Shellharbour
CITY COUNCIL

Long Term Financial Plan

2021 - 2031

Contents

Introduction

The Long Term Financial Plan (LTFP) is an important part of Council's strategic planning process, as it is used to model various scenarios. It is also used to inform and guide future action and to allow Council to identify financial issues at an earlier stage. The LTFP provides a means to forecast Shellharbour City Council's capacity to provide financial resources to meet the Objectives of the Community Strategic Plan.

Council's Sustainable Financial Strategy supports the LTFP by providing direction and context. The LTFP is developed in conjunction with the Asset Management Plans and Workforce Management Plan and incorporates the strategies and actions contained within Council's Delivery Program.

The LTFP is for a period of ten years and includes the following:

- the planning assumptions used to develop the plan
- projected income and expenditure, balance sheet and cash-flow statement
- sensitivity analysis
- monitoring financial performance and sustainability

The primary purpose of this LTFP is to facilitate effective financial decision-making which is informed by the short, medium and long term expectations of the community.

The LTFP is reviewed on an annual basis, with a major review process undertaken in line with the review of the Community Strategic Plan.

A Financially Sustainable Future

Council's key objective is to be financially sustainable over the short, medium and long terms to meet community's specific needs. At its meeting on 13 March 2018, Council endorsed the "Sustainable Financial Strategy".

The 2021-2022 Operational Plan and Long Term Financial Plan have been prepared within the context of the endorsed strategy. Council will demonstrate financial sustainability to the Community by implementing 11 Key Financial Objectives contained within the four principles below.

PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses.

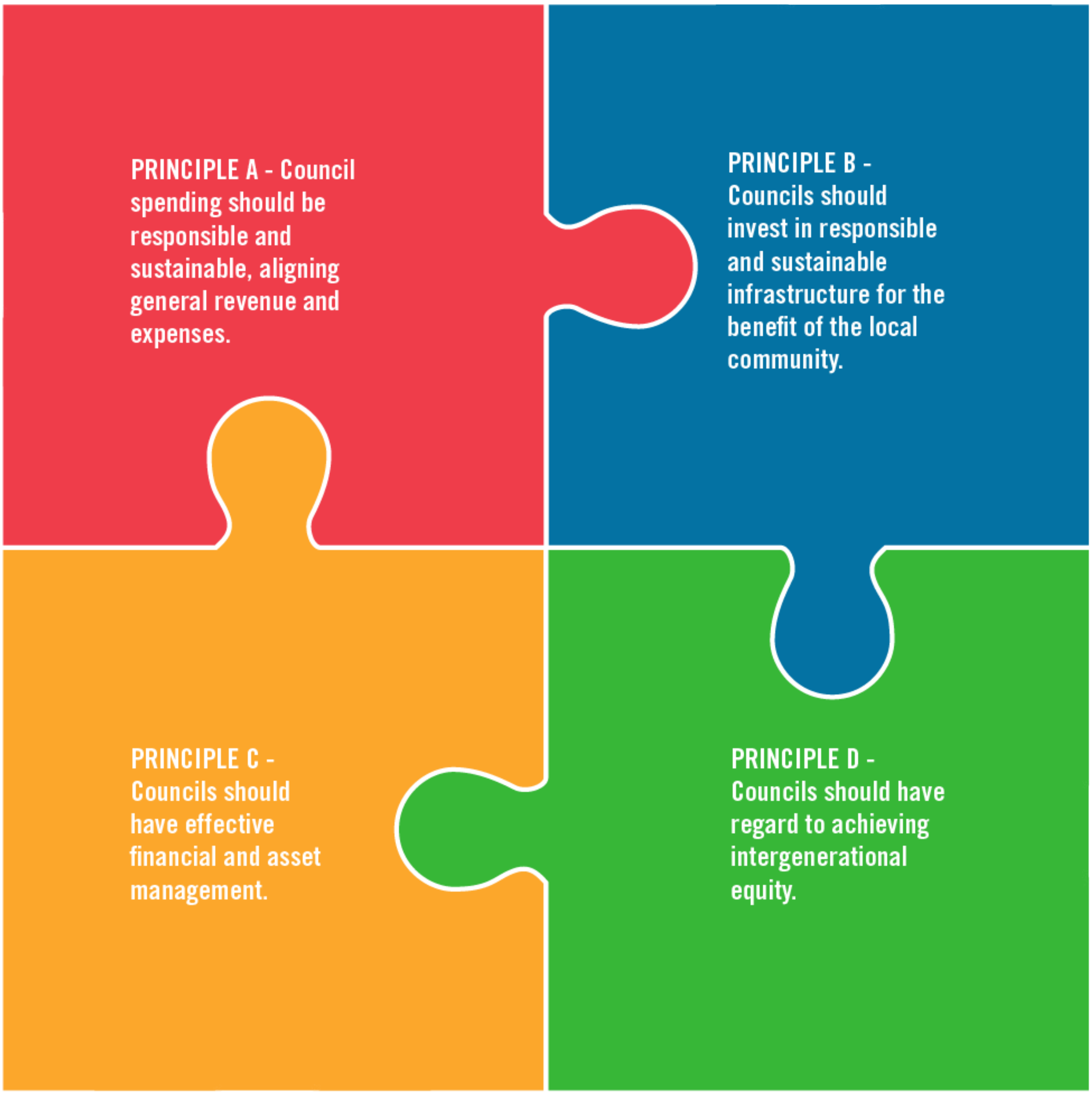
PRINCIPLE B - Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.

PRINCIPLE C - Councils should have effective financial and asset management.

PRINCIPLE D - Councils should have regard to achieving intergenerational equity.

Council has applied the 11 Key Financial Objectives below to the 2021-2022 Operational Plan and Long Term Financial Plan to ensure financial sustainability.

Council's Principles of Sound Financial Management



Council's Principles of Sound Financial Management

PRINCIPLE A
- Council spending should be responsible and sustainable, aligning general revenue and expenses

Key Objective 1	Financially sustainable over the short, medium and long term to meet community's specific needs.

Actions

- Maintaining a professional finance team.
- Ensuring an effective "Integrating Planning & Reporting" (IP&R) process throughout Council.
- Having Operating Performance Ratio as a key assessment criteria for Council's strategic decisions.
- Council integrates FFtF and Cash reporting within the Quarterly Operational Plan Review, Delivery Program (updated annually for the Council term) and the LTFP (updated annually for a 10 Year outlook).

Outcomes

- Council access attractive TCorp borrow rates to reduce costs and drive further investment into the community.
- Council will demonstrate to the community and other stakeholders that it is financially responsible and efficiently meets the needs of the community today and into the future.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Council achieves all (FFtF) ratios and cash ratio and be deemed "Fit" by the Office of Local Government (OLG).

Key Objective 2	Optimise returns from Council's commercial ventures thereby reducing burden for rate payers and minimising revenue volatility.

Actions

- Develop a Shell Cove Business Plan that creates a surplus from commercial enterprises to fund ongoing maintenance of the precinct and providing a dividend to Council.
- Links Shell Cove business to produce a net surplus (after depreciation) and thereby providing a dividend to Council.
- Complete the Links Shell Cove precinct sub-division and investigate further sub-division options.
- Expand commercial operations (including regular passenger transport services) at the airport precinct.
- Have a working group focusing on increasing returns from Council owned surplus land.
- Further commercialise business plans for Council's enterprises.
- Ensure all commercial ventures business plans are reviewed and updated regularly.

Outcomes

- Increasing the performance of commercial assets/ventures that provide a net positive return to Council.
- Contributing positively to the Own Source Revenue and Operating Performance FFtF ratios.
- Assists in reducing the need for special rate variations.
- Improve commercial returns for the wholesale nursery, Shellharbour Tourist Caravan Park and the Sand Mine.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Achieve the FFtF Own Source Revenue target of 60% each year with aspiration goal of increasing the percentage year-on-year.
- Assists Council in achieving the Operating Performance ratio.

