Long Term Financial Plan 2023-2033

Acknowledgment of Country

Willoughby City Council acknowledges the Traditional Owners of the lands on which we stand, the Gamaragal people. We pay our respects to their Elders past and present.

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Executive Summary

In June 2023, Council adopted a *Long Term Financial Plan* (LTFP) which outlined Willoughby's current, and expected future, financial and economic challenges.

The LTFP stated that Council came into the period of the COVID-19 pandemic in a robust and sustainable financial position. It also noted that, since that time, the Council's finances had been adversely affected by a range of factors, including:

- Losing $20.6m in revenue due to the COVID-19 pandemic
- High inflation, which has forced up the costs of providing materials and services
- Ongoing low NSW Government rate capping
- The cessation of the Council's Infrastructure Levy in 2022

As such, the LTFP canvassed, and established the need for, a Special Rate Variation (SRV) to commence in 2024/25, to stabilise Council's financial position and to allow it to provide services and renew and repair infrastructure to benchmark levels.

Following the LTFP's adoption, Council considered a range of issues, including community feedback on the LTFP, broader community service expectations and the need for any examination of rate rise options to be accompanied by extensive community engagement. Council then developed four rate rise options to take to the community between September-November 2023. These options included a new non-SRV base case (known as Reduce Services), along with three SRV options (known as Maintain Services, Increase Services and Increase Services and Infrastructure).

At its meeting on 27 November 2023, Council resolved to progress a rate rise proposal of 15.0%, including a rate peg component of 5.0% and SRV component of 10.0% (the Increase Services option). Under this rate rise option, the Council will be able to:

- Continue to provide highly-valued services, including catch-up from the 12.1% inflation increase over the last two years.
- Deliver surpluses in all nine years between 2024/25 and 2032/33, with average annual surpluses of $4.77m. These surpluses, subject to future financial shocks, could be re-invested in community services and projects.
- Increase responsiveness to resident and business enquiries.
- Increase Council's ability to absorb future financial, extreme weather and growth shocks.
- Provide capacity to maintain and renew community assets.
- Provide a stable work environment for staff attraction and retention.
- Allocate an additional $2.0 million a year to allow Council to invest in additional cleaning, care and beautification projects in parks, cycling and walking routes and town centres, and planting programs to boost Council's urban tree canopy.

Concurrently with seeking this rate rise from the NSW Government, Council will be setting a $2.0m efficiency target for 2024/25, to be met via expenditure savings and finding new non-rate revenue. Without this target, Council's proposed rate rise would need to be 3.7% higher (equivalent to a $40 increase to average residential rates).

This LTFP has been prepared (outside of the usual LTFP cycle) to explain, and seek feedback on, the broader financial and organisation implications of this rate rise proposal, which will underpin Council's preferred future financial state.

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It also outlines Council's new non-SRV base case (the Reduce Services option) which is not Council's preferred option, but will be enacted in 2024/25 if the SRV proposal is not successful (subject to consideration of any material financial changes in the first half of 2024).

Introduction and purpose

This *Long Term Financial Plan* reflects Council's financial capacity to deliver the strategies, initiatives and works identified in Willoughby City's *Community Strategic Plan: Our Future Willoughby 2032,* the four-year *Delivery Program 2022-2026* and the annual Operational Plans and Budgets.

The LTFP enables the community's vision for the future to be assessed against the financial and other resources available. It ensures that Council has a financially sustainable long-term plan and that it can manage financial risks and optimise opportunities while delivering the community's aspirations.

The LTFP expresses in financial terms Council's planned activities in the short, medium and long term and provides a framework for strategic decision making, problem identification and corrective action. The objectives of the LTFP are to:

- Provide a **transparent account** of Council's financial position and forecasts to the community
- Identify the **financial risks and opportunities** arising in the short, medium and long term
- Measure the **financial impacts of change** through sensitivity testing of key assumptions
- Model the financial effects of our other **strategic plans and initiatives** including other resourcing strategies (asset management and workforce management)
- Provide early warning of potential risks to our financial sustainability and provide a framework for decision making and **corrective action**
- Provide a basis to make sound **strategic decisions** to best meet community expectations and aspirations

Council usually exhibits, between May-June each year, a revised LTFP alongside the exhibition of an annual Operational Plan and Budget. This LTFP has been prepared outside of this usual sequence to accommodate, explain and seek feedback on a proposal for a Special Rate Variation (SRV).

1 Strategic Financial Objectives

Council's Strategic Financial Objectives and Key Performance Indicators (KPIs) are driven by the overriding principle of financial sustainability. These objectives and Key Performance Indicators ensure alignment with Council's *Asset Management Strategy* and *Workforce Strategy*, and drive the construction of the *Long-Term Financial Plan*.

Figure 1 – Strategic Financial Objectives

Sustainability Principle	Objectives	Key Performance Indicators
Positive Operating Performance	• Surplus each year • Balanced Budget • Fully funded operating position including debt and depreciation	• Operating Performance Ratio >0% (OLG) • Operating Performance Ratio of 2%-4% (Council) to withstand financial shocks • Own Source Operating Revenue Ratio >60%
Strong Cash-flow	• Cash surplus each year • Restricted Cash and liabilities fully funded • Adequate working capital	• Unrestricted Current ratio >1.5 • Rates and charges outstanding <5% • Cash Expense cover ratio >3 months
Asset Focus	• Alignment to Asset Management Strategy • Fully funded capital works program • Reduce and eliminate the asset backlog • Optimise returns from assets	• Asset Renewal Ratio >100% • Asset Maintenance Ratio >1 • Infrastructure Backlog Ratio <2% • Declining backlog • Improved return on investment
Manage Debt Levels	• Reduce debt levels over the medium term • Focus on intergenerational equity • Debt used only for assets with life over 20 years or projects with a payback under 7 years.	• Debt Service Cover Ratio >2% • Debt Service Ratio <20%
Maintain and enhance service levels	• Delivery aligned to CSP and Delivery Program. • Prioritised spend to optimise outcomes • Measurable productivity improvements	• Operating expenditure per capita trends down (unless conscious service level improvements) • Service levels maintained or improved • Individual business cases with positive outcomes

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Council's KPIs generally align to the Office of Local Government (OLG) financial sustainability and infrastructure ratios. These ratios are measured annually, subject to external audit, and are comparable to other councils across NSW.

The one exception is the Operating Performance Ratio (OPR). The OPR measures the percentage, in any financial year, between Council's operating revenue and expenditure. The OLG has set a 0.0% OPR, which would ordinarily result in councils running balanced budgets where revenue matches expenditure. Council however in June 2023, adopted a LTFP with an OPR of between 2.0% and 4.0%, which if implemented would result in Council ordinarily running surpluses, with revenue exceeding expenditure.

Council decided to support this target to protect and provide an adequate buffer against budget shocks that typically impact Council throughout the year. It is considered financially prudent to target an OPR of at least 2.0% to enable Council to respond to unexpected financial shocks, failure of infrastructure, the impact of natural disasters and unexpected costs from other tiers of government. This LTFP continues to support a 2-4% OPR target.

2 Environment scan

This chapter outlines some relevant issues which Council, and this LTFP, need to address to continue to be able to implement Council's *Community Strategic Plan* (*Our Future Willoughby 2032*) and *Delivery Program 2022-2026*.

2.1 Economic issues

In May 2023, Willoughby City Council exhibited a LTFP which noted that the Council came into the period of the COVID-19 pandemic in a robust and sustainable financial position. The LTFP noted that, since that time, the Council's finances have been adversely affected by a range of factors, including:

- Losing $20.6m in revenue due to the COVID-19 pandemic in the three years from 2019/20 to 2021/22, including by providing tenant rent relief, waived or reduced fee income, facility closures and changes in consumer behaviour
- High inflation, which peaked at 7.8% in late 2022, and forced up the cost to renew and repair Council's assets and provide other services
- Unexpected cost impacts, in particular a $487,000 increase in the Emergency Services Levy and $100,000 increase in the costs involved in running the 2024 election
- The cessation of the Council's Infrastructure Levy in 2022, which removed some $2.96 million from Council's revenue in 2022/23
- Expected future employee cost increases

The LTFP stated that, after considering likely future revenue and expenditure pressures, the Council's financial situation will continue to decline. It stated that, if the Council did renew infrastructure to meet benchmark levels, and maintained current service levels, the Council would potentially be insolvent by 2025/26. As such, it recommended that the Council needed to examine a Special Rate Variation (SRV) and presented lower and higher SRV options (18.5% and 23.5% increases including the rate peg). This LTFP was adopted in June 2023.

Of the 23 submissions from consultation on the LTFP exhibited in May-June 2023, 12 raised concerns about cost impacts of the proposed SRV, with seven of these submissions calling on the Council to find savings to offset or eliminate the need for a rate increase.

As explained in detail in Chapters 4 and 5, since June 2023 Council has worked to develop a new no-SRV base case, and three SRV options (which were endorsed for exhibition at the August 2023 meeting). These options considered the issues outlined in Figure 2.1.

Figure 2.1 – Issues considered in creation of rate rise options exhibited between September-November 2023

Issue	Response
Community feedback on the LTFP between May-June 2023, which generally favoured limiting rate increases by finding savings and new revenue sources	Council developed new SRV options which include cost-cutting and non-rate revenue targets, to limit the extent of the rate increases. This meant the SRV options exhibited from September-November 2023 were lower than the options canvassed in the June 2023 LTFP. It also developed a new non-SRV option (base case) which would involve a significant reduction in Council services.
The latest financial information, in particular confirmation of Award wage increases from 2024/25 onwards, resulted in an annual improvement of $500,000 in Council's employee costs, compared to the higher estimates of costs in the LTFP	This was incorporated into the rate rise options
The need for the community to have the opportunity to understand and influence any financial sustainability option.	At its August 2023 meeting, Council set aside a budget of $200,000 and approved an engagement plan to undertake extensive engagement on the rate rise options

2.2 Growth issues

According to current projections, Willoughby's population is estimated to grow by 12% between 2016-2036. This would see an increase of 9,527 residents, from 77,888 residents in 2016 to 87,415 residents in 2036. [1] These projections could be increased as a result of new housing targets which are expected to be released by the NSW Government in 2024.

However, Council is facing a number of financial challenges to accommodate and cater for this growth. These are outlined below.

2.2.1 Rating structure

Willoughby's average residential rates are the second lowest in the Northern Sydney Regional Organisation of Councils (NSROC) area. These rates are no longer adequately covering the cost of providing Council services to existing residents. Therefore, the same rates applied to new residents would also fail to cover the costs of services.

Furthermore, increased population also creates demands for upgraded capacity or new infrastructure which is not affordable under the current low rates. Examples of this range from more sports fields and indoor courts, increased demand for quieter study spaces in libraries, larger community meeting places designed for all abilities or more walking and cycling paths.

2.2.2 Planning agreements

From time to time, Council will enter into Planning Agreements with development proponents, typically when the proponent is seeking to amend planning controls to facilitate a development

[1] https://profile.id.com.au/willoughby/population-estimate

proposal. These benefits may provide cash contributions, delivery of works or dedication of land to Council, to provide infrastructure to help cater for growth. Council's decisions on Planning Agreements are guided by its Planning Agreements Policy and Procedures. [2]

In recent years, Council has benefitted from a substantial number of Planning Agreements, primarily from proponents applying for planning control amendments which were generally consistent with Council's CBD and local centre planning strategies which had yet to be formally made in a new council-wide *Local Environmental Plan* (LEP). Some of these agreements are listed below.

