded that action is required to improve future financial direction (noting a Special Rate Variation) to meet the benchmarks detailed at the start of the Plan (page 10).

The Balance Sheet results over the 10-year period maintain equity, liabilities and non-current assets within acceptable levels. However, the cumulative impact of forecast recurrent budget deficits results in the use of unrestricted cash as forecast in the Cash Flow Statement. Unrestricted cash is essential for Council to operate on a 'business as usual' basis and the Plan forecasts a reduction in unrestricted cash from $19.890 million at 30 June 2022 to $4.019 million by 30 June 2033 due to the need to fund accumulated deficits each year. It is likely that unrestricted cash would be utilised in full before 30 June 2033 after accounting for additional expenditure from budget shocks that can typically occur throughout the year due to natural disasters, capital project cost escalations and unexpected infrastructure asset failures (page 10). A negative unrestricted cash balance would have significant ramifications for Council, as it would limit the ability for creditors to be paid as and when they fall due that would therefore directly impact Council operations and the provision of recurrent services if unaddressed.

Income Statement Commentary

Council's Audited Income Statement result has gradually declined over recent years to a deficit in 2021/22. As forecast in the Income Statement, deficits are expected to continue during the period of this Plan:

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- 2021/22 ($6.058M) Deficit (based on pre-audit Financial Statements as at September 2022)
- 2020/21 $0.086M Surplus
- 2019/20 $4.550M Surplus
- 2018/19 $7.641M Surplus
- 2017/18 $6.649M Surplus
- 2016/17 $8.720M Surplus

Between 2016/17 and 2021/22 Council's Income Statement result has gradually declined because of internal and external factors, notably the ongoing impact of the boundary adjustment, a $1 million increase in the Emergency Services Levy payable to the NSW Government and rising expenditure costs greater than income generated from rates over time. Income Statement results are expected to decline further into deficit over the next ten years:

Net Operating Result before Capital	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	$3,168,487	$1,682,197	-$970,920	-$2,214,803	-$4,270,242	-$5,980,919	-$4,909,421	-$6,134,925	-$7,354,438	-$8,832,220

Results are expected to decline further because of a number of factors:

- Forecast increases in the Wages Price Index as high as 3.8% in some years of the Plan (refer page 18) that further reduces financial capacity each year as income from rates is forecast to increase by a smaller percentage each year as discussed on
- 22.
- Increases to Council's forecast depreciation expense each year. Depreciation is expected to rise in line with an increase in Council's asset base over the life of the Plan due to the creation of new assets funded by Council's significant annual capital works program. In some years of the Plan the capital expenditure budget is greater than the total amount of income that Council expects to receive from rates in the same year, noting that much of the capital works budget is funded from external sources such as development contributions and the NSW Government's Stronger Communities

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Fund. Cyclical infrastructure asset revaluations required under accounting standards also increase depreciation over time as the accounting gross replacement cost of all assets for depreciation purposes is aligned with current prices regardless of the year assets were constructed.

- Statutory increases in the employee superannuation rate from 10% to 12% by 2026, which has increased expenditure by $1.2 million per year since 2022.
- Providing additional average funding of $4.1 million per year to maintain Council's assets as discussed in the Asset Management Planning section of this report (page 27).
- A recurrent budget of $1.4 million in 2026 and 2027 and $3.1 million from 2028 for the operation of Council's largest project, Hornsby Park (page 30).

Local Government Performance Indicators Commentary

Indicators in this version of the LTFP are forecast as follows:

Indicator	Benchmark	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating Performance Ratio	>2% (>0% OLG)	1.99%	1.00%	-0.67%	-1.41%	-2.59%	-3.52%	-2.84%	-3.45%	-4.02%	-4.69%
Own Source Operating Revenue Ratio	>60%	86.17%	86.23%	86.20%	67.50%	86.33%	86.39%	86.45%	86.51%	86.55%	86.64%
Unrestricted Current Ratio	>1.5	6.75	5.43	5.39	5.26	5.22	4.73	4.39	4.35	4.29	4.19
Debt Service Cover Ratio	>2	36.96	36.93	35.40	36.35	63.91	1032.68	571.42	569.71	1139.77	1124.50
Asset Maintenance Ratio	>100%	96.77%	96.57%	96.92%	97.08%	97.39%	97.33%	96.92%	96.88%	96.83%	96.77%
Asset Renewals Ratio	>100%	91.97%	93.49%	95.02%	94.92%	96.46%	96.87%	97.07%	97.73%	98.46%	99.17%
Infrastructure Backlog Ratio	<2%	0.73%	0.73%	0.73%	0.73%	0.74%	0.74%	0.74%	0.74%	0.75%	0.75%

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The Operating Performance Ratio is below the benchmark in most of the years forecast. The Operating performance ratio mirrors the income statement result and declines in line with this result over the period of the plan for the reasons outlined above. All other ratios that are based on the primary financial statements are above acceptable benchmarks over the life of the Plan including the Own Source Operating Revenue Ratio, the Unrestricted Current Ratio and the Debt Service Cover Ratio. However, the Unrestricted Current ratio is forecast to decline, which is reflective of the forecast restriction in unrestricted cash to fund the budget deficits forecast over the life of the Plan as discussed above.

Infrastructure asset ratios are regarded as acceptable over the life of the plan despite the Asset Maintenance Ratio and Asset Renewals Ratio falling slightly below the benchmark of 100%:

- Asset Maintenance Ratio – The ratio averages 97% over the life of the Plan as the Plan includes the funding requirements to meet the desired level of service set by the community for 95% of Council's depreciable asset base as identified in revised Asset Management Plans for Roads, Stormwater Drainage, Buildings and Open Space assets. The ratio is slightly below the benchmark as revised Asset Management Plans for the remaining 5% of Council's depreciable asset base comprising Foreshores and some Other Structures are currently being revised. In this regard it is noted that an Operating Performance Ratio/budget surplus of at least 2% per year would allow the requirements of these Plans to be fully funded once available.
- Asset Renewals Ratio – The ratio averages 96% over the life of the Plan and is slightly below the benchmark of 100% for the same reason as noted in the commentary for the Asset Maintenance Ratio,
- Infrastructure Backlog Ratio – the ratio averages 0.74% over the life of the Plan and is better than the maximum benchmark of 2% set by the Office of Local Government in all years forecast as the Plan includes funding to maintain condition the condition of Council's assets.

In conclusion the results in this version of the Plan indicate that Council's forecast operating capacity is unsatisfactory. Further action including the proposal of a Special Rate Variation is recommended to improve future financial capacity as discussed further on page 39 of this report.

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Special Rate Variation (SRV)

The previous version of the LTFP that was adopted by Council in July 2022 concluded that forecast financial capacity was below acceptable levels as are the forecasts in this Plan and action is required to ensure that recurrent services, including allocating appropriate budgets for asset maintenance and renewal could be provided in a sustainable manner into the future. Accordingly, it included a range of recommendations of which the first was to consider a-special rate variation to rebalance Council's finances within acceptable levels over the long term. A special rate variation was recommended in the first instance because of the quantum of funds required to provide balanced budgets.

As demonstrated by the base case model in this version of the LTFP, Council's long term financial projects remain unsustainable after allocating the required level of funding to provide for the normal continuance of services, to provide for the requirements identified in Council's Asset Management Strategy and to provide a recurrent budget for Hornsby Park once construction is complete. It should be noted that a range of community surveys has conveyed important considerations which have not been factored into the normal continuance of service – base case results presented earlier. It would be appropriate that any Special Rate Variation includes these considerations identified by the community.

As was concluded in the previous version of the LTFP an SRV is necessary because of the quantum of funds required to fund all of the items identified which are of significant magnitude compared to Council's other revenue streams. Income from rates typically makes up more than 80% of Council's own source of revenue each year and therefore is the only revenue stream with the capacity to be increased to provide the level of funding required.

To ascertain the extent of the special rate variation required modelling has been undertaken with consideration of each of the matters identified above, as well as the need to maintain an Operating Performance Ratio of at least 2% each year, which is necessary to protect against unexpected budget shocks (refer page 10 for details).

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The modelling undertaken shows that to meet each of these requirements identified above plus a range of strategic initiatives desired by the community which are outlined in this Plan would require a total rate increase of 28% (31% cumulative increase) over 4 years inclusive of the estimated annual rate peg of 12.9% that is anticipated to be levied regardless of any approved Special Rate Variation.

	2024	2025	2026	2027	TOTAL	Cumulative Impact
Total Rate Increase Required	**8.5%**	**7.5%**	**6.5%**	**5.5%**	**28%**	31.05%
Estimated rate peg included in total increase	3.9%	3.5%	3.0%	2.5%	**12.9%**	
Total increase less rate peg (Special Increase)	4.6%	4.0%	3.5%	3.0%	**15.1%**	

Accordingly, the financial forecasts have been recalculated allowing for a 28% total rate increase (31% cumulative) and presented on page 43. This revised financial version includes each of the items discussed previously:

- 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)
- A total rate increase of 28% (31.05% cumulative) over the first four years of the Plan (page 39)

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.

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Strategic Initiatives

Adopted Documents

In addition to maintaining financial stability and ensuring ongoing funding for the maintenance of current assets and services, a Special Rate Variation will allow us to deliver what the community have said is important to them in order to maintain their quality of life, including:

- Building a **resilient community** that is well prepared for future shocks including climate change and bush fires, and is socially connected
- **Planning for the future,** including a masterplan to revive Pennant Hills Town Centre
- **Upgrading your community infrastructure,** including public toilets, community centres, sportsgrounds and stormwater systems
- Delivering a **connected network** of footpaths, cycleways and trails with improved accessibility
- Managing our assets to better **protect our bushland and improve open spaces**
- **Improving our technology** to provide better customer service, including enhanced cyber security

Over recent years Council has undertaken a series of technical and evidence-based strategies to formulate initiatives required to deliver services to the community for each of Council's unique disciplines. Thirty-six different strategies and technical documents have been adopted by Council. A range of community surveys have also been undertaken supporting these strategies as desired by our residents. These strategic initiatives require $67.26 million over ten years to deliver, $18.4 million of this is operating expenditure and $48.9 million is capital expenditure. A summary of the program of initiatives and their associated costs is provided below:

- Sustainable and resilient community initiatives $6,035,096
- Planning for our future initiatives $1,000,000
- Upgrading community infrastructure $30,807,000
- Connected cycling and walking paths $17,982,370

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- Protecting bushland and improving open space $10,283,419
- Improving our technology $1,150,000

Due to deficits being forecast in eight out of ten years in the base LTFP included in this report (page 31) there is insufficient financial capacity to fund the unfunded initiatives identified unless additional income is generated, such as through a Special Rate Variation.

Results –Normal Continuance of Service, Asset Management Requirements, Hornsby Park, Strategic Initiatives & Special Rate Variation

This version of the LTFP includes each of the items detailed on the previous page, including a total rate increase of 28% (31.05% cumulative) over the first four years of the Plan.

Income Statement

10 Year Financial Plan for the Years ending 30 June 2033

INCOME STATEMENT - GENERAL FUN	Actuals	Current Year	Projected Years									
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	$	$	$	$	$	$	$	$	$	$	$	$
Income from Continuing Operations												
Revenue:												
Rates & Annual Charges	103,081,000	109,152,098	116,736,123	123,878,397	130,595,508	136,628,442	140,006,172	143,467,434	147,014,294	150,648,869	154,415,091	158,972,185
User Charges & Fees	11,611,000	14,233,154	14,731,617	15,158,826	15,583,267	15,957,267	16,340,244	16,732,412	17,133,992	17,545,211	17,983,841	18,433,437
Other Revenues	4,045,000	6,784,074	7,021,517	7,225,141	7,427,445	7,605,703	7,788,240	7,975,158	8,166,562	8,362,559	8,571,623	8,785,914
Grants & Contributions provided for Operating	14,814,000	12,770,694	13,217,668	13,600,981	13,981,808	14,317,371	14,660,988	15,012,852	15,373,161	15,742,116	16,135,669	16,539,061
Grants & Contributions provided for Capital Pu	29,601,000	8,350,000	9,327,953	9,450,564	9,572,379	58,289,717	9,789,630	9,902,181	10,017,433	10,135,452	10,261,338	10,390,371
Interest & Investment Revenue	3,064,000	4,929,651	5,491,284	4,882,424	3,678,321	3,769,582	3,830,572	3,836,224	3,867,236	3,895,739	3,850,908	3,804,681
Other Income:												
Fair value increment on investment properties	-	100,000	103,500	106,502	109,484	112,111	114,802	117,557	120,378	123,268	126,349	129,508
Other Income	2,209,000	-	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**168,425,000**	**156,319,672**	**166,629,662**	**174,302,834**	**180,948,212**	**236,680,195**	**192,530,648**	**197,043,819**	**201,693,056**	**206,453,213**	**211,344,820**	**217,055,156**
Expenses from Continuing Operations												
Employee Benefits & On-Costs	48,302,000	52,421,816	54,842,236	57,032,826	59,081,174	60,865,572	62,874,136	64,948,983	67,092,299	69,306,345	71,524,148	73,812,921
Borrowing Costs	84,000	223,161	192,158	159,071	121,216	77,525	28,162	10,000	10,000	10,000	10,000	10,000
Materials & Contracts	70,118,000	66,681,605	71,076,801	73,676,703	76,650,992	79,136,429	82,042,581	84,906,782	84,687,417	86,518,605	88,630,394	91,696,581
Depreciation & Amortisation	20,461,000	21,215,275	22,170,866	23,078,601	24,024,189	25,009,208	25,946,946	26,742,065	27,876,769	29,036,655	30,266,158	31,441,781
Other Expenses	3,331,000	3,874,130	4,009,724	4,126,006	4,241,534	4,343,331	4,447,571	4,554,313	4,663,616	4,775,543	4,894,932	5,017,305
Total Expenses from Continuing Operation	**144,882,000**	**144,415,987**	**152,291,785**	**158,073,207**	**164,119,105**	**169,432,065**	**175,339,396**	**181,162,143**	**184,330,102**	**189,647,148**	**195,325,632**	**201,978,588**
Operating Result from Continuing Opera	**23,543,000**	**11,903,684**	**14,337,876**	**16,229,627**	**16,829,107**	**67,248,130**	**17,191,252**	**15,881,676**	**17,362,955**	**16,806,065**	**16,019,188**	**15,076,569**
Net Operating Result for the Year	**23,543,000**	**11,903,684**	**14,337,876**	**16,229,627**	**16,829,107**	**67,248,130**	**17,191,252**	**15,881,676**	**17,362,955**	**16,806,065**	**16,019,188**	**15,076,569**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**(6,058,000)**	**3,553,684**	**5,009,923**	**6,779,063**	**7,256,728**	**8,958,413**	**7,401,622**	**5,979,495**	**7,345,522**	**6,670,614**	**5,757,850**	**4,686,197**

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ATTACHMENT 1 - ITEM 1

Balance Sheet

Hornsby Shire Council
10 Year Financial Plan for the Years ending 30 June 2033

BALANCE SHEET - GENERAL FUND	Actuals	Current Year	Projected Years									
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	$	$	$	$	$	$	$	$	$	$	$	$
ASSETS												
Current Assets												
Cash & Cash Equivalents	47,763,000	9,209,420	6,252,378	4,814,050	5,578,450	8,679,071	7,945,220	5,059,684	4,939,083	9,147,045	7,996,579	7,362,155
Investments	81,171,000	102,783,874	96,663,906	74,426,868	77,247,358	79,261,993	80,470,774	78,466,207	76,363,949	78,781,511	83,213,709	87,242,980
Receivables	9,867,000	9,077,308	9,381,646	9,421,978	9,756,043	12,599,610	10,269,342	10,463,530	10,663,042	10,940,918	11,229,929	11,536,699
Inventories	182,000	196,145	209,031	216,666	225,394	232,689	241,214	249,618	249,017	254,405	260,616	269,615
Contract assets and contract cost assets	68,000	69,680	71,722	73,815	75,960	78,159	80,413	82,724	85,092	87,519	90,007	92,557
Other	388,000	261,493	278,233	288,285	299,712	309,282	320,411	331,396	331,041	338,245	346,513	358,306
Total Current Assets	139,439,000	121,597,921	112,856,916	89,241,662	93,182,916	101,160,804	99,327,375	94,653,159	92,631,224	99,549,644	103,137,352	106,862,312
Non-Current Assets												
Investments	173,922,000	152,309,126	143,240,319	110,288,615	114,468,126	117,453,491	119,244,709	116,274,265	113,159,057	116,741,494	123,309,296	129,280,026
Receivables	1,332,000	1,616,032	1,685,782	1,747,834	1,808,156	1,861,709	1,906,735	1,952,851	2,000,083	2,048,457	2,099,669	2,154,602
Infrastructure, Property, Plant & Equipment	1,708,393,000	1,752,594,879	1,783,422,509	1,856,771,453	1,866,087,884	1,924,576,966	1,940,970,795	1,965,369,323	1,988,434,332	1,995,597,218	2,002,446,533	2,008,900,633
Investment Property	29,710,000	29,810,000	29,913,500	30,020,002	30,129,485	30,241,596	30,356,398	30,473,955	30,594,333	30,717,601	30,843,950	30,973,458
Intangible Assets	1,081,000	961,000	950,996	939,114	925,116	908,381	888,743	866,028	840,054	810,630	777,691	741,035
Right of use assets	331,000	2,530,447	2,113,981	1,696,938	1,339,294	921,024	590,458	602,976	523,537	443,361	421,167	401,187
Total Non-Current Assets	1,914,769,000	1,939,821,483	1,961,327,086	2,001,463,956	2,014,758,061	2,075,963,167	2,093,957,839	2,115,539,399	2,135,551,397	2,146,358,761	2,159,898,306	2,172,450,940
TOTAL ASSETS	**2,054,208,000**	**2,061,419,404**	**2,074,184,002**	**2,090,705,618**	**2,107,940,977**	**2,177,123,971**	**2,193,285,214**	**2,210,192,558**	**2,228,182,620**	**2,245,908,405**	**2,263,035,659**	**2,279,313,252**
LIABILITIES												
Current Liabilities												
Bank Overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Payables	13,472,000	11,940,608	12,624,744	13,082,409	13,574,041	13,997,220	14,461,807	14,925,306	15,032,676	15,383,532	15,769,254	16,275,407
Contract liabilities	2,440,000	1,933,791	2,023,654	2,077,556	2,131,108	3,750,618	2,226,616	2,276,095	2,326,762	2,378,646	2,433,988	2,490,713
Lease liabilities	358,000	495,784	512,755	520,351	548,564	309,662	10,000	30,000	30,000	10,000	10,000	10,000
Borrowings	257,000	-	-	-	-	-	-	-	-	-	-	-
Employee benefit provisions	14,802,000	14,016,528	14,215,414	14,444,720	14,705,389	14,998,392	15,324,732	15,685,444	16,083,877	16,521,278	16,998,932	17,518,168
Other provisions	4,985,000	2,022,425	229,790	229,790	229,790	229,790	229,790	229,790	229,790	229,790	229,790	229,790
Total Current Liabilities	36,314,000	30,409,136	29,606,358	30,354,826	31,188,893	33,285,682	32,252,945	33,146,635	33,703,106	34,523,246	35,441,965	36,524,079
Non-Current Liabilities												
Contract liabilities	200,000	438,395	454,745	467,716	480,602	563,298	503,585	515,491	527,683	540,168	553,485	567,135
Lease liabilities	-	1,901,332	1,388,577	868,226	369,662	60,000	50,000	90,000	60,000	50,000	120,000	110,000
Employee benefit provisions	2,111,000	3,111,403	3,155,552	3,206,453	3,264,317	3,329,358	3,401,799	3,481,870	3,570,315	3,667,409	3,773,440	3,888,700
Other provisions	3,308,000	1,380,454	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210	1,062,210
Total Non-Current Liabilities	5,619,000	6,831,584	6,061,084	5,604,605	5,176,790	5,014,865	5,017,593	5,149,571	5,220,207	5,319,787	5,509,134	5,628,045
TOTAL LIABILITIES	**41,933,000**	**37,240,720**	**35,667,441**	**35,959,431**	**36,365,683**	**38,300,547**	**37,270,538**	**38,296,206**	**38,923,314**	**39,843,033**	**40,951,099**	**42,152,124**
Net Assets	**2,012,275,000**	**2,024,178,684**	**2,038,516,561**	**2,054,746,187**	**2,071,575,294**	**2,138,823,424**	**2,156,014,676**	**2,171,896,352**	**2,189,259,307**	**2,206,065,372**	**2,222,084,560**	**2,237,161,129**
EQUITY												
Retained Earnings	1,306,412,000	1,318,073,018	1,332,168,227	1,348,155,187	1,364,984,294	1,432,232,424	1,449,423,676	1,465,305,352	1,482,668,307	1,499,474,372	1,515,493,560	1,530,570,129
Revaluation Reserves	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000	706,591,000
Other Reserves	(728,000)	(485,333)	(242,667)	-	-	-	-	-	-	-	-	-
Total Equity	**2,012,275,000**	**2,024,178,684**	**2,038,516,561**	**2,054,746,187**	**2,071,575,294**	**2,138,823,424**	**2,156,014,676**	**2,171,896,352**	**2,189,259,307**	**2,206,065,372**	**2,222,084,560**	**2,237,161,129**