Key Objective 3	Council will continually review its services to better define service requirements and refine delivery methods.

Actions

- Determine costs of providing services and compare to industry benchmarks.
- Develop service levels and further refine existing service levels to align with community expectation to minimise over-servicing (spending).

Outcomes

- Increasing the awareness of whole of-life costs in providing services to the community and further drive efficiencies.
- Minimise the burden to general rate payers of non-commercial ventures.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Assists Council in achieving the Operating Performance ratio.

Key Objective 4	Adequately resourced cross-functional sustainability teams will be formed to address specific risks to Council's financial sustainability.

Actions

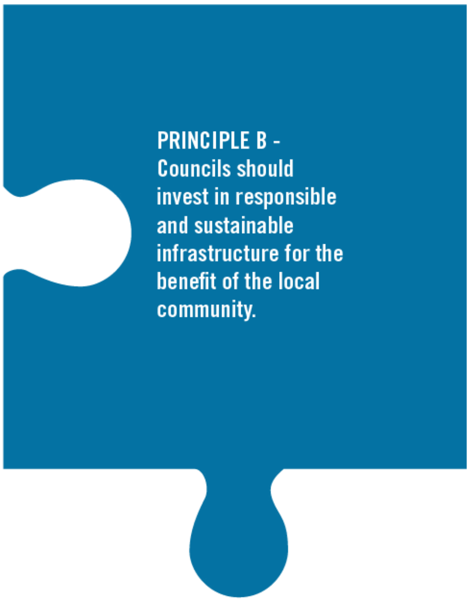
- Cross functional sustainable teams will be formed to address specific risks to Council's financial sustainability.
- Teams will consist of subject matter experts who are resourced to identify and implement solutions.

Outcomes

- Significant risks to Council's financial sustainability is timely identified and mitigated.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Assists Council in achieving the Operating Performance ratio and other FFtF ratios.



PRINCIPLE B
- Councils should invest in responsible and sustainable infrastructure for the benefit of the local community

Key Objective 5	**Council will systematically assess asset conditions and determine funding to ensure desired condition levels are achieved at the best value for Council.**

Actions

- The Community will be engaged to determine service levels. Council's Asset Management Plan (AMP) will reflect community expectations and prioritise assets spending.
- Continue with Council's asset conditional assessment program to reduce maintenance expenditure within the Delivery Program.
- Implementing processes to enable whole of life costing for assets.
- Ensure the appropriate classification of asset renewal expenditure and asset maintenance exist.
- Implement a program that ensures Infrastructure Renewal ratio greater than 100% annually per Council's Asset Management Plan.
- Further refine the program that identifies the frequency and method of conditional assessments for infrastructure assets to ensure the Infrastructure Backlog Ratio is less than 2% as per Special Schedule 7 requirements contained within Council's Asset Management plan.
- Implement a program that ensures infrastructure assets maintenance is greater than 100% as per Special Schedule 7 requirements contained within Council's Asset Management plan.
- Enhance the community asset strategy that ensures community assets are safe, well maintained and fit for purpose.
- Educate the community on the costs associated with maintaining assets according to the various condition categories and benchmark with peer councils.

Outcomes

- Achieve Special Schedule 7 Compliance by prioritising expenditure and ensuring sufficient type of expenditure is performed on infrastructure assets.
- Strategic Asset Management Plan is integrated within the Operating Plan, Delivery Program and LTFP thereby guaranteeing funding.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Infrastructure Renewal ratio greater than 100%.
- Infrastructure Backlog ratio less than 2%.
- Asset Maintenance ratio is greater than 100% which indicates Council is investing enough funds to reduce the infrastructure backlog.

Key Objective 6 — Council's Delivery Program will be used to determine infrastructure service levels and funding to meet community expectations.

Actions

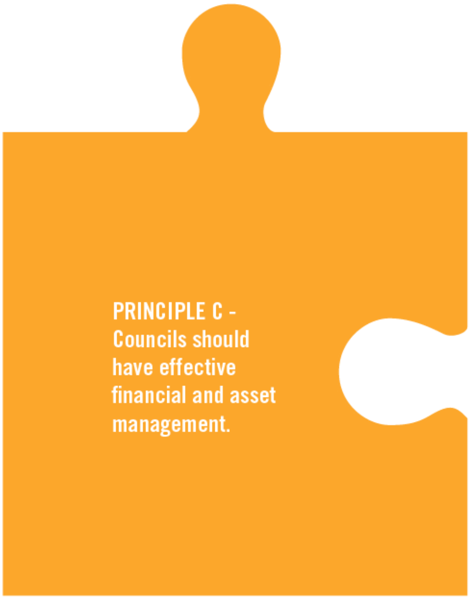
- The Sustainable Financial Strategy will provide the overall parameters for asset related FFtF ratios and funding availability.
- Asset Management Plan (AMP) is prepared at a project level within required FFtF parameters.
- Ensure the AMP is integrated with the Delivery Program.

Outcomes

- Community infrastructure service levels and relevant FFtF ratios will be met within the Delivery Program.
- As the Delivery Program contains project level detail, information will be available for strategic decision makers to make infrastructure changes and remain within FFtF parameters.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Assists Council in achieving the FFtF ratios, Infrastructure Renewal ratio, Infrastructure Backlog ratio and Asset Maintenance ratio.
- Assists Council in achieving the Unrestricted Current ratio.



PRINCIPLE C
- Councils should have effective financial and asset management

Key Objective 7	**Financial Reporting of operational performance must be accurate and transparent to ensure Council is accountable for the efficient use of community resources.**

Actions

- Council continues with the 'Budgeting for Outcomes' architecture that enables Council to monitor the costs of the Objectives contained within the Community Strategic Plan (CSP).
- Regular and rigorous reporting regime that identifies current and future variances, risks to the operational plan that enables timely corrective action.
- Continue to develop Council's finance partnering model so finance staff increase their understanding of Council's activities and increase the financial acumen of Council officers.

Outcomes

- The 'Budgeting for Outcomes' model enables Council to identify the true cost of achieving the community's Objectives within the CSP which drives efficiencies and improves strategic planning.
- Council's finance partnering model, will educate Council officers of the financial impact of their activities and how they will be held to account for their financial performance.
- Council officers will be held to account to ensure Council resources are efficiently utilised.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Real Operating Expenditure ratio declined over time.
- Achieve Operating Performance ratio.

Key Objective 8	Effective Capital Expenditure Framework will ensure capital expenditure is sufficiently planned, scoped, approved and regularly monitored to maximise infrastructure delivered to the community.

Actions

- Rollout the new Procurement Policy and Procurement Procedures to ensure capital expenditure procurement roles and responsibilities are clear and individuals are held accountable.
- Rollout the recently developed capital reporting framework that ensures capital expenditure is appropriately approved with the project manager being held to account for phasing, forecasting and project risk mitigation.

Outcomes

- Council officers involved in capital expenditure are held to account resulting in predictable and efficient capital expenditure.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Infrastructure Renewal ratio greater than 100%.
- Infrastructure Backlog ratio less than 2%.
- Asset Maintenance ratio is greater than 100% which indicates Council is investing enough funds to reduce the infrastructure backlog.

Key Objective 9	Having a financially sustainable culture supported by effective Policies and Procedures ensures all Council officers are accountable to deliver services to the community efficiently.