Figure 2.2 - Recently executed Planning Agreements

Development site	Agreement execution date	Financial benefits	Other benefits
849-859 Pacific Highway, 2 Wilson St and 1 O'Brien St, Chatswood	10 May 2023	$10,840,203	N/A
100 Edinburgh Rd, Castlecrag	8 June 2023	$100,000	Pathway, car parking and public meeting room works
92-96 Victoria Avenue, Chatswood	15 August 2023	$300,000	N/A
10 Gordon Avenue and 15-18 Nelson St, Chatswood	18 August 2023	$7,584,057	N/A

Council is unlikely to continue to receive, in future years, the same level of Planning Agreement funding it achieved in recent years. This is because:

- On 30 June 2023, the LEP was made, which means development proponents may be less likely to seek amendments to planning controls, and Council may be less likely to support these amendments to ensure the integrity of the new planning scheme. This in turn will lead to a lower number of executed agreements; and
- The NSW Government is implementing reforms to the State's development contribution framework, which would mean an expansion in the scope and value of contributions to the State. This in turn may mean development proponents have less capacity to enter into Planning Agreements with Council.

In any case, Planning Agreements and other infrastructure contributions received from developers can only be used to fund new or expanded infrastructure assets and cannot be used to fund operational or maintenance costs. The consequence is that while new assets are funded, Council is left to bear the future costs of servicing, maintaining and replacing these assets in future.

2.2.3 Development contribution caps

The NSW Government caps the level of contributions Council can charge for new development. [3]

Willoughby City Council does not believe the above caps accurately reflect the cost of providing services to the occupants of these new developments.

[2] Available at https://www.willoughby.nsw.gov.au/Development/Plan/Development-Contributions/Voluntary-Planning-Agreements

[3] More information is available at https://www.planning.nsw.gov.au/policy-and-legislation/infrastructure/infrastructure-funding/local-infrastructure-contributions-policy

2.3 Community expectations

Independent research published in 2022 found that 95% of residents were satisfied with the Council's services. This satisfaction level is well above the 89 per cent overall satisfaction level recorded for 11 comparable metropolitan LGAs. [4]

This research however did find that there were Council services which the community had lower levels of satisfaction, along with higher importance levels. These areas included:

- Long term planning in the Willoughby LGA
- Balancing population growth with services and infrastructure
- Keeping the community informed
- Traffic and parking on local roads
- Maintenance of street trees
- Planning and building permits

The preferred (SRV) option in this LTFP provides greater capacity for Council to address the above issues.

2.4 Volatility and resilience

The COVID-19 pandemic has focussed the world's attention on the need for local authorities, such as Willoughby, to consider and be well-equipped to manage future shocks and stresses. As noted above, Willoughby lost some $20.6m in revenue during the pandemic.

In response, in 2021, Council adopted a *Resilient Willoughby Strategy and Action Plan*, which outlines how Council and its partners can support the community to withstand the challenges of the 21st century. The Plan identifies the range of shocks and stresses most likely to impact on the people of Willoughby and proposes a range of actions to help the community overcome them.

The Strategy and Action Plan identified a range of shocks and stresses, including:

- Infectious diseases
- Livelihood crises
- Extreme weather, including impacts on our urban tree canopy
- Cybersecurity failure
- Digital inequality
- Unaffordable housing
- Loneliness
- Traffic congestion

Across 2022 and 2023, Willoughby experienced extreme storm events, requiring extensive infrastructure repairs to retaining walls, roads and stormwater channels. Extreme weather events, such as these, are expected to increase as a result of global warming and climate change.

This LTFP has been prepared to ensure Council is in a robust financial position to manage this expected ongoing volatility and change.

[4] https://www.willoughby.nsw.gov.au/Council/News-and-media/Perception-Survey-Report

2.5 Government grants

In recent years, Council has been relatively successful in obtaining NSW and Australian Government grants, particularly in the lead-up to the 2023 NSW election and 2022 Australian Government election. These grants have helped fund the following projects:

- Artarmon local centre streetscape upgrade
- Willoughby Leisure Centre upgrade
- Roaming Gnomes Culture Bites activation
- Northbridge Baths upgrade
- Chatswood to St Leonards shared path
- Spring Place laneway upgrade, Chatswood
- Naremburn local centre streetscape upgrade
- Level crossing upgrades
- Festivals and events
- Edward St and Penshurst St Streetscape Improvement Project
- Bellambi Street Square at Northbridge

Figure 2.3 – Grants received from NSW and Australian Governments

Year	NSW Government grants	Australian Government grants	Total grants
2020/21	$5.7m	$4.2m	$9.9m
2021/22	$4.6m	$9.8m	$14.4m
2022/23	$11.3m	$5.1m	$16.4m

As, following the above elections, Willoughby's current State and Federal MPs are no longer in government, it is reasonable to assume that the current political environment is less conducive to maintaining historic grant funding levels.

Similar to developer contributions, capital grants are received to fund new or expanded assets. Capital grants cannot be used for operational purposes and do not assist Council with financial sustainability. Conversely, while new assets are funded, Council is left to bear the future costs of servicing, maintaining and replacing these assets in future.

3 Financial Planning Assumptions

3.1 Basis and source of assumptions

This LTFP has been generally built on the 2023/24 budget and the assumptions and forecasts previously used in the LTFP adopted in June 2023 (with the exception of employee costs as outlined below).

These assumptions have been sourced from several independent external bodies that are regarded as reputable, including the Reserve Bank of Australia, the Australian Bureau of Statistics, BIS Oxford Economics and major banks.

The global forecasts used to escalate costs and revenues are applied consistently between LTFP scenarios. Only rating revenue has been changed between the *Financial scenario without a Special Rate Variation (base case)* (as outlined in Chapter 4) and the preferred *Special Rate Variation scenario* (as outlined in Chapter 5).

A number of one off and recurring adjustments have been made based on specific events and forecasts. These include the cost of local government elections, specific revenue and expenditure forecasts for upgraded or new leisure facilities, the increase in statutory superannuation to 12% by 2026 and specific forecasts for developer contributions.

3.2 Expenditure assumptions

3.2.1 Employee costs

Employee costs account for 38% of total Council operational expenditure. Employee costs include salaries, wages, superannuation, leave entitlements, workers compensation premiums, overtime and other employee related expenses. The majority of employee related cost increases are based on the Local Government Award increase each year.

Figure 3.1 – Expenditure Assumptions - Cost Escalations [5]

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Employee Costs	4.0%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

A new Statewide Local Government Award commenced on 1 July 2023. This award provides for statutory wage and salary increase of 4.5% in 2023/24, 3.5% in 2024/25 and 3% in 2025/26. The award also prescribes a lump sum payment of 0.5% or $1,000 per employee (whichever is larger) in the 2024/25 and 2025/26 financial years. Council has forecast wage and salary increases following confirmation of this three-year award.

Other employee related assumptions include:

- Superannuation is aligned to the growth in salaries and wages each year, plus the additional 0.5% increase in the mandated superannuation guarantee rate (legislated to increase from 10.5% in 2022/23 to 12% in 2026.
- Workers Compensation expense is expected to increase in line with salaries and wages.

[5] Figures for 2024/25 and 2025/26 incorporate new Local Government Award and superannuation percentage increase

- To ensure the budget reflects realistic historic vacancy levels (and allows for the current tight labour market), a 7.7% vacancy rate (equating to $3.9 million in year one) is assumed throughout each year and reflected in the employee cost budget. This conservatively reflects historical vacancy rates (excepting post Covid labour shortages) and ensures the budget for labour costs is not unrealistically high.

3.2.2 Materials and Contracts and Other Costs

Materials and contracts and other expenses account for 44% of total Council operational expenditure. The Consumer Price Index (CPI), a measure of price movements on a basket of goods and services, is used to escalate materials and contract costs throughout the plan. Forward forecasts for CPI are sourced from the Reserve Bank of Australia and after following these recommendations of CPI carefully, inflation has exceeded forecasts and been much higher than expected.

Figure 3.2 – Materials and Contracts and Other Costs - Cost Escalations

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Materials & Contracts - Raw Materials & Consumables	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Materials & Contracts - Contracts	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Materials & Contracts - Legal Expenses	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Materials & Contracts - Insurance	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Materials & Contracts - All Other	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other Expenses - Insurance	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other Expenses - Utilities	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other Expenses - Statutory & Regulatory	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other Expenses - All Other	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

3.2.3 Waste collection and disposal expenditure

In the early years of the LTFP, Waste Management Costs are forecast to follow the Consumer Price Index (as this will align with the "rise and fall" mechanisms within the Waste Management contracts). However, incremental costs are forecast upon the implementation of the State Government's "*NSW Waste and Sustainable Materials Strategy 2041*" which includes the requirement for all councils to offer "Food Organics, Garden Organics" (FOGO) by 2030. Industry modelling shows the introduction of FOGO will lead to significant increases in waste collection and disposal costs. For this reason, the LTFP forecasts a 10% one off cost increase in 2028/29 to allow Council to prepare for and commence the implementation of FOGO in 2029.

Figure 3.3 – Waste Collection and Disposal Expenditure - Cost Escalations

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Waste Collection and Disposal Costs	3.50%	3.00%	3.00%	3.00%	10.00%	3.00%	3.00%	3.00%	3.00%

3.2.4 Depreciation

It is assumed that asset values will continue to increase in line with inflation. For this reason, Depreciation is also forecast to grow in line with inflation. Specific additions and adjustments for Depreciation have been made for major new infrastructure being commissioned throughout the LTFP timeline (for example the redevelopment of the Willoughby Leisure Centre).

3.3 Revenue assumptions

3.3.1 Ordinary rates

Historically, the rate revenue cap increase issued by the Independent Pricing and Regulatory Tribunal (IPART) has not kept pace with the inflation rate. On 9 November 2023, IPART released its final report on the review of the rate peg methodology. [6] IPART says changes to the rate peg methodology will result in rate peg decisions that more accurately reflect changes in the costs impacting NSW councils. For this reason, the "No SRV" scenario escalates rating revenue at the same rate as CPI/inflation.

Figure 3.4 – Ordinary Rates - Revenue

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Rate Increases - No SRV Scenario	5.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

The SRV scenario assumes that an application for a one-off permanent SRV in 2024/25 is successful. Following that one off adjustment, the SRV scenario forecasts that rate increases will escalate at the same rate as CPI/Inflation.

Figure 3.5 – Special Rate Variation - Revenue

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Rate Increases - SRV Scenario	15.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

[6] See https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Review-of-rate-peg-methodology

3.3.2 Domestic Waste Management Charge

Increases in the Domestic Waste Management charge (which is restricted to be expended only on Domestic Waste Management costs), has been aligned to the same increases as Waste Collection and Disposal expenditure. In general, the Domestic Waste Management Charge increases are aligned to CPI/Inflation, but to compensate for the increased cost associated with implementing the State Government's "*NSW Waste and Sustainable Materials Strategy 2041*" (including Food Organics and Garden Organics) the *Long-Term Financial Plan* forecasts a one off 10% increase to the Domestic Waste Management Charge in 2028/29.