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ATTACHMENT 1 - ITEM 1

Cash Flow Statement

Hornsby Shire Council 10 Year Financial Plan for the Years ending 30 June 2033 CASH FLOW STATEMENT - GENERAL FUND	Actuals	Current Year	Projected Years									
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	$	$	$	$	$	$	$	$	$	$	$	$
Cash Flows from Operating Activities												
Receipts:												
Rates & Annual Charges	103,203,000	109,150,833	116,624,934	123,773,685	130,497,029	136,539,994	139,956,652	143,416,689	146,962,294	150,595,583	154,359,875	158,905,374
User Charges & Fees	12,686,000	14,047,625	14,781,486	15,201,250	15,625,350	15,994,040	16,377,897	16,770,966	17,173,469	17,585,633	18,027,059	18,477,736
Investment & Interest Revenue Received	2,127,000	4,470,419	5,558,188	5,134,736	3,628,146	3,708,795	3,837,873	3,854,662	3,885,499	3,840,910	3,797,813	3,752,331
Grants & Contributions	43,726,000	21,737,748	22,559,051	23,056,312	23,558,925	73,069,391	23,996,764	24,919,410	25,395,076	25,882,158	26,401,903	26,934,450
Other	14,571,000	7,174,633	6,785,213	7,042,307	7,245,796	6,100,613	8,969,372	7,807,324	7,994,700	8,186,573	8,383,904	8,593,502
Payments:												
Employee Benefits & On-Costs	(48,871,000)	(52,489,904)	(54,540,528)	(56,701,177)	(58,715,484)	(60,460,637)	(62,421,889)	(64,452,971)	(66,548,369)	(68,712,915)	(70,881,429)	(73,117,501)
Materials & Contracts	(73,679,000)	(66,930,231)	(70,652,475)	(73,421,814)	(76,361,284)	(78,893,771)	(81,760,441)	(84,628,283)	(84,696,092)	(86,335,845)	(88,420,673)	(91,397,569)
Borrowing Costs	(82,000)	(228,161)	(192,158)	(159,071)	(121,216)	(77,525)	(28,162)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Bonds & Deposits Refunded	(13,000)	-	-	-	-	-	-	-	-	-	-	-
Other	(1,795,000)	(9,772,056)	(6,001,718)	(4,041,920)	(4,153,534)	(4,268,430)	(4,361,682)	(4,467,949)	(4,628,278)	(4,704,195)	(4,818,578)	(4,923,502)
Net Cash provided (or used in) Operating Activities	51,873,000	27,160,905	34,921,992	39,884,307	41,203,728	91,712,469	44,566,383	43,209,849	45,528,298	46,327,902	46,839,874	47,214,821
Cash Flows from Investing Activities												
Receipts:												
Sale of Investment Securities	120,185,000	-	15,188,775	55,188,741	-	-	-	4,975,011	5,217,467	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	1,157,000	1,000,000	1,035,000	1,065,015	1,094,835	1,121,111	1,148,018	1,175,571	1,203,784	1,232,675	1,263,492	1,295,079
Payments:												
Purchase of Investment Securities	(125,899,000)	-	-	-	(7,000,000)	(5,000,000)	(3,000,000)	-	-	(6,000,000)	(11,000,000)	(10,000,000)
Purchase of Investment Property	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(44,648,000)	(65,965,434)	(53,492,025)	(96,945,301)	(33,882,165)	(84,059,828)	(43,011,032)	(52,105,348)	(51,906,396)	(37,185,651)	(38,103,444)	(38,990,426)
Purchase of Intangible Assets	-	-	(115,000)	(118,335)	(121,648)	(124,568)	(127,558)	(130,619)	(133,754)	(136,964)	(140,388)	(143,898)
Net Cash provided (or used in) Investing Activities	(49,205,000)	(64,965,434)	(37,383,250)	(40,809,880)	(39,908,978)	(88,063,285)	(44,990,571)	(46,085,385)	(45,618,899)	(42,089,940)	(47,980,340)	(47,839,245)
Cash Flows from Financing Activities												
Payments:												
Repayment of Borrowings & Advances	(242,000)	(257,000)	-	-	-	-	-	-	-	-	-	-
Repayment of lease liabilities (principal repayments)	(438,000)	(492,051)	(495,784)	(512,755)	(530,351)	(548,564)	(309,662)	(10,000)	(30,000)	(30,000)	(10,000)	(10,000)
Net Cash Flow provided (used in) Financing Activities	(680,000)	(749,051)	(495,784)	(512,755)	(530,351)	(548,564)	(309,662)	(10,000)	(30,000)	(30,000)	(10,000)	(10,000)
Net Increase/(Decrease) in Cash & Cash Equivalents	1,988,000	(38,553,580)	(2,957,042)	(1,438,328)	764,400	3,100,621	(733,851)	(2,885,536)	(120,601)	4,207,962	(1,150,466)	(634,424)
plus: Cash & Cash Equivalents - beginning of year	45,775,000	47,763,000	9,209,420	6,252,378	4,814,050	5,578,450	8,679,071	7,945,220	5,059,684	4,939,083	9,147,045	7,996,579
Cash & Cash Equivalents - end of the year	**47,763,000**	**9,209,420**	**6,252,378**	**4,814,050**	**5,578,450**	**8,679,071**	**7,945,220**	**5,059,684**	**4,939,083**	**9,147,045**	**7,996,579**	**7,362,155**
Cash & Cash Equivalents - end of the year	47,763,000	9,209,420	6,252,378	4,814,050	5,578,450	8,679,071	7,945,220	5,059,684	4,939,083	9,147,045	7,996,579	7,362,155
Investments - end of the year	255,093,000	255,093,000	239,904,225	184,715,483	191,715,483	196,715,483	199,715,483	194,740,472	189,523,005	195,523,005	206,523,005	216,523,005
Cash, Cash Equivalents & Investments - end of the year	**302,856,000**	**264,302,420**	**246,156,602**	**189,529,534**	**197,293,933**	**205,394,554**	**207,660,703**	**199,800,156**	**194,462,088**	**204,670,050**	**214,519,584**	**223,885,161**
Representing:												
- External Restrictions	200,551,000	163,154,928	150,173,912	92,350,791	95,486,645	97,312,071	95,817,289	82,821,576	70,656,628	73,840,385	77,066,110	80,109,817
- Internal Restricitons	82,415,000	84,040,090	81,105,540	78,662,722	79,761,690	80,853,420	81,937,740	83,014,470	84,083,428	85,144,429	86,196,942	87,240,753
- Unrestricted	19,890,000	17,107,402	14,877,151	18,516,021	22,045,598	27,229,063	29,905,675	33,964,110	39,722,032	45,685,236	51,256,532	56,534,590
	302,856,000	**264,302,420**	**246,156,602**	**189,529,534**	**197,293,933**	**205,394,554**	**207,660,703**	**199,800,156**	**194,462,088**	**204,670,050**	**214,519,584**	**223,885,161**

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ATTACHMENT 1 - ITEM 1

Local Government Performance Indicators

Indicator	Benchmark	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating Performance Ratio	>2% (>0% OLG)	3.12%	4.05%	4.17%	4.96%	3.99%	3.13%	3.77%	3.34%	2.80%	2.21%
Own Source Operating Revenue Ratio	>60%	86.46%	86.77%	86.98%	69.31%	87.29%	87.35%	87.40%	87.46%	87.50%	87.59%
Unrestricted Current Ratio	>1.5	6.50	5.30	5.36	5.47	5.58	5.16	4.98	5.24	5.29	5.32
Debt Service Cover Ratio	>2	39.64	44.52	48.03	54.20	98.46	1630.70	877.80	889.85	1795.38	1800.42
Asset Maintenance Ratio	>100%	96.77%	96.57%	96.92%	97.08%	97.39%	97.33%	96.92%	96.88%	96.83%	96.77%
Asset Renewals Ratio	>100%	101.25%	102.61%	103.99%	103.74%	105.13%	105.39%	105.45%	105.95%	106.54%	107.11%
Infrastructure Backlog Ratio	<2%	0.57%	0.54%	0.54%	0.54%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%

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ATTACHMENT 1 - ITEM 1

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

This version of the LTFP includes a total increase in rating income of 28% (31.05% cumulative) over the first four years of the plan, inclusive of the estimated annual rate peg each year. 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 above the 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 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 regarded as acceptable over the life of the Plan despite the Asset Maintenance Ratio falling slightly below the benchmark of 100%, which is because Asset Management Plans for 5% of Council's depreciable asset base comprising Foreshores and some Other Structures are currently being revised and accurate forecast requirements are not yet known. However, there is sufficient financial capacity within this version of the LTFP to fund the requirements of the revised Asset Management Plans when available, as evidenced from the average Operating Performance Ratio of 3.55%. The asset renewals ratio is above the benchmark of 100% in this version of the Plan as a number of the strategic initiatives identified on 41 are for the renewal of assets.

The results from this version of the LTFP provide evidence that the Special Rate Variation of 28% (31.05% cumulative) over four years noted on page 39 is sufficient to rebalance Council's project 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, meets the desired levels of community service, provides for the ongoing maintenance and renewal of a completed Hornsby Park and sufficient operating capacity to respond to financial challenges when they arise.

Financial Risks

There are several significant challenges that may place pressure on Council's Annual Budget over the period of the Plan.

- Major Projects – Council's capital works program is as high as $92 million per year, which is more than the income forecast to be generated from rates. Whilst the majority of these projects are funded from external sources such as grants and development contributions there is an unavoidable level of financial risk from capital budgets of this size given the nature of complex infrastructure projects and large construction costs relative to the size of Council's overall budget. Should costs escalate above the level of external funds available Council general funds would be required to complete works, which could place significant pressure on the Annual Budget in any given year. Recent examples of capital cost escalations include sizeable additional allocations provided to the Wisemans Ferry Boat Ramp project and Galston Aquatic Centre Remediation projects. In this regard it is noted that rising construction costs and supply shortages following economic recovery from the COVID-19 pandemic continue to place pressure on Council's construction budgets.

- Investment income returns – Investment returns over the life of the Plan have been calculated between 2.45% and 3.12% per year, which are reflective of current increases in the base rate set by the Reserve Bank of Australia. If the base rate is not maintained at this level less investment income will be generated than forecast which will reduce the Income Statement result. Conversely, should the base rate increase at a greater rate Council would benefit from having more investment income to allocate to expenditure over the life of the Plan.

- The Hornsby Shire Local Government Area has been impacted by multiple severe weather events that were declared Natural Disasters by the NSW Government between 2018 and 2022. Each of these events typically costs Council several hundred thousand dollars in clean-up costs that are not always able to be recouped from the NSW Government. Furthermore, flooding caused significant damage at Wisemans Ferry that added $3.57 million in flood related clean up to the cost of Council's project to construct a new boat ramp and associated infrastructure. Costs to rectify damaged roads from the February 2022 and July 2022 floods are also estimated at $2.5 million.

- Workplace of the Future – Since the discovery of asbestos in Council's old Administration Centre based in Hornsby, Council staff have predominantly worked from a temporary office location in Thornleigh. Whilst the cost of leasing this premises is included within the LTFP for the next 5 years there is a long term need for Council to resolve office accommodation needs that will require funding beyond this point. In this regard it is noted that the former office site in Hornsby would require capital investment to be re-fitted as an office. Unexpected remediation works at the old Administration Centre have adversely impacted Council's budget by $1.53 million.

- State Government Costs – There are some costs over which Council has no control such as levies charged by the NSW Government. Over recent years the Emergency Services Levy payable to the State has increased by more than $1 million and in the order of 40%, which is above the level of estimated increases in previous Plans that forecast the annual increase in the levy to track in line with CPI. There is a risk of future cost increases of this nature over which Council has no control.

Sensitivity Analysis – Employee Costs and CPI Forecast

This sensitivity analysis has included two matters that could adversely affect Council if the planning assumptions underpinning the LTFP are not realised.

1. Employee Costs

As a method of cost containment, a two-week productivity measure has been applied to budgets provided for salaries and wages, which are based on a 50 week instead of 52 week year on the assumption that there will be vacancies from time to time across the organisation. The result is a funding gap of 4% between available budgets and the level of expenditure required to employ each of Council's approved positions for a full year.

The starting point for this Plan is Council's adopted 2022/23 Annual Budget, which was prepared on the basis of a 50-week year for salaries and wages. Therefore, all future years in the 10-year Plan also include the 2 week productivity measure. The Plan has also been prepared on the assumption that a long-standing freeze on Council's Full Time Establishment headcount will remain with the creation of no new positions forecast over the next 10 years. This is despite the Plan also including funding for annual budgets to close the Asset Management funding gap (page 27) and funding of $67.26 million in strategic initiatives (page 41) to meet the needs of the community. The delivery of each of these initiatives will require additional operating capacity and it is expected that a move towards full headcount will occur that could cause the forecasted budget for employee costs to be insufficient. To estimate the impact on Council's financial capacity from a 0% vacancy rate a sensitivity analysis has been undertaken based on providing salary and wage budgets for a 52-week year.

Additional Expenditure – 52 Week Year

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Additional expenditure (52-week year)	$1,995,574	$2,065,419	$2,129,447	$2,199,719	$2,272,310	$2,347,296	$2,424,757	$2,504,773	$2,584,926	$2,667,644

ATTACHMENT 1 - ITEM 1

On average, additional annual expenditure of $2,319,186 is required inclusive of forecasted increases to the wage price index (refer page 18) over the life of the Plan.

2. CPI Forecast

CPI is the driver for the majority of Council's operating expenditure including Materials and Contracts and Other Expenses within the Plan. CPI has also been used as a driver for User Charges and Fees and Other Revenue in the LTFP, although these income streams are small compared to the level of expenditure incurred through Materials and Contracts and Other Expenses each year.

CPI has been forecast to trend in line with the rate peg over much of the life of the Plan from 2027 onwards, which creates a risk for Council should costs rise to a greater extent than the rate peg each year, which would reduce operating capacity compared to the levels forecast. Therefore, the LTFP has been updated to assess the impact of 0.5% increase in CPI above the level assumed in the Plan from 2027:

	2027	2028	2029	2030	2031	2032	2033
CPI used in LTFP	2.4%	2.4%	2.4%	2.4%	2.4%	2.5%	2.5%
CPI + 0.5%	2.9%	2.9%	2.9%	2.9%	2.9%	3.0%	3.0%

Results

Results including additional expenditure for salaries and wages and CPI above the level forecast are below.

Net Operating Surplus before Capital Items & Asset Sales

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base LTFP (including Strategic Initiatives)	$5,009,923	$6,779,063	$7,256,728	$8,958,413	$7,401,622	$5,979,495	$7,345,522	$6,670,614	$5,757,850	$4,686,197
Base LTFP + Additional salaries & CPI	$3,014,349	$4,713,644	$5,127,281	$6,757,753	$5,127,380	$3,624,383	$4,906,754	$4,145,312	$3,145,522	$1,983,916

Operating Performance Ratio

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base LTFP (including Strategic Initiatives)	3.12%	4.05%	4.17%	4.96%	3.99%	3.13%	3.77%	3.34%	2.80%	2.21%
Base LTFP + Additional salaries & CPI	1.85%	2.80%	2.93%	3.72%	2.73%	1.86%	2.48%	2.03%	1.48%	0.88%

In this scenario the average Income Statement surplus would reduce from $6.585 million to $4.255 million with a corresponding decrease in the Operating Performance Ratio from an average of 3.55% to 2.28%, which is at the lower end of the acceptable range aimed for by Council of a minimum 2%, which is the historic level required to fund unexpected budget shocks that can occur throughout the year to ensure a balanced budget at the end of each financial year. In this regard it is noted that 4 out of 10 years forecast indicate an Operating Performance Ratio of below 2%, which could lead to budget deficits in these years.

ATTACHMENT 1 - ITEM 1

The level of financial capacity in the last two years is below acceptable levels and the sensitivity indicates an emerging trend of declining financial capacity at the end of the Plan that would be likely to continue into 2034 and 2035 if unaddressed with results falling below acceptable levels in these years.

ATTACHMENT 1 - ITEM 1

Action to Improve 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)

The previous version of the LTFP that was adopted by Council in July 2022 included a recommendation for Council to consider a Special Rate Variation to rebalance forecast future financial capacity within acceptable levels. Modelling undertaken in this version of the LTFP has indicated that a special rate variation of 28% (31.05% 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% (31.05% 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.
- Maintain cost increases to modest levels in regard to 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.
- No new positions to be created as appropriate unless offset by an equivalent position elsewhere, or grant funded or income generating positions.

- 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% Special Rate Variation (31.05% cumulative), Council will be limited in a number of ways as a result of insufficient financial capacity:

5. 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.

6. 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.

7. 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 constriction 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.

8. Strategic Initiatives

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

ATTACHMENT 2 - ITEM 1

HORNSBY
SHIRE COUNCIL

Asset Management Strategy 2023/24 to 2032/33

DRAFT

September 2022

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Document Control		*Asset Management Strategy*			
Rev No	**Date**	**Revision Details**	**Author**	**Reviewer**	**Approver**
1	13/04/2021	For review	AZ	MH	DC
2	7/9/2022	Revised with latest CPI forecast added to cost estimates	AZ	MH	DC

This document has been compiled by Council's Financial Services Branch.

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EXECUTIVE SUMMARY

Hornsby Shire Council delivers a wide range of services to the community, many of which depend on the assets we own and maintain. Asset management is a whole of life approach – from acquiring new assets or replacing old assets, maintaining existing assets and disposing of assets at the end of their life.

This Asset Management Strategy details Council's approach to managing our asset base and our assessment of the ongoing costs to ensure that our assets remain at a standard which meets the needs of our community.

OUR CURRENT ASSET BASE

The gross carrying amount and written down value (WDV) of our assets is reported each year in our General Purpose and Special Purpose Financial Statements and Associated Special Schedules. Values reported for our depreciable infrastructure assets in our unaudited 30 June 2022 statements were:

Infrastructure asset category	Gross carrying amount (cost) $'000	Net carrying amount (WDV) $'000
Buildings	236,634	155,301
Drainage	569,489	439,619
Open Spaces	113,887	68,460
Roads and transport assets	520,852	408,681

Our two largest asset categories are:

- Drainage – this includes stormwater pits and pipes, concrete box culverts, lined and unlined open channels and outlet structures; and
- Roads and transport assets – this includes sealed and unsealed road pavements, footpaths, shared paths, cycleways, kerb, gutter, bridges and road culverts.

OUR ASSESSMENT & FUNDING REQUIREMENTS

To assess the cost of maintaining our depreciable infrastructure asset base we have separated our assets into four categories – buildings, drainage, open spaces and roads and transport assets. For each of these categories we have collated data on the assets we own and have engaged external contractors to assist in verifying the accuracy of our data. In addition, community survey results on desired levels of service and technical levels of service have been relied upon in determining an appropriate standard. Further details on this are included in Section 3 below.

Using this data, we have calculated the expected costs to maintain and renew our existing asset base to a satisfactory standard over the next 10 years and compared this to recurrent budget funding allocations. This has resulted in a funding gap across all four asset categories. We have also factored in the forecast maintenance and renewal requirements of new assets that we expect to build over the next ten years provided the funding for the construction of these assets is confirmed.

Table 4.1 in Section 4 of the report below shows that after factoring in all funding requirements and available budgets, the average annual shortfall remaining is $4.1 million per year.

In order to maintain our asset base to a sufficient standard, it is recommended that additional funding be allocated in the LTFP to cover the funding shortfalls identified**.**

The consequences of inadequate funding being allocated are:

- Deteriorating quality of existing assets (e.g. reduction in road network condition);
- Inability to renew ageing assets;
- Inability to adequately maintain newly constructed assets; and
- Increased exposure of Council to litigation relating to deteriorating assets.

1. STRATEGY OBJECTIVES

1.1. OVERVIEW

Council's Asset Management Strategy forms part of the overall Asset Management Framework:

- ***ASSET MANAGEMENT POLICY*** – Positioning statement that Council intends to manage its assets in a physical and financially sustainable manner
- ***ASSET MANAGEMENT STRATEGY*** – This document – how Council intends to develop specific Asset Management Plans (AMPs) for each Asset Class and how this aligns with our goals and values.
- ***ASSET MANAGEMENT PLAN(S) (AMP)*** – A document which details Council's physical and financial management of its assets. The Asset Management Plans for each of our asset classes have informed this Strategy.

The ***Policy*** provides the:	**WHY**
The ***Strategy*** provides the:	**HOW**
The ***Plans*** provide the:	**WHAT**

1.2. LEGISLATIVE REQUIREMENTS

This document has been developed in accordance with the guidelines contained within the Integrated Planning & Reporting Handbook for Local Councils in NSW issued by the Office of Local Government in September 2021.

1.3. STRATEGIC & CORPORATE GOALS

The Strategy is to reinforce that each asset management document is to be prepared, reviewed and updated under the direction of Hornsby Shire Council's core set of values:

SERVICE – We provide a helpful and efficient service. We are local and know the neighbourhood.

TRUST – We are fair and reasonable. We are mindful of the best interests of all stakeholders in the decisions we make.

RESPECT –` We listen and encourage open and transparent communication. We are respectful of all views.

INNOVATION – We are resourceful and incorporate sustainable work practices. We seek to be innovative and to do things better across all facets of Council's operations.

2. LEVELS OF SERVICE

Levels of Service refer to the definition of benchmarks that Council aims to achieve for the delivery of services and the ongoing performance of assets.

2.1. COMMUNITY LEVELS OF SERVICE

Assets provided by Council are designed and funded to meet a defined level of demand and/or need of the community.

Community Levels of Service represent the prioritised needs and desires of the Community, as defined by the community itself through regular interaction and survey. Engagement of the community seeks to determine for each Asset Class/Type:

QUALITY How good is the service/asset … *what is the condition or quality of the service?*

FUNCTION Is it suitable for its intended purpose …. *Is it the right service?*

CAPACITY/USE Is the service over or under used … *do we need more or less of these assets?*

The AMP for each Asset Class is to state the Community Levels of Service for the Asset Class as a whole or each Asset Type as defined through Council's most current engagement with the community regarding the provision and maintenance of services/assets by Council to the Community.

The most recent engagement by Council with the community regarding the service provision of assets is:

- Hornsby Shire Council – Asset Management Community Insights Report (URBIS November 2020)

As part of this engagement, participants were asked to participate in a hypothetical budgeting exercise where they were given a limited budget and were required to prioritise funding for each of our asset classes according to their desired level of service.

In the scale used below, a level of service of 1 represents a high level of service where assets have no backlog and only ongoing maintenance is required. At the other end of the scale, a level of service at 4 represents a facility which is not meeting the needs of the community with regards to appearance, capacity, access or overall condition.

1	Excellent/ very good	High standard, no work required. Only ongoing maintenance.
2	Good	Meet the needs of the community with some minor maintenance.
3	Satisfactory	Requiring of some ongoing maintenance to maintain acceptable standard to the community
4	Poor	Facility generally not meeting the needs of the community with regards to appearance, capacity, access or overall utility.

The Community were not asked to consider a level of service of 5, which is at the end of the scale used by the Office of Local Government and by Council for reporting, as assets with this rating have typically failed and it was assumed that the community would not indicate a preference for assets that cannot be used.

Participants involved in this exercise rated the desired level of service for Council's infrastructure to the following standards:

- Buildings – participants preferred a level of service of 2 for libraries and amenities buildings and a level of service of 3 for aquatic centres, community centres and indoor sporting facilities. The service provided by our libraries was valued highly by participants, especially during the COVID-19 period.
- Open Spaces – participants preferred a level of service of 2 for sporting fields, park facilities and playgrounds and a level of service of 3 for trees, gardens and mountain bike tracks. Participants felt that higher levels of condition for our sporting fields would attract visitors to Hornsby Shire which would create additional economic benefits. Safety was considered a high priority for playgrounds.
- Roads and related infrastructure – participants preferred a level of service of 2 for footpaths, bridges and roads and a level of service of 3 for carparks, shared paths, kerb and guttering. Emphasis was placed on the importance of flat, safe and unobstructed footpaths and pedestrian crossings.
- Stormwater infrastructure – participants preferred a level of service of 3 for stormwater drainage.