Actions

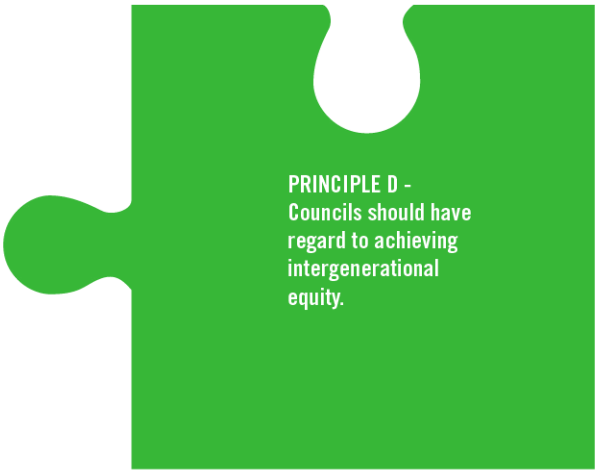
- The Quarterly Operational Plan Review process has been updated to include year-end forecasting and year-to-date variance commentary.
- Rollout the recently endorsed Procurement Policy and Procurement Procedure so Council officers are aware of their delegated budget, remain within their delegated budget and are aware of the processes to adjust their delegated budgets.
- Provide regular finance training/education to Council's Senior Management Team.

Outcomes

- Financial literacy is achieved throughout Council thereby ensuring financial performance is maximised and is aligned with the Operational Plan and Delivery Program.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Assists Council in achieving all FFtF ratios.
- Reduction in instances where Budget allocations are exceeded.



PRINCIPLE D
- Councils should have regard to achieving intergenerational equity

Key Objective 10	**Excess working capital should be minimised and potential to borrow competitively for infrastructure projects should always exist.**

Actions

- Council's cash balance and investment portfolio will be managed daily and reported monthly to ensure the optimum funding exists to minimise cost of funds while maintaining liquidity.
- Ensuring Council remains financially sustainable and ensuring borrowings are commercially competitive and within sources defined by legislation.
- Investment Policy ensures Council's investment risk is appropriate.

Outcomes

- Maximise infrastructure expenditure that benefits current and future generations, maximises investment return and minimise operational volatility.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- Unrestricted Current ratio remains within the range 1.5 to 3.5 times.
- Annualised Investment Return should be 1% above the AusBond bank Bill Index.
- Debt Service ratio remains within the range 0% to 20%.

Key Objective 11	Maintaining inter-generational equity is a key consideration for all strategic decisions.

Actions

- Utilising borrowings to assist in funding long term assets and ensuring borrowing periods do not exceed the useful life of the asset.
- Where appropriate, and not to the detriment of achieving FFtF ratios and metrics, Council will pursue loans and other commercial options to further align costs with generations that are receiving benefits.
- Where it is economically sound to do so, Council will incur costs today that will ultimately provide significant benefits in the future.
- Monitor and strategically manage borrowings, including acquiring and retiring debt to maintain the FFtF Debt Service ratio.
- External borrowings will not be used for current operational expenditure.

Outcomes

- Further aligns infrastructure benefits with infrastructure costs.
- Strategic financial decisions may extend beyond Council's 10 year long term financial plan.
- Inter-generational impacts will be highlighted to ensure informed strategic decisions are made.

Measure - Fit For the Future (FFtF) Ratio & Other Metrics

- The Debt Service ratio is always greater than 0% and less than or equal to 20%.

Planning Assumptions

The LTFP contains a number of assumptions, including some that are beyond the control of Council, such as interest rates and State Government waste levies. Variations in these assumptions during the life of the plan may have a significant impact on Council's future financial planning. The LTFP is updated annually in conjunction with the preparation of the Operational Plan and Budget, which responds to the Delivery Program and Shellharbour's 10 year Community Strategic Plan, to ensure the assumptions are continually updated with the latest information available.

2.0%

Inflation

The LTFP has been prepared assuming a 2.0% inflation for 2021/22 and 1.00% (2.0% inflation less 1% efficiency target) for 2022/23 and 2023/24. The inflation rate is then modelled to grow to 2.25% in 2024/25 and then 2.5% in 2025/26 and hold at 2.5% for the remainder of the 10 year period. If more accurate forecasts are available for specific items, Council will adopt these rates and highlight the rates utilised where forecasts are significant.

Service Priorities

Council's objective is to ensure 'value for money' for ratepayers. Council also aims to deliver long-term financial sustainability, ensuring services remain relevant and align with the 'needs and wants' of the local community. Extensive consultation was conducted as part of the development of the Community Strategic Plan to determine the range and priority of services desired by the community.

Increase in dwellings

Shellharbour City Council's estimated population for 2021 is 75,953. The average household size (persons per dwelling) is 2.72, slightly above the state average of 2.61 . Council is forecasting a year-on-year annual dwelling growth rate of 1.15% over the LTFP.

Business
0.5%
(based on historical data)

Residential
1.15%
(based on above expected dwelling growth)

Farmland
0.0%
(based on historical data)

Anticipated annual growth by Rate Category

Revenue Forecasts

The sources of funds for Council are varied and the following shows the breakdown of revenues budgeted for Council for 2021/22. This is expected to remain an indicative breakup of sources of revenue for the term of the LTFP.

Rates & Annual Charges

Rating is a major component of Council's revenue base. A 2.0% rate peg has been assumed for the period from 2021/22 to 2023/24. Following this it has been assumed that this will increase to 2.25% in 2024/25 and then 2.5% in 2025/26 and remain at 2.5% for the rest of the current LTFP period.

User Charges and Fees

Many of the services provided by Council are offered on a 'cost recovery' basis to allow a 'user pays' principle to be applied. Other considerations when determining user charges and fees include: Regulated charges, Market price, Community Service requirements and Developer Contributions (discussed separately). The 2021/22 Operational Plan includes information on Council's pricing policies for its user charges and fees. In general, a CPI based increase has been applied to most user charges and fees pricing over the LTFP period.

Grants

Council receives a Financial Assistance Grant from the Commonwealth Government and anticipates the continuation of this grant along with CPI growth. Other budgeted grants are generally for specific purposes and projects, with the grant monies assumed to be expended in the year it is provided. In preparing the LTFP, Council has assumed that it will continue to receive grants. A CPI based increase has been applied to these grant amounts over the LTFP period. Should these grants and subsidies be reduced, Council's ability to provide the same level of service will be impacted.

$5.5M
Federal Assistance Grant

Development Contributions

Council collects contributions from new development toward funding the cost of additional infrastructure required as a result of the development. These contributions include cash, land and other assets and are collected through Council's Developer Contributions Plan, Works in Kind Agreements and/or Planning Agreements (also known as VPA's). Funds collected from developers are restricted and are allocated to projects in line with the relevant Developer Contributions Plan or Planning Agreement.

Interest and Investments

1.21%

Based on advice from Council's investment advisor, existing term deposits held and taking into consideration the 10 year Australian Bond rate, interest returns have been included at 1.21% for 2021/22, 1.30% for 2022/23, 1.35% for 2023/24 and increasing on average 0.05% per annum each year after. The balance of funds available for investment has been calculated after taking into account cashflow forecasts.

Expenditure Forecasts

The Community Strategic Plan and IRIS community surveys have given Council an indication of the communities' expectations for the future. In developing expenditure forecasts Council has considered, not only the new expenditure but also Council's existing commitments, much of which is regular and ongoing. Extensive consultation with staff occurred during the preparation of the LTFP. All categories of expenditure have been examined and projections included have been based on varying factors, including historical averaging or staff projections in many cases.

Employee Costs

Wages for 2021/22 are based on an award increase and salary system movements of 2.55%. A vacancy factor of 5% is built into the 2021/22 budget and this is included in all later year projections. Calculations for this large expenditure category is also informed by the Workforce Management Plan, as well as legislative requirements for superannuation increases and any changes to workers' compensation legislation.

Depreciation

Depreciation estimates have been based on Council's Asset Management Plans which takes into account existing asset levels and expected asset growth in the future.

Shell Cove Harbour assets depreciation is based on an average useful life of 65 years. This equates to a total annual depreciation of $1.9m. Depreciation will commence from 2021/22 and is based on the 'handover' of assets to Council occurring in the 2021/22 and 2022/23 years.

Borrowing Costs

Section 621 of the Local Government Act 1993 allows the Council to borrow at a level determined by the Council via approval of the Revenue Policy contained within the annual Operational Plan. Borrowing to build, renew and upgrade community assets is recognised across the industry as a prudent financial strategy when used to fund the cost of long life assets, refer to Principle D of the Sustainable Financial Strategy.