Figure 3.6 – Domestic Waste Management Charge - Revenue

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Annual Charges - Domestic Waste Management	3.50%	3.00%	3.00%	3.00%	10.00%	3.00%	3.00%	3.00%	3.00%

3.3.3 User charges and fees

User charges and fees revenue continues to be lower than pre-COVID levels. There is no way of predicting whether demand for major user charges and fees such as parking, fine revenues, community services etc. will return to pre-pandemic levels. For this reason, user charges and fees revenues are expected to grow in line with inflation.

The exception to this is planning fee revenue which is expected to increase by more than CPI in the early years of the *Long Term Financial Plan* due to higher development activity arising from recent major development approvals and the new *Willoughby Local Environment Plan* 2022 (LEP). The additional fee revenue however does not fully compensate for the additional costs involved in servicing the growth needs created by these new developments (see analysis in Chapter 2).

Figure 3.7 – User Charges and Fees - Revenue

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
User Charges and Fees Revenue	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Planning Fees Revenue	5.00%	5.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

3.3.4 Rental and other income

Rental income is forecast to grow in line with inflation as most rental reviews reference the CPI to determine the contracted rental increase.

No major fluctuations are expected in the volumes of other revenue. Prices will be adjusted in line with CPI on an annual basis. For this reason, other revenues are escalated based on CPI in the *Long-Term Financial Plan*.

Figure 3.8 – Rental and Other Income - Revenue

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Rental Income	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Other Revenue - All Other	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

3.3.5 Grants and contributions

Council receives a number of operational and capital grants from various Federal and State Government agencies. Capital grants in particular are difficult to forecast and have been high in recent years. As explained in Chapter 2, Council expects capital grants will decline slightly from previous years and that operational grants will be maintained at current levels with CPI adjustments being applied.

4 Financial scenario without a Special Rate Variation (base case)

In June 2023, Council adopted a *Long Term Financial Plan* (LTFP) which outlined the Council's base case financial outcome if it did not pursue a Special Rate Variation (SRV).

The June 2023 base case was established on maintaining existing service provision and forecast cumulative operating losses of $38.3 million over ten years. The base case also stated that, if Council attempted to fund asset renewals from working capital, working capital would be exhausted and Council would be insolvent by 2025/26. [7]

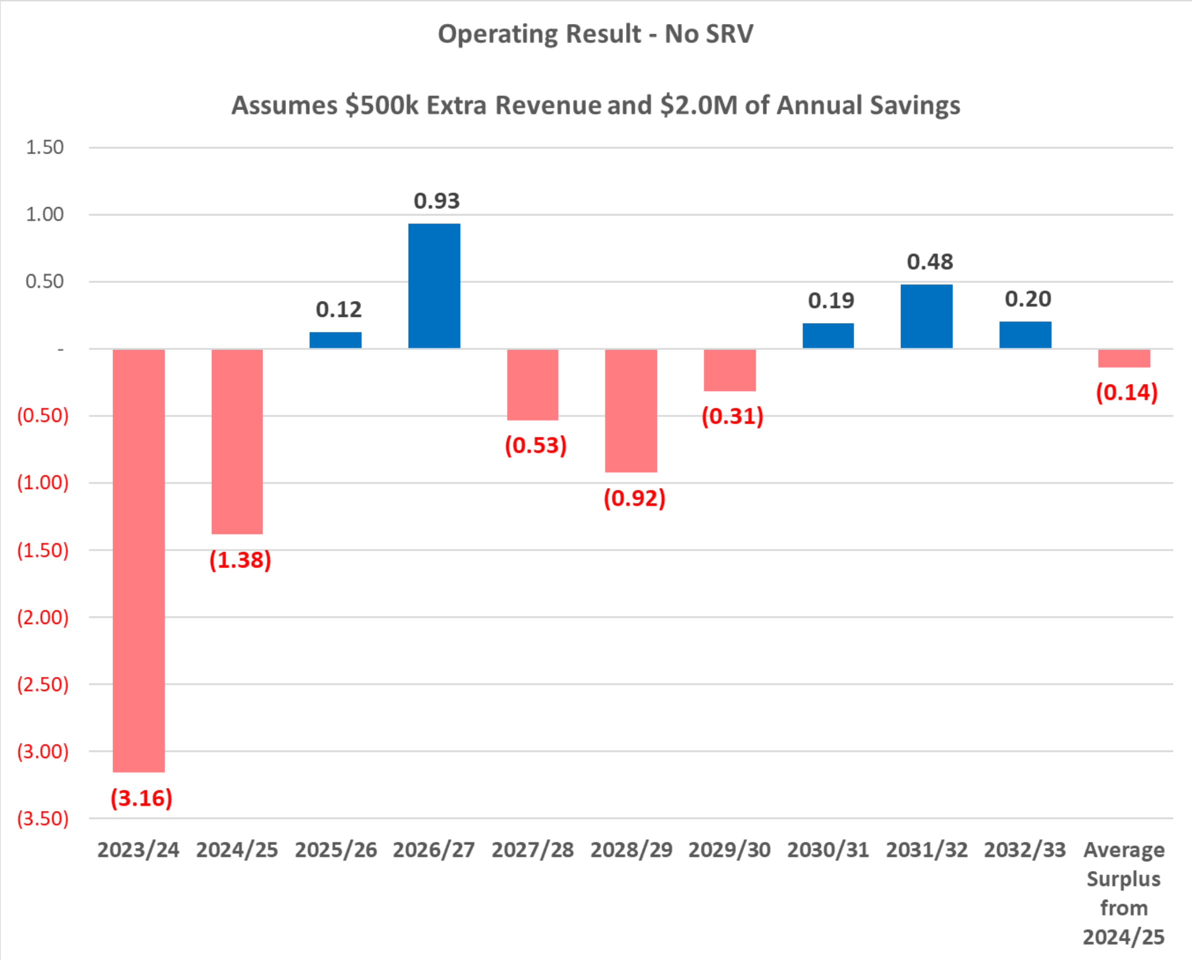
Since that time, Council has developed a new base case scenario. This scenario has been based on Option 1 (Reduce Services) which was one of four rate rise options subject to community consultation from September-November 2023. Under this scenario, rates will increase in line with the NSW Government rate peg, and Council will reduce services to balance its budget.

During September-November 2023, Council assumed the 2024/25 rate peg for the Reduce Services option would be 3.5%. On 21 November 2023, IPART announced the 2024/25 rate peg would in fact be 5.0%. This LTFP is based on the IPART 2024/25 rate peg decision.

To balance its budget under this option, Council will undertake widespread service reductions (worth approximately $2.0m across 2024/25 and 2025/26) and find increased non-rate revenue (approximately $500,000 across 2024/25 and 2025/26). Under the Reduce Services option, the Council will record a balanced (or "break even") average Operating Result in the nine years to 2032/22, recording five surpluses and four deficits between 2024/25 and 2032/33.

[7] See page 22, LTFP adopted June 2023 at https://www.willoughby.nsw.gov.au/Council/Policies-and-publications/Publications/Long-Term-Financial-Plan-2023-2033

Figure 4.1 – Projected Operating Result deficit or surplus 2023/24 to 2032/33 under the base case no SRV option ($m)



The advantage of this approach is that rates will stay low and in line with NSW Government rate peg. Council will try to match income with expenditure, and meet relevant Office of Local Government (OLG) asset maintenance and infrastructure backlog ratios, while noting it will be in deficit in four out of the nine years between 2024/25 and 2032/33.

The disadvantage of the base case is that it will involve:

- A significant reduction in services provided by Council. While Councillors have been briefed on a range of potential service reductions, the actual proposed service reductions would only be made publicly available as part of the usual budget process and after consultation with any affected staff
- No buffer to manage future extreme weather events or financial shocks, including Council being unable to meet its 2-4% Operating Performance Ratio target
- Given this lack of a buffer, a significant risk Council will be unable to meet all relevant OLG financial and asset benchmarks, or accumulate funds over time for increased community services or projects or future growth; and
- Given the need to reduce services, and the internal disruption caused in driving this outcome, a work environment which is less conducive to staff attraction and retention

Given the above, this base case (no-SRV) option does not represent Council’s preferred future financial state, but would be implemented if an application for a SRV was unsuccessful (subject to consideration of any material financial environment changes in the first half of 2024).

Figure 4.2 – Base Case No SRV – Profit and Loss Statement

INCOME STATEMENT - GENERAL FUND	Projected Years									
Scenario: Base Case	**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	73,301,000	76,649,995	78,928,495	81,275,350	83,692,610	87,665,761	90,274,733	92,961,975	95,729,835	98,580,730
User Charges & Fees	15,498,733	20,280,740	21,013,446	21,663,508	22,324,974	23,006,697	23,709,297	24,433,420	25,179,723	25,948,889
Other Revenues	8,508,108	8,657,821	8,891,903	9,132,917	9,381,066	9,636,565	9,899,631	10,170,491	10,449,373	10,741,803
Grants & Contributions provided for Operating Purposes	9,741,794	5,383,008	5,535,588	5,692,568	5,855,432	6,023,025	6,194,043	6,369,998	6,551,035	6,716,773
Grants & Contributions provided for Capital Purposes	10,994,914	8,292,413	10,811,778	10,934,687	11,061,242	11,191,557	11,375,739	9,013,905	9,156,175	9,298,290
Interest & Investment Revenue	7,320,629	6,512,061	6,194,507	6,161,510	5,147,072	5,005,537	4,993,993	5,139,494	5,301,818	5,492,665
Other Income:										
Net Gains from the Disposal of Assets	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Fair value increment on investment properties	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000
Reversal of revaluation decrements on IPPE previously expensed	-	-	-	-	-	-	-	-	-	-
Reversal of impairment losses on receivables	-	-	-	-	-	-	-	-	-	-
Other Income	14,076,410	14,569,084	15,006,157	15,456,341	15,920,032	16,397,633	16,889,562	17,396,249	17,918,136	18,455,680
Joint Ventures & Associated Entities - Gain	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**140,611,587**	**141,515,121**	**147,551,873**	**151,486,881**	**154,552,428**	**160,096,775**	**164,506,998**	**166,655,531**	**171,456,094**	**176,404,829**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	50,452,992	51,625,608	53,432,504	53,869,952	55,486,051	57,150,633	58,865,152	60,631,106	62,450,039	64,323,541
Borrowing Costs	2,307,990	2,305,910	2,295,255	2,292,312	2,294,536	2,295,270	2,295,427	2,301,188	2,333,522	2,368,718
Materials & Contracts	54,857,896	54,703,378	54,250,499	56,164,885	57,870,336	61,398,785	62,677,917	64,276,163	66,143,606	68,650,786
Depreciation & Amortisation	21,565,110	22,386,676	22,948,417	23,496,791	24,461,902	24,956,795	25,461,361	25,975,802	26,500,314	27,035,101
Impairment of investments	-	-	-	-	-	-	-	-	-	-
Impairment of receivables	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Other Expenses	3,538,986	3,533,476	3,639,480	3,748,664	3,861,124	3,976,958	4,096,267	4,219,155	4,345,729	4,476,101
Interest & Investment Losses	-	-	-	-	-	-	-	-	-	-
Net Losses from the Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Revaluation decrement/impairment of IPPE	-	-	-	-	-	-	-	-	-	-
Fair value decrement on investment properties	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities - Loss	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**132,772,974**	**134,605,048**	**136,616,155**	**139,622,605**	**144,023,949**	**149,828,440**	**153,446,123**	**157,453,413**	**161,823,211**	**166,904,246**
Operating Result from Continuing Operations	**7,838,613**	**6,910,073**	**10,935,718**	**11,864,276**	**10,528,480**	**10,268,335**	**11,060,875**	**9,202,118**	**9,632,883**	**9,500,583**
Discontinued Operations - Profit/(Loss)	-	-	-	-	-	-	-	-	-	-
Net Profit/(Loss) from Discontinued Operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net Operating Result for the Year	**7,838,613**	**6,910,073**	**10,935,718**	**11,864,276**	**10,528,480**	**10,268,335**	**11,060,875**	**9,202,118**	**9,632,883**	**9,500,583**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**(3,156,301)**	**(1,382,340)**	**123,940**	**929,589**	**(532,762)**	**(923,222)**	**(314,864)**	**188,213**	**476,708**	**202,293**