Additional information relied upon to assist with the definition of an expected Community level of service or service provision included further reports/documentation that provided for community consultation such as:

- "Your Vision, Your Future" Hornsby Shire Community Strategic Plan 2018-2028 (engagement: Oct/Nov 2017);
- Disability Inclusion Action Plan (DIAP) (engagement: June 2017);
- Hornsby Snapshot Findings and Future Planning for Hornsby Community Plan (engagement: June 2016);
- Active Living Hornsby Strategy (engagement: August 2015);
- Quality of Life and Asset Management Survey March 2020
- Asset Management – Community Insights Report November 2020; and
- Community Satisfaction Survey Report July 2021.

Customer levels of service are subjective and can be qualitatively monitored through structured and regular community engagement and/or measurement of less formal community contact with Council (for example CRMs, emails, social media comments, etc).

In deciding on the funding required for each asset class, careful consideration was given to the desired level of community service and technical levels of service.

2.2. TECHNICAL LEVELS OF SERVICE

Technical Levels of Service are operational or technical measures of performance and support the achievement of the customer service levels. These technical measures relate to the allocation of resources to service activities to best achieve the desired customer outcomes and demonstrate effective performance.

Technical service measures are linked to the activities and annual budgets covering:

- ***Operations*** – the regular activities to provide services (e.g. opening hours, cleansing, mowing grass, energy, inspections, etc);
- ***Maintenance*** – the activities necessary to retain an asset as near as practicable to an appropriate service condition. Maintenance activities enable an asset to provide service for its planned life (e.g. road patching, unsealed road grading, building and structure repairs);
- ***Renewal*** – the activities that return the service capability of an asset up to that which it had originally (e.g. road resurfacing and pavement reconstruction, pipeline replacement and building component replacement); and
- ***Upgrade/New ("Acquisition")*** – the activities to provide a higher level of service (e.g. widening a road, sealing an unsealed road, replacing a pipeline with a larger size) or a new service that did not exist previously (e.g. a new library).

Council Officers referred to as Service Managers and Asset Custodians are required to plan, implement and control technical service levels to influence customer service levels. Since the adoption in 2020 of an Asset Management Roles & Responsibilities Determination, there has been significant impact on responsibilities for the operation, maintenance and renewal of asset sub-types. As a result, Asset Custodians are required to collaborate with Service Managers to review the measurement and reporting of both Customer and Technical levels of service which are appropriate for differing asset sub-types.

Technical Levels of Service, where able, are to be defined in the AMP for each Asset Class however care should be taken to determine qualitative characteristics of asset/service delivery that are:

- Able to be clearly identified and measured;
- Meaningful for the measurement of asset/service performance; and
- Less susceptible to distortion from events outside Council's control.

3. CURRENT STATE OF INFRASTRUCTURE

3.1. ASSET CLASS: BUILDINGS

3.1.1. PHYSICAL INDICATORS

At 30 June 2022, the net carrying amount of Council's buildings portfolio was $155.3 million. Council owns buildings for various purposes including:

- Aquatic centres;
- Community centres;
- Libraries;
- Council offices;
- Rural Fire Service stations/structures; and
- Commercial and residential properties leased out to tenants.

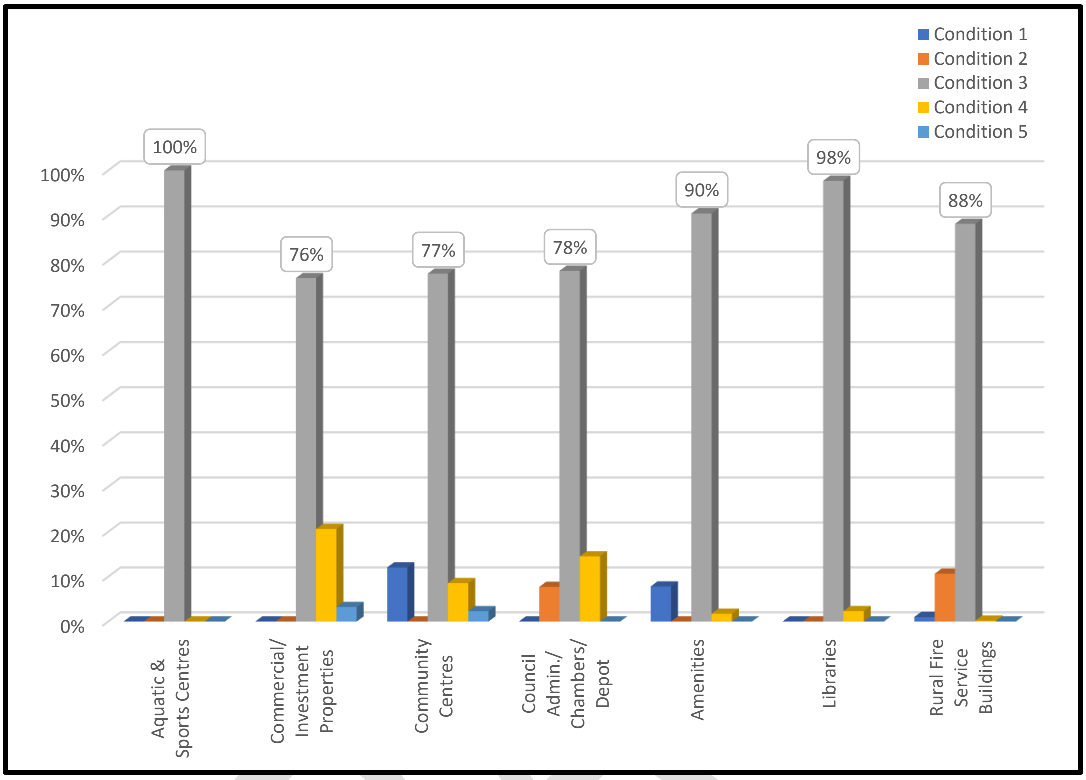
Council uses the AssetFuture system to record and track the maintenance requirements of our buildings portfolio. In early 2021, external contractors were engaged to validate the maintenance data recorded in the AssetFuture system for a selection of Councils highest value buildings. This assessment showed that our maintenance data within AssetFuture is reliable and correlated with the data collected by the external contractors.

This compares favourably to work performed in 2013 by external consultants Morrison & Low who undertook a review of Council's asset management knowledge, policies, and practices in accordance with Office of Local Government guidelines. At that time, Council achieved a rating of "C" indicating a "Core" level of overall asset planning and management. In 2015, Morrison Low again reviewed Council's progression towards developing a more mature approach to asset management, with Council achieving a "B", or "Advanced" level of overall asset management maturity.

The validation of maintenance data recorded within AssetFuture demonstrates our progress in advancing our asset management maturity through improved maintenance management and data reconciliation.

Figure 3.1.1 below shows the condition of Council's building portfolio. A condition rating of 1 equates to a building in excellent condition with no repairs or maintenance required, while a condition rating of 5 equates to a building in very poor condition where replacement is required. The table shows that most of our buildings are current rated a 3 or better with a very small number of buildings rated below this. A score of 3 equates to a building in fair condition with some repairs required.

FIGURE 3.1.1: BUILDINGS- CONDITION PROFILE



It has been noted in community surveys that a key area of interest to the community is our amenity buildings located in parks and other outdoor locations. It is recommended that going forward a strategy be developed for amenity buildings to formulate the level of funding required to upgrade key facilities across the Shire.

3.1.2. FINANCIAL POSITION

Table 3.1 below shows our assessment of the costs required to maintain our existing building portfolio as well as the amount of funds available to cover these costs in our budget. Due to the nature of the projected maintenance, renewal and replacement process in the buildings AssetFuture system; the expenditure profile exhibits troughs and peaks, however current funding levels in Council's Long Term Financial Plan (LTFP) are not sufficient to maintain required service levels.

ATTACHMENT 2 - ITEM 1

TABLE 3.1: BUILDINGS ASSET CLASS – 23/24 TO 32/33 PROJECTIONS

Year	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Budget ($'000)	**$3,271**	**$3,440**	**$3,635**	**$3,823**	**$4,018**	**$4,232**	**$4,454**	**$4,672**	**$4,915**	**$5,167**
Operations & Maintenance	$3,064	$2,886	$3,263	$3,936	$5,224	$5,325	$4,202	$4,338	$4,460	$4,584
Capital Renewal	$693	$639	$580	$762	$1,102	$1,117	$794	$814	$834	$855
Acquisition	$52	$43	$44	$56	$80	$82	$60	$62	$63	$65
Forecast Exp. ($'000)	**$3,809**	**$3,568**	**$3,887**	**$4,754**	**$6,406**	**$6,524**	**$5,056**	**$5,214**	**$5,357**	**$5,504**
Surplus/Shortfall ($'000):	**-$538**	**-$128**	**-$252**	**-$931**	**-$2,388**	**-$2,292**	**-$602**	**-$542**	**-$442**	**-$337**
								Average Annual Funding Shortfall of ('000):	**-$845**	

While difficult to quantify, we also expect extreme weather events to increase the ongoing maintenance cost of our building assets to cover the costs of remediating damaged assets. These type of weather events may also shift community expectations and result in the expectation of increased service standards.

3.2. ASSET CLASS: OPEN SPACES

3.2.1. PHYSICAL INDICATORS

At 30 June 2022, the net carrying amount of Council's Open Spaces asset category was $68.5 million. Hornsby operates over 180 different open-space locations across the Shire for use by residents and visitors for both formal and informal recreational pursuits. These sites range from small pocket parks with play equipment to specialist sporting precincts. Of the approximately 8000 assets, this includes:

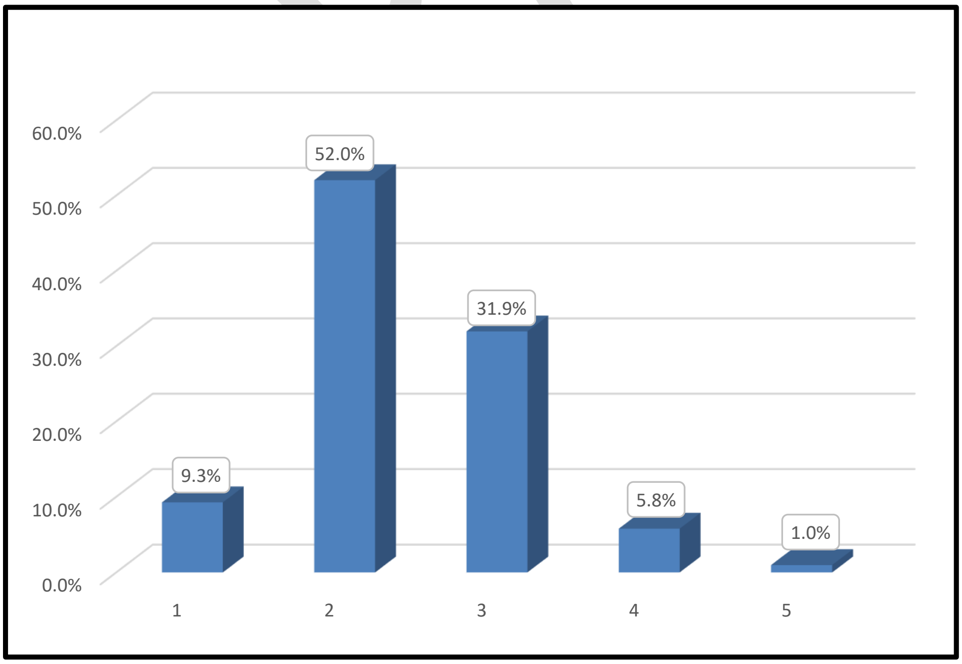
- More than 700 park benches/seats;
- Over 50 BBQs with or without enclosures;
- More than 300 pieces of playground equipment; and
- 7 flagpoles.

Council's Parks and Recreation database of Open Space assets were assessed by external contractors in 2021 by way of a physical asset inspection. The resultant data was processed in conjunction with prior datasets (collected in 2010 and 2015) and showed an improvement in overall average asset condition across all types of parks/open space.

Figure 3.2.1 shows that over 80% of our assets were assessed as either a condition 2 or 3, with less than 10% considered to be in a poor or failed condition.

Future maintenance costs are expected to increase as new assets are created and as the cost of materials and labour rise.

FIGURE 3.2.1: OPEN SPACE ASSETS - CONDITION PROFILE



3.2.2. FINANCIAL POSITION

Table 3.2 below highlights that due to a significant number of open space assets being created as part of the Section 7.11 projects, there is a significantly increasing maintenance cost associated with these new assets. Current funding levels in Council's LTFP are not sufficient to maintain required service levels.

TABLE 3.2: OPEN SPACE ASSET CLASS – 23/24 TO 32/33 PROJECTIONS

Year	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Budget ($'000)	**$6,903**	**$7,104**	**$7,335**	**$7,511**	**$7,772**	**$7,959**	**$8,150**	**$8,370**	**$8,592**	**$8,807**
Operations & Maintenance	$6,354	$6,454	$6,853	$6,950	$7,048	$7,383	$7,536	$7,864	$8,099	$8,406
Capital Renewal	$942	$1,140	$1,653	$1,256	$3,777	$1,340	$1,276	$1,344	$1,706	$1,800
Acquisition	$228	$234	$241	$247	$253	$259	$265	$271	$278	$285
Forecast Exp. ($'000)	**$7,524**	**$7,828**	**$8,747**	**$8,453**	**$11,078**	**$8,982**	**$9,077**	**$9,479**	**$10,083**	**$10,491**
Surplus/Shortfall ($'000):	**-$621**	**-$724**	**-$1,412**	**-$942**	**-$3,306**	**-$1,023**	**-$927**	**-$1,109**	**-$1,491**	**-$1,684**
Average Annual Funding Shortfall of ('000):									**-$1,324**	

While difficult to quantify, we also expect extreme weather events to increase the ongoing maintenance cost of our open space assets to cover the costs of remediating damaged assets. These type of weather events may also shift community expectations and result in the expectation of increased service standards.

3.2.3. HORNSBY PARK

Council has commenced its largest ever capital project being the construction of Hornsby Park. This project involves the redevelopment of the abandoned Hornsby Quarry and adjacent Old Mans Valley on the western side of Hornsby into open space for recreation purposes. The total estimated cost of the facilities canvassed in the Master Plan for the park is $130 million funded from the NSW Government's Stronger Communities Fund, Section 7.11 development contributions and capital contributions from commercial arrangements.

Due to the size and scale of this capital project, a review of forecasted costs was undertaken by a specialist external consulting firm – Capital Insight. Their review concluded that the average asset life cycle costs were forecast at $3.1 million per year upon completion of the project.

Further due diligence was exercised through a peer review of the capital and recurrent costs by specialist consulting firm, WT Australia. Their review validated the forecasts used in the Plan to be appropriate. Accordingly, Council's LTFP includes forecast recurrent costs of $3.1 million per year which have been allocated in line with the most recent construction cash flow for the project. A $1.4 million recurrent allocation is provided in 2026 and 2027, which increases to $3.1 million from 2028 reflecting the timeline for the completion of key components at the park. These costs have not been included in Table 3.2 above however are included in the LTFP.

3.3. ASSET CLASS: ROADS & ROAD INFRASTRUCTURE

3.3.1. PHYSICAL INDICATORS

At 30 June 2022, the net carrying amount of Council's road and road infrastructure assets was $408.7 million. Based on data held in Council's asset register, the assets covered in this category include:

- 575km of sealed road pavement;
- 28km of unsealed road;
- 3km of dedicated cycleway;
- 390km of footpaths;
- Over 760km of constructed kerb & gutter;
- Over 15,000m2 of public car parks; and
- 44 separate road bridge structures (including multi-cell road culverts).

Sealed roads represent the largest of the above asset categories by value. The condition of sealed roads is determined within the SMEC Pavement Management System via the production of a Pavement Condition Index (PCI) per segment of road. The PCI is calculated using physical parameters of the road surface as measured via independent contractors on a four-year rolling inspection program. Council is targeting an average PCI across the network of 8.2 as this corresponds to a condition 2 on Council's 1 to 5 scale, which is the desired level of service preferred by the community as discussed on page 5. Based on the most recent condition data held in the SMEC system, the network average PCI is shown in Figure 3.3.1 below:

FIGURE 3.3.1: SEALED ROADS - CONDITION PROFILE

Road Classification	Length (km)	Average PCI	Length-Weighted Average Network PCI
Sub-arterial	39.83	7.65	**8.17** *(8.2)*
Collector	49.03	8.05	
Principal Local	108.29	7.84	
Local	377.92	8.34	

3.3.2. FINANCIAL POSITION

Table 3.3 below shows our assessment of the costs required to maintain all assets within our roads category, as well as the amount of funds available to cover these costs in our budget. Current funding levels in Council's LTFP are not sufficient to maintain required service levels.

TABLE 3.3: ROADS ASSET CLASS – 23/24 TO 32/33 PROJECTIONS

Year	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Budget ($'000)	**$10,215**	**$10,554**	**$10,883**	**$11,177**	**$11,480**	**$11,779**	**$12,098**	**$12,425**	**$12,774**	**$13,119**
Operations & Maintenance	$2,091	$2,183	$2,748	$2,847	$2,938	$3,045	$3,154	$3,254	$3,387	$3,496
Capital Renewal	$6,742	$6,938	$7,143	$7,314	$7,490	$7,669	$7,853	$8,042	$8,243	$8,449
Acquisition	$1,486	$1,529	$1,572	$1,610	$1,649	$1,688	$1,729	$1,770	$1,814	$1,860
Forecast Exp. ($'000)	**$10,319**	**$10,650**	**$11,463**	**$11,771**	**$12,077**	**$12,402**	**$12,736**	**$13,066**	**$13,444**	**$13,805**
Surplus/Shortfall ($'000):	**-$104**	**-$96**	**-$580**	**-$594**	**-$597**	**-$623**	**-$638**	**-$641**	**-$670**	**-$686**
Average Annual Funding Shortfall of ('000):									**-$523**	

It is noted that the PCI rating shown in Figure 3.3.1 shows that our road assets are currently meeting our target rating of 8.2. Whilst this target is being met, a funding shortfall into the future has been identified due to the creation of new assets and future costs increases.

Whilst difficult to quantify we also expect extreme weather events to increase the ongoing maintenance cost of our road assets to cover the costs of remediating damaged assets. These type of weather events may also shift community expectations and result in the expectation of increased service standards.

3.4. ASSET CLASS: STORMWATER DRAINAGE

3.4.1. PHYSICAL INDICATORS

At 30 June 2022, the net carrying amount of Council's stormwater drainage assets was $439.6 million. The Drainage infrastructure asset class comprises a significant proportion of Council's overall asset portfolio by value. Drainage assets are generally underground in stable environments and as such are generally long-life assets, ranging from 50 to 150 years. Assets within the class include:

- Over 300km of concrete pipes and box culverts;
- Over 15km of open channels (earthen/concrete lined); and
- Over 18,500 individual pits and outlet structures (headwalls)

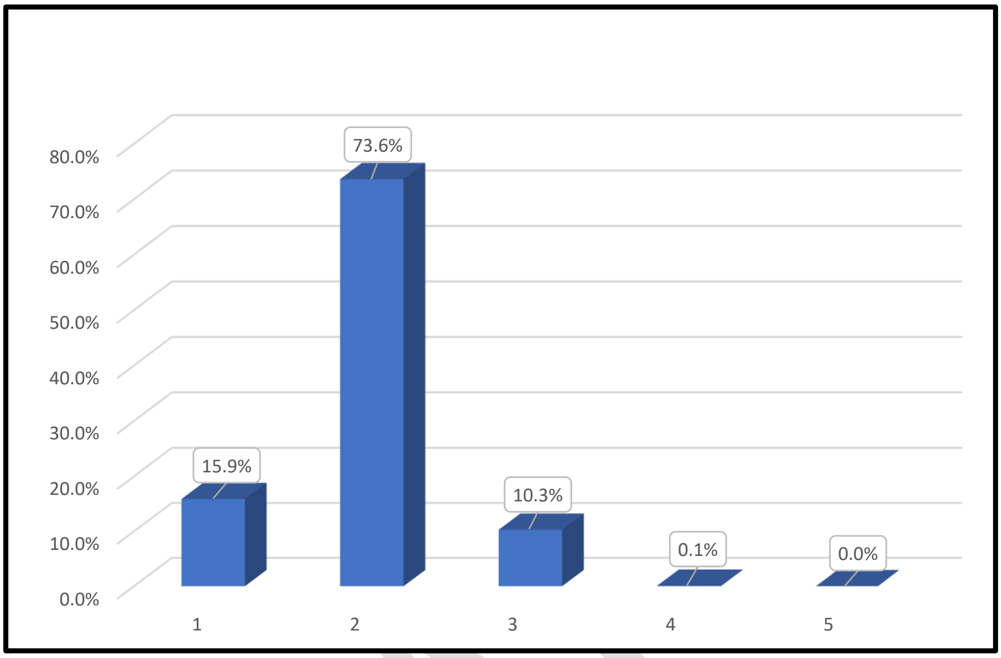
Drainage infrastructure is constructed to manage the flow of stormwater through both public and private property, usually discharging to natural creek lines and receiving waters. It is constructed within discrete "catchments" that are defined by topography, with water flowing from crests towards the outlet, or lowest point, of the catchment. These may then be divided further into sub-catchments which aggregate to form the overall catchment. Flows do not naturally pass between sub-catchments except to add flows to the "downstream catchment" at the outlet.

The pipe/culvert network are buried assets and similarly pits are often accessible through only a small opening and may be located in a hazardous environment for inspection access (e.g. roadside). All the constructed network, with the exception of open channels, are considered "confined spaces", with special requirements for access and inspections.

A large-scale identification of stormwater drainage infrastructure assets was undertaken by Council in the mid- to late-1990s. This included the identification of attributes such as pit/pipe size, material type, connections, condition and depth to invert (base of pit or internal base of pipe/culvert). Since the completion of this initial data collection project, Council has attempted, as funds are available, to continue a rolling program of re-survey and condition inspection of stormwater assets across the 12 major catchments/40 sub-catchments in the Shire. To increase the level of asset maturity in determining future drainage requirements. it is recommended that that additional funding is allocated for a regular rolling CCTV inspection program of the network.

Figure 3.4.1 below shows the current condition data from the PipePak system. A rating of 1 indicates excellent or very good condition whilst a rating of 5 indicates very poor condition. It is noted that work is being undertaken in the development of an Overland Flood Risk Management Strategy that may seek additional funding in respect to increasing drainage capacity. The outcomes from this strategy will need to be considered in a future revision of the Asset Management Strategy.