Loan borrowings have been factored in for the following capital projects. The use of loan borrowings is based on the intergenerational equity principle around the funding of long life assets. All new loans are based on a 20 year term at 2.85% p.a. The new loans are:

- Shell Cove Wet and Dry Marina Business - $36.4M to be gradually drawn down from 2020/21 and continue to 2023/24 in line with expected capital spend budget.
- Warilla Seawall - $8.2M to be drawn down in the 2021/22 and 2022/23 years.
- Oak Flats Depot Upgrade - $1.1M to be drawn down in 2021/22.
- Tripoli Way (Albion Park Bypass) – $10.4m loan to part fund the Tripoli Way capital works between the forecast expenditure years of 2025/26 to 2027/28.

Repayments currently included in the LTFP include:

Road Renewal

Borrowings from 2012/13 under the Local Infrastructure Renewal Scheme (LIRS) – Round 1 for $3m expenditure on the renewal of Council's road infrastructure. The term of this loan is 10 years.

Shellharbour Beachside Holiday Park Amenity Improvement

Borrowings from 2014/15 for $600K, with repayments to be funded from the Crown Reserve Restriction. The term of this loan is 10 years and was for the renewal of the existing amenities building and delivery of a camp kitchen.

A further loan of $400K was taken out to fund the installation of additional cabins. The term of this loan is also 10 years.

Stadium roof replacement

Borrowings were drawn down in 2014/15 for the Stadium Roof replacement for $987K. The term of this loan is 10 years.

Civic Centre

Loan borrowings commenced late in 2016/17 for the Civic Centre project with the total borrowing of $12.78M over a 20 year term.

Shell Cove Marina

Loan borrowings of $36.4M to fully fund the Shell Cove Marina capital program. The loan is expected to commence being drawn down in the 2020/21 year with $6.7M being drawn down in that year and a further $29.7M to be drawn down between 2021/22 and 2023/24. Repayments are to be made over a 20 year term.

Warilla Seawall

Loan borrowings of $8.2M to part fund the renewal of the Warilla Seawall. The loan is expected to draw down $3.4M in the 2021/22 year and $4.8M in 2022/23. Repayments are to be made over a 20 year term.

Oak Flats Depot Upgrade

Loan borrowings of $1.1M to part fund the upgrade of Oak Flats Works Depot. The loan is expected to be fully drawn down in 2021/22. Repayments are to be made over a 20 year term.

Capital Expenditure

The majority of the capital expenditure program included in the LTFP is for the renewal of existing assets. These costs are informed by the information contained in Council's Asset Management Plan. There is however some new capital expenditure items which is not unusual in a growing local government area. Refer below for key items:

- Tripoli Way: $28.9m has been budgeted in years 2025/26 ($2.9M), 2026/27 ($8.7M) and 2027/28 ($17.3M).
- Capital expenditure associated with the Shell Cove Wet and Dry Marina business assets will continue and will span 2021/22 ($8.7M), 2022/23 ($11.0M), 2023/24 ($10.0M).
- The renewal of Warilla Seawall will commence in 2021/22 ($1.4M) and will span 2022/23 ($7.2M) and 2023/24 ($6.4M).
- Stages 3 of the Oak Flats Depot Upgrade have been budgeted in years 2021/22 ($3.3M) and 2022/23 ($0.8M).

Other Assumptions

Refer below for other assumptions that underpin Council's Long Term Financial Plan:

- Utility costs increase at 2.5% per year.
- Insurance costs are expected to grow 5% per year.
- Materials and contracts as well as other expenses growth over LTFP is 1.0%. This has been based on CPI of 2.0% less 1.0% for an efficiency target.
- Shell Cove Harbour assets estimated valuation is $125M. Expected handover dates are $90M in 2021/22, $35M in 2022/23.

Financial Performance and Sustainability

PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses

Operating Performance Ratio

How well is Council managing its finances in terms of containing operating expenditure within operating revenue?

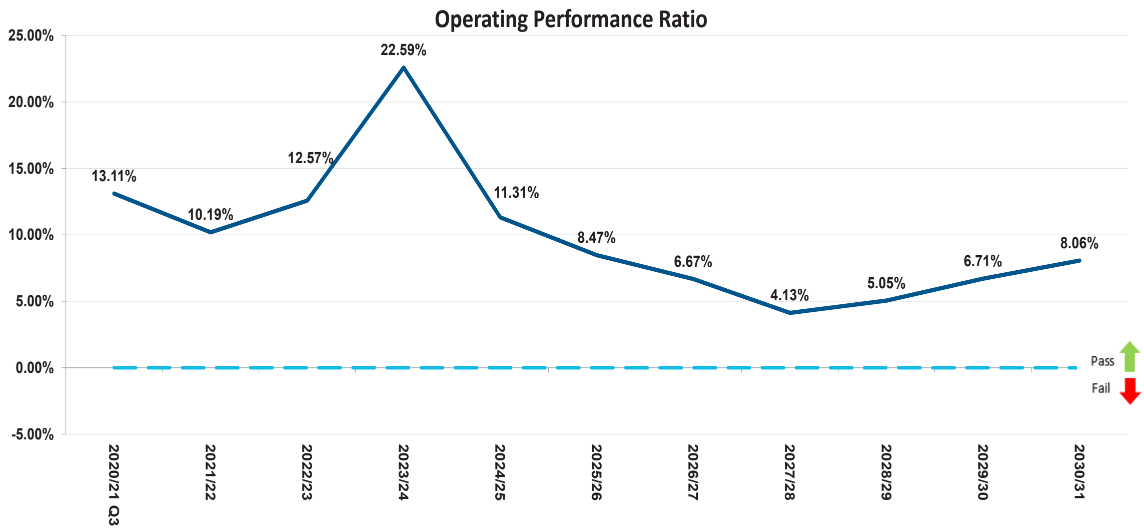
Operating performance ratio is an important measure as it provides an indication of whether a Council is containing its operating expenditure within its operating revenue.

Ratio = Operating revenue excluding capital grants and contributions less operating expenses divided by operating revenue excluding capital grants and contributions.

What do the results tell us?

Council exceeds the breakeven benchmark for all years reflected in the graph below.

Benchmark is 0%



PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses

Own Source Revenue Ratio

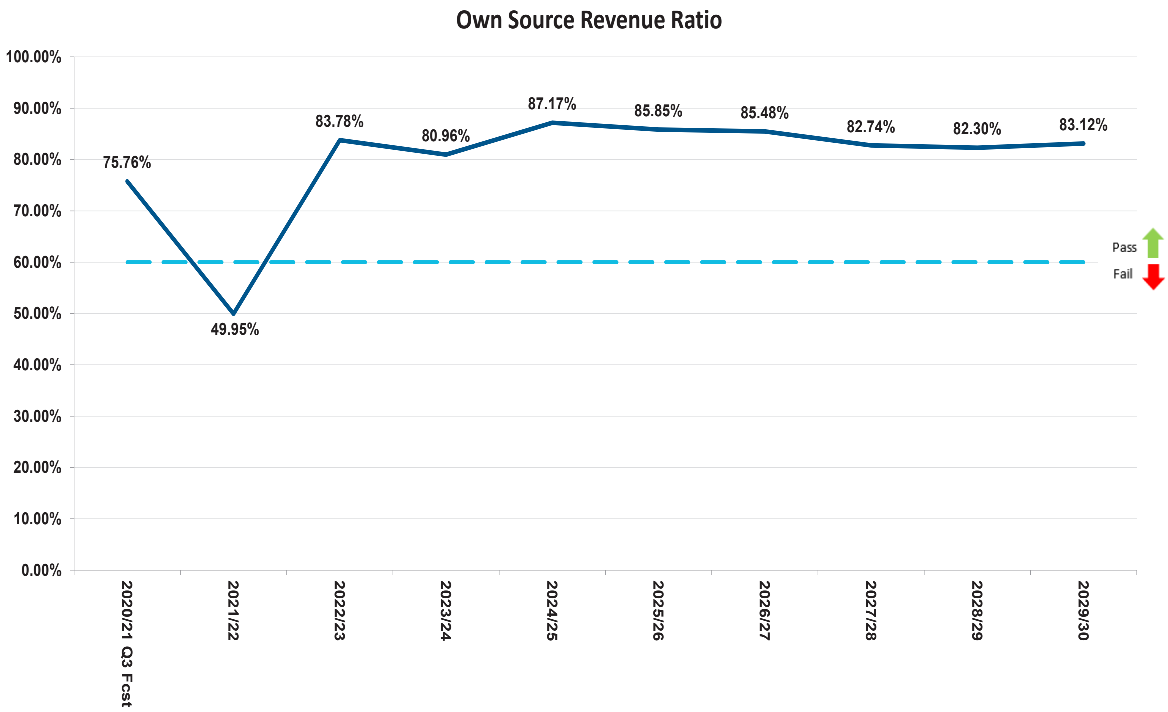
How reliant is Council upon external funding sources such as Operating Grants and Contributions?