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Figure 4.3 – Base Case No SRV – Balance Sheet

BALANCE SHEET - GENERAL FUND	Projected Years									
Scenario: Base Case	**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	10,000,000	10,000,000	12,058,174	10,000,000	11,080,015	12,761,569	15,000,000	15,000,000	15,000,000	15,000,000
Investments	116,855,770	109,094,429	109,094,429	93,188,730	93,188,730	93,188,730	100,456,877	107,826,160	115,842,665	124,527,246
Receivables	6,606,528	7,447,054	7,639,158	7,620,642	7,784,482	7,989,214	8,243,670	8,468,920	8,726,049	8,996,685
Inventories	14,614	14,573	14,452	14,962	15,416	16,356	16,697	17,123	17,620	18,288
Other	1,633,360	1,628,884	1,619,182	1,675,781	1,726,628	1,828,559	1,867,673	1,915,813	1,971,586	2,045,358
Non-current assets classified as "held for sale"	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000
Total Current Assets	139,777,272	132,851,939	135,092,394	117,167,115	118,462,271	120,451,428	130,251,917	137,895,015	146,224,920	155,254,578
Non-Current Assets										
Investments	26,183,411	24,444,358	24,444,358	20,880,430	20,880,430	20,880,430	22,508,975	24,160,182	25,956,408	27,902,328
Receivables	54,688	56,501	57,735	59,005	60,314	62,465	63,878	65,333	66,831	68,375
Infrastructure, Property, Plant & Equipment	1,854,272,708	1,868,197,068	1,878,229,315	1,912,472,304	1,922,622,680	1,932,217,255	1,932,820,542	1,933,476,162	1,934,919,881	1,935,546,593
Investment Property	98,276,000	99,346,000	100,416,000	101,486,000	102,556,000	103,626,000	104,696,000	105,766,000	106,836,000	107,906,000
Intangible Assets	-	-	-	-	-	-	-	-	-	-
Right of use assets	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000
Investments Accounted for using the equity method	-	-	-	-	-	-	-	-	-	-
Non-current assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-
Other	655,831	654,034	650,138	672,864	693,280	734,208	749,913	769,242	791,636	821,258
Total Non-Current Assets	1,980,238,637	1,993,493,961	2,004,593,545	2,036,366,604	2,047,608,705	2,058,316,358	2,061,635,308	2,065,032,918	2,069,366,757	2,073,040,554
TOTAL ASSETS	**2,120,015,909**	**2,126,345,900**	**2,139,685,939**	**2,153,533,719**	**2,166,070,976**	**2,178,767,786**	**2,191,887,225**	**2,202,927,934**	**2,215,591,677**	**2,228,295,132**
LIABILITIES										
Current Liabilities										
Bank Overdraft	-	-	-	-	-	-	-	-	-	-
Payables	28,739,888	28,774,019	28,802,385	29,233,589	29,673,924	30,480,254	30,845,572	31,277,329	31,765,172	32,380,255
Contract liabilities	9,529,756	7,692,424	8,743,494	8,933,812	9,129,109	9,330,253	9,554,657	8,879,990	9,099,187	9,316,097
Lease liabilities	109,114	26,260	-	-	-	-	-	-	-	-
Borrowings	1,326,556	1,376,224	1,426,209	1,477,691	1,494,359	1,512,981	968,776	796,964	822,530	848,916
Employee benefit provisions	13,393,301	15,263,346	17,198,842	19,192,403	21,245,772	23,360,741	25,539,159	27,782,930	30,094,014	32,474,431
Other provisions	-	-	-	-	-	-	-	-	-	-
Liabilities associated with assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	53,098,614	53,132,273	56,170,930	58,837,496	61,543,164	64,684,229	66,908,165	68,737,214	71,780,903	75,019,700
Non-Current Liabilities										
Lease liabilities	26,260	-	-	-	-	-	-	-	-	-
Borrowings	35,684,107	35,007,883	34,281,674	33,503,983	32,709,624	31,896,643	31,627,867	31,530,903	31,408,373	31,259,457
Employee benefit provisions	668,940	762,340	859,010	958,581	1,061,138	1,166,772	1,275,575	1,387,642	1,503,071	1,621,962
Total Non-Current Liabilities	36,379,307	35,770,223	35,140,684	34,462,564	33,770,762	33,063,415	32,903,442	32,918,545	32,911,444	32,881,419
TOTAL LIABILITIES	**89,477,921**	**88,902,496**	**91,311,615**	**93,300,059**	**95,313,926**	**97,747,644**	**99,811,607**	**101,655,758**	**104,692,347**	**107,901,119**
Net Assets	**2,030,537,988**	**2,037,443,404**	**2,048,374,324**	**2,060,233,659**	**2,070,757,050**	**2,081,020,142**	**2,092,075,618**	**2,101,272,175**	**2,110,899,330**	**2,120,394,013**
EQUITY										
Retained Earnings	1,268,325,488	1,275,235,561	1,286,171,279	1,298,035,555	1,308,564,035	1,318,832,370	1,329,893,245	1,339,095,363	1,348,728,246	1,358,228,829
Revaluation Reserves	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000
Other Reserves	-	-	-	-	-	-	-	-	-	-
Council Equity Interest	2,030,542,488	2,037,452,561	2,048,388,279	2,060,252,555	2,070,781,035	2,081,049,370	2,092,110,245	2,101,312,363	2,110,945,246	2,120,445,829
Non-controlling equity interests	-	-	-	-	-	-	-	-	-	-
Total Equity	**2,030,542,488**	**2,037,452,561**	**2,048,388,279**	**2,060,252,555**	**2,070,781,035**	**2,081,049,370**	**2,092,110,245**	**2,101,312,363**	**2,110,945,246**	**2,120,445,829**

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Figure 4.4 – Base Case No SRV – Cash Flow Statement [8]

CASH FLOW STATEMENT - GENERAL FUND	Projected Years									
Scenario: Base Case	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	73,248,802	76,602,494	78,896,177	81,242,062	83,658,324	87,609,406	90,237,728	92,923,860	95,690,576	98,540,293
User Charges & Fees	15,464,692	20,477,946	21,043,663	21,690,316	22,352,252	23,034,811	23,738,272	24,463,282	25,210,500	25,980,609
Investment & Interest Revenue Received	7,537,139	6,577,491	6,183,606	6,329,675	5,137,306	4,992,206	4,907,474	5,069,938	5,225,661	5,410,324
Grants & Contributions	21,145,386	11,183,216	17,283,770	16,720,860	17,013,488	17,314,231	17,689,454	14,608,262	15,815,314	16,117,550
Bonds & Deposits Received	-	-	-	-	-	-	-	-	-	-
Other	22,519,005	22,794,252	23,794,335	24,503,833	25,213,878	25,944,333	26,696,375	27,483,001	28,269,221	29,095,830
Payments:										
Employee Benefits & On-Costs	(48,510,041)	(49,655,172)	(51,389,760)	(51,776,576)	(53,320,734)	(54,920,356)	(56,567,967)	(58,265,006)	(60,012,956)	(61,813,345)
Materials & Contracts	(54,189,314)	(54,722,656)	(54,292,253)	(55,921,111)	(57,651,333)	(60,959,788)	(62,509,438)	(64,068,814)	(65,903,387)	(68,333,050)
Borrowing Costs	(1,610,853)	(1,608,876)	(1,598,332)	(1,595,501)	(1,597,840)	(1,598,611)	(1,598,810)	(1,603,354)	(1,635,304)	(1,670,557)
Bonds & Deposits Refunded	-	-	-	-	-	-	-	-	-	-
Other	(3,126,725)	(3,502,384)	(3,579,884)	(3,655,369)	(3,735,358)	(3,788,948)	(3,980,337)	(4,090,483)	(4,205,896)	(4,312,811)
Net Cash provided (or used in) Operating Activities	32,478,090	28,146,312	36,341,321	37,538,189	37,069,984	37,627,283	38,612,752	36,520,686	38,453,730	39,014,844
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities	27,737,488	9,500,395	-	19,469,626	-	-	-	-	-	-
Payments:										
Purchase of Investment Securities	-	-	-	-	-	-	(8,896,692)	(9,020,489)	(9,812,732)	(10,630,501)
Purchase of Investment Property	-	-	-	-	-	-	-	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(58,735,310)	(36,211,037)	(32,880,664)	(57,639,780)	(34,512,278)	(34,451,370)	(25,964,648)	(26,531,422)	(27,844,033)	(27,561,813)
Net Cash provided (or used in) Investing Activities	(30,997,821)	(26,710,642)	(32,880,664)	(38,170,154)	(34,512,278)	(34,451,370)	(34,861,340)	(35,551,910)	(37,656,766)	(38,192,314)
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	-	-	-	-	-	-	-	-	-	-
Payments:										
Repayment of Borrowings & Advances	(1,280,651)	(1,326,556)	(1,376,224)	(1,426,209)	(1,477,691)	(1,494,359)	(1,512,981)	(968,776)	(796,964)	(822,530)
Repayment of lease liabilities (principal repayments)	(199,618)	(109,114)	(26,260)	-	-	-	-	-	-	-
Net Cash Flow provided (used in) Financing Activities	(1,480,269)	(1,435,670)	(1,402,484)	(1,426,209)	(1,477,691)	(1,494,359)	(1,512,981)	(968,776)	(796,964)	(822,530)
Net Increase/(Decrease) in Cash & Cash Equivalents	(0)	0	2,058,174	(2,058,174)	1,080,015	1,681,554	2,238,431	(0)	(0)	0
plus: Cash & Cash Equivalents - beginning of year	10,000,000	10,000,000	10,000,000	12,058,174	10,000,000	11,080,015	12,761,569	15,000,000	15,000,000	15,000,000
Cash & Cash Equivalents - end of the year	**10,000,000**	**10,000,000**	**12,058,174**	**10,000,000**	**11,080,015**	**12,761,569**	**15,000,000**	**15,000,000**	**15,000,000**	**15,000,000**
Cash & Cash Equivalents - end of the year	10,000,000	10,000,000	12,058,174	10,000,000	11,080,015	12,761,569	15,000,000	15,000,000	15,000,000	15,000,000
Investments - end of the year	143,039,181	133,538,786	133,538,786	114,069,160	114,069,160	114,069,160	122,965,852	131,986,341	141,799,074	152,429,574
Cash, Cash Equivalents & Investments - end of the year	**153,039,181**	**143,538,786**	**145,596,960**	**124,069,160**	**125,149,176**	**126,830,730**	**137,965,852**	**146,986,341**	**156,799,074**	**167,429,574**

[8] Rates and annual charges for both the base case and SRV case in 2023/24 are based on our rate base as of 30 June 2023 and do not consider supplementary valuation changes since this time.