FIGURE 3.4.1: STORMWATER DRAINAGE ASSETS - CONDITION PROFILE



3.4.2. FINANCIAL POSITION

Figures 3.4.2 and 3.4.3 below show a shortfall in funding across each of the forecast years. Included within the required funding amount is an average of $1.1m per year for capital works. Drainage projects are generally large-scale costly projects and as such the expectation is that this annual amount of $1.1m will accrue each year so enough funding is available when large projects arise. Current funding levels in Council's LTFP are not sufficient to maintain required service levels.

FIGURE 3.4.2: STORMWATER DRAINAGE - ALL ASSETS -EXPENDITURE PROFILE

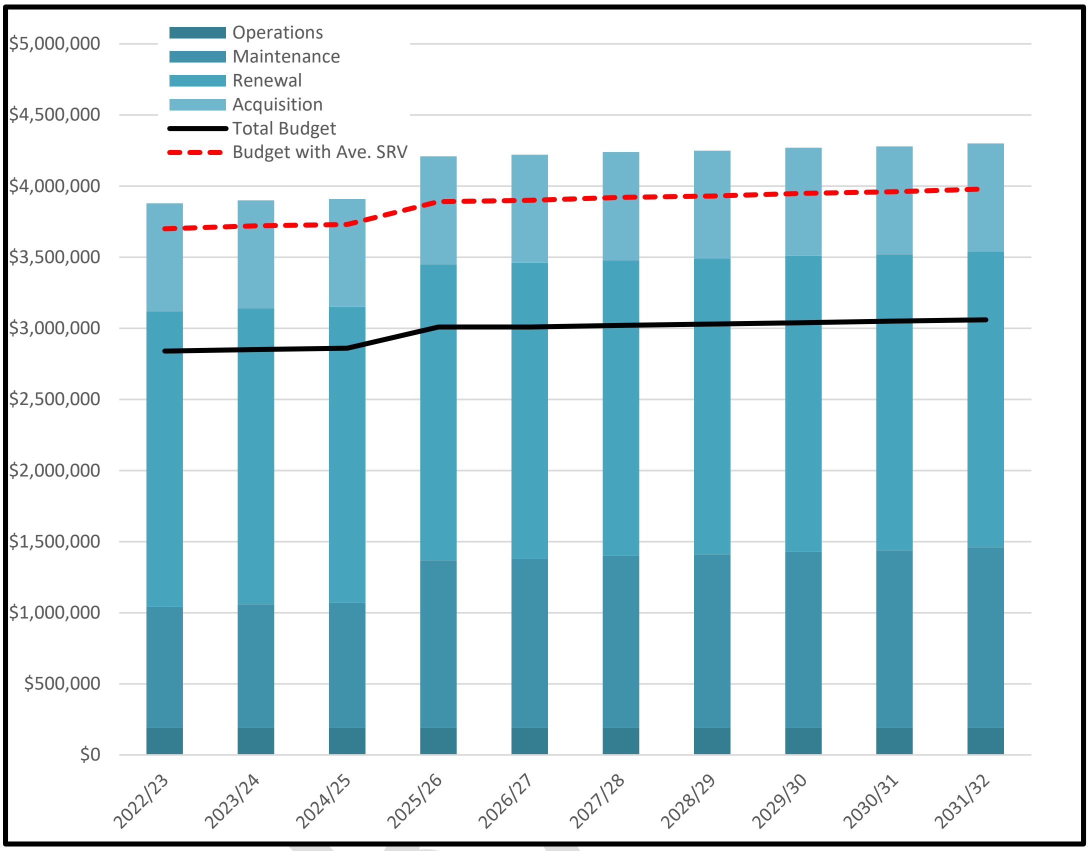


TABLE 3.4.3: STORMWATER DRAINAGE – 23/24 TO 32/33 PROJECTIONS

Year	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Budget ($'000)	**$2,950**	**$3,046**	**$3,142**	**$3,218**	**$3,306**	**$3,397**	**$3,491**	**$3,587**	**$3,689**	**$3,795**
Operations & Maintenance	$1,087	$1,129	$1,336	$1,380	$1,436	$1,481	$1,541	$1,590	$1,655	$1,710
Capital Renewal	$2,163	$2,226	$2,288	$2,343	$2,399	$2,457	$2,516	$2,576	$2,641	$2,707
Acquisition	$787	$809	$832	$852	$872	$893	$915	$937	$960	$984
Forecast Exp. ($'000)	**$4,037**	**$4,164**	**$4,456**	**$4,575**	**$4,707**	**$4,831**	**$4,972**	**$5,103**	**$5,256**	**$5,401**
Surplus/Shortfall ($'000):	**-$1,087**	**-$1,118**	**-$1,314**	**-$1,357**	**-$1,401**	**-$1,434**	**-$1,481**	**-$1,516**	**-$1,567**	**-$1,606**
Average Annual Funding Shortfall of ('000):									**-$1,388**	

While difficult to quantify, we also expect extreme weather events to increase the ongoing maintenance cost of our drainage assets to cover the costs of remediating damaged assets. These type of weather events may also shift community expectations and result in the expectation of increased service standards.

4. FUNDING THROUGH THE LONG-TERM FINANCIAL PLAN

4.1. FORECAST METHODOLOGY

The four major asset management plans are to take a "bottom-up" approach to their development and forecasting relies on community surveys that provide information in respect to desired levels of community service and technical levels of service. That is, the physical datasets are to be interrogated and, where able, given to external contractors for verification in the field. Based on the current condition, the needs of each asset class/type are to be estimated over the 10-year LTFP timeframe.

As discussed in section 3 above, we have improved our processes around asset data collection as well as maintenance and condition reporting. A selection of this data has been validation by external contractors, which increases our confidence in the long-term prediction of funding requirements to achieve and maintain the required levels of service for our asset classes.

Changes due to the adoption of the Asset Management – Roles & Responsibilities Determination have had an impact on the completeness of the data set held with SMEC. Meaningful forward works programs will not be able to be undertaken until a full reconciliation and additional survey for full confirmation of Council's full asset base has occurred.

Total asset values are forecast to increase as additional assets are added into service.

Additional assets will generally add to the operations and maintenance needs in the longer term, as well as the need for future renewal. Additional assets will also add to future depreciation forecasts.

4.2. CONSOLIDATED OUTLOOK

Table 4.1 below shows the forecast shortfall in funding as identified across the four major Asset Classes in **Section 3**, and the average shortfall across the forecast period:

TABLE 4.1: AVALIABLE ASSET FUNDING VS FUNDING NEEDS – 23/24 TO 32/33

Year	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Surplus/Shortfall ('000)										
Buildings	-$538	-$128	-$252	-$931	-$2,388	-$2,292	-$602	-$542	-$442	-$337
Roads & Road Infrastructure	-$104	-$96	-$580	-$594	-$597	-$623	-$638	-$641	-$670	-$686
Stormwater Drainage	-$1,087	-$1,118	-$1,314	-$1,357	-$1,401	-$1,434	-$1,481	-$1,516	-$1,567	-$1,606
Open Space & Land Improvements	-$621	-$724	-$1,412	-$942	-$3,306	-$1,023	-$927	-$1,109	-$1,491	-$1,684
Shortfall	**-$2,350**	**-$2,066**	**-$3,558**	**-$3,824**	**-$7,692**	**-$5,372**	**-$3,648**	**-$3,808**	**-$4,170**	**-$4,313**
								Average Annual Funding Shortfall of ('000):		**-$4,080**

Table 4.1 highlights that to achieve community desired service levels and technical service levels, there exists a deficit (shortfall) of **$4.1m** per year on average over the LTFP between FY23/24 and FY32/33. This represents approximately just over **0.2%** of the gross replacement cost of Council's asset base of approximately **$2b**.

4.3. RECOMMENDED FUNDING APPROACH

Section 3 above highlights increasing maintenance costs from an expanding asset base, while Section 4 above identifies funding shortfalls over the next 10 years. Given this, prudence is recommended in the decision to either:

- Increase the current asset base beyond that currently predicted, and/or
- Increase Levels of Service for current assets, incurring additional maintenance/operational/renewal financial requirements.

In order to maintain our asset base to a sufficient standard, it is recommended that additional funding be allocated in the LTFP to cover the funding shortfalls identified. To meet this funding shortfall, it would be appropriate for Council to consider a special rate variation as recommended in the LTFP.

4.4. CONSEQUENCES

Our present funding levels are insufficient to continue to provide growth in services at current levels of service over the long term. The main consequences of inadequate funding beyond the current planning horizon are:

- Deteriorating quality of existing assets (e.g. reduction in road network condition);
- Inability to renew ageing assets;
- Inability to adequately maintain newly constructed assets; and
- Increased exposure of Council to litigation relating to deteriorating assets.

As noted in 4.3 above, in order to maintain our asset base to a sufficient standard it is recommended that additional funding be allocated in the Long Term Financial Plan to cover the identified funding shortfalls through a special rate variation.

Council's infrastructure asset ratios over the next ten years have been forecast below. Each ratio will fall below acceptable levels if the funding gap identified in this strategy is not addressed:

Indicator	Benchmark	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
Asset Maintenance Ratio	>100%	73.21%	72.02%	74.43%	76.46%	77.74%	77.87%	76.46%	77.74%	77.74%	77.74%
Asset Renewals Ratio	>100%	86.24%	84.85%	83.49%	82.15%	80.84%	79.54%	78.27%	77.01%	75.78%	75.78%
Infrastructure Backlog Ratio	<2%	1.75%	1.95%	2.22%	2.71%	3.11%	3.50%	3.76%	4.14%	4.52%	4.52%

ATTACHMENT 3 - ITEM 1

MorrisonLow

HORNSBY SHIRE COUNCIL

Special Rate Variation –

Community Engagement Action Plan

Hornsby Shire Council

August 2022

Document status

Job #	Version	Written	Reviewed	Approved	Report Date
7624	6.0	J.McKenzie	G.Smith	G.Smith	19 Sep 2022

ATTACHMENT 3 - ITEM 1

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1 Context

Morrison Low Consultants has been engaged by Hornsby Shire Council ('Council') to provide support and advice through the proposed special rate variation (SRV) process.

1.1 Background

Hornsby Shire Council's (Council) 2022-32 Long-Term Financial Plan (LTFP), adopted in July 2022, demonstrates a consolidated operating result which moves into increasing deficits over the ten-year forecast period. While Council has made efforts to contain costs and find savings over several years, the LTFP identified that Council must now consider growing rates income through a Special Rate Variation (SRV) to maintain financial sustainability.

In August and September 2022, Council reviewed the need for an amount of a proposed SRV. At the Council Meeting on 28 September, Council will consider a permanent cumulative SRV of 31.05% over four years as set out in the table below.

Table 1 Proposed rate increases

	2023-24	2024-25	2025-26	2026-27	Cumulative
Permanent increase above the rate peg	4.60%	4.00%	3.50%	3.00%	
Forecasted rate peg	3.90%	3.50%	3.00%	2.50%	
Total increase	**8.50%**	**7.50%**	**6.50%**	**5.50%**	**31.05%**

If supported, Council will seek the community's feedback on the proposed SRV.

This community engagement action plan outlines the approach, key messages and timeline for community consultation on the potential SRV. This plan has been developed to ensure that it meets the SRV assessment criteria set out by the NSW Office of Local Government, who sets policy and oversees the local government industry, and the Independent Pricing and Regulatory Tribunal (IPART), who will assess any SRV application submitted. It has also been developed in compliance with Council's Community Engagement Policy and Community Engagement Plan, as well as the International Association for Public Participation (IAP2) Australasia Quality Assurance Standard.

1.2 Engagement purpose and goals

The purpose of this community engagement is to ensure that the community is adequately informed and consulted about the impact of the proposed special rate variation and the impact of not applying for a special rate variation.

The objectives of this community engagement process include:

- To present the proposed SRV.
- To identify the impact of the SRV on the average rates across each rating category.
- To exhibit an updated LTFP demonstrating the impact of the proposed SRV on Council's operating results from 2023-24 for feedback and final endorsement by Council.
- To communicate to the community the timeline and process for any potential SRV application.

- To gather and consider the community's feedback to inform Council's final decision on whether and how to move forward with an SRV application.

1.3 Stakeholder analysis

The key impacted stakeholders are those that pay rates in the Hornsby Shire Local Government Area (LGA) or are renting property in Hornsby Shire, where there may be rent increases passed to cover the proposed rate increases fully or partly.

Stakeholder groups have been identified below to ensure that the specific considerations of these groups can be integrated into the community engagement plan. These groupings are not mutually exclusive, that is individuals may fall into a number of different stakeholder groups. For example, individuals who own multiple properties in the LGA may be both resident ratepayers and landlord ratepayers.

Table 2 Stakeholder groupings

Stakeholder group	Who is in the group	Specific considerations
Resident ratepayers	Homeowners who are residents of Hornsby LGA	Proposed rate increases will be directly incurred by these stakeholders.
Residential Renters	Renters who are residents of Hornsby LGA	It will be a decision of the landlord on whether and when any rate increases are passed on to renters.
Landlord ratepayers	Investment property owners of property within Hornsby LGA	It will be a decision of the landlord on whether and when any rate increases are passed on to renters.
Business, Hornsby CBD and Major Retail Shopping Centre ratepayers	Business property owners within Hornsby LGA	Proposed rate increases will be directly incurred by these stakeholders. Where there are commercial leases in place, it will depend on the contract terms as to whether and when any increase will be passed to tenants.
Culturally and Linguistically Diverse (CALD) members	Ratepayers, renters, landlords and business operators with CALD backgrounds	Council's Translation Information Page will be included in all relevant materials. Ensure that non-English collateral and media are included in the communications on the SRV.
Community stakeholders	Residents' groups, sports and recreation groups, environmental groups, cultural groups and local business/industry.	These groups have a direct interest in their members/ residents and therefore, they need to understand why Council is proposing an SRV.
Council's consultative committees	Hornsby Aboriginal and Torres Strait Islander Consultative Committee (HATSICC) and Hornsby Advisory Committee (HAC)	These committees need to be informed and consulted.

Within each stakeholder group, there will be a range of socio-economic factors that will be considered through a capacity to pay analysis and report; this will further inform not only the affordability of any SRV, but also may provide further insight to improve the consultation plan and key messages.

2 Approach

The defined approach to engagement has been crafted in line with Council's seven core engagement principles:

- Strategy-led
- Proactive
- Open and inclusive
- Easy
- Relevant
- Timely
- Meaningful

2.1 Impact and complexity of the engagement

This engagement is defined as 'high impact', which means that the issues will have a real or perceived impact across the whole LGA. The issue has the potential to create controversy and has a high level of potential community interest.

It is also considered to have 'high complexity', as the information presented to the community will be based on relatively complex financial analysis and needs to be expressed in terms that are easily understood.

2.2 Levels of engagement

The level of engagement is defined from the IAP2 Spectrum of Public Participation in the figure below, also included in Council's Community Engagement Policy. This spectrum outlines the level of engagement required depending on the purpose and desired outcome of the project.

Figure 1 IAP2 Spectrum of Public Participation[1]

INCREASING IMPACT ON THE DECISION

	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	To obtain public feedback on analysis, alternatives and/or decisions.	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision making in the hands of the public.
PROMISE TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

To meet the assessment criteria for an SRV application, Council must:

1. Demonstrate that the **need and purpose** of a different rate path for Council's General Fund is clearly articulated and identified in Council's Integrated Planning and Reporting (IP&R) documents.
2. Show evidence that the **community is aware** of the need for and the extent of a rate rise.
3. Show that the **impact on affected ratepayers** is reasonable.
4. Exhibit, approve and adopt the relevant **IP&R documents**.
5. Explain and quantify the **productivity improvements and cost containment** strategies in its IP&R documents and/or application.
6. Address any other matter that IPART considers relevant.

To meet criterion two, Council would only need to undertake engagement at the "inform" level, but a "consult" level would ensure it more fully meets criteria one and four.

[1] International Association for Public Participation (IAP2) Australasia, 2018. *IAP2 Spectrum of Public Participation*. Retrieved from: *https://iap2.org.au/wp-content/uploads/2020/01/2018_IAP2_Spectrum.pdf*.

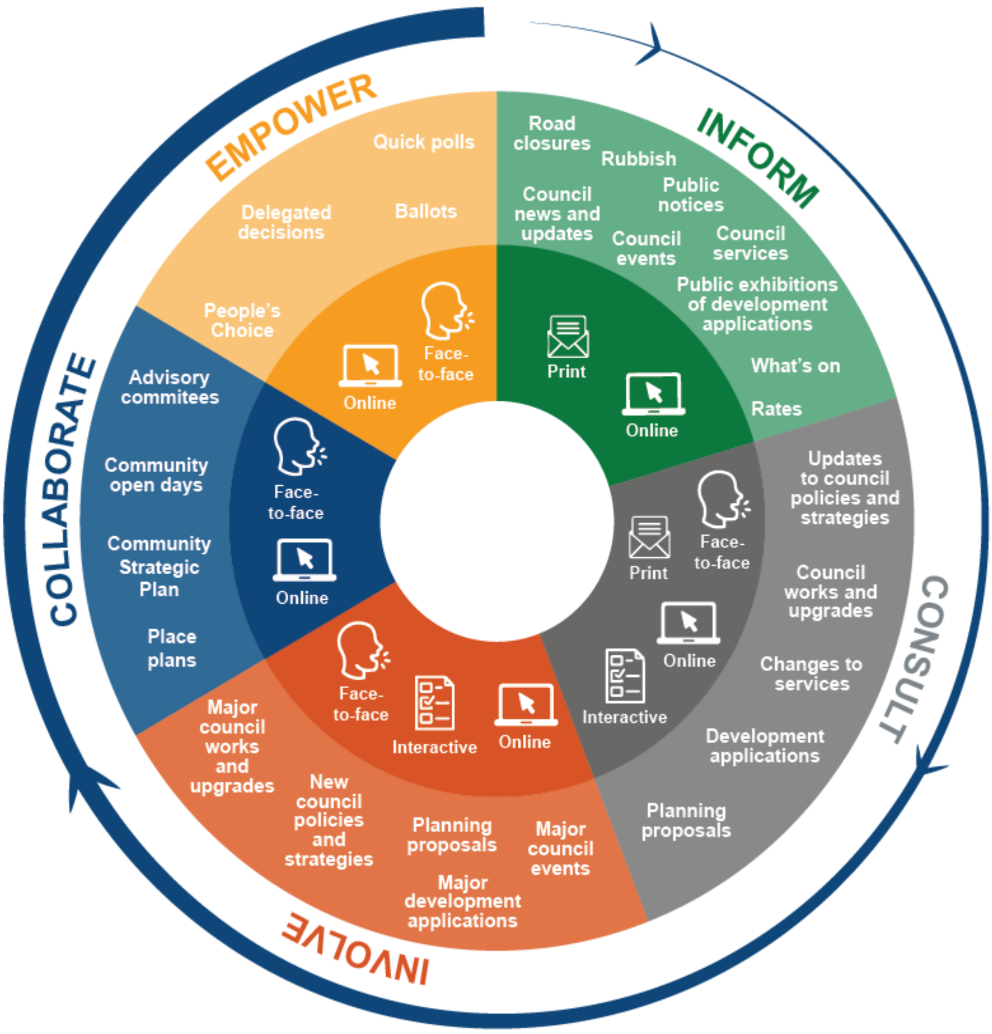
While the LTFP adopted in July 2022 identified the need for an SRV, it did not model any SRV. These steps are expected to partly meet criteria one and four of the SRV assessment criteria. To meet these criteria more fully, an updated LTFP, which includes the proposed SRV, will be exhibited, approved and adopted by Council in parallel to this community engagement process.

As a result, this community engagement action plan is drafted to meet both the **inform** and **consult** levels of engagement. This means that Council will provide the public with balanced and objective information to assist them in understanding the problem, alternatives, and preferred solution and to obtain the public's feedback on analysis and alternatives. Council will keep the public informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision made by Council.

2.3 Engagement mechanisms

The mechanisms that best fit with the level of engagement are outlined in Council's Community Engagement Plan.

Figure 2: Council's engagement framework



Given the complexity of the project and proposed level of engagement, Council's Community Engagement Strategy outlines the following as possible mechanisms for community engagement that are considered relevant to this consultation:

- Print:
  - Reports, fact sheets, letters, flyers
  - Advertisements
  - Media releases
  - Billboard, banner, poster, signage
  - Direct mail, rate notices
- Online:
  - Newsletters, emails, bulk text messages
  - Web pages, campaign/project microsites
  - Social media
  - Surveys (phone and online)
  - Submissions (email and post), listening post (online forum)
- Face-to-Face:
  - Pop-up stalls, displays, open days
  - Community events
  - Speaking at Council meetings
  - Workshops, focus groups, stakeholder interviews
  - Forum, briefing, information session
- Interactive:
  - Interactive collaborative mapping (such as Social Pinpoint)
  - Hotline/phone-in
  - Polls
  - Suggestion box

This community engagement will build from inform to consult:

1. Inform: to raise awareness and inform all stakeholder groups of the options being considered.
2. Consult: to seek considered community feedback on these options to inform Council in their final deliberations on a potential SRV application.

The proposed mechanisms to be used for this engagement are outlined in the table below.

Table 3 Engagement mechanisms

Mechanism	Level of consultation	Reach (stakeholder groups)
Direct mail out	Inform	All ratepayers
Newspaper advertisements	Inform	All residents
Include in-language information, e.g. via printed inserts, in local newspapers	Inform	CALD communities
e-Newsletters	Inform	Approx 27,000 subscribers – local residents and businesses
Video content (TBC)	Inform	
Social media channels	Inform	Facebook: 24,493 followers Instagram: 4,066 followers LinkedIn: 3,207 followers Twitter: 4,367 followers
Have your Say page (the Hive)	Inform & consult	All residents and ratepayers
Community "roadshow" – face-to-face and online forums	Inform & consult	Key community groups
Public forums (one online and two face-to-face)	Inform & consult	All residents and ratepayers
Consultative committees	Inform & consult	Members of each committee
Library drop-in sessions with translators	Inform & consult	CALD communities

These external community engagement mechanisms will be coupled with internal communications to inform all staff about the proposed SRV and process and provide them with information to direct questions from members of the public that may arise in their day-to-day interactions. This will include:

- A managers' briefing
- Information and scripting for customer service and frontline teams
- Updates in staff e-news.

2.4 Roles and responsibilities

The roles of councillors, Council officers and Morrison Low in the engagement process are defined in the table below.