Own source revenue measures the degree of reliance on external funding sources (eg. Grants and Contributions). Financial flexibility increases as the level of own source revenue increases and gives Council greater ability to respond to external shocks or challenges.

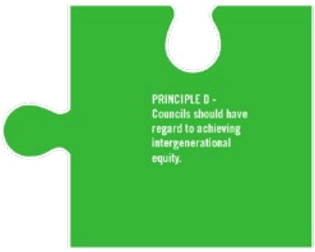
Ratio = Total revenue (excluding grants and contributions) divided by total operating revenue (inclusive of capital grants and contributions).

What do the results tell us?

Council meets the benchmark for this indicator in all years except for 2021/22. The ratio is not expected to exceed the benchmark in 2021/22 due to the Shell Cove Marina assets being handed over to Council, which is reflected as a $90M capital contribution in that year. This is an extraordinary item and doesn't imply that Council is suddenly reliant on external funding sources to fund its operations.



PRINCIPLE D - Councils should have regard to achieving intergenerational equity infrastructure and Service Management



Debt Service Ratio

What impact is loan repayments (principle & interest) having on the discretionary Revenue of Council?

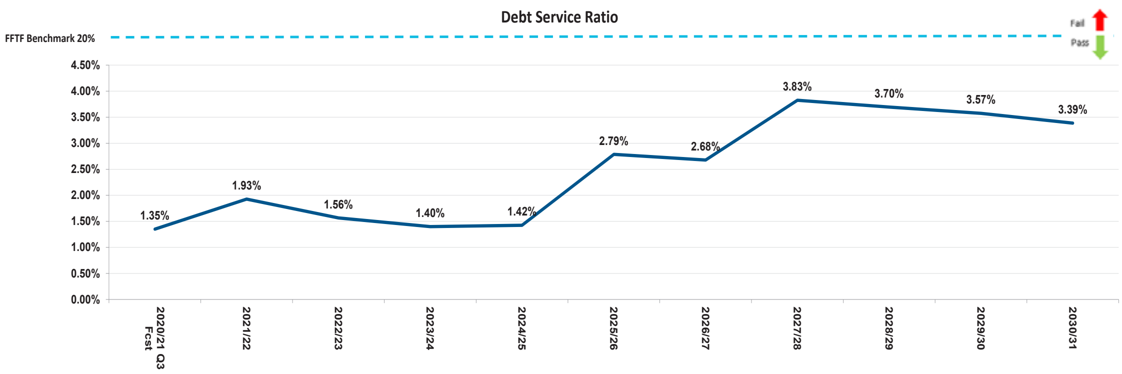
Prudent and active debt management is a key part of Council’s approach to funding and managing infrastructure over the longer term.

Ratio = Total of Loan repayments is divided by income from continuing operations excluding capital grants and contributions.

What do the results tell us?

Council’s debt levels are relatively low when compared to the Fit for the Future maximum benchmark for this ratio of 20%. Loan borrowings are used to smooth funding costs and equitably spread the cost of assets across current and future generations of users.

Benchmark is greater than 0% but less or equal to 20%.



PRINCIPLE A - Council spending should be responsible and sustainable, aligning general revenue and expenses

Real Operating Expenditure

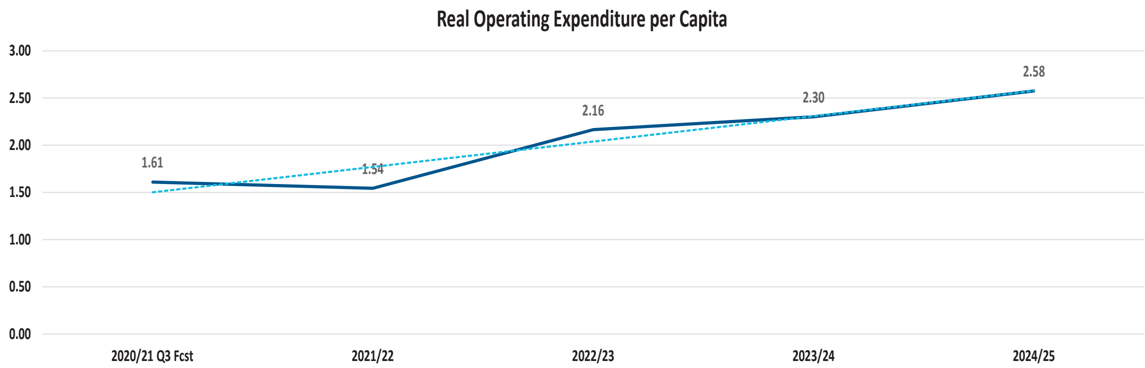
Is real expenditure per capita declining over time?

The ratio measures real per capita productivity over time. As Council adds additional services to the community, a declining real expenditure per capita ratio will be challenging.

Ratio = Operating Expenditure (excl. inflation) / population (Benchmark: Declining over 5 year period.

What do the results tell us?

Whilst the ratio should be decreasing over time, the ratio is expected to increase over the five year period. The increasing ratio has been driven by Council's share of the Shell Cove development costs. If Council's share of Shell Cove was excluded, the ratio would be declining over the measured period, reflecting expenditure efficiencies are being gained over time.



PRINCIPLE B - Councils should invest in responsible and sustainable infrastructure for the benefit of the local community

Infrastructure Renewals Ratio

Is Council renewing existing infrastructure?

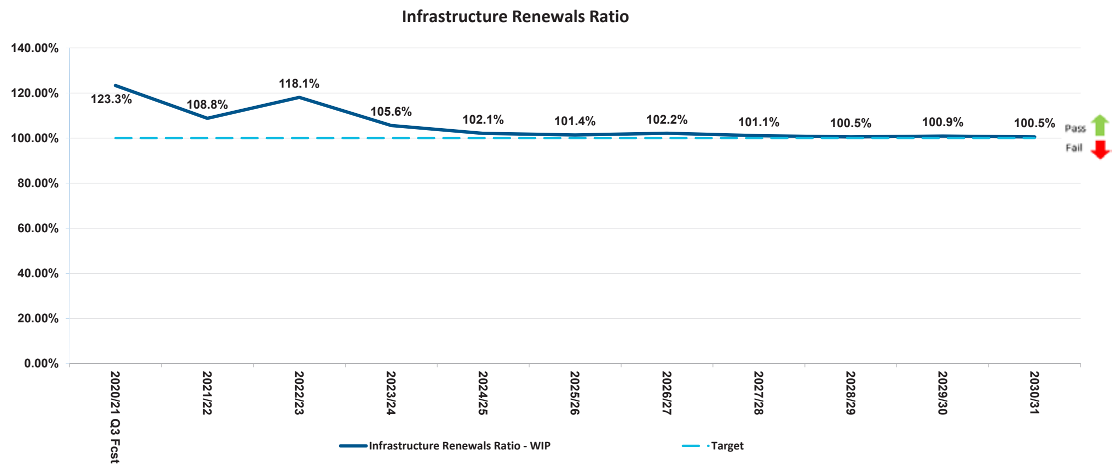
The infrastructure renewals ratio assesses the rate at which assets are being renewed against the rate at which they are depreciating.