Figure 4.5 – Base Case No SRV - Council's Performance against OLG Ratios

KEY PERFORMANCE INDICATORS - GENERAL FUND

Scenario: Base Case - No SRV

🟢	Within green benchmark (green min and/or green max)
🟡	Within amber benchmark (amber min and/or amber max)
🔴	Not within benchmark (amber min and/or amber max)
—	Within green benchmark
↗	above green maximum and below amber maximum
↘	below green minimum and above amber minimum
↑	above amber maximum
↓	below amber minimum

Council's Target Benchmarks

			Projected Years									
New Note 13 Ratios	**Target**		**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**	**2032/33**
Operating Performance Ratio		Snapshot	🔴 ↓	🔴 ↓	🔴 ↓	🔴 ↓	🔴 ↓	🔴 ↓	🔴 ↓	🔴 ↓	🔴 ↓	🔴 ↓
	> 0%	Actual Ratio	-3.37%	-1.93%	-0.77%	-0.17%	-1.20%	-1.42%	-0.98%	-0.63%	-0.43%	-0.58%
Own Source Operating Revenue Ratio		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	> 60%	Actual Ratio	85.13%	90.26%	88.83%	88.94%	88.97%	89.17%	89.24%	90.70%	90.78%	90.86%
Unrestricted Current Ratio		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	> 1.5x	Actual Ratio	2.18	2.14	2.21	2.10	2.15	2.19	2.30	2.43	2.51	2.57
Debt Service Cover Ratio		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	> 2x	Actual Ratio	5.16	5.92	6.54	6.87	6.64	6.64	6.90	8.35	8.99	8.91
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	< 5%	Actual Ratio	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%
Cash Expense Cover Ratio		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	> 3 Months	Actual Ratio	16.86	15.53	15.56	13.02	12.75	12.40	13.12	13.67	14.19	14.67
New Special Schedule 7 Ratios												
Building & Infrastructure Renewals Ratio		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	> 100%	Actual Ratio	216.30%	128.96%	100.83%	100.11%	100.20%	100.21%	101.16%	100.72%	100.77%	100.08%
Infrastructure Backlog Ratio		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	< 2%	Actual Ratio	1.37%	1.32%	1.28%	1.23%	1.23%	1.22%	1.19%	1.17%	1.16%	1.15%
Asset Maintenance Ratio		Snapshot	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —	🟢 —
	> 100%	Actual Ratio	102.99%	103.38%	103.01%	102.64%	102.29%	101.95%	101.62%	101.29%	100.98%	100.68%

5 Special Rate Variation scenario (preferred scenario)

As outlined in Chapter 4, the base case (no SRV) proposal will lead to a number of significant disadvantages, including both an overall reduction in services to the community and the Council being in a ten-year financially fragile state.

Given this, Council is now pursuing a Special Rate Variation (SRV) application to the NSW Government. This section of the LTFP explains the SRV proposal, and its implications for Council's future financial position.

Council is intending to apply for a one-off increase in rates in 2024/25, whereby rates would increase by an overall amount of 15.0%, including a SRV of 10.0% and a rate peg amount of 5.0%.[9] This increased SRV amount would then stay in the Council's rates base in future years, when rates would typically only increase in line with the NSW Government rate peg.

This SRV proposal is accompanied by a $2.0m efficiency target, which would apply in the 2024/25 financial year and remain in the Council's budget on an ongoing basis.

5.1 Community awareness and willingness

In August 2023, Council resolved to undertake community consultation on three SRV options and one no-SRV option (the base case outlined in this LTFP). These are explained in the Figure below:

Figure 5.1 – Rate rise options taken to the community between September-November 2023

<table>
<tr><th>Option name</th><th>Option number</th><th>Proposed Special Rate Variation percentage in 2024/25</th><th>Assumed rate peg in 2024/25</th><th>Total rate increase in 2024/25</th></tr>
<tr><td>Reduce Services</td><td>1</td><td>N/A</td><td rowspan="4">3.5%</td><td>3.5%</td></tr>
<tr><td>Maintain Services</td><td>2</td><td>8.5%</td><td>12.0%</td></tr>
<tr><td>Increase Services</td><td>3</td><td>11.5%</td><td>15.0%</td></tr>
<tr><td>Increase Services and Infrastructure</td><td>4</td><td>16.5%</td><td>20.0%</td></tr>
</table>

As part of the engagement process on these options, Council commissioned a survey of 419 residents, which was representative of the age and gender characteristics of the broader community. Some 47% of survey participants stated they were aware that Council was exploring community sentiment on rate rise options. This level of awareness was well above the 34% awareness rate recorded among 4,453 survey respondents to surveys conducted by other councils exploring SRVs.

In this survey, 74% of residents had a first preference for some form of SRV, with the highest levels of support for Maintain Services (Option 2) with 33% support, followed by Increase Services (Option

[9] This would be via Section 508(2) of the NSW Local Government Act

3) with 26% support and Increase Services and Infrastructure (Option 4) with 15% support. Some 26% of residents supported Reduce Services (Option 1 - no SRV option) as their first preference.

Importantly, when the responses of people who voted for Reduce Services as their first ranked option were removed, the Increase Services option (the SRV option in this plan), became the highest ranked option. This shows that, of the residents who explicitly support a SRV, Increase Services was the favoured option.

In addition, when asked to rate and state their level of support for the options, the Reduce Service option (which does not involve a SRV) had the lowest percentage of respondents who were at least somewhat supportive.

Council also undertook an opt-in survey, in which any resident or interested stakeholder could participate. This survey collected 1,873 responses also illustrated strong overall support for a SRV, with 64% of respondents selecting a SRV option as their highest ranked option.

After considering these survey results, Council at its November 2023 meeting resolved to proceed with a rate rise of 15.0% (including IPART's confirmed 2024/25 5.0% rate peg) which is further scoped in this LTFP.

5.2 Purpose of SRV

Under the Increase Services option, the Council will be able to continue to provide a noticeable uplift in public area maintenance, recover from recent inflation impacts and continue to provide other highly-valued services by increasing rates by 15.0% from 1 July 2024.

The other benefits of this approach are that Council will be able to:

- Deliver surpluses all nine years between 2024/25 and 2032/33, with an average annual surplus of $4.77m. These surpluses, subject to future financial shocks, could be re-invested in community services and projects
- Increase responsiveness to resident and business enquiries
- Increase Council's ability to absorb future financial, extreme weather and growth shocks
- Provide greater capacity to maintain and renew community assets
- Provide a stable work environment for staff attraction and retention

Council will allocate an additional $2.0 million a year to allow it to invest in additional cleaning, care and beautification projects in parks, cycling and walking routes and town centres, and planting programs to boost Council's urban tree canopy. These initiatives have been strong priorities in this term of Council and feature among the services rated as most important in Council's Community Perception Survey.

This SRV would allow Council to deliver an average 2.27% Operating Performance Ratio (OPR) target from 2024/25 to 2032/33 (exceeding Council's 2-4% OPR target), and meet or exceed all other relevant OLG financial and infrastructure benchmarks.

Strong cash-flow from operations means that asset renewals can be funded to required levels and that there is no growth in the asset backlog. Assets can be renewed on time and kept in appropriate condition to deliver high levels of service to the community. In addition, Council's asset maintenance performance improves over time.

Figure 5.2 – Projected Operating Results 2024/25 to 2032/33 and average surplus during this period under the SRV proposal