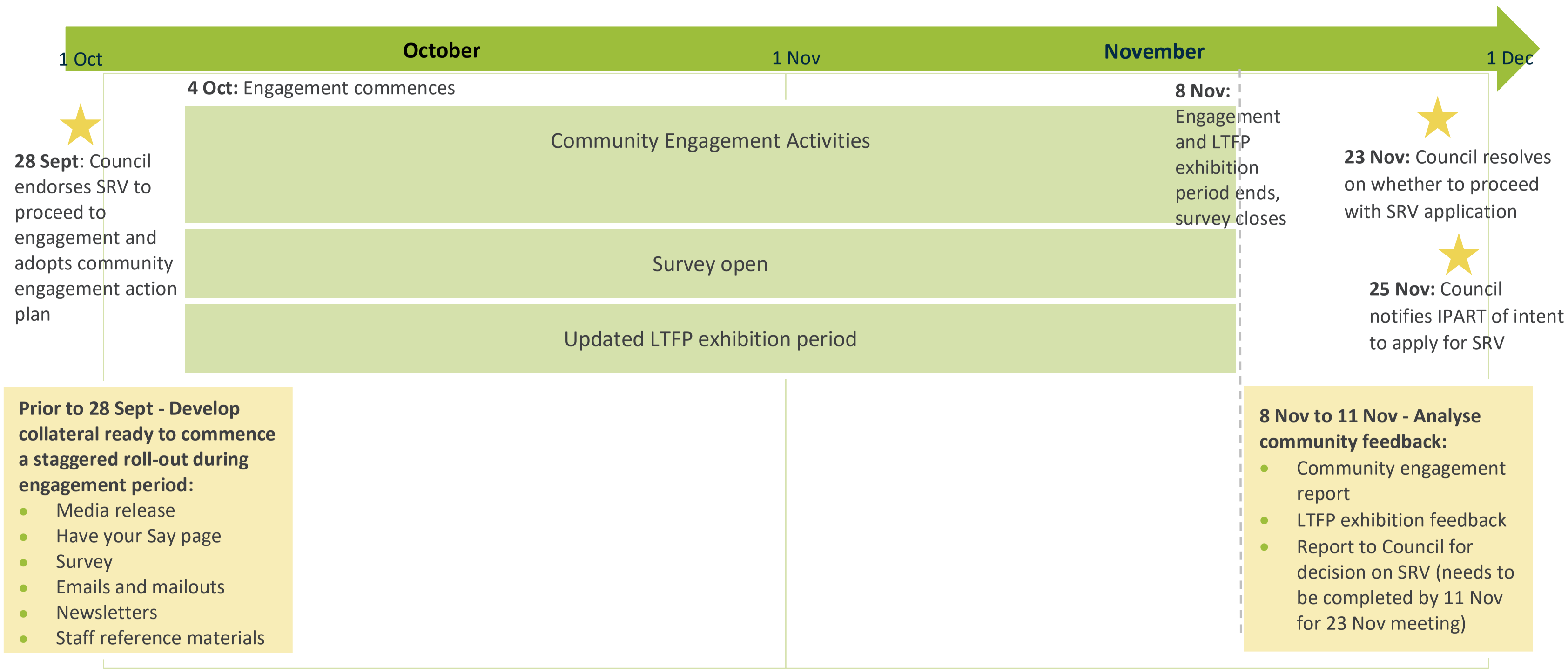
Table 4 Roles and responsibilities

Role	Responsibility
Morrison Low (consultant)	• Develop the background paper on the SRV • Facilitate public forums, assist Council in preparing presentation and taking notes at each forum • Prepare report on community engagement outcomes
Hornsby communications and engagement team	• Develop collateral for the various written mechanisms, based on information provided by Morrison Low to inform Council communications • Publish and release materials in line with this community engagement action plan, including internal communications • Gather community feedback and provide to Morrison Low for analysis
Hornsby CFO and finance team	• Update the LTFP model and document for exhibition • Support the development of background papers and other collateral with financial analysis and modelling • Manage the exhibition process and finalisation of the updated 2022-32 LTFP (which includes the SRV)
Hornsby executive and management team	• Brief staff on SRV, process and community engagement activities
Hornsby councillors	• Approve community engagement plan
Hornsby General Manager	• Endorse community engagement plan, approve any adjustments to community engagement process as required • Participate in media interviews and public forums, where required

2.5 Timeline

The high-level timeline, with key milestones, is mapped out in the figure on the following page. Further detail on tasks and dependencies is provided in the supporting action plan.

Figure 3 Community engagement timeline



ATTACHMENT 3 - ITEM 1

3 Detailed action plan

Table 5 Action plan

Ref	Action	Responsible	By when	Dependency
1	Draft Background Paper for SRV	Morrison Low (consultant)	19 Sept	
2	Finalise updated LTFP for exhibition	Finance team	19 Sept	
2	Develop FAQs	Communications & Engagement team and Morrison Low (consultant)	28 Sept	1,2
4	Draft 'Direct Mail' content	Communications & Engagement team and Morrison Low (consultant)		1,2
5	Draft (and translate, where applicable) Newspaper advertisements (two – one each month)	Communications & Engagement team		1,2
6	Draft e-Newsletter content	Communications & Engagement team	28 Sept	1,2
7	Develop video on SRV (TBC)	Communications & Engagement team	28 Sept	1,2
8	Develop survey	Communications & Engagement team and Morrison Low (consultant)	28 Sept	1,2
9	Build 'Have Your Say' page	Communications & Engagement team	28 Sept	1,2
10	Schedule roadshow and public forums (face-to-face and online)	Communications & Engagement team	28 Sept	
11	Develop media release and social media content for commencement of engagement	Communications & Engagement team	28 Sept	1,2

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Ref	Action	Responsible	By when	Dependency
12	Develop and distribute information and scripting for customer service and frontline staff	Communications & Engagement team	28 Sept	1,2
13	Council resolves to proceed to community consultation on an SRV	Council	28 Sept	1,2
14	Brief managers on Council decision and next steps	General Manager / Directors	29 Sept	14
15	Publish first newspaper advertisement on SRV	Communications & Engagement team	26-30 Sept	5,14
16	Open the 'Have Your Say' page and Survey to the community	Communications & Engagement team	4 Oct	9,14
17	Engagement period commences		4 Oct	14
18	Publish e-Newsletter	Communications & Engagement team	4 Oct	6,17
19	Release direct mail out	Communications & Engagement team	TBC	4,17
20	Manage social media	Communications & Engagement team	4 Oct – 8 Nov	11,17
21	Manage media enquires	Communications & Engagement team	4 Oct – 8 Nov	11,17
22	Conduct public and roadshow forums	Communications & Engagement team Morrison Low (consultant) to facilitate public forums	4 Oct – 8 Nov	10,17
23	Publish second newspaper advertisement	Communications & Engagement team	24-28 Oct	5,17
24	Release reminder of SRV community engagement closing 8 November: • E-Newsletter • Social media	Communications & Engagement team	1 Nov	6,11,17

ATTACHMENT 3 - ITEM 1

MorrisonLow

Ref	Action	Responsible	By when	Dependency
25	Close engagement, exhibition of updated LTFP and survey, and gather all community feedback	Communications & Engagement team	8 Nov	17
26	Analyse submissions and survey results and draft community engagement report	Morrison Low (consultant)	11 Nov	25
27	Finalise updated LTFP based on feedback over exhibition period	Finance team	11 Nov	25
28	Draft report to Council		11 Nov	25
29	Council resolves on whether to proceed with SRV application	Council	23 Nov	28
30	Council notifies IPART of intent to apply for SRV (deadline tentative, TBC by IPART)	General Manager	25 Nov	29

ATTACHMENT 3 - ITEM 1

3.1 Measures of success

A final community engagement report will be produced to document the outcomes of the engagement process, but also to clarify the extent to which the community engagement activities reached all relevant stakeholder groups. Measures to understand the level of reach and participation in the engagement process will include:

- attendance at forums
- SRV related inquiries through customer service teams
- number of unique survey responses
- number of submissions on the SRV proposal
- key analytics from the 'Have Your Say' page.

Where feasible, measures of success would also include documenting key demographics of participants to ensure that it is both representative of the Hornsby Shire community and engagement activities have reached groups that can sometimes be hard to reach.

4 Key messages

The key messages for the community should clearly communicate what is not negotiable and what aspects are open for community feedback to inform the decision-making process.

Non-negotiables include:

- the legislative requirement for Council to employ sound financial management principals.
- the current core deficits in the General Fund need to be addressed, targeting sufficient surpluses over time to ensure the ongoing financial sustainability of Council.

Community feedback is sought to:

- assess the level of community understanding of the proposed SRV and it impacts and why it is needed.
- seek submissions on the proposed SRV and the updated Long Term Financial Plan.

To support these key messages and the development of collateral for the community engagement activities, a background paper will be developed to articulate the need for and level of SRV being sought.

In addition, Council will also have the following reports:

1. A capacity to pay report which will investigate, analyse and report on the community's capacity to pay against Council's rating categories and proposed SRV. This includes research of specific areas across the LGA and will undertake a range of comparisons and assessments of information for areas/locations within the LGA, and associated land use.
2. An updated LTFP and financial sustainability analysis that will demonstrate the impact of the SRV on the ongoing financial sustainability of Council.

Key messages in any community communications and collateral will also include:

- how community members can seek further information or have their questions answered.
- how community members can provide their feedback on the proposed SRV.
- what to expect after the community engagement activity is completed, including IPART's public submission and assessment process.

4.1 Frequently asked questions

A set of frequently asked questions (FAQs) and their responses will be developed for this engagement process. While every effort is made to ensure that this is a complete list of FAQs at the commencement, these questions will be regularly reviewed and updated throughout the engagement process.

The below is a starting list of the questions we expect to develop for the FAQs:

- How will the proposed special rate variation impact my rates?
- Why do we need an increase to our rates?
- What is the alternative to the proposed rates increase?
- What action has Council taken to address its financial situation?
- How does Council work out what rates to charge each resident?
- How will the 2023 General Revaluation impact my rates?
- What is Council doing to keep rates low?
- Can't you get more funding from other levels of government to help pay for things?
- What if I can't afford to pay my increased rates? (Hardship Policy)
- When would a rate increase be applied from?
- How has Council identified the priority initiatives?
- Who is IPART and what do they do?
- What if I can't afford to pay my increased rates? (Hardship Policy)
- When would a rate increase be applied from?
- How has Council identified the priority initiatives?

5 Monitoring and risk

5.1 Monitoring

During the consultation process, the level of engagement will be monitored by Morrison Low and Council's Communications and Engagement team.

Any proposed adjustments to the plan will be approved by the General Manager before implementation.

5.2 Risk assessment

The table below documents the key risks associated with this community engagement. The risk ratings are assessments of the residual risk after the documented risk responses are implemented.

Table 6 Risk assessment

Risk	Risk response	Residual likelihood	Residual consequence	Residual risk rating
Engagement doesn't meet IPART assessment criteria.	Engagement plan and activities analyse and integrate requirement to meet criteria.	Low	Medium	Low
Impact on ratepayers of raising rates at a time of increasing inflation and cost of living pressures.	Capacity to pay analysis to understand the impacts of rate increase on community. Key messages to impact on Council of not seeking the SRV.	Medium	Medium	Medium

Hornby Shire Council
The Special Rate Variation

Introduction

Morrison Low Consultants has been engaged by Hornsby Shire Council ('Council') to clarify the need for and develop a special rate variation (SRV) application.

The Local Government Act requires councils to apply sound financial management principles of being responsible and sustainable in aligning income, expenses and infrastructure investment, with effective financial and asset performance management. The objectives are to:

- achieve a fully funded operating position
- maintain sufficient cash reserves
- maintain its asset base 'fit for purpose'
- have an appropriately funded capital program.

These objectives are the foundation for sound financial management and a financially sustainable council that has the financial capacity to deliver the services to its community over the long term.

Current situation

In 2016, Hornsby Shire Council lost $10 million in yearly revenue from the NSW Government's boundary adjustment which saw the area south of the M2 motorway transferred to the City of Parramatta Council. As the area transferred to Parramatta had a relatively dense population in comparison with the wider Local Government Area (LGA), there was a significant transfer of rateable properties, and annual rates revenue, with disproportionately less to transfer in terms of infrastructure, and therefore costs. As a result, Council was left in a less financially sustainable position. To manage the impacts of this, Council implemented financial management practices to contain costs over the last six years and maintain financial sustainability.

The economic impacts stemming from the COVID-19 pandemic have meant that Council can no longer sustain these practices and continue to deliver the current levels of services to the community. Effectively, Council has frozen budgets and maintained costs at 2016 levels to ensure that Council remains sustainable. In the low inflation environment that it experienced up to 2021, Council was able to continue to deliver services at the same level by finding the productivity and efficiency improvements required to keep costs down.

Implemented cost controls

Over the last 10 years, Council has implemented several cost containment strategies which has resulted in Council delivering an average of $6.2 million in annual ongoing costs savings and revenue improvements, with a further $3.2 million in one-off costs savings and revenue improvements. Since 2012, this has delivered a total of $52.5 million in benefits that were reinvested in service delivery and infrastructure. Over the course of the 10-year financial plan, this will continue to deliver $67.5 million that will be utilised to deliver services and maintain infrastructure.

ATTACHMENT 4 - ITEM 1

These savings are a result of:

- Savings found and implemented from a review of internal services in 2012.
- Savings found and implemented from a review of external services in 2013.
- Vigilant budgetary management through the quarterly review process, identifying and ring-fencing savings throughout the financial year.
- Utilising savings achieved to reduce the need for debt to fund the Hornsby Aquatic and Leisure Centre in redevelopment from 2013, resulting in an annual average interest savings of $513 thousand over the 20-year life of the loan.

In addition to these savings, Council implemented a general freeze on any increase to non-labour operational expenditure unless grants and/or fees and charges could support an increase in 2014-15 and again in 2017-18. In 2014-15, this resulted in costs being contained to a 1.1 per cent increase.

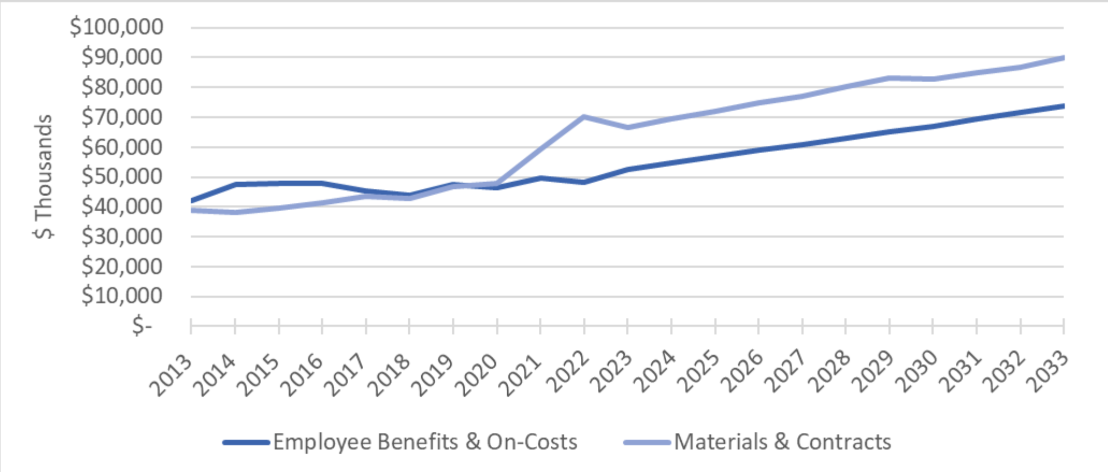
Impact of the current economic conditions

The current high levels of inflation impacting the costs of the material and contracts that Council purchases to deliver services means that it can no longer keep expenditure contained at current levels and needs to forecast increases in line with inflation in its Long-Term Financial Plan (LTFP).

Similarly, a tightening labour market because of less inbound migration since the COVID-19 pandemic means that Council needs to plan for increases to wages to be able to attract and retain the talent it needs to deliver services to the community. Additionally, Council must plan to pay the expected increases in the Compulsory Superannuation Guarantee to staff, which is increasing by 0.5% each year from 9.5% in 2020-21 to 12% in 2025-26. The Superannuation Guarantee increases from 2021-22 to 2025-26 will result in an additional $1.2 million in annual employee costs.

The graph below shows that Council's materials and contract expenditure and employee costs have been kept stable in recent years and are forecasted to grow in line with price and wage inflation estimates in the future.

Figure 1 Employee and materials costs (2013 actuals to 2033 forecasted)



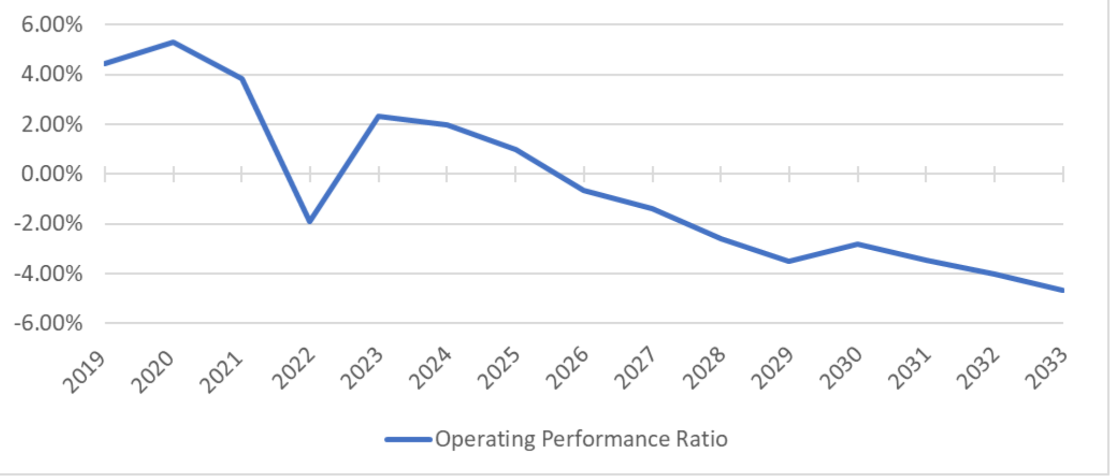
Increasing cost of asset operations and maintenance

In 2018, the NSW Government provided Council with $90 million in capital grants towards the redevelopment of Hornsby Quarry and Westleigh Park as part compensation for the impact of the boundary adjustment. These are new assets that have started to come online. While the NSW Government has funded their development, Council will need to fund their ongoing operations and maintenance and ensure that it has sufficient funds to renew the assets as they age. Over the course of the next 10 years, Hornsby Park is expected to cost $684 thousand yearly to maintain and operate. This could increase further to $1.5 million a year from 2027-28, if the proposed further redevelopment of the site is funded.

Growing core deficits in Council's General Fund are forecasted to develop over time, as a result of growing costs outpacing revenue growth and additional compliance and governance costs, including the internal audit program Audit Risk and Improvement Committee (ARIC), Emergency Service Levy, election costs and cyber security/modernisation of systems/fraud prevention.

As a result of these cost pressures, Council is projecting increasing operating deficits in its LTFP for its base case scenario.

Figure 2 Operating performance ratio (2019 actuals to 2033 forecasted)



Future population growth

The Draft Hornsby Town Centre Masterplan projects population growth with the development of 4,500 new dwellings by 2036. These dwellings will come online towards the end of the 10-year LTFP period and beyond but will see increases in rating income to Council that will support its ongoing financial sustainability.

Until this growth occurs, continued General Fund deficits restrict Council's ability to respond to community expectations for continuation of current services and maintaining asset conditions. In its 2022-26 Delivery Program and 2022-33 Long-Term Financial Plan, Council identified these issues and flagged the need to consider a SRV to address it. It committed to consulting with the community on any potential SRV before making a final decision to apply.

Currently unfunded strategic initiatives

Council has 36 strategic documents with numerous actions identified to deliver community aspirations. Many of these actions are currently unfunded. Council undertook a review of these to identify the 14 costed priority initiatives that address the top ten community issues based on the feedback received through:

- Council's Quality of Life and Asset Management Survey in March 2020.
- The Community Satisfaction Survey in April 2021.
- The Community Strategic Plan survey in September and October 2021.
- Consultation on the development of strategies throughout 2020 to 2022.

These 14 priority initiatives deliver a cross-section of outcomes from 17 strategic documents, sitting across all four themes of the Community Strategic Plan, including:

- Liveable:
    - Local Strategic Planning Statement 2020
    - Local Housing Strategy 2020
    - Social Inclusion Hornsby – Disability Inclusion Action Plan 2021-2025
    - Active Living Hornsby 2016
    - Sportsground Strategy 2018
    - Play Plan 2021
    - Unstructured Recreation Strategy 2008
- Sustainable:
    - Sustainable Hornsby 2040 (2021)
    - Biodiversity Conservation Strategy 2021
    - Climate Wise Hornsby Plan 2021
    - Hornsby Kuring-gai District Bush Fire Risk Management Plan 2016-2021
- Productive:
    - Walking and Cycling Strategy 2021
- Collaborate:
    - Community Strategic Plan – Your Vision Your Future 2032
    - Delivery Program 2022 - 2026

The 14 strategic initiatives require $67.3 million over ten years to deliver, $18.4 million of this is operating expenditure and $48.9 million is capital expenditure. A summary of the programs of initiatives and their associated costs is provided in Table 1 below, the detailed expenditure against each initiative is provided in **Appendix A**. These initiatives respond to Council's highest priority actions. There remains a number of unfunded actions across the 36 strategic and technical documents. It is Council's intention to seek other funding sources that will include grants, partnerships and where appropriate spare operational capacity identified in the organisation to deliver on these actions.

Table 1 Program of strategic initiatives

Program	Proposed total expenditure
Sustainable and resilient community	$6,035,096
Planning for our future	$1,000,000
Upgrading community infrastructure	$30,807,000
Connected walking and cycling paths	$17,982,370
Protecting bushland and Improving open space	$10,283,419
Improving our technology	$1,150,000
Total	**$67,257,886**

The proposed special rate variation

What is a special rate variation?

New South Wales has a rate capping regime in place. Each year, the Independent Pricing and Regulatory Tribunal (IPART) sets a "rate peg", which is the maximum percentage increase in total rates that all are allowed to implement. If a council needs to increase rates by more than the rate peg, it must apply to IPART for a Special Rate Variation (SRV).

Almost all NSW councils will be faced with having to apply for a special rate variation at some point. There are two types of SRVs:

- a temporary SRV for a fixed amount over a fixed period of time
- a permanent SRV for a fixed amount that remains in the rate base.

When a temporary SRV expires, rates return to the original level at the conclusion of the approval period. Temporary SRVs are usually approved to fund specific one-off projects, such as significant infrastructure projects. As Hornsby Shire Council is looking to deliver current service levels, uplift the ongoing renewal of assets and address the core deficit in the General Fund, a permanent SRV is required. Permanent SRVs can be implemented over up to seven years.

What SRV is proposed for Hornsby Shire Council?

To achieve financial sustainability and to be able to deliver the identified strategic initiatives, Council requires a permanent cumulative rate increase of 31.05% over four years, this includes the expected rate peg increases that Council would have otherwise increased rates by.