Ratio = Asset renewals (building, infrastructure and other structures) is divided by Depreciation, Amortisation and Impairment (building, infrastructure and other structures).

What do the results tell us?

The chart shows that Council intends to meet the benchmark, which means Council will renews it’s assets as they depreciate.

Benchmark: greater than 100%.



PRINCIPLE B - Councils should invest in responsible and sustainable infrastructure for the benefit of the local community

Infrastructure Backlog Ratio

Is Council infrastructure at a satisfactory level?

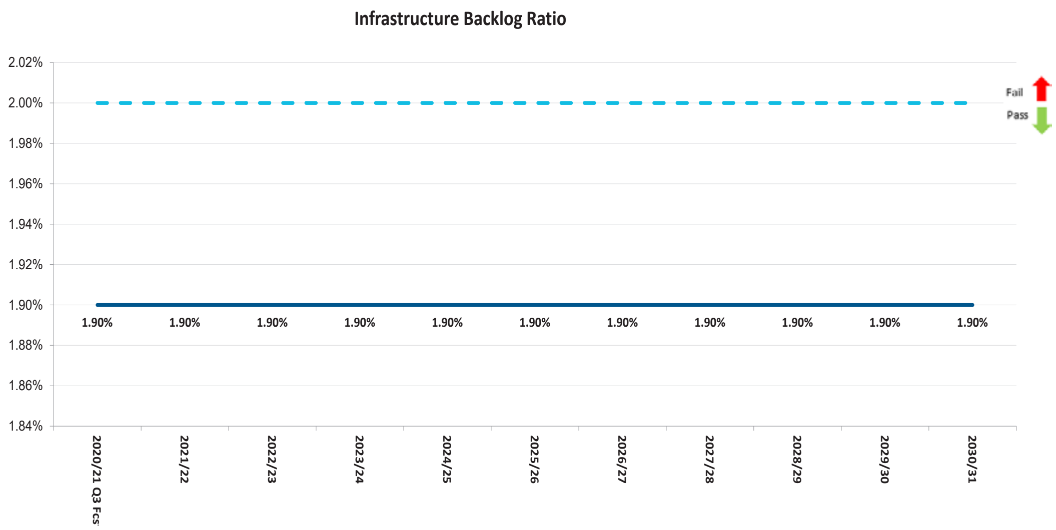
Satisfactory level is achieved when Council estimates the cost to bring Council's poor conditioned infrastructure assets to a satisfactory standard is below 2% of the total written down value.

Ratio = Estimates cost to bring assets to a satisfactory condition / Total WDV of infrastructure, buildings, other structures and depreciable land improvement assets.

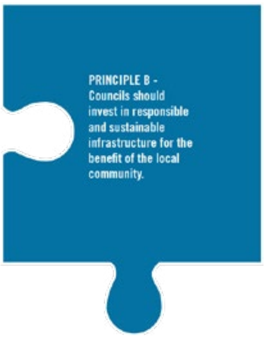
What do the results tell us?

As a result of Council's asset renewal strategy funded from the Special Rate Variation combined with an effective maintenance program, the cost to bring poor conditioned assets to a satisfactory condition is below the 2% benchmark.

Benchmark: (Benchmark < 2%)



PRINCIPLE B - Councils should invest in responsible and sustainable infrastructure for the benefit of the local community



Asset Maintenance Ratio

Is Council investing enough funds to reduce the infrastructure backlog?

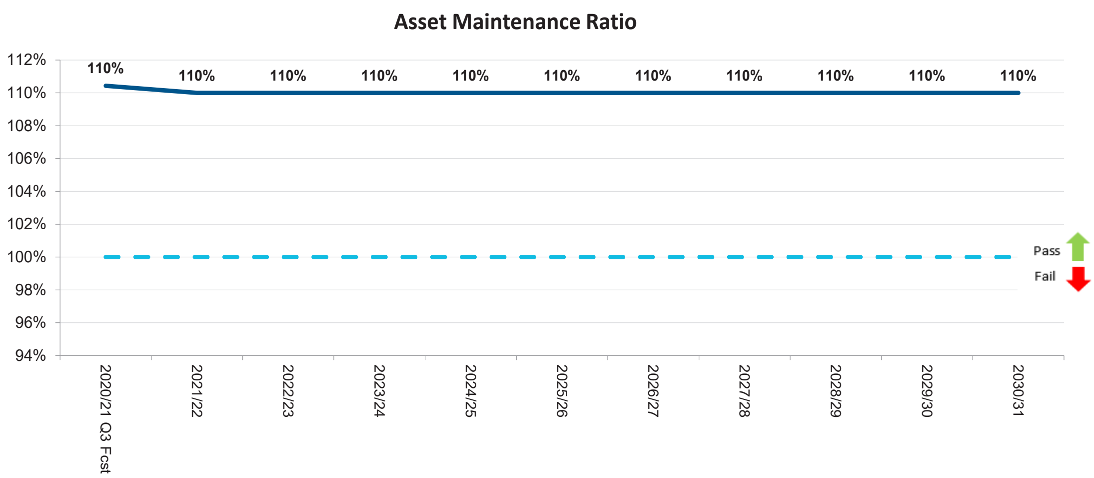
An effective maintenance program allocates sufficient asset maintenance funds that meet or exceed the estimated level of maintenance.

Ratio = Estimated level of asset maintenance / required level of asset maintenance.

What do the results tell us?

Council is maintaining assets above the required level of asset maintenance throughout the LTFP. This is achieved by implementing an effective assets renewal program and allocating sufficient funds for maintenance.

Benchmark: (Benchmark > 100%)



Income Statement '000

Account Description	2021/22 $000's	2022/23 $000's	2023/24 $000's	2024/25 $000's	2025/26 $000's	2026/27 $000's	2027/28 $000's	2028/29 $000's	2029/30 $000's	2030/31 $000's
Income										
Rates & Annual Charges	69,240	71,235	73,610	76,248	79,168	82,202	85,354	88,629	92,031	95,566
User Charges & Fees	19,296	19,682	20,076	20,527	21,041	21,567	22,106	22,659	23,225	23,806
Interest & Investment Revenues	1,604	1,706	1,905	2,399	3,224	4,409	4,782	5,490	5,656	5,769
Other Revenues	41,806	103,967	150,541	148,630	38,792	51,673	5,538	5,309	5,450	5,618
Operating Grants & Contributions	5,501	8,058	7,763	8,308	8,495	8,687	8,883	9,085	9,303	9,514
Capital Grants & Contributions	126,732	30,011	50,113	28,177	14,943	18,463	15,678	17,167	16,367	16,067
Total Income	**264,178**	**234,659**	**304,009**	**284,289**	**165,663**	**187,000**	**142,341**	**148,338**	**152,032**	**156,340**
Expenses										
Employee Benefits & Oncosts	42,161	42,772	43,744	44,644	46,648	48,176	49,730	50,980	52,151	53,348
Borrowing Costs	1,083	1,337	1,311	1,332	1,988	1,916	2,126	2,038	1,946	1,751
Materials & Contracts	21,255	21,205	21,416	21,870	22,400	22,888	23,385	23,892	24,408	24,935
Depreciation & Amortisation	20,559	21,655	22,999	23,623	24,119	24,638	25,156	25,687	26,229	26,682
Other Expenses	38,296	91,689	106,845	135,407	42,520	59,379	20,727	21,632	21,520	21,931
Net Loss from Disposal of Assets	400	-	-	-	-	-	-	-	-	-
Total Expenses	**123,754**	**178,658**	**196,315**	**226,875**	**137,674**	**156,996**	**121,125**	**124,229**	**126,254**	**128,646**
Net Operating Surplus/(Deficit)	**140,424**	**56,001**	**107,694**	**57,414**	**27,989**	**30,004**	**21,216**	**24,110**	**25,778**	**27,694**
Net Operating Surplus/(Deficit) Before Capital	**13,692**	**25,990**	**57,581**	**29,237**	**13,046**	**11,541**	**5,538**	**6,942**	**9,410**	**11,626**