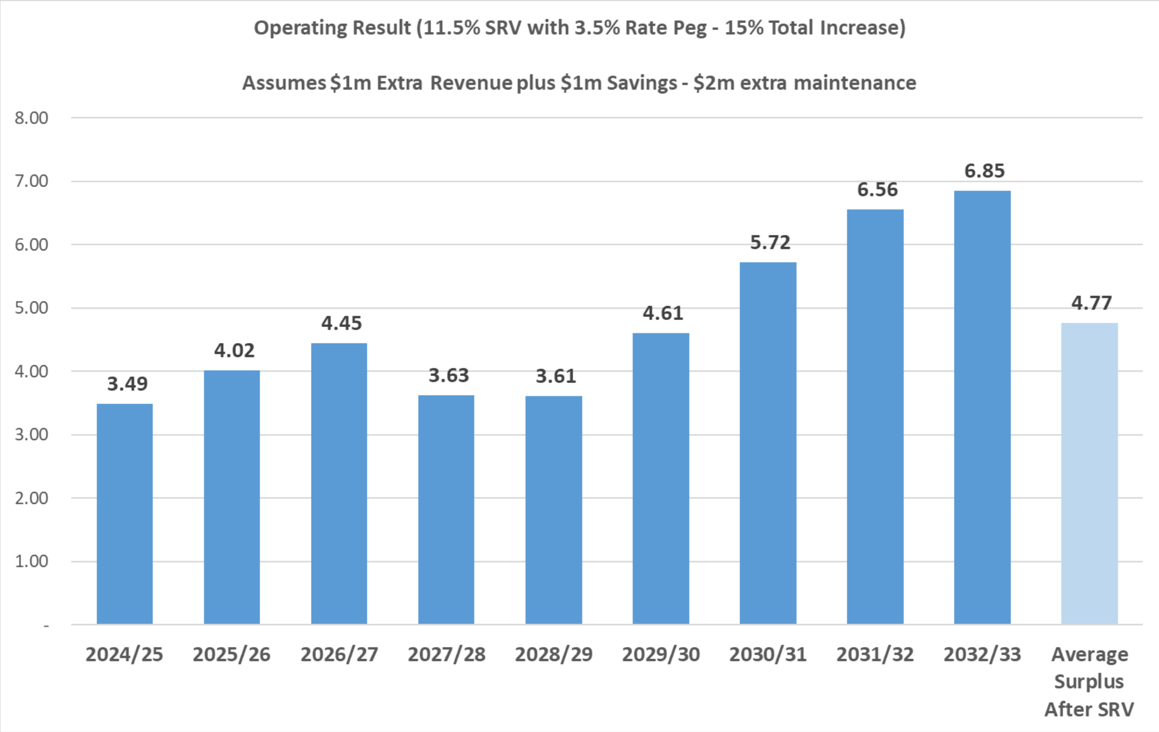

Figure 5.3 – SRV Scenario 15 % – Profit and Loss Statement

INCOME STATEMENT	Projected Years									
Scenario: 15% Total Rate Increase in 2024/25	**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	73,301,000	82,036,395	84,476,487	86,989,781	89,578,475	93,728,201	96,519,047	99,393,619	102,354,427	105,404,060
User Charges & Fees	15,498,733	20,780,740	21,528,446	22,193,958	22,871,337	23,569,451	24,288,934	25,030,446	25,794,660	26,582,274
Other Revenues	8,508,108	8,657,821	8,891,903	9,132,917	9,381,066	9,636,565	9,899,631	10,170,491	10,449,373	10,741,803
Grants & Contributions provided for Operating Purposes	9,741,794	5,383,008	5,535,588	5,692,568	5,855,432	6,023,025	6,194,043	6,369,998	6,551,035	6,716,773
Grants & Contributions provided for Capital Purposes	10,994,914	8,292,413	10,811,778	10,934,687	11,061,242	11,191,557	11,375,739	9,013,905	9,156,175	9,298,290
Interest & Investment Revenue	7,320,629	6,479,614	6,423,273	6,439,006	5,967,416	6,096,791	6,373,951	7,027,223	7,624,590	8,275,078
Other Income:										
Net Gains from the Disposal of Assets	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Fair value increment on investment properties	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000	1,070,000
Reversal of revaluation decrements on IPPE previously expensed	-	-	-	-	-	-	-	-	-	-
Reversal of impairment losses on receivables	-	-	-	-	-	-	-	-	-	-
Other Income	14,076,410	14,569,084	15,006,157	15,456,341	15,920,032	16,397,633	16,889,562	17,396,249	17,918,136	18,455,680
Joint Ventures & Associated Entities - Gain	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**140,611,587**	**147,369,074**	**153,843,631**	**158,009,259**	**161,805,001**	**167,813,224**	**172,710,907**	**175,571,930**	**181,018,396**	**186,643,957**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	50,452,992	51,625,608	53,432,504	54,841,370	56,486,611	58,181,210	59,926,646	61,724,445	63,576,179	65,483,464
Borrowing Costs	2,307,990	2,305,910	2,295,255	2,292,312	2,294,536	2,295,270	2,295,427	2,301,188	2,333,522	2,368,718
Materials & Contracts	54,857,896	55,685,418	56,648,300	58,197,203	59,963,623	63,554,871	64,898,685	66,563,554	68,499,619	71,077,479
Depreciation & Amortisation	21,565,110	22,386,676	22,948,417	23,496,791	24,461,902	24,956,795	25,461,361	25,975,802	26,500,314	27,035,101
Impairment of investments	-	-	-	-	-	-	-	-	-	-
Impairment of receivables	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Other Expenses	3,538,986	3,533,476	3,639,480	3,748,664	3,861,124	3,976,958	4,096,267	4,219,155	4,345,729	4,476,101
Interest & Investment Losses	-	-	-	-	-	-	-	-	-	-
Net Losses from the Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Revaluation decrement/impairment of IPPE	-	-	-	-	-	-	-	-	-	-
Fair value decrement on investment properties	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities - Loss	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**132,772,974**	**135,587,088**	**139,013,956**	**142,626,340**	**147,117,796**	**153,015,103**	**156,728,385**	**160,834,144**	**165,305,363**	**170,490,863**
Operating Result from Continuing Operations	**7,838,613**	**11,781,986**	**14,829,675**	**15,382,919**	**14,687,205**	**14,798,121**	**15,982,522**	**14,737,786**	**15,713,032**	**16,153,094**
Discontinued Operations - Profit/(Loss)	-	-	-	-	-	-	-	-	-	-
Net Profit/(Loss) from Discontinued Operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net Operating Result for the Year	**7,838,613**	**11,781,986**	**14,829,675**	**15,382,919**	**14,687,205**	**14,798,121**	**15,982,522**	**14,737,786**	**15,713,032**	**16,153,094**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**(3,156,301)**	**3,489,573**	**4,017,897**	**4,448,232**	**3,625,962**	**3,606,564**	**4,606,783**	**5,723,881**	**6,556,857**	**6,854,804**

Figure 5.4 – SRV Scenario 15 % – Balance Sheet

BALANCE SHEET	Projected Years									
Scenario: 15% Total Rate Increase in 2024/25	**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	10,000,000	10,000,000	15,000,000	10,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Investments	116,855,770	113,081,082	114,009,476	103,343,722	103,518,539	108,570,532	121,663,466	133,526,801	146,478,955	160,563,384
Receivables	6,606,528	7,696,398	7,924,669	7,939,469	8,142,003	8,388,461	8,687,861	8,962,995	9,274,404	9,603,943
Inventories	14,614	14,834	15,091	15,503	15,974	16,930	17,288	17,732	18,248	18,934
Contract assets and contract cost assets	-	-	-	-	-	-	-	-	-	-
Other	1,633,360	1,656,352	1,686,248	1,732,625	1,785,177	1,888,864	1,929,788	1,979,791	2,037,483	2,113,233
Non-current assets classified as "held for sale"	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000	4,667,000
Total Current Assets	139,777,272	137,115,665	143,302,484	127,698,320	133,128,693	138,531,788	151,965,403	164,154,319	177,476,090	191,966,494
Non-Current Assets										
Investments	26,183,411	25,337,631	25,545,653	23,155,819	23,194,990	24,326,970	27,260,652	29,918,823	32,820,961	35,976,803
Receivables	54,688	59,417	60,739	62,099	63,501	65,748	67,259	68,815	70,418	72,069
Infrastructure, Property, Plant & Equipment	1,854,272,708	1,868,197,068	1,878,229,315	1,912,472,304	1,922,622,680	1,932,217,255	1,932,820,542	1,933,476,162	1,934,919,881	1,935,546,593
Investment Property	98,276,000	99,346,000	100,416,000	101,486,000	102,556,000	103,626,000	104,696,000	105,766,000	106,836,000	107,906,000
Intangible Assets	-	-	-	-	-	-	-	-	-	-
Right of use assets	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000
Other	655,831	665,063	677,067	695,688	716,789	758,422	774,854	794,931	818,096	848,511
Total Non-Current Assets	1,980,238,637	1,994,401,179	2,005,724,773	2,038,667,911	2,049,949,960	2,061,790,394	2,066,415,306	2,070,820,731	2,076,261,356	2,081,145,976
TOTAL ASSETS	**2,120,015,909**	**2,131,516,845**	**2,149,027,257**	**2,166,366,231**	**2,183,078,653**	**2,200,322,182**	**2,218,380,709**	**2,234,975,050**	**2,253,737,445**	**2,273,112,470**
LIABILITIES										
Current Liabilities										
Payables	28,739,888	29,003,051	29,305,733	29,707,326	30,161,873	30,982,841	31,363,237	31,810,524	32,314,362	32,945,922
Contract liabilities	9,529,756	7,762,424	8,815,594	9,008,075	9,205,600	9,409,039	9,635,807	8,963,574	9,185,278	9,404,771
Lease liabilities	109,114	26,260	-	-	-	-	-	-	-	-
Borrowings	1,326,556	1,376,224	1,426,209	1,477,691	1,494,359	1,512,981	968,776	796,964	822,530	848,916
Employee benefit provisions	13,393,301	15,263,346	17,198,842	19,192,403	21,245,772	23,360,741	25,539,159	27,782,930	30,094,014	32,474,431
Total Current Liabilities	53,098,614	53,431,305	56,746,378	59,385,495	62,107,604	65,265,602	67,506,979	69,353,992	72,416,185	75,674,040
Non-Current Liabilities										
Lease liabilities	26,260	-	-	-	-	-	-	-	-	-
Borrowings	35,684,107	35,007,883	34,281,674	33,503,983	32,709,624	31,896,643	31,627,867	31,530,903	31,408,373	31,259,457
Employee benefit provisions	668,940	762,340	859,010	958,581	1,061,138	1,166,772	1,275,575	1,387,642	1,503,071	1,621,962
Total Non-Current Liabilities	36,379,307	35,770,223	35,140,684	34,462,564	33,770,762	33,063,415	32,903,442	32,918,545	32,911,444	32,881,419
TOTAL LIABILITIES	**89,477,921**	**89,201,528**	**91,887,063**	**93,848,059**	**95,878,366**	**98,329,016**	**100,410,421**	**102,272,537**	**105,327,628**	**108,555,459**
Net Assets	**2,030,537,988**	**2,042,315,317**	**2,057,140,194**	**2,072,518,172**	**2,087,200,287**	**2,101,993,166**	**2,117,970,288**	**2,132,702,513**	**2,148,409,817**	**2,164,557,011**
EQUITY										
Retained Earnings	1,268,325,488	1,280,107,474	1,294,937,149	1,310,320,068	1,325,007,272	1,339,805,393	1,355,787,915	1,370,525,701	1,386,238,733	1,402,391,827
Revaluation Reserves	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000	762,217,000
Council Equity Interest	2,030,542,488	2,042,324,474	2,057,154,149	2,072,537,068	2,087,224,272	2,102,022,393	2,118,004,915	2,132,742,701	2,148,455,733	2,164,608,827
Total Equity	**2,030,542,488**	**2,042,324,474**	**2,057,154,149**	**2,072,537,068**	**2,087,224,272**	**2,102,022,393**	**2,118,004,915**	**2,132,742,701**	**2,148,455,733**	**2,164,608,827**

Figure 5.5 – SRV Scenario 15 % – Cash-Flow Statement

CASH FLOW STATEMENT	Projected Years									
Scenario: 15% Total Rate Increase in 2024/25	**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	73,248,802	81,912,494	84,441,877	86,954,133	89,541,757	93,669,342	96,479,463	99,352,846	102,312,432	105,360,805
User Charges & Fees	15,464,692	20,998,566	21,559,281	22,221,403	22,899,272	23,598,241	24,318,605	25,061,025	25,826,175	26,614,755
Investment & Interest Revenue Received	7,537,139	6,505,342	6,382,494	6,580,332	5,925,628	6,048,607	6,249,567	6,915,074	7,501,663	8,141,569
Grants & Contributions	21,145,386	11,183,216	17,283,770	16,720,860	17,013,488	17,314,231	17,689,454	14,608,262	15,815,314	16,117,550
Bonds & Deposits Received	-	-	-	-	-	-	-	-	-	-
Other	22,519,005	22,747,051	23,792,919	24,502,374	25,212,376	25,942,785	26,694,782	27,481,359	28,267,530	29,094,088
Payments:										
Employee Benefits & On-Costs	(48,510,041)	(49,655,172)	(51,389,760)	(52,740,376)	(54,321,066)	(55,950,698)	(57,629,219)	(59,358,095)	(61,138,838)	(62,973,003)
Materials & Contracts	(54,189,314)	(55,586,406)	(56,519,521)	(57,997,452)	(59,737,276)	(63,108,310)	(64,722,415)	(66,348,181)	(68,251,134)	(70,751,229)
Borrowing Costs	(1,610,853)	(1,608,876)	(1,598,332)	(1,595,501)	(1,597,840)	(1,598,611)	(1,598,810)	(1,603,354)	(1,635,304)	(1,670,557)
Bonds & Deposits Refunded	-	-	-	-	-	-	-	-	-	-
Other	(3,126,725)	(3,469,976)	(3,533,164)	(3,635,373)	(3,732,384)	(3,785,885)	(3,977,182)	(4,087,234)	(4,202,549)	(4,309,363)
Net Cash provided (or used in) Operating Activities	32,478,090	33,026,238	40,419,564	41,010,401	41,203,956	42,129,702	43,504,245	42,021,704	44,495,289	45,624,614
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities	27,737,488	4,620,468	-	13,055,588	-	-	-	-	-	-
Payments:										
Purchase of Investment Securities	-	-	(1,136,416)	-	(213,988)	(6,183,973)	(16,026,616)	(14,521,506)	(15,854,292)	(17,240,271)
Purchase of Investment Property	-	-	-	-	-	-	-	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(58,735,310)	(36,211,037)	(32,880,664)	(57,639,780)	(34,512,278)	(34,451,370)	(25,964,648)	(26,531,422)	(27,844,033)	(27,561,813)
Net Cash provided (or used in) Investing Activities	(30,997,821)	(31,590,568)	(34,017,080)	(44,584,192)	(34,726,265)	(40,635,343)	(41,991,264)	(41,052,928)	(43,698,325)	(44,802,084)
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	-	-	-	-	-	-	-	-	-	-
Payments:										
Repayment of Borrowings & Advances	(1,280,651)	(1,326,556)	(1,376,224)	(1,426,209)	(1,477,691)	(1,494,359)	(1,512,981)	(968,776)	(796,964)	(822,530)
Repayment of lease liabilities (principal repayments)	(199,618)	(109,114)	(26,260)	-	-	-	-	-	-	-
Net Cash Flow provided (used in) Financing Activities	(1,480,269)	(1,435,670)	(1,402,484)	(1,426,209)	(1,477,691)	(1,494,359)	(1,512,981)	(968,776)	(796,964)	(822,530)
Net Increase/(Decrease) in Cash & Cash Equivalents	(0)	0	5,000,000	(5,000,000)	5,000,000	0	0	0	(0)	0
plus: Cash & Cash Equivalents - beginning of year	10,000,000	10,000,000	10,000,000	15,000,000	10,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Cash & Cash Equivalents - end of the year	**10,000,000**	**10,000,000**	**15,000,000**	**10,000,000**	**15,000,000**	**15,000,000**	**15,000,000**	**15,000,000**	**15,000,000**	**15,000,000**
Cash & Cash Equivalents - end of the year	10,000,000	10,000,000	15,000,000	10,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Investments - end of the year	143,039,181	138,418,713	139,555,129	126,499,541	126,713,529	132,897,502	148,924,118	163,445,624	179,299,916	196,540,186
Cash, Cash Equivalents & Investments - end of the year	**153,039,181**	**148,418,713**	**154,555,129**	**136,499,541**	**141,713,529**	**147,897,502**	**163,924,118**	**178,445,624**	**194,299,916**	**211,540,186**