Table 2 Proposed rate increases

	2023-24	2024-25	2025-26	2026-27	Cumulative
Permanent increase above the rate peg	4.60%	4.00%	3.50%	3.00%	
Forecasted rate peg	3.90%	3.50%	3.00%	2.50%	
Total increase	**8.50%**	**7.50%**	**6.50%**	**5.50%**	**31.05%**

IPART determines the annual rate peg that councils receive each year, based on the increase in cost of a selection of goods and services that NSW councils purchase. This calculation looks back over the past year of cost increases and applies the rate peg to the next financial year. The 2023-24 rate peg was based on cost increases associated with the revised rate peg for 2022-23. The rate peg increases for 2023-24 to 2026-27 have been forecasted at 3.9%, 3.5%, 3.0% and 2.5% respectively. Further details on these assumptions are outlined in Council's updated Long Term Financial Plan.

What do these proposed changes mean for ratepayers?

The impact on an individual's rates will be different depending on the unimproved land value of their property. From 1 July 2023, changes as a result of the general revaluation undertaken by the Valuer General will also come into effect.

The following tables provides an indication of the annual rates and weekly increase likely to be experienced by the average land value for each rating category. The increases include the forecast rate peg.

Table 3 Average annual rates

Rating category	2022-23	2023-24	2024-25	2025-26	2026/27	Cumulative increase
Residential	$1,272.79	$1,380.98	$1,484.55	$1,581.05	$1,668.01	$395.21
Business	$2,437.00	$2,644.15	$2,842.46	$3,027.22	$3,193.71	$756.71
Farmland	$2,133.64	$2,315.00	$2,488.63	$2,650.39	$2,796.16	$622.52
Westfield	$268,650.80	$291,486.12	$313,347.58	$333,715.17	$352,069.50	$83,418.70
Hornsby CBD	$5,149.14	$5,586.82	$6,005.83	$6,396.21	$6,748.00	$1,598.86

The average residential rate will increase by $7.58 per week at the end of the four years, business and farmland rates increase by $14.51 and $12.71 respectively.

Table 4 Weekly increases in average rates

Rating category	2023-24	2024-25	2025-26	2026/27	Cumulative increase
Residential	$2.07	$1.99	$1.85	$1.67	$7.58
Business	$3.97	$3.80	$3.54	$3.19	$14.51
Farmland	$3.48	$3.33	$3.10	$2.80	$12.71
Westfield	$437.94	$419.26	$390.61	$352.00	$1,599.81
Hornsby CBD	$8.39	$8.04	$7.49	$6.75	$30.66

How do my rates compare to other councils?

The Office of Local Government groups councils with other similar councils for comparison. Hornsby Shire Council is in Group 7 with other metropolitan fringe councils such as Blue Mountains, Camden, Campbelltown, Central Coast, Hills and Penrith councils. In comparison to these councils, Hornsby Shire Council's rates are relatively competitive. Even after the proposed Special Rate Variation, Council's average residential rates remain within the comparator councils, and its business and farmland average rates remain significantly lower than comparator councils, as the figures below demonstrate.

Figure 3 2026-27 projected average residential rates

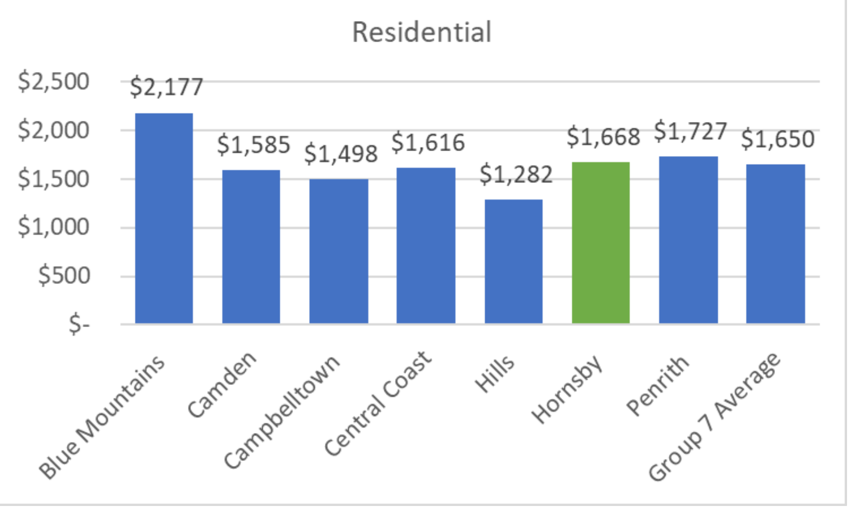


Figure 4 2026-27 projected average business rates

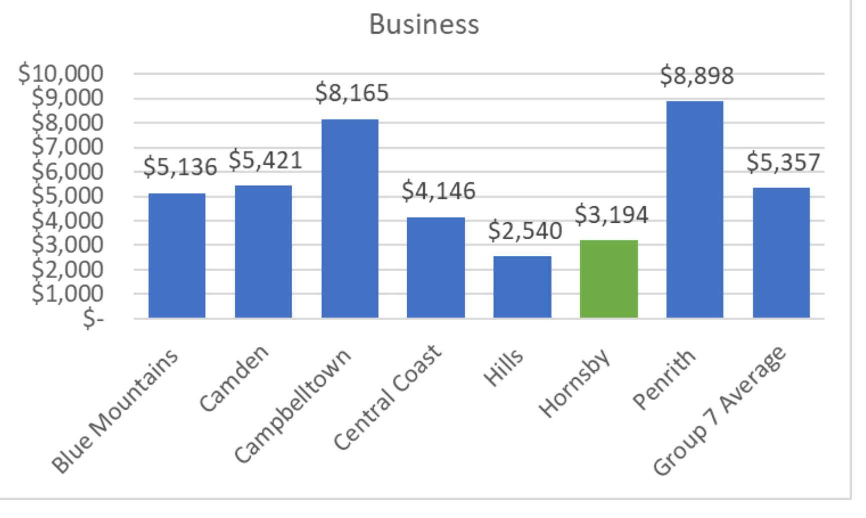
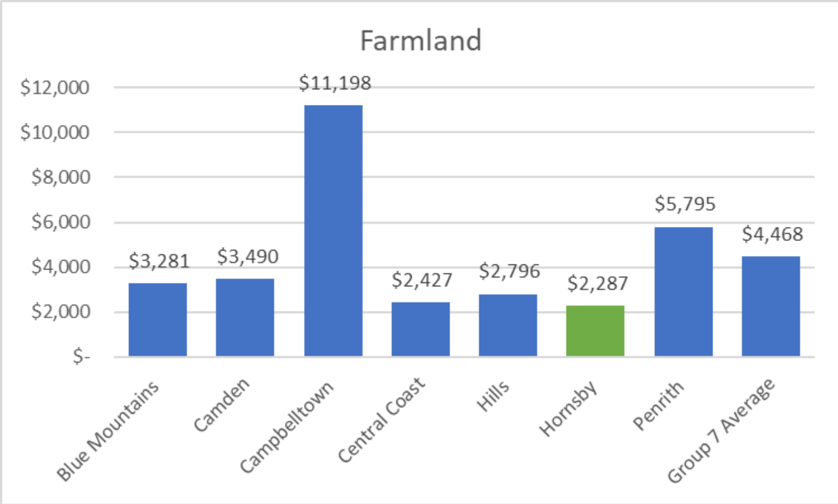


Figure 5 2026-27 projected average farmland rates



The comparison data from other councils is projected from current reported average rates using Hornsby Council's forecast rate peg. It does not include any increases that may occur in 2023-24 and subsequent years from these councils applying for their own special rate variation.

How will the increase impact Council's ongoing financial sustainability?

The proposed special rate variation will enable Council to deliver current services and maintain assets to the community, while ensuring financial sustainability in the longer-term. It will also enable Council to deliver key the strategic initiatives identified, while ensuring Council is more resilient and responsive to shocks and unexpected events in the future.

A financial sustainable council will meet the following objectives:

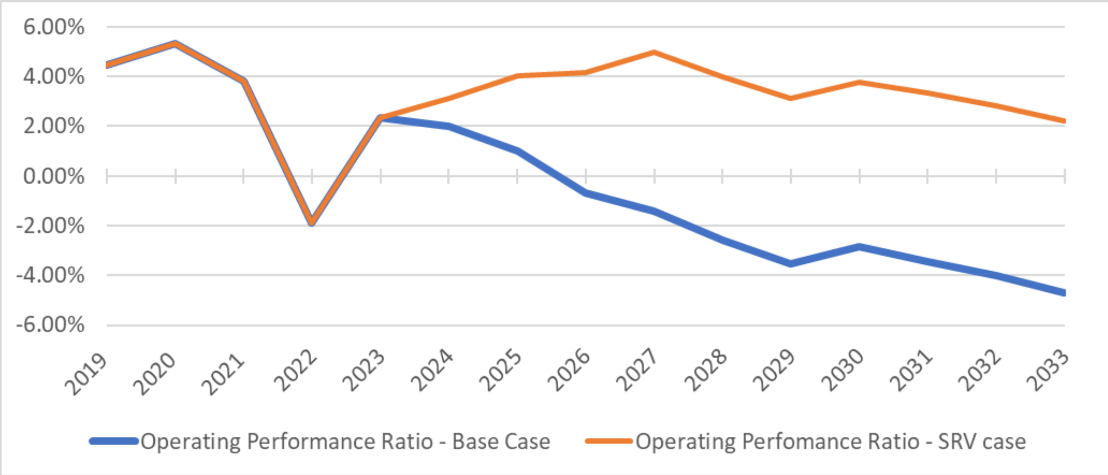
- to achieve a fully funded operating position
- to maintain sufficient cash reserves
- to have an appropriately funded capital program to maintain its asset base 'fit for purpose'.

Council has forecasted its financial performance over the next 10 years, both under the proposed Special Rate Variation and under a base case where rates are only increases by the forecast rate peg. The proposed SRV enables Council to meet all financial sustainability objectives, while the base case plans to maintain a fit for purpose asset base but does not enable a fully funded operating position, depleting Council's unrestricted cash position as a result.

Operating position

The proposed special rate variation arrests the increasing deficits seen in the base case and allows Council to maintain small surpluses, that is revenues will fully cover expected operating expenditure.

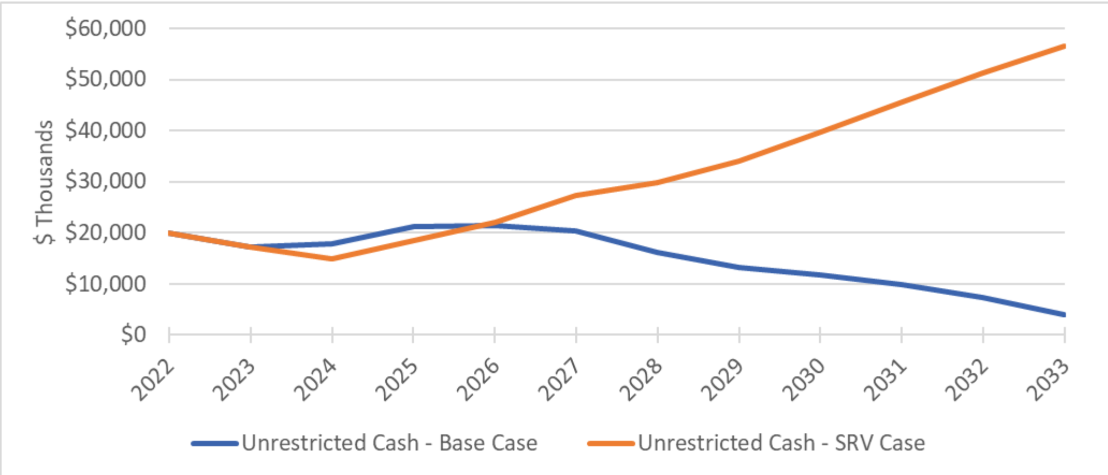
Figure 6 Forecasted operating performance ratio



Cash reserves

With increasing deficits in the base case, Council would need to deplete its cash balances to fund ongoing operations. The SRV will allow Council to continue to increase its unrestricted cash balances.

Figure 7 Forecasted unrestricted cash balances



Sound financial management encourages planning for modest operating surpluses and building of unrestricted cash reserves over time. This enables councils to respond to events that can not be predicted or planned for in their Long Term Financial Plan. Hornsby Shire Council has experienced these events and, while what exactly will occur in the future is unpredictable, it is prudent that it plans for similar un-forecasted expenditure in the future. Some examples of previously unplanned expenditure at Hornsby Shire Council include:

- The 2016 boundary adjustment and abandonment of amalgamation plans for the shire that left Council with a yearly reduction of $10 million in revenue, without a commensurate reduction in costs.

- Storm events that have occurred, like that in 2018, where the full cost of clean-up operations is not fully covered by the NSW Government even when it is declared a natural disaster. Council must also manage cash flow carefully as there is often a significant time lag between when the money is spent on cleaning up and when the costs are recovered from the State government.
- The implementation of state mandated initiatives such as the Emergency Service Levy and new Audit Risk and Improvement Committee requirements which have increased ongoing costs by approximately $500 thousand per year from 2019-20.
- The urgent program to implement an asbestos remediation plan for Council's administration building from 2020.
- Remediation of the former Foxglove tip site at Mount Colah, built to the relevant standards of the day, requires significant expenditure to resolve legacy landfill issues, including property acquisition and leachate and gas remediation works.
- Absorbing reduced income and increased costs as a result of service shutdowns, physical distancing and lock downs from the COVID-19 pandemic throughout 2020 and 2021. As well as the ongoing economic consequences from the pandemic which are still being experienced.

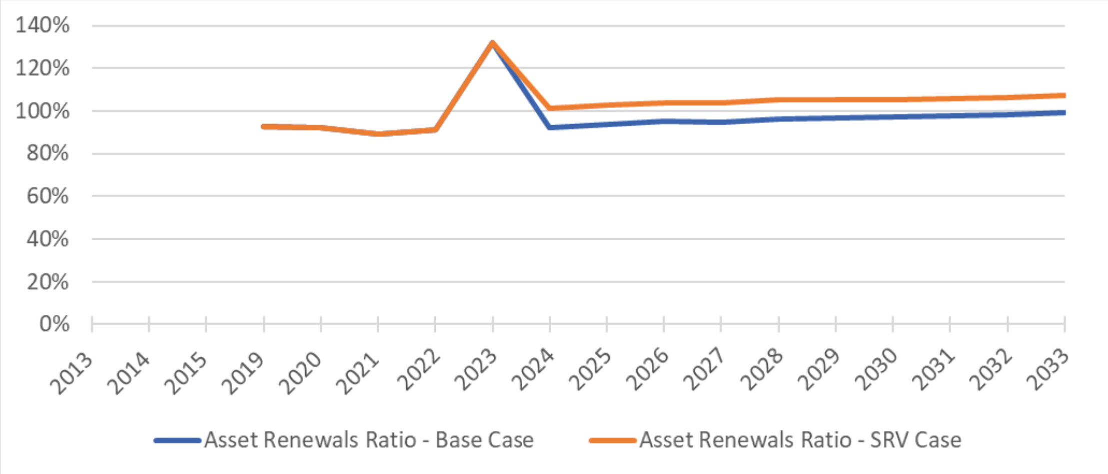
Sufficient investment in assets

Council has planned to invest sufficiently in assets to maintain a 'fit for purpose' asset base in both its base and SRV modelling. It is in part this level of investment that is driving deficits and depleting cash in the base case. While the SRV will produce sufficient revenue to fund the required investment.

The asset maintenance ratio is a measure of how much a council is spending on asset maintenance as a proportion of how much they are required to spend to adequately maintain assets. Similarly, the asset renewal ratio provides a measure of how much a council spends on renewing its assets as a proportion of how much it is required to spend to maintain assets conditions. There is some interplay between these ratios, as the maintenance ratio looks at a council's operating expenditure and the renewal looks at its capital expenditure. Whether an expenditure is operational or capital in nature is an accounting definition, so these ratios should be looked at together to really understand whether a council is sufficiently investing in ensuring assets remain fit for purpose.

Council's forecasted asset maintenance ratio is the same over the 10-year horizon under both the base case and with the SRV at an average of 95.93%. As some of the identified strategic initiatives include additional capital expenditure for asset renewal, the asset renewal ratio is slightly improved under the SRV case. However, under both cases, it is close to the target range of 100% set by the Office of Local Government, with the average asset renewal ratio over the 10-year forecast period of 96.11% in the base case and 104.71% in the SRV case.

Figure 8 Forecasted asset renewal ratio



Council has updated its Long-Term Financial Plan to show the impacts of both the base case (no SRV) and the SRV case scenario (including the SRV). This will be out for exhibition during the consultation period and is available from 4 October 20022 here: *https://yoursay.hornsby.nsw.gov.au/srv*

What is the process for Council to apply for an SRV?

Council must apply to IPART for approval to increase rates through an SRV. Before doing so, Council must demonstrate that it has engaged the community about the possibility of an SRV and has considered its views. IPART will also seek community feedback.

More information on SRVs can be found on IPART's website: https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations.

Where can I get more information?

From 4 October 2022, more information on the proposed SRV is available from Council's Have Your Say page at the following link: *https://yoursay.hornsby.nsw.gov.au/srv*

Council will also be including information on the proposed SRV in its regular newsletters and to the media. We will also be running three public forums for community and business to find out more and to ask questions as follows:

Table 5 Public forum dates

Date	Time	Location	Audience
10 October 2022	6-8pm	Hornsby RSL	Business ratepayers
17 October 2022	6-8pm	Hornsby RSL	All ratepayers and residents
25 October 2022	6-8pm	Online	All ratepayers and residents

Council will be conducting information sessions with community and business groups in addition to these open public forums.

Have your say

Council will seek feedback from the community on the SRV and its updated Long Term Financial Plan from 4 October to 8 November 2022.

From 4 October 2022, you can have your say by providing a submission or comment though Council's Have Your Say page: *https://yoursay.hornsby.nsw.gov.au/srv*

What happens after this?

Once the community consultation period concludes on 8 November 2022, Council will review the feedback received.

A report will then go to Council for their consideration of the feedback and any updates required to the LTFP. Council will decide whether to proceed with the SRV application.

If they decide to proceed with the SRV application, the application will be submitted to IPART in February 2023. IPART will conduct its own consultation, with public submissions likely to be sought in March 2023, before they make their determination in May 2023. If successful, the SRV will be included in rates from 1 July 2023.

About Morrison Low Consultants

Morrison Low is a multidisciplinary management consultancy specialising in providing advice to local government. It has extensive experience across Australia and New Zealand and in particular assisting councils with financial modelling to understand current and future sustainability challenges. Morrison Low has supported councils to become more sustainable through improvement programs and with preparing special rates variation applications to IPART where necessary. Morrison Low undertakes community engagement on behalf of councils relating to SRVs, rates harmonisation, integrated planning and reporting and statutory engagement processes, where independence is important. More information about Morrison Low can be found on our website: www.morrisonlow.com.

Appendix A: Strategic initiatives identified to be funded by the proposed Special Rate Variation

Table 6 Strategic initiatives

Initiative	CSP goals	Expenditure type	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total
Community climate change mitigation and adaptation program	G1.1 , G1.2, G3.1, G3.2, G3.4	Operating - employee costs	160,000	160,000	160,000								480,000
Public amenities	G1.2, G1.3, G2.3	Capital - Renewal	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	10,000,000
Enhanced cyber security maturity	G7.1, G8.1, G8.2	Operating - materials and services	250,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,150,000
Track and trail asset management	G1.2, G2.3, G3.1, G4.1, G5.1, G5.2.	Operating - materials and services	62,500	65,625	68,906	72,352	75,969	79,768	83,756	87,944	92,341	96,958	786,118
Track and trail upgrade including accessibility and signage	G1.2, G2.3, G3.1, G4.1, G5.1, G5.2. G4.1:	Capital New	260,000	273,000	286,650	300,983	316,032	331,833	348,425	365,846	384,138	403,345	3,270,252
Shared paths	G1.2, G2.1, G3.2, G5.1, G5.2, G6.2	Capital New	1,392,600	1,392,600	1,392,600	1,392,600	1,392,600	1,392,600	1,392,600	1,392,600	1,392,600	1,392,600	13,926,000
Inclusive community centres	G1.2, G1.3, G2.1	Capital – new	430,700	430,700	430,700	430,700	430,700	430,700	430,700	430,700	430,700	430,700	4,307,000
Drainage improvement works	G1.2, G3.1, G8.1	Capital – new	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	10,000,000

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Initiative	CSP goals	Expenditure type	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total
Pennant Hills town centre review	G2.2 and G26.1 and Operational Plan - 8A.K24	Operating - materials and services			250,000	250,000	250,000	250,000				1,000,000	
Bushfire risk mitigation	G3.1, G3.4, G4.1,G7.1, G7.2, G8.1,G8.2	Operating - materials and services	318,668	560,698	665,701	643,709	427,720	427,720	427,720	427,720	427,720	427,720	4,755,096
Bushland reserve asset management	G3.4, G4.1, G4.3	Operating - materials and services	750,000	787,500	826,875	868,219	911,630	957,211	1,005,072	1,055,325	1,108,092	1,163,496	9,433,419
Park amenities renewal and upgrade	G2.1, G2.3, G1.3	Capital - renewal	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000	6,500,000
New and upgraded play spaces	G2.1, G2.3	Capital - new	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	850,000
Social inclusion program	G1.1, G1.3, G2.3, G7.2	Operating - materials and services	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	800,000
Total - operating expenditure			1,621,168	1,753,823	1,901,482	2,014,279	1,845,699	1,946,548	1,946,548	1,750,989	1,808,153	1,868,174	18,404,634
Total – capital expenditure			4,818,300	4,831,300	4,844,950	4,859,283	4,874,332	4,890,133	4,906,725	4,924,146	4,942,438	4,961,645	48,853,252
Grand total			**6,439,468**	**6,585,123**	**6,746,432**	**6,873,562**	**6,719,650**	**6,784,832**	**6,853,273**	**6,675,135**	**6,750,591**	**6,829,820**	**67,257,886**

ATTACHMENT 4 - ITEM 1

MorrisonLow

HORNSBY SHIRE COUNCIL

Assessment of Capacity to Pay

Hornsby Shire Council

September 2022

ATTACHMENT 5 - ITEM 1

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Executive summary

Hornsby Shire Council ('Council') is currently considering a special rate variation (SRV) to ensure it has the financial capacity to maintain service levels into the future. Therefore, Council is currently reviewing the potential impact on the community of an SRV. This report puts due emphasis on the capacity to pay principle; given that some ratepayers have more ability to pay rates than others.