Balance Sheet '000

Account Description	21/22 $000's	22/23 $000's	23/24 $000's	24/25 $000's	25/26 $000's	26/27 $000's	27/28 $000's	28/29 $000's	29/30 $000's	30/31 $000's
Current Assets										
Cash & Cash Equivalents	13,788	14,835	16,515	16,282	15,412	16,006	16,865	15,487	15,704	15,323
Current Investments	57,599	62,362	63,059	62,642	75,052	77,169	80,609	81,431	82,782	84,663
Current Receivables	12,745	18,122	13,559	17,363	14,521	14,692	15,215	15,757	16,319	16,901
Inventories	15,301	16,948	10,382	2,893	1,676	1,718	1,761	1,805	1,850	1,897
Contract Assest	424	432	441	450	459	468	477	487	497	507
Other Current Assets	265	272	279	286	293	300	308	316	323	332
Total Current Assets	**100,122**	**112,972**	**104,236**	**99,916**	**107,413**	**110,354**	**115,236**	**115,283**	**117,476**	**119,622**
Non-Current Assets										
Non-current investments	51,229	55,465	112,768	150,185	151,776	153,659	156,718	166,896	177,545	188,665
Non-current receivables	1,545	1,622	1,703	1,788	1,877	1,971	2,070	2,173	2,282	2,396
Infrastructure, Prop, Plant & Equip	1,131,874	1,173,598	1,234,424	1,254,234	1,276,084	1,304,698	1,315,941	1,327,642	1,338,294	1,350,567
Investments accounted for using the equity method	721	735	750	765	780	796	812	828	845	862
Investment Property	28,101	28,301	28,505	28,714	28,927	29,147	29,371	29,601	29,837	30,079
Intangible Assets	3,195	3,259	3,324	3,391	3,458	3,528	3,598	3,670	3,743	3,818
Right of Use Assets	1,510	1,540	1,571	1,602	1,634	1,667	1,701	1,735	1,769	1,805
Total Non Current Assets	**1,218,174**	**1,264,521**	**1,383,046**	**1,440,679**	**1,464,538**	**1,495,465**	**1,510,211**	**1,532,546**	**1,554,316**	**1,578,192**
Total Assets	**1,318,297**	**1,377,493**	**1,487,281**	**1,540,594**	**1,571,951**	**1,605,819**	**1,625,447**	**1,647,829**	**1,671,792**	**1,697,814**
Current Liabilities										
Current Payables	24,433	23,855	20,068	20,946	27,127	22,039	22,690	23,262	23,814	24,588
Contract Liabilities	530	541	551	562	574	585	597	609	621	633
Lease Liabilities	820	836	853	870	888	905	923	942	961	980
Current Borrowings	2,233	2,618	2,701	2,602	2,996	3,125	3,224	3,326	3,432	3,539
Current Provisions	14,818	15,563	16,112	16,611	17,084	17,552	17,967	18,410	18,878	19,365
Total Current Liabilities	**42,834**	**43,414**	**40,286**	**41,592**	**48,669**	**44,208**	**45,401**	**46,549**	**47,706**	**49,105**
Non-Current Liabilities										
Lease Liabilities	865	882	900	918	936	955	974	994	1,013	1,034
Non-current Borrowings	29,416	42,573	49,872	47,270	44,275	51,514	48,290	44,964	41,532	37,993
Non-current Provisions	19,011	19,379	19,755	20,138	20,529	20,928	21,334	21,749	22,172	22,604
Total Non Current Liabilities	**49,292**	**62,835**	**70,527**	**68,326**	**65,740**	**73,396**	**70,599**	**67,707**	**64,718**	**61,631**
Total Liabilities	**92,126**	**106,248**	**110,813**	**109,918**	**114,409**	**117,604**	**116,000**	**114,256**	**112,424**	**110,736**
Net Assets	**1,226,170**	**1,271,245**	**1,376,468**	**1,430,676**	**1,457,543**	**1,488,215**	**1,509,447**	**1,533,573**	**1,559,367**	**1,587,078**
Equity										
Retained Earnings	757,553	802,428	907,447	961,447	988,100	1,018,553	1,039,559	1,063,456	1,089,013	1,116,483
Revaluation Reserves	468,617	468,817	469,021	469,230	469,443	469,663	469,887	470,117	470,353	470,595
Total Equity	**1,226,170**	**1,271,245**	**1,376,468**	**1,430,676**	**1,457,543**	**1,488,215**	**1,509,447**	**1,533,573**	**1,559,367**	**1,587,078**
Total Equity	**1,226,170**	**1,271,245**	**1,376,468**	**1,430,676**	**1,457,543**	**1,488,215**	**1,509,447**	**1,533,573**	**1,559,367**	**1,587,078**

Statement of Cash Flow '000

Account Description	21/22 $000's	22/23 $000's	23/24 $000's	24/25 $000's	25/26 $000's	26/27 $000's	27/28 $000's	28/29 $000's	29/30 $000's	30/31 $000's
Cash Flows from Operating Activities										
Receipts:										
Rates & Annual Charges	68,814	70,894	73,221	75,818	78,695	81,709	84,841	88,094	91,474	94,985
User Charges & Fees	19,198	19,609	19,992	20,435	20,939	21,462	21,998	22,548	23,112	23,689
Interest & Investment Revenues	1,604	1,706	1,905	2,399	3,224	4,409	4,782	5,490	5,656	5,769
Other Revenues	45,967	107,180	163,990	156,130	43,601	56,235	5,314	5,078	5,214	5,376
Operating Grants & Contributions	5,501	8,058	7,763	8,308	8,495	8,687	8,883	9,085	9,303	9,514
Capital Grants & Contributions	19,959	13,714	7,770	10,479	2,246	5,365	2,180	3,270	2,070	1,770
Payments:										
Employee Benefits & Oncosts	(41,485)	(42,027)	(43,195)	(44,145)	(46,175)	(47,708)	(49,315)	(50,537)	(51,683)	(52,861)
Borrowing Costs	(721)	(969)	(936)	(948)	(1,597)	(1,517)	(1,720)	(1,623)	(1,523)	(1,319)
Materials & Contracts	(20,352)	(19,883)	(20,319)	(20,844)	(21,329)	(21,701)	(22,307)	(22,837)	(23,348)	(23,751)
Other Expenses	(41,199)	(99,990)	(109,638)	(131,597)	(36,766)	(68,700)	(20,390)	(21,336)	(21,234)	(21,531)
Net cash provided (or used in) operating activities	**57,284**	**58,292**	**100,554**	**76,035**	**51,332**	**38,240**	**34,265**	**37,232**	**39,041**	**41,641**
Cash Flows from Investing Activities										
Receipts:										
Sale of Investments	46,000	45,000	45,000	46,000	38,000	45,000	42,000	49,000	44,000	47,000
Payments:										
Purchase of infrastructure, property, plant and equipment	(55,646)	(61,042)	(47,507)	(35,803)	(34,821)	(40,220)	(22,970)	(23,560)	(22,654)	(24,730)
Purchase of Investments	(54,000)	(54,000)	(103,000)	(83,000)	(52,000)	(49,000)	(48,500)	(60,000)	(56,000)	(60,000)
Net cash provided (or used in) investing activities	**(63,646)**	**(70,042)**	**(105,507)**	**(72,803)**	**(48,821)**	**(44,220)**	**(29,470)**	**(34,560)**	**(34,654)**	**(37,730)**
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	18,148	18,384	10,000	-	-	10,364	-	-	-	-
Payments:										
Repayment of Borrowings and Advances	(11,348)	(4,852)	(2,618)	(2,701)	(2,602)	(2,996)	(3,125)	(3,224)	(3,326)	(3,432)
Lease liabilities (principal repayments)	(720)	(734)	(749)	(764)	(779)	(795)	(811)	(827)	(844)	(860)
Net cash provided (or used in) financing activities	**6,080**	**12,798**	**6,633**	**(3,465)**	**(3,381)**	**6,574**	**(3,936)**	**(4,051)**	**(4,170)**	**(4,292)**
Net (increase) / decrease in cash	**(282)**	**1,047**	**1,680**	**(233)**	**(870)**	**594**	**859**	**(1,378)**	**217**	**(381)**

Sensitivity Analysis/Scenario Modelling

Long term financial plans contain a wide range of assumptions, which if do not occur, may have varying levels of impact on future financial plans.