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Figure 5.6 – SRV Scenario 15 % - Council's Performance against OLG Ratios

KEY PERFORMANCE INDICATORS - GENERAL FUND

Scenario: 15% Total Rate Increase in 2024/25

- ● Within green benchmark (green min and/or green max)
- ● Within amber benchmark (amber min and/or amber max)
- ● Not w ithin benchmark (amber min and/or amber max)
- — Within green benchmark
- ↗ above green maximum and below amber maximum
- ↘ below green minimum and above amber minimum
- ↑ above amber maximum
- ↓ below amber minimum

Council's Target Benchmarks

			Projected Years									
			2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
New Note 13 Ratios	**Target**											
Operating Performance Ratio		Snapshot	● ↓	● —	● —	● —	● —	● —	● —	● —	● —	● —
	> 0%	Actual Ratio	-3.37%	1.68%	2.01%	2.25%	1.64%	1.57%	2.15%	2.75%	3.16%	3.23%
Own Source Operating Revenue Ratio		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	> 60%	Actual Ratio	85.13%	90.65%	89.29%	89.40%	89.47%	89.67%	89.76%	91.18%	91.27%	91.37%
Unrestricted Current Ratio		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	> 1.5x	Actual Ratio	2.18	2.28	2.45	2.43	2.58	2.72	2.94	3.20	3.40	3.58
Debt Service Cover Ratio		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	> 2x	Actual Ratio	5.16	7.22	7.60	7.82	7.74	7.83	8.19	10.04	10.93	11.00
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	< 5%	Actual Ratio	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%	2.11%
Cash Expense Cover Ratio		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	> 3 Months	Actual Ratio	16.86	15.94	16.21	13.95	14.07	14.09	15.20	16.18	17.14	18.06
New Special Schedule 7 Ratios												
Building & Infrastructure Renewals Ratio		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	> 100%	Actual Ratio	216.30%	128.96%	101.46%	100.11%	100.20%	100.21%	101.16%	100.72%	100.77%	100.08%
Infrastructure Backlog Ratio		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	< 2%	Actual Ratio	1.37%	1.32%	1.28%	1.23%	1.23%	1.22%	1.19%	1.17%	1.16%	1.15%
Asset Maintenance Ratio		Snapshot	● —	● —	● —	● —	● —	● —	● —	● —	● —	● —
	> 100%	Actual Ratio	102.99%	117.12%	116.75%	116.39%	116.03%	115.69%	115.36%	115.04%	114.73%	114.42%

5.3 Productivity and cost containment

Council's current financial position has benefitted from historic productivity and cost containment measures. Without these measures, Council would have found it far more difficult to withstand recent unexpected economic events.

This approach to productivity and cost containment will continue under the preferred SRV option, which in turn will limit the quantum of proposed rate increases.

Historic measures

Council has been able to quantify around $10.5-11.0 million in savings, which will apply in the financial year 2024/25, as a result of productivity and cost containment work which has been undertaken since 2014/15. This includes the following:

- In June 2015, Council approved an organisational review, which led to a reduction in the number of Directors and Managers. This review resulted in savings of $2.0m per annum without a change in service standards.
- Council has a staff cost efficiency dividend equating to $3.9 million in 2024/25. This ensures Council's budget for labour costs is not unrealistically high while continuing to deliver for the community.
- Council ceased the loss-making Loop Bus services due to very low patronage from 1 July 2022, saving $345,000 in 2022/23 (the 2024/25 saving will be higher due to inflation).
- Council has resolved to close two Out of School Hours (OOSH) children's care services, at Bales Park in June 2022 and Chatswood at December 2023. These services were impacted by less demand for OOSH services (as more parents worked from home) and increased competition from both not-for-profit and commercial providers which will continue to provide local services.
- From 2020/21, the Council has sought to reduce the costs of its events program, by discontinuing small festivals and switching from Vivid to Culture Bites, with a 2024/25 benefit of $181,021. Council continues to attract significant grant funding for this program.
- Council has decided to outsource the Devonshire Street child care service to a private operator which will create both additional revenue for Council and reduce historic and projected future losses. The ten-year benefit of this decision will be in the order of $5.0m, via new revenue from a licence agreement with the new operator and reduced Council costs.

In addition, Council has undertaken a range of other measures to find efficiencies and to assist its financial sustainability. These include:

- For the financial year 2023/24, moving to a zero-based budgeting approach, whereby Managers cannot assume any operational expenditure levels for the coming year and must build and justify their budgets.
- Working to win significant grants from other levels of government to allow Council to continue to deliver programs and projects without driving Council further into deficit. These grants totalled more than $16.0m in 2022/23.
- In 2023/24, increasing general fees and charges by 7.0% (in line with inflation to address administration costs to Council).

- As part of the CONNECT project, replacing 18 disparate technology platforms with a modern, single, cloud-based platform, making it easier for staff to find, record, share and use information which empowers their service to the community and other customers.

Future measures

Looking forward, as part of a SRV proposal, Council would deliver a $2.0m efficiency target, to be met via expenditure savings and finding new non-rate revenue in 2024/25. These savings and revenue measures would then remain in Council's budget on an ongoing basis.

This target reflects a continuation of Council's existing approach to run an efficient operation and has also been designed to reduce the impact of any rate increase on ratepayers. Without this $2.0m target, Willoughby's rate rise would need to be 3.7% higher (equivalent to $40 for the average residential ratepayer).

How Council will meet this target requires detailed analysis and consideration. The draft 2024/25 Operational Plan (released in April/May 2024) will provide the details of what expenditure savings or revenue opportunities have been identified to achieve the $2.0m efficiency target. The community will have an opportunity to comment on the detail of this draft Operational Plan through the public exhibition period, prior to Council's adoption.

5.4 Ratepayer capacity to pay

Council commissioned management consultant Morrison Low to analyse the general capacity of Willoughby's ratepayers to pay the increases contemplated across all four options.

This report was attached to the November 2023 Council meeting agenda and provides confidence to Council that it is reasonable to proceed with any of the three SRV options (from a capacity to pay perspective).

Council has a Hardship Policy for Rates and Annual Charges which outlines a range of mechanisms in cases of genuine hardship, including:

- Council entering into payment agreements
- s
- Writing off or reduce interest accrued on rates and charges provided that the ratepayer complies with the agreement
- Providing rate relief for residential ratepayers in the first year following general land revaluations in exceptional circumstances where rate increases resulting from the revaluation would cause substantial financial hardship
- In the case of eligible pensioners, allowing rates and interest charges to accrue against property until the estate is settled

Council has not had a formal application under this policy for the last five financial years.

5.5 Alternatives to a SRV scenario

Council has considered a range of alternatives to increasing revenue to adequate levels without an SRV, but does not believe these to be feasible or timely.

Council has considered but decided not to pursue other options, for the reasons outlined below.

Figure 5.7 – Rejected alternative options to SRV

Option	Why not viable
Taking out new or expanded loans	The Council's LTFP has objectives to: • reduce debt levels over the medium term • focus on intergenerational equity; and • debt should only be used for assets with life over 20 years or projects with a payback under seven years. Taking out new borrowings to deal with ongoing financial sustainability issues is considered to be inconsistent with each of the above objectives. This is because borrowing would: • increase debt over the medium term • require future generations to pay for today's expenditure • not be linked to an individual asset or project; and • not address the underlying business fundamentals and, with extra interest and principal repayments, is not a sustainable option.
Selling assets	Council has a property plan which identifies surplus assets. It has sold some of those assets in recent times, including at Scott St, Willoughby and Parkes Rd, Artarmon.

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	Under NSW Government guidelines, the net gain on the loss or sale of assets is excluded from the calculation of the Council's Operating Performance Ratio. As such, the sale of assets will not assist the Council's operational position, which is the focus of this report, as it doesn't give an ongoing source of funds for day-to-day operations and services. In addition, Council's LTFP states that the Council's focus should be to "optimise returns from assets", as distinct to selling assets. While asset sales will always be considered on their merits, and have the potential to assist the Council's financial position, asset sales are irregular and will not be timely enough to address the immediate financial sustainability of Council. In summary, selling assets is not a long-term option for sustainability and does not address the underlying issue of an unsustainable financial model.
Government grants	Council will continue to source relevant grants, just as it secured more than $16.0m in grants in 2022/23. However, government grants are not a stable form of income and should not be relied upon for ongoing financial sustainability. Grants are usually received for, and tied to, a specific purpose and as such do not assist Council in closing the gap between costs and revenue. Many grants also tie the Council to building new assets, which creates an ongoing depreciation and maintenance burden, as distinct to helping with ongoing operational expenditure which is the focus of this report.

5.6 Average rates

The tables below outline the average rate impact, by major rating sub-category, as a consequence of the proposed SRV.

Two versions of these tables have been prepared. One version of the table follows the assumption, included in this LTFP, that rates will increase by 3.0% in 2025/26 and beyond.

A second version is in line with advice from the Independent Pricing and Regulatory Tribunal to show the impact of a 2.5% increase in 2025/26 and beyond. Including this version allows Willoughby ratepayers to understand the two potential rating scenarios.