This report provides an analysis and evaluation of relative wealth and financial capacity; it looks at the financial vulnerability and exposure of different community groups within the local government area (LGA). The key findings are summarised in Table 1.

Table 1 Precinct summary

Geographical area	Findings
Semi rural	• Highest proportion of retirees, and lowest proportion of dependents • Highest proportion of fully owned homes, lowest proportion of mortgagees • Lowest unemployment rate
Berowra and north east	• Highest proportion of dependents • Highest proportion of resident ratepayers • Highest proportion within middle equivalised income quartiles
Hornsby area	• Lowest levels of equivalised income • Highest proportion of "at risk" households • Lowest proportion of resident ratepayers • Highest unemployment rate
Southern and Western area	• Highest level of equivalised income • Highest proportion of mortgage repayments in upper two quartiles • Highest proportion aged 85+ • Highest proportion requiring core assistance

The LGA generally has higher levels of advantage, and lower levels of disadvantage when compared with Greater Sydney, NSW and Australia. This is indicated by high SEIFA ratings, high equivalised income levels and very low levels of housing stress. Across the LGA, under normal rate peg increases, the average residential rates in 2026/27 across the LGA would be $1,444. Adding the SRV will result in the average residential rates in 2026/27 across the LGA being $1,667. This means that in the final SRV year, residential ratepayers will pay an average of an additional $4.28 per week over what they would have paid had there been no SRV.

This impact is distributed across the LGA based on land values, resulting in the Southern and Western area, incurring higher average rate rises due to the higher land values. This area had higher levels of wealth, very low levels of disadvantage and very high levels of advantage. The average residential rates increase over what they would have paid had there been no SRV will be $5.65 per week in this area.

It is important for Council to acknowledge that there are areas of disadvantage within the community, and that it does not significantly marginalise particularly vulnerable individuals and households. Areas such as Hornsby do have slightly lower SEIFA rankings, equivalised income and slightly more housing stress relative to the LGA, but significantly better than the Greater Sydney, NSW and Australian averages. The average increase in residential rates over what they would have paid had there been no SRV will be relatively lower at $3.80 per week in this area.

Hornsby Shire Council regularly has among the lowest levels of outstanding rates in NSW, an indication of both capacity and willingness to pay. Therefore, we conclude that ratepayers do have a capacity to pay, particularly if supported by appropriate hardship policies.

Introduction

This report provides an analysis and evaluation of relative wealth and financial capacity; it looks at the financial vulnerability and exposure of different community groups within the LGA.

Key considerations include:

- regions of social disadvantage
- particularly vulnerable groups of individuals
- patterns of household expenditure.

These findings will then be compared to proposed changes in rates to identify whether there are any groups or individuals that are being particularly impacted and/or marginalised.

Data for this review was obtained from the following sources:

- Australian Bureau of statistics 2016 and 2021 Census Data – Data by Regions.
- Profile ID – Hornsby Shire Council Community/Social/Economic Profiles.
- February 2016 – Housing and Homelessness Policy Consortium (ACT Shelter, ACTCOSS, Women's Centre for Health Matters, Youth Coalition of Act) – Snapshot: Housing stress and its effects.

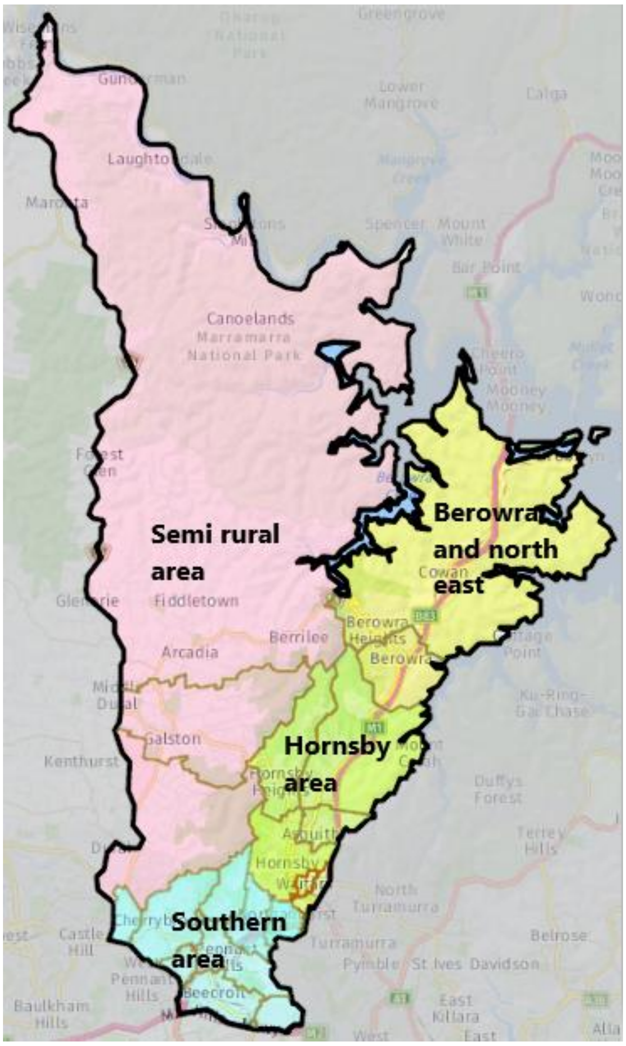
Background

We have divided the Hornsby Shire Council local government area into four geographical areas. Council is looking to ensure that equity is maintained between these areas, as each area has differing economic and socio-economic profiles. A summary of the precincts and the suburbs they encompass has been provided in Table 2 and Figure 1 below.

Table 2 Hornsby Shire Council precinct summary

Geographical area	Population (2021)	Suburbs
Semi-rural	13,344	Arcadia - North Western Rural, Galston - Middle Dural, Dural
Berowra and north east	11,835	Berowra Heights - North Eastern Rural, Berowra
Hornsby area	57,355	Mount Colah - Mount Kuring-gai, Hornsby Heights, Asquith, Hornsby, Wahroonga, Waitara
Southern and Western	69,691	Castle Hill, Cherrybrook, West Pennant Hills, Pennant Hills, Beecroft - Cheltenham, Epping North, Normanhurst, Westleigh, Thornleigh
Hornsby Shire Council	**152,225**	

Figure 1 Hornsby Shire Council map



Methodology

Our methodology in examining the relative wealth between the different areas focuses on the following:

- **Areas of social disadvantage**

  We will first look into the different characteristics and make up of each area to determine whether there are any particular areas of social disadvantage. This will include an investigation into:

  - the age structure of each region
  - the typical make up of each household
  - household income, including the effect of dependants
  - Socio-Economic Indexes for Areas (SEIFA).

- **Particularly vulnerable groups of individuals**

  We will then investigate whether there are any particular groups within each area that, despite the overall wealth of the area, would be particularly vulnerable and affected by a change in rates. These include:

  - property owners
  - persons who have or need core assistance
  - individuals who are currently unemployed
  - households currently under housing stress
  - pensioners.

- **Patterns in household expenditure**

  We will then examine trends in household expenditure and discuss what impacts they may have on an individual's ability to pay.

We will then compare these findings to the proposed rating changes to determine whether there are any particular groups or individuals that would be significantly impacted.

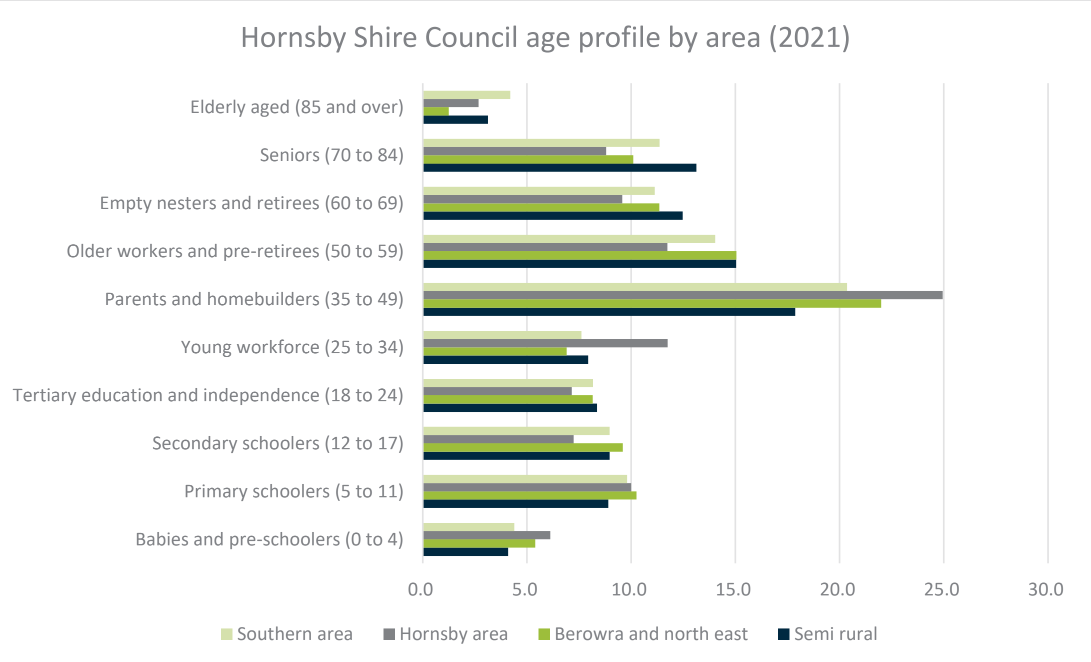
Areas of social disadvantage

Each area has differing demographic characteristics and we first want to identify 'who are the people' that make up each area, 'what do they do' and 'how do they live'.

Service age groups

Age profiles are used to understand the demand for aged-based services as well as the income earning status of the population. Data has been broken into groups which are reflective of typical life stages. This provides insight into the number of dependants, size of the workforce and number of retirees in each area.

Figure 2 Service age groups



Grouping these results in terms of the following categories (dependants, workforce, and retirees) and ranking them in terms of proportion of population (with 1 representing the largest proportion) generates the following results.

Table 3 Service age rankings

Rank	Semi rural	Berowra and north east	Hornsby area	Southern and Western
Dependents	4	1	2	3
Working age	4	2	1	3
Retirees	1	3	4	2

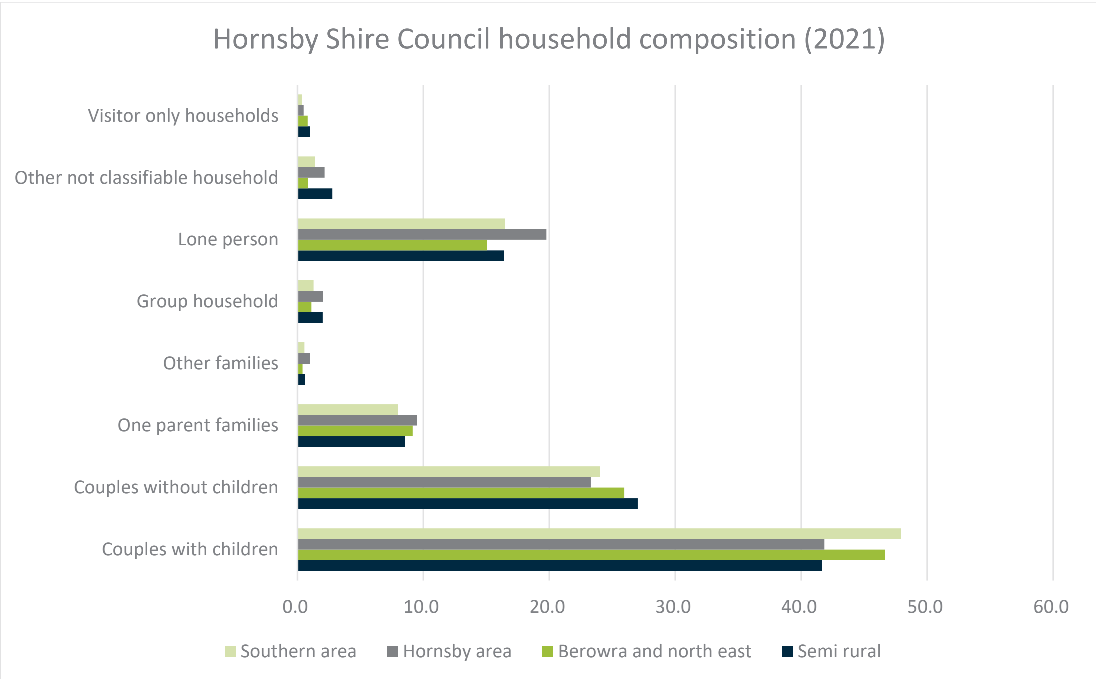
From these results we observe the following:

- Relative to the other areas, the Hornsby area (56%) has the highest proportion of working age population, followed by Berowra and north east area (52%). This compares with the LGA average (53%) and Greater Sydney (58%).
- Berowra and north east area has the largest proportion of dependents (25%) followed by Hornsby (23%). This compares to the LGA average of 23% and Greater Sydney average of 22%.
- The semi rural area has the largest proportion of retirees (29%) compared to the LGA average of 24%, and the Greater Sydney average of 20%.
- Hornsby area has a higher proportion of population in the 25-49 age brackets (37%) compared to the LGA average (32%). The proportion of young workforce (25-34) at 12% in the Hornsby area is driving the LGA average of 10%, as the next highest area is the semi rural area with only 8% of the population in the young workforce bracket.

Household types

Alongside the age structure of each region, it is important to determine the typical trends in the make-up of households. This provides a more complete picture of the people, families and communities in each area. A summary of household type is provided in the figure below.

Figure 3 Household composition



The proportion of households within the LGA comprising couples with children (44%) is significantly higher than the Greater Sydney average (34%). This is especially so in the Southern and Western area (48%) and Berowra and north east area (47%).

The 'lone person' and 'one parent family' households are considered to be more vulnerable to the impacts of rate increases due to a reduced/singular income stream. Combining these categories together into an 'at risk' group shows that the LGA (27%) has a lower level of at risk households when compared with Greater Sydney (33%). However, Hornsby area (31%) has the highest proportion of at risk households within the LGA.

Across the LGA, the proportion of population classified as couples without children (24%) is in line with both the Greater Sydney average (23%) and also the average for NSW (25%).

Housing tenure

Analysis of housing tenure levels within the LGA allows us to identify which areas are most impacted by changes in Council rates, i.e. the direct impact of a change in rates will be felt by home owners whereas renters may experience an indirect increase/decrease dependant on their lease agreement/decisions of their landlord. Furthermore, individuals in social housing are unlikely to be impacted by a change in rates.

Table 4 Hornsby Shire Council housing tenure

Housing Tenure - % of households (2021)	Semi rural	Berowra and north east	Hornsby area	Southern and Western
Fully owned	40.6	39.3	25.6	38.0
Mortgage	36.3	46.3	36.6	39.9
Renting - Total	13.1	12.1	33.3	16.6
Renting - Social housing	0.3	0.1	2.5	2.0
Renting - Private	12.6	12.0	30.7	14.5
Renting - Not stated	0.1	0.0	0.1	0.1
Other tenure type	6.1	0.8	1.4	3.2
Not stated	3.8	1.5	3.1	2.3
Total households	100.0	100.0	100.0	100.0

Table 4 shows that home ownership levels vary throughout the LGA. Berowra and north east (86%) has the highest proportion of resident ratepayers. Conversely, the Hornsby area (62%) has the lowest proportion, this compares to the LGA average of 72%, and Greater Sydney average of 59%.

Berowra and north east (46%) has the highest proportion of mortgagees, compared to an LGA average of 39%, and averages in Greater Sydney of 32%.

Hornsby area has the lowest proportion of fully owned (26%), and the highest proportion renting (33%), which is in line with the age profiles showing this area to have the largest young workforce population.

Equivalised household income

Equivalised household income can be viewed as an indicator of the economic resources available to a standardised household. It is calculated by dividing total household income by an equivalence factor. The factor is calculated in the following way:

- first adult = 1
- each additional adult + child over 15 = + 0.5
- each child under 15 = + 0.3.

Dividing by the equivalence factor, household income becomes comparable to that of a lone individual, thereby making households with dependants and multiple occupants comparable to those without. By factoring in dependants into household incomes we are provided with a better indicator of the resources available to a household.

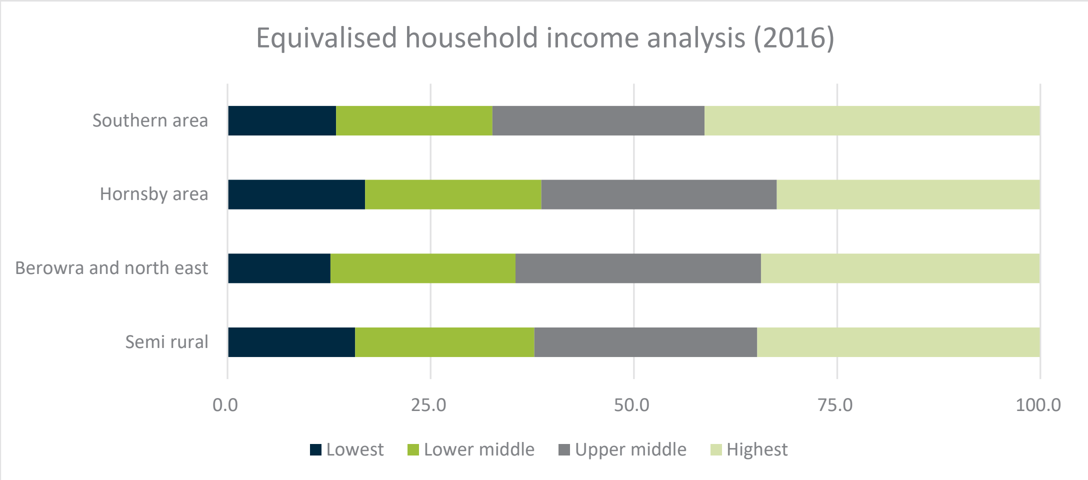
As this is a relative comparison, data has been presented in quartiles; regions of disadvantage will have a higher proportion of households in the bottom two quartiles than those of greater wealth and advantage. These quartiles were determined by reviewing the distribution of household incomes within NSW and then dividing them into four equal groups or quartiles.

The data has been presented in ranges for the following equivalised weekly income levels:

- Lowest: $0 - $497 – this range is representative of the bottom 25% of all equivalised household incomes in NSW.
- Lower middle: $498 - $891 – this range is representative of the bottom 25% - 50% of all equivalised household incomes in NSW.
- Upper middle: $892 - $1,464 – this range is representative of the top 25% - 50% of all equivalised household incomes in NSW.
- Highest: $1,465 and over – this range is representative of the top 25% of all equivalised household incomes in NSW.

Figure 4 summarises the equivalised household income ranges for each area.

Figure 4 Equivalised household income



Hornsby Shire Council has 64% of households within the top 50% of equivalised household incomes, comparing favourably with Greater Sydney (56%). The lower two quartiles represent just 36% of households within the LGA, again better than the Greater Sydney average (44%).

We can make the following observations from the data:

- The Southern and western area (41%) has a significant proportion of ratepayers in the highest quartile (compared to the LGA average of 37%, and greater Sydney average of 30%).
- Berowra and north east and Southern and Western Area both has the smallest proportions (13%) in the lowest quartile, comparing favourably to the LGA average (15%) and Greater Sydney average (22%).
- Berowra and north east (53%) and Hornsby area (51%) both have higher levels within the middle two quartiles relative to the LGA average and Greater Sydney average (both at 48%)
- Hornsby area (39%) and Semi rural (38%) has the highest proportion in the bottom two quartiles, However this is only slightly above the LGA average (36%), and is well below the levels for Greater Sydney (44%).
- Ranking of precincts by greatest disadvantage (percentage of households in lower brackets):
  - 1 – Hornsby area 2 – Semi rural 3 – Berowra and north east 4 – Southern and Western
- Ranking of precincts by greatest middle class (percentage of households in middle brackets):
  - 1 – Berowra and north east 2 – Hornsby area 3 – Semi rural 4 – Southern and Western
- Ranking precincts by advantage (percentage of households in upper brackets):
  - 1 – Southern and Western 2 – Berowra and north east 3 – Semi rural 4 – Hornsby area

Table 5 Regional comparison of equivalised household income

Equivalised income quartiles (2021)	Semi rural	Berowra and north east	Hornsby area	Southern and Western	LGA	SYD
Lowest	15.7	12.7	16.9	13.4	15.0	21.6
Lower middle	22.0	22.8	21.7	19.2	20.7	22.5
Upper middle	27.4	30.2	29.0	26.1	27.7	25.5
Highest	34.7	34.3	32.3	41.2	36.6	30.3
Total Households	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Socio-economic index

The Socio-Economic Indexes for Areas (SEIFA) is an economic tool developed by the ABS to rank areas in Australia according to their relative socio-economic advantage and disadvantage. It takes into consideration a broad range of variables such as income, education, employment, occupation, housing, etc and is standardised such that the average Australian represents a score of 1000.

In our research we explored two of the indexes published by the ABS:

- **Index of Relative Socio-Economic Disadvantage (IRSD)**

  This index ranks areas from most disadvantaged to least disadvantaged, i.e. a lower score will have a greater proportion of relatively disadvantaged people in the area.

  From this score however you cannot conclude whether a high-ranking area will have a large portion of relatively advantaged people, just that it has a low proportion of disadvantage.

- **Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD)**

  This index considers variables of both advantage and disadvantage and, as such, scores and ranks areas from most disadvantaged to most advantaged.

The ABS has also published the variables which have the most impact on both indices, these include:

- IRSD variables of disadvantage:
  - low equivalised household incomes
  - households with children and unemployed parents
  - percentage of occupied dwellings with no internet connection
  - percentage of employed people classified as labourers.
- IRSAD variables of advantage only (disadvantage similar to IRSD):
  - high equivalised household incomes
  - percentage of households making high mortgage repayments
  - percentage of employed people classified as professionals
  - percentage of employed people classified as managers.

Further analysis of these factors is provided in the discussion section. A regional summary, including national percentiles, is provided in the table below.

Table 6 Regional SEIFA scores and percentiles (2016)

SEIFA rankings (2016)	SEIFA IRSD	Percentile	SEIFA IRSAD	Percentile
Hornsby Shire	1,091.0	94	1,115.0	97
Greater Sydney	1,018.0	56	1,040.0	77
New South Wales	1,001.0	45	1,011.0	62
Australia	1,001.9	46	1,003.1	57

Hornsby Shire Council's IRSD score of 1091.0 is above the rankings of Greater Sydney, NSW and Australia. This score places the LGA in the 94th percentile, meaning approximately 94% of Australia's suburbs have a SEIFA ISRD ranking lower than this area (more disadvantaged), while only 6% score higher.