The following scenarios include modifications to some of the main assumptions made in Council's long term financial plan.

Scenario 1 – Planned - as per assumptions outlined in this document.

Scenario 2 – Increase – this includes an increase in movements in some of the main assumptions from the planned scenario as outlined below.

Inflation – increase by 1% from the planned scenario. This will impact User Charges and Fees, Operating Grants and Contributions, Employee Benefits, Materials and Contracts, Other Expenses and Other Revenues. This is applicable from 2022/23 onwards.

Dwelling Growth – Increase by 0.5% from the planned scenario. This will impact Rates and Annual Charges. This is applicable from 2022/23 onwards.

Rate Peg – Increase by 0.5% from the planned scenario. This will impact Rates and Annual Charges. This is applicable from 2022/23 onwards.

Interest Returns – Increase by 0.5% from the planned scenario. This will impact Interest and Investment Revenues. This is applicable from 2022/23 onwards.

The net impact of the scenario is a surplus of $21.2M in 2030/31 compared to the planned surplus of $11.6M.

Scenario 3 – Decrease – this includes a decrease in movements in some of the main assumptions from the planned scenario as outlined below.

Inflation – decrease of 1% from the planned scenario of 2.5%. This will impact User Charges and Fees, Operating Grants and Contributions, Employee Benefits, Materials and Contracts, Other Expenses and Other Revenues. This is applicable from 2022/23 onwards.

Dwelling Growth – decrease by 0.5% from the planned scenario. This will impact Rates and Annual Charges. This is applicable from 2022/23 onwards.

Rate Peg – Decrease of 0.5% from the planned scenario of 2.5%. This will impact Rates and Annual Charges. This is applicable from 2022/23 onwards.

Interest Returns – Decrease by 0.5% from the planned scenario. This will impact Interest and Investment Revenues. This is applicable from 2022/23 onwards.

The net impact of the scenario is a surplus of $5.6M in 2030/31 compared to the planned surplus of $11.6M.

The detail impacts of the assumption changes in scenarios 2 and 3 have been modelled in the following 10 year income statements.

LTFP Income Statement – Scenario 2 Increase

Account Description	2021/22 $000's	2022/23 $000's	2023/24 $000's	2024/25 $000's	2025/26 $000's	2026/27 $000's	2027/28 $000's	2028/29 $000's	2029/30 $000's	2030/31 $000's
Income										
Rates & Annual Charges	69,240	72,054	75,311	78,901	82,858	87,015	91,381	95,969	100,788	105,851
User Charges & Fees	19,296	19,779	20,273	20,831	21,456	22,099	22,762	23,445	24,148	24,873
Interest & Investment Revenues	1,604	2,363	2,610	3,256	4,335	5,879	6,324	7,206	7,370	7,466
Other Revenues	41,806	103,987	150,585	148,698	38,885	51,793	5,687	5,488	5,662	5,864
Operating Grants & Contributions	5,501	8,079	7,821	8,404	8,631	8,866	9,107	9,355	9,622	9,886
Capital Grants & Contributions	126,732	30,011	50,113	28,177	14,943	18,463	15,678	17,167	16,367	16,067
Total Income	**264,178**	**236,273**	**306,713**	**288,266**	**171,109**	**194,114**	**150,940**	**158,630**	**163,958**	**170,008**
Expenses										
Employee Benefits & Oncosts	42,161	42,964	44,135	45,245	47,471	49,233	51,033	52,540	53,982	55,464
Borrowing Costs	1,083	1,337	1,311	1,332	1,988	1,916	2,126	2,038	1,946	1,751
Materials & Contracts	21,255	21,310	21,628	22,192	22,837	23,446	24,068	24,706	25,358	26,026
Depreciation & Amortisation	20,559	21,655	22,999	23,623	24,119	24,638	25,156	25,687	26,229	26,682
Other Expenses	38,296	91,762	106,994	135,641	42,847	59,804	21,254	22,263	22,259	22,783
Net Loss from Disposal of Assets	400	-	-	-	-	-	-	-	-	-
Total Expenses	**123,754**	**179,027**	**197,067**	**228,032**	**139,262**	**159,036**	**123,637**	**127,234**	**129,775**	**132,705**
Net Operating Surplus/(Deficit)	**140,424**	**57,246**	**109,646**	**60,234**	**31,847**	**35,078**	**27,303**	**31,396**	**34,184**	**37,302**
Net Operating Surplus/(Deficit) Before	**13,692**	**27,235**	**59,533**	**32,057**	**16,903**	**16,615**	**11,625**	**14,229**	**17,816**	**21,235**

LTFP Income Statement – Scenario 3 Decrease

Account Description	2021/22 $000's	2022/23 $000's	2023/24 $000's	2024/25 $000's	2025/26 $000's	2026/27 $000's	2027/28 $000's	2028/29 $000's	2029/30 $000's	2030/31 $000's
Income										
Rates & Annual Charges	69,240	70,653	72,415	74,401	76,628	78,924	81,293	83,735	86,254	88,852
User Charges & Fees	19,296	19,586	19,879	20,227	20,632	21,045	21,465	21,895	22,333	22,779
Interest & Investment Revenues	1,604	1,050	1,199	1,542	2,112	2,939	3,239	3,774	3,942	4,072
Other Revenues	41,806	103,947	150,501	148,568	38,707	51,564	5,405	5,149	5,263	5,402
Operating Grants & Contributions	5,501	8,036	7,706	8,213	8,360	8,511	8,665	8,821	8,993	9,156
Capital Grants & Contributions	126,732	30,011	50,113	28,177	14,943	18,463	15,678	17,167	16,367	16,067
Total Income	**264,178**	**233,284**	**301,813**	**281,129**	**161,383**	**181,446**	**135,745**	**140,542**	**143,152**	**146,329**
Expenses										
Employee Benefits & Oncosts	42,161	42,581	43,355	44,048	45,836	47,140	48,460	49,465	50,381	51,312
Borrowing Costs	1,083	1,337	1,311	1,332	1,988	1,916	2,126	2,038	1,946	1,751
Materials & Contracts	21,255	21,101	21,206	21,552	21,969	22,340	22,718	23,101	23,490	23,886
Depreciation & Amortisation	20,559	21,655	22,999	23,623	24,119	24,638	25,156	25,687	26,229	26,682
Other Expenses	38,296	91,604	106,672	135,145	42,165	58,930	20,181	20,986	20,771	21,076
Net Loss from Disposal of Assets	400	-	-	-	-	-	-	-	-	-
Total Expenses	**123,754**	**178,278**	**195,543**	**225,699**	**136,077**	**154,964**	**118,641**	**121,276**	**122,817**	**124,708**
Net Operating Surplus/(Deficit)	**140,424**	**55,006**	**106,270**	**55,429**	**25,306**	**26,482**	**17,104**	**19,265**	**20,335**	**21,622**
Net Operating Surplus/(Deficit)	**13,692**	**24,995**	**56,157**	**27,252**	**10,362**	**8,020**	**1,426**	**2,098**	**3,967**	**5,554**

Shellharbour
CITY COUNCIL

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