IRSAD includes levels of both advantage and disadvantage. The overall LGA score of 1,115.0 is also above that of Greater Sydney, NSW and Australia, and places the LGA into the 97th percentile. This higher score means that there are proportionately more incidences of advantage throughout the LGA relative to Australia. A higher IRSAD score compared to IRSD score is indicative of greater opportunities within the LGA, e.g. higher equivalised incomes, higher education levels, greater employment opportunities within the area, or more skilled jobs.

A geographical area-level summary including national percentiles is provided in the table below.

Table 7 Area level SEIFA scores and percentiles (2016)

Area - SEIFA rankings (2016)	SEIFA IRSD	Percentile	SEIFA IRSAD	Percentile
Semi rural	1,090.5	94.0	1,104.0	95.3
Berowra and north east	1,106.9	97.5	1,113.5	96.5
Hornsby area	1,076.2	86.8	1,101.4	94.2
Southern and Western	1,105.0	95.9	1,134.9	98.1

Analysis at the geographical area level indicates some inequity between the Hornsby and other parts of the LGA. Hornsby area's ISRD score of 1,076 places the area within the 87th percentile. This is below the scores in the other three geographical areas. When including variables of advantage in the scoring, Hornsby's score lifts to 1,101, placing the area in the 94th percentile which is in line with the other geographical areas within the LGA. This higher score indicates that there are greater opportunities within the Hornsby area relative to the rest of Australia.

Table 8 Suburb SEIFA rankings

Suburbs - SEIFA rankings (2016)	SEIFA IRSD	Percentile	SEIFA IRSAD	Percentile
Arcadia - North Western Rural	1,077.5	90.0	1,080.2	92.0
Asquith	1,077.0	90.0	1,100.0	95.0
Beecroft - Cheltenham	1,130.8	100.0	1,170.7	100.0
Berowra	1,117.0	99.0	1,129.0	98.0
Berowra Heights - North Eastern Rural	1,096.7	96.0	1,098.0	95.0
Castle Hill	1,064.0	84.0	1,092.0	94.0
Cherrybrook	1,113.0	98.0	1,145.0	99.0
Dural	1,101.3	97.0	1,126.8	98.0

Suburbs - SEIFA rankings (2016)	SEIFA IRSD	Percentile	SEIFA IRSAD	Percentile
Epping North	1,123.0	99.0	1,151.0	99.0
Galston - Middle Dural	1,092.6	95.0	1,104.9	96.0
Hornsby	1,040.0	70.0	1,065.0	87.0
Hornsby Heights	1,109.0	98.0	1,125.0	98.0
Mount Colah - Mount Kuring-gai	1,095.4	96.0	1,108.3	96.0
Normanhurst	1,083.0	92.0	1,112.0	97.0
Pennant Hills	1,098.0	96.0	1,129.0	98.0
Thornleigh	1,098.0	96.0	1,124.0	98.0
Wahroonga	1,090.6	94.0	1,131.8	98.0
Waitara	1,045.0	73.0	1,078.0	91.0
West Pennant Hills	1,107.0	98.0	1,141.5	99.0
Westleigh	1,128.0	100.0	1,149.0	99.0

Analysis at the suburb level highlights the suburbs within the Hornsby area that are experiencing levels of inequity. Hornsby (ISRD score of 1,040, placing within the 70th percentile) and Waitara (ISRD score of 1,045, placing within the 73rd percentile) both stand out as suburbs with a higher degree of disadvantage relative to the LGA. It is also noted that Castle Hill's ISRD score is also relatively low (1,064, placing within the 84th percentile). All three suburbs see their scores climb significantly when factors of advantage are included in scoring under IRSAD, with Castle Hill (1,092, 94th percentile), Waitara (1,078, 91st percentile) both climbing to levels in line with the rest of the LGA. Hornsby area does not climb as high, indicating slightly less advantage relative to the rest of the LGA, however the IRSAD score of 1,065 does place the area within the 87th percentile, meaning that only 13% of Australian suburbs have a greater degree of advantage and lower degree of disadvantage relative to the suburb of Hornsby.

Vulnerable groups or individuals

This section of the report considers whether there are any spatial patterns of individuals or groups who either need additional community services or are more sensitive to a change in rates.

Workforce status

The levels of full or part-time employment and unemployment are indicative of the strength of the local economy and social characteristics of the population.

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Table 9 Community workforce status

Employment status (2016)	Semi rural	Berowra and north east	Hornsby area	Southern and Western	LGA %
Employed	96.5	96.3	94.7	95.2	95.2
Employed full-time	58.7	59.3	61.6	60.1	60.4
Employed part-time	36.0	35.7	31.8	34.0	33.5
Hours worked not stated	1.8	1.2	1.3	1.2	1.3
Unemployed (Unemployment rate)	3.5	3.7	5.3	4.7	4.8
Looking for full-time work	1.8	1.7	2.8	2.2	2.4
Looking for part-time work	1.7	2.0	2.5	2.5	2.4
Total labour force	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

From table 9 above we observe that unemployment rate for the LGA was 4.8%, below the level for Greater Sydney and NSW (both 6.0%). Within the LGA, it is noted that Hornsby area's rate of 5.3% and the Southern and Western area rate of 4.7%. Hornsby area has two suburbs (Hornsby and Waitara) which lead all suburbs within the LGA in both the unemployment rate (6.1% and 6.6% respectively) and also in the proportion of residents looking for full-time work (3.4% and 4.1% respectively).

Pensioners

A distinction is made between retirees, and eligible pensioners. To be classified as a pensioner for the purposes of receiving rates rebates, ratepayers must be receiving Centrelink payments such as the age pension or have partial capacity to work such as having a disability, being a carer or being a low-income parent. These individuals have reduced income streams and can be vulnerable to financial shocks and price rises.

Table 10 Number of pensioner assessments

Number of pensioner properties	Total assessments	Pensioner assessments	Pensioner assessments %
Semi rural	3,652	336	9%
Berowra and north east	4,477	614	14%
Hornsby area	21,659	1,854	9%
Southern and western	22,243	2,220	10%

Berowra and north east stands out as having a higher proportion of pensioners relative to the LGA, which is more in line with normal levels. Eligible pensioners (those receiving Centrelink payments) within the LGA have access to both mandatory rebates (up to a maximum of $250 per year) on their rates.

Core assistance

Table 11 highlights the areas within the LGA that have higher concentrations of people who need assistance in their day-to-day lives with self-care, body movements or communication – because of a disability, long-term health condition or old age.

Table 11 Number of people requiring core assistance

Assistance required (2021)	Number	Percent %
Semi rural	701	5.3
Berowra and north east	429	3.6
Hornsby area	2,632	4.6
Southern and western	3,261	4.7
Hornsby Shire	7,020	4.6
Greater Sydney	270,665	5.2
New South Wales	464,712	5.8

We observe that generally the LGA has a lower proportion of the population requiring assistance compared with the Greater Sydney (5.2%) and NSW (5.8%) averages. Within the LGA, the Semi rural area stands out as having a higher proportion of the population requiring assistance.

Housing stress

Households are considered to be in housing stress when they are in the very low, low or moderate income bracket and paying greater than 30% of their disposable income in housing costs. The National Centre for Social and Economic Modelling (NATSEM) defines households experiencing housing stress as those that satisfy both of the following criteria:

- Equivalised household income is within the lowest 40% of the state's income distribution.
- Housing costs (i.e. mortgage and/or rent repayments) are greater than 30% of household income.

Research funded by the ACT Government on housing and homelessness issues in the ACT found that, due to financial pressures:

- 19% of households facing housing stress compromised a lot on their grocery spend over a 12-month period.
- 24% of households facing housing stress found rent/mortgage repayments quite/very difficult in the last three months.

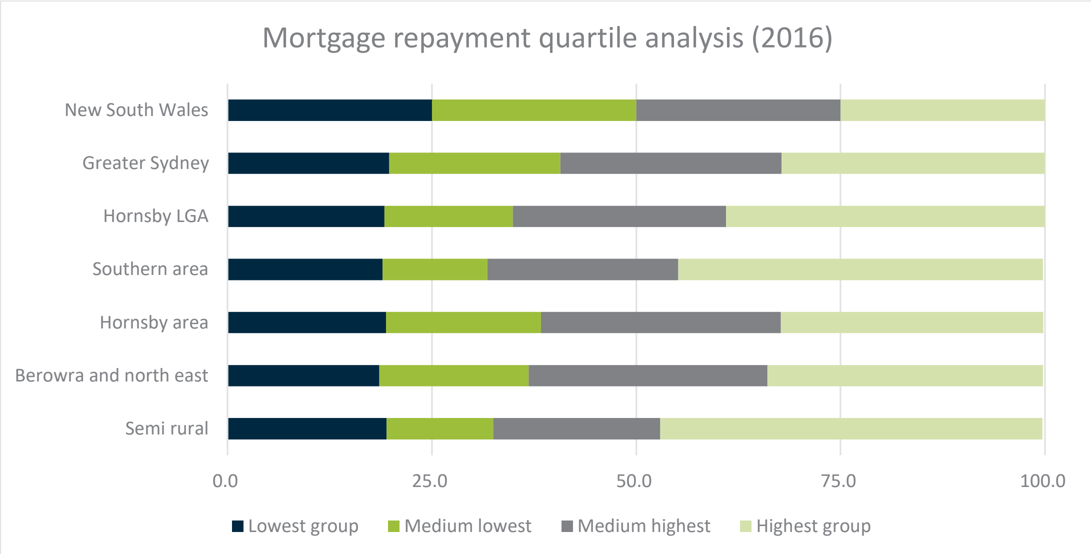
Households facing housing stress are highly likely to be in significant financial stress and vulnerable to sudden increases in council rates.

A comparison of the levels of monthly mortgage repayments in each precinct is provided in Table 12.

Table 12 Breakdown of mortgage payments by quartile within precincts

Number of households by mortgage repayment quartile (2016)	Semi rural	Berowra and north east	Hornsby area	Southern and Western
Lowest	19.5	18.6	19.4	19.0
Lower middle	13.0	18.3	19.0	12.8
Upper middle	20.4	29.2	29.3	23.4
Highest	46.8	33.7	32.1	44.6
Total households with stated mortgage repayments	**100.0**	**100.0**	**100.0**	**100.0**

Figure 5 Mortgage repayment analysis by quartiles



Within the Hornsby LGA, at the 2016 census around 7% of households were experiencing housing stress compared with the averages in Greater Sydney (12%), NSW (12%) and Australia (11%). Housing stress was more significant within the Hornsby area (particularly the suburbs of Hornsby, Waitara and Wahroonga).

The Southern and Western area (68%) has the highest proportion of households within the top two monthly loan repayment quartiles. Therefore, since this area has the highest proportion of households in the upper two equivalised income quartiles (67%), there is less likely to be housing stress.

The Semi rural area (67%) also has a significant proportion in the upper two monthly loan repayment quartiles, and ranks third in the LGA in terms of equivalised income in the upper two quartiles at 63%. Since this area has the highest proportion of households in the upper two equivalised income quartiles (67%), there is a relatively low potential for housing stress.

Berowra and north east area has 63% within the upper two monthly loan repayment quartiles. Again, given that 64% of households are in the upper two equivalised income quartiles, there is a lower likelihood of mortgage stress.

Hornsby area has 61% within the upper two monthly loan repayment quartiles, and the lowest level (61%) within the LGA of households in the upper two equivalised income quartiles. Given this lower level, there is a greater likelihood of housing stress relative to other areas in the LGA.

Trends in cost of living

The cost of living can best be described as the cost of maintaining a certain standard of living. The following table presents the changes in typical household expenditure throughout the Hornsby LGA over a five-year period, identifying trends in future costs, particularly with regards to discretionary and non-discretionary income.

Table 13 Five-year comparison of cost of living in Hornsby LGA

Hornsby Shire	2020/21		2015/16		Change
Household expenditure (totals)	**$ per household**	**% of expenditure**	**$ per household**	**% of expenditure**	**2015/16 - 2020/21**
Food	14,559	10%	13,473	9%	1,086
Alcoholic Beverages & Tobacco	6,731	4%	7,385	5%	- 654
Clothing & Footwear	6,620	4%	5,570	4%	1,050
Furnishings & Equipment	7,464	5%	6,509	4%	955
Health	9,964	7%	8,529	5%	1,435
Transport	10,877	7%	18,116	11%	- 7,239
Communications	3,183	2%	2,507	2%	676
Recreation & Culture	16,090	11%	15,686	10%	403
Education	9,135	6%	8,650	6%	485
Hotels, Cafes & Restaurants	9,927	7%	12,607	8%	- 2,680
Miscellaneous Goods & Services	21,381	14%	22,380	14%	- 999
Housing	32,043	21%	32,605	21%	- 563
Utilities	4,381	3%	4,520	3%	- 139
Total Expenditure	152,353	100%	158,538	100%	- 6,185
Net Savings	46,212	23%	29,043	16%	17,169
Total Disposable Income	198,565	0%	187,581	0%	10,984
Non Discretionary	81,627	54%	85,320	54%	- 3,694
Discretionary	70,728	46%	73,217	46%	- 2,490

**Non-discretionary spending includes the following categories: food, clothing and footwear, health, transport, communications, housing and utilities.*

Table 13 shows over the five-year period, total disposable income across the LGA has increased by an average of $11.0m. There has been an overall decrease in expenditure ($6.2m), driven by decreases in both discretionary expenditure ($2.5k), and non-discretionary expenditure ($3.7k).

The decreases are driven largely by the impact of COVID-19, with large decreases in non-discretionary transport expenditure ($7.2k), and discretionary expenditure at Hotels, cafes and restaurants ($2.7k). These decreases are unlikely to be permanent. However, across the LGA there has been an increase in net savings of $17.2k, indicating capacity to absorb increased household expenditure.

Discussion

There are consistently relatively high levels of equivalised income, very low levels of disadvantage, low unemployment levels and relatively low levels of housing stress across the LGA (when compared with Greater Sydney, NSW and Australia). This pattern is reflected in the SEIFA rankings which show very low levels of disadvantage throughout the LGA. Overall, the LGA as a whole sits in the 94th percentile (Greater Sydney is 56th percentile) when looking at only disadvantage (IRSD). When considering both disadvantage and advantage (IRSAD), the LGA sits in the 97th percentile (Greater Sydney 77th percentile), meaning that 97% of all suburbs in Australia experience higher levels of disadvantage (and lower levels of advantage).

Key aspects of the Semi rural area, which had an IRSD ranking in the 94th percentile, and an IRSAD ranking (including factors of advantage) in the 95th percentile:

- Highest proportion of retirees (29%).
- Very high proportion of fully owned homes (41%).
- Very low unemployment rate (3.5%), and very low levels of residents looking for full time work (1.8%).

Key aspects of the Berowra and north east area, which had an IRSD ranking in the 97th percentile, and IRSAD ranking in the 97th percentile were:

- Very low levels of vulnerable households, particularly lone person households (15%).
- Very high levels of home ownership (39%).
- Very high levels of equivalised income, with 65% of households in the top two equivalised income quartiles.

Key aspects of the Hornsby area, which had an IRSD ranking in the 87th percentile, and IRSAD ranking in the 94th percentile were:

- The highest proportion of vulnerable households (31%), particularly 'lone person' households (20%) – still below Greater Sydney average (22%).
- 61% of households in the top two equivalised income quartiles, this is high compared to Greater Sydney and NSW, but ranks only 4th in the LGA.
- Unemployment rate (5.3%) is highest in the LGA, as is the number of people looking for full time work (2.8%).

Key aspects of the Southern and Western area, which had an IRSD ranking in the 96th percentile, and IRSAD ranking in the 98th percentile were:

- Very high proportion of mortgage repayments in the upper two quartiles (68%) – the most within the LGA.
- High proportion of households in the top two equivalised income quartiles (67%) – the most within the LGA.
- Very high levels of home ownership (38%).

As was observed from the review of SEIFA rankings within Council, the ABS identified the following factors as having the greatest impact on an area's SEIFA score:

- level of income
- type of employment
- vulnerable households.

These factors align closely with our common characteristics of disadvantaged/advantaged households:

- equivalised household income
- proportion of disadvantaged (lone individual/one parent) households
- proportion of vulnerable households (housing stress/unemployment/require core assistance).

Proposed rating changes

Table 14 SRV options

Rate increases - preferred SRV scenario (rate peg + SRV)	2023/24	2024/25	2025/26	2026/27
Residential	8.5%	7.5%	6.5%	5.5%
Farmland	8.5%	7.5%	6.5%	5.5%
Business	8.5%	7.5%	6.5%	5.5%
CBD	8.5%	7.5%	6.5%	5.5%
Westfield	8.5%	7.5%	6.5%	5.5%
Rate increases - no SRV (rate peg only)	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Residential	3.9%	3.5%	3.0%	2.5%
Farmland	3.9%	3.5%	3.0%	2.5%
Business	3.9%	3.5%	3.0%	2.5%
CBD	3.9%	3.5%	3.0%	2.5%
Westfield	3.9%	3.5%	3.0%	2.5%

Across the LGA, under normal rate peg increases, the average residential rates in 2026/27 across the LGA would be $1,444. Adding the SRV will result in the average residential rates in 2026/27 across the LGA being $1,667. This means that in the final SRV year, residential ratepayers will pay an average of additional $4.28 per week over what they would have paid had there been no SRV.

The NSW Valuer General is currently undertaking a general valuation on all land within NSW. These new valuations will be issued towards the end of 2022. These new valuations will directly influence the impact on ratepayers. Therefore, it is recommended that further impact analysis be prepared by Council as part of their community engagement. Therefore, any impact analysis within this section should take this into consideration.

Table 15 Impact of SRV on Residential ratepayers

Residential rates: Increase due to SRV over normal rates path	Number of properties	Average 2019 land value	4 year Cumulative increase $
Berowra and north east	4,477	457,975	502
Hornsby area	21,659	460,589	504
Semi rural	3,652	840,871	700
Southern and Western	22,243	936,629	750

As is demonstrated in the table above, it is expected that the impact will be felt more heavily within areas of higher unimproved land values. Therefore, it is observed that largest average increases will be felt within the Semi rural and the Southern and Western areas. For example, it is expected that average residential rates in Southern and Western area will increase by a total $750 over the four-year SRV period. This region also has the lowest levels of disadvantage within the LGA, with some suburbs scoring within the 100th percentile – meaning they rank amongst some of the wealthiest suburbs in Australia.

At the end of the SRV period, residential ratepayers on average will pay the following amounts above what they would have paid without the SRV (i.e. normal rate peg increases only):

- $3.79 per week in Berowra and the north east
- $3.80 per week in Hornsby area
- $5.28 per week in the Semi rural area
- $5.65 per week in the Southern and Western areas.

Table 16 Impact of SRV on Farmland ratepayers

Farmland rates: Increase due to SRV over normal rates path	Number of properties	Average 2019 land value	Average increase $
Berowra and north east	2	754,500	229
Hornsby area	1	862,000	247
Semi rural	307	1,395,766	336
Southern and Western	2	3,600,000	701

Again, the impact will be felt more heavily within areas of higher unimproved land values. Therefore, with respect to Farmland categories, it is observed that largest average increases will be felt by the two properties within the Southern and Western areas, however the impact will be more widely felt in the Semi rural areas, due to the larger number of properties.

At the end of the SRV period, farmland ratepayers on average will pay the following amounts above what they would have paid without the SRV (i.e. normal rate peg increases only):

- $4.41 per week in Berowra and the north east
- $4.75 per week in Hornsby area
- $6.46 per week in the Semi rural area
- $13.48 per week in the Southern and Western areas.

Table 17 Impact of SRV on Ordinary Business ratepayers

Ordinary Business rates: Increase due to SRV over normal rates path	Number of properties	Average 2019 land value	Average increase $
Berowra and north east	139	754,500	373
Hornsby area	898	862,000	613
Semi rural	374	1,395,766	524
Southern and Western	715	3,600,000	950

Again, the impact will be felt more heavily within areas of higher unimproved land values. Therefore, with respect to ordinary business ratepayers, it is observed that largest average increases will be felt within the Southern and Western areas.

At the end of the SRV period, ordinary business ratepayers on average will pay the following amounts above what they would have paid without the SRV (i.e. normal rate peg increases only):

- $7.17 per week in Berowra and the north east
- $11.79 per week in Hornsby area
- $10.07 per week in the Semi rural area
- $18.26 per week in the Southern and Western areas.

With respect to CBD Business ratepayers, the average increase in 2026/27 be $902, or $17.30 per week.

Council's outstanding rates ratio

Table 18 Hornsby Shire Council outstanding rates ratio

Financial year	NSW average outstanding rates ratio	Outstanding rates ratio	NSW ranking
2020/21	6.71	2.34	4
2019/20	6.90	2.32	5
2018/19	6.09	1.81	7
2017/18	5.72	1.82	7
2016/17	5.70	1.91	7

Outstanding rates ratios are a good indication of both capacity and willingness to pay. Due to the impact of COVID-19, NSW in general has seen an increase in outstanding rates in both 2019/20 and 2020/21 financial years, as councils were granted generous COVID-19 hardship provisions and reduced debt recovery activity. Hornsby Shire Council has consistently been in the top 7 of all NSW councils with respect to outstanding rates, well below the NSW averages. Council has improved its ranking from 7th in 2018/19 up to 4th in 2020/21. This is a strong indication that there is a higher level of advantage, lower levels of disadvantage, and an overall capacity and willingness to pay rates across the LGA.

Conclusion

The LGA generally has higher levels of advantage, and lower levels of disadvantage when compared with Greater Sydney, NSW and Australia. This is indicated by high SEIFA ratings, high equivalised income levels and very low levels of housing stress. Across the LGA, under normal rate peg increases, the average residential rates in 2026/27 across the LGA would be $1,444. Adding the SRV will result in the average residential rates in 2026/27 across the LGA being $1,667. This means that in the final SRV year, residential ratepayers will pay an average of additional $4.28 per week over what they would have paid had there been no SRV.

This impact is distributed across the LGA based on land values, resulting in the Southern and Western area incurring higher average rate rises due to the higher land values. This area had higher levels of wealth, very low levels of disadvantage and very high levels of advantage. The average residential rates increase over what they would have paid had there been no SRV will be $5.65 per week in this area.

It is important for Council to acknowledge that there are areas of disadvantage within the community, and that it does not significantly marginalise particularly vulnerable individuals and households. Areas such as Hornsby do have slightly lower SEIFA rankings, equivalised income and slightly more housing stress relative to the LGA, but significantly better than the Greater Sydney, NSW and Australian averages. The average increase in residential rates over what they would have paid had there been no SRV will be relatively lower at $3.80 per week in this area.

Council regularly has among the lowest levels of outstanding rates in NSW, an indication of both capacity and willingness to pay. Therefore, we conclude that ratepayers do have a capacity to pay, particularly if supported by appropriate hardship policies.