Figure 5.8 – Average residential rate increases under SRV scenario in this LTFP (assuming 3.0% increase from 2025/26 onwards)

	2024/25 (year 1)	2025/26 (year 2)	2026/27 (year 3)	2027/28 (year 4)
Average rate before commencement of year	$1,087.87	$1,251.05	$1,288.58	$1,327.24
Impact of assumed rate peg increase (5% in 2024/25 and 3.0% in following years)	$54.39	$37.53	$38.66	$39.82
Impact of one-off Special Variation of 10% in 2024/25	$108.78	$0	$0	$0
Total increase	$163.18	$37.53	$38.66	$39.82
Average rate in relevant year	**$1,251.05**	**$1,288.58**	**$1,327.24**	**$1,367.05**

Figure 5.9 – Average residential rate increases under SRV scenario in this LTFP (assuming 2.5% increase from 2025/26 onwards)

	2024/25 (year 1)	2025/26 (year 2)	2026/27 (year 3)	2027/28 (year 4)
Average rate before commencement of year	$1,087.87	$1,251.05	$1,282.33	$1,314.39
Impact of assumed rate peg increase (5% in 2024/25 and 2.5% in following years)	$54.39	$31.28	$32.06	$32.86
Impact of one-off Special Variation of 10% in 2024/25	$108.78	$0	$0	$0
Total increase	$163.18	$31.28	$32.06	$32,86
Average rate in relevant year	**$1,251.05**	**$1,282.33**	**$1,314.39**	**$1,347.25**

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Figure 5.10 – Average business (general) rate increases under SRV scenario in this LTFP (assuming 3.0% increase from 2025/26 onwards)

	2024/25 (year 1)	2025/26 (year 2)	2026/27 (year 3)	2027/28 (year 4)
Average rate before commencement of year	$6,485.49	$7,458.32	$7,682.07	$7,912.53
Impact of assumed rate peg increase (5% in 2024/25 and 3.0% in following years)	$324.28	$223.75	$230.46	$237.38
Impact of one-off Special Variation of 10% in 2024/25	$648.55	$0	$0	$0
Total increase	$972.82	$223.75	$230.46	$237.38
Average rate in relevant year	**$7,458.32**	**$7,682.07**	**$7,912.53**	**$8,149.90**

Figure 5.11 – Average business (general) rate increases under SRV scenario in this LTFP (assuming 2.5% increase from 2025/26 onwards)

	2024/25 (year 1)	2025/26 (year 2)	2026/27 (year 3)	2027/28 (year 4)
Average rate before commencement of year	$6, 485.49	$7,458.32	$7,644.78	$7,835.90
Impact of assumed rate peg increase (5% in 2024/25 and 2.5% in following years)	$324.27	$186.46	$191.12	$195.90
Impact of one-off Special Variation of 10% in 2024/25	$648.55	$0	$0	$0
Total increase	$972.82	$186.46	$191.12	$195.90
Average rate in relevant year	**$7,458.32**	**$7,644.78**	**$7,835.90**	**$8,031.79**

Figure 5.12 – Average Chatswood Town Centre rate increases under SRV scenario in this LTFP (assuming 3.0% increase from 2025/26 onwards)

	2024/25 (year 1)	2025/26 (year 2)	2026/27 (year 3)	2027/28 (year 4)
Average rate before commencement of year	$7,802.80	$8,973.22	$9,242.42	$9,519.69
Impact of assumed rate peg increase (5% in 2024/25 and 3.0% in following years)	$390.14	$269.20	$277.27	$285.59
Impact of one-off Special Variation of 10% in 2024/25	$780.28	$0	$0	$0
Total increase	$1,170.42	$269.20	$277.27	$285.59
Average rate in relevant year	**$8,973.22**	**$9,242.42**	**$9,519.69**	**$9,805.28**

Figure 5.13 – Average Chatswood Town Centre rate increases under SRV scenario in this LTFP (assuming 2.5% increase from 2025/26 onwards)

	2024/25 (year 1)	2025/26 (year 2)	2026/27 (year 3)	2027/28 (year 4)
Average rate before commencement of year	$7,802.80	$8,973.22	$9,197.55	$9,427.49
Impact of assumed rate peg increase (5% in 2024/25 and 2.5% in following years)	$390.14	$224.33	$229.94	$235.69
Impact of one-off Special Variation of 10% in 2024/25	$780.28	$0	$0	$0
Total increase	$1,170.42	$224.33	$229.94	$235.69
Average rate in relevant year	**$8,973.22**	**$9,197.55**	**$9,427.49**	**$9,663.18**

6 Infrastructure Asset Management Expenditure

6.1 Expenditure by type

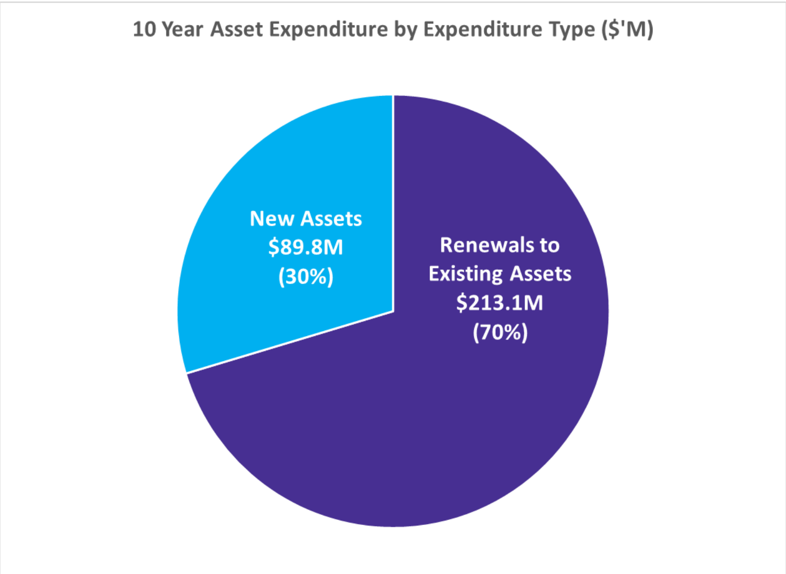
During the ten-year period of this LTFP, under either the base case (no SRV) or SRV option, Council will spend $302.9 million on infrastructure assets (an average of $30.3 million per year). Consistent with Council's Asset Management Strategy, the focus of this expenditure will be on renewal of existing assets as shown in Figure 6.1.

This is necessary for Council to ensure that infrastructure asset conditions are renewed on a timely basis to retain the current levels of service being delivered by these assets.

This timely renewal of assets will be measured by Council's performance against the "Buildings and Infrastructure Assets Renewals Ratio" (BIAR ratio). Focus on Asset conditions, as measured by achieving the BIAR ratio, is one of Council's Strategic Financial Objectives (refer Chapter 1). This level of expenditure on assets is consistent between the base case and the preferred SRV option.

Figure 6.1 – Total Asset Expenditure by Expenditure Type

Asset Expenditure Type	10 Year Total ($m)
Renewals to Existing Assets	213.1
New Assets	89.8
Grand Total	**302.9**



6.2 Major infrastructure categories

Asset expenditure will be targeted on major infrastructure categories such as buildings, transport, drainage and open space as shown in Figure 6.2 below.

Figure 6.2 – Total Asset Expenditure by Asset Category

Asset Category	10 Year Total ($m)
Buildings	117.5
Roads and Other Road Assets	51.6
Recreational Parks and Playgrounds	36.5
Stormwater and Drainage	31.6
Footpaths, Public Domain and Active Transport	17.7
Open Space Sporting Fields	13.8
Kerb and Gutter	4.9
Retaining Walls	2.8
Bushland Walking Tracks	4.8
Bridges	1.1
Other Assets	20.6
Grand Total	**302.9**

6.3 Major projects

Expenditure on the following major projects is included in the *Long Term Financial Plan*. These projects are funded by External or Internal Reserves or External Grants. External Reserves and Grants must be expended on the purpose they were collected for. It follows that these projects will not impact Council's operational working capital as the funds for these projects have been quarantined.

The table below contains expenditure figures which are consistent with the figures in the major projects table published in the June 2023 LTFP. The draft LTFP to be exhibited alongside the Operational Plan in May / June 2024 may include revised figures, which will take into account any agreed cost changes.

Figure 6.3 – Major Projects included in LTFP

Infrastructure Asset Category	Total Project Expenditure ($m)
Gore Hill Indoor Sports Complex	44.9
Willoughby Leisure Centre Redevelopment	38.9
Victor Street Asset Replacement and Refurbishment	10.4
Abbott Road Essential Housing	8.7
Artarmon Streetscapes - Hampden Road	8.5
Artarmon Parklands Pavilion	1.7

7 Sensitivity Analysis

This sensitivity analysis models two major expense groups that could adversely affect Council's financial position if the planning assumptions underpinning the LTFP are too conservative. This modelling underlines the need for Council to propose the SRV outlined in this LTFP, so that it remains able to better withstand future financial shocks.

7.1 Employee Costs

In both the Base (No SRV) and SRV scenarios outlined in this LTFP, a 7.7% vacancy rate (equating to $3.9 million in year one) is assumed throughout each year and reflected in the employee cost budget. This is to ensure the budget reflects realistic historic vacancy levels (and allows for the current tight labour market).

There is potential that as the labour market eases, and extra resources are required to deliver on the strategic initiatives and desired service levels sought by the community, vacancy rates may be significantly lower than historic levels. To estimate the impact on Council's financial position in the event that vacancy rates are 50% lower than historical levels, a sensitivity analysis has been undertaken to assess the increased employee costs arising from a lower vacancy rate.

Figure 7.1 - Additional Employee Expenditure – Lower Vacancy Rate

Labour Sensitivity	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Additional Staff Costs if assumed vacancy rate reduced ($m)	2.197	2.010	2.071	2.133	2.197	2.263	2.331	2.401	2.473

On average, additional employee costs of $2.2 million is required each year over the life of the plan.

7.2 CPI forecast

CPI (a measure of inflation) is the driver for the majority of Council's Materials, Contracts and Other Expenditure. CPI in the LTFP is based on Reserve Bank of Australia (RBA) forecasts. CPI has been forecast to trend in line with the rates revenue cap over the life of the plan. This creates a risk for Council should CPI (inflation) rise to a greater extent than the rates revenue cap each year. This is entirely plausible if inflation continues to be impacted by global supply issues (e.g. fuel costs) and domestic housing shortages. To assess the sensitivity of higher inflation, modelling has been undertaken on the impact of CPI being 0.5% higher than forecast in the LTFP.

Figure 7.2 - Additional Materials, Contracts and Other Expenditure if CPI is 0.5% higher

CPI Sensitivity	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
CPI used in LTFP	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
CPI plus 0.5%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

Additional Expenditure with 0.5% CPI Increase ($'M)	0.221	0.462	0.718	0.991	1.215	1.526	1.856	2.206	2.577

CPI at 0.5% higher than forecast attracts an average extra cost of $1.3 million per year throughout the life of the plan.

7.3 Results

The sensitivity analysis confirms that Council's future financial position is highly sensitive to minor changes in the economic environment.

Both of the sensitivities tested (lower vacancy rate and slightly higher inflation) are entirely realistic and have a large impact on Council's Operating Result and Operating Performance Ratio.

If the sensitivities materialise, Council's surplus will reduce from an average of $4.77 million per annum, to $1.26 million per annum and the Operating Performance Ratio falls from an average of 2.27% to an average of 0.05% and becomes negative for 3 years between 2027/28 and 2029/30.

This simple example supports the need for Council to build a buffer to cater for unanticipated financial adversities. These outcomes are illustrated in the tables below.

Figure 7.3 – Net Operating Result before Capital excluding, and including impact of additional labour and CPI costs conducted in sensitivity analysis

Comparative Operating Result	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Net Operating Result (LTFP with 15% Rate Increase) - $m	3.49	4.02	4.45	3.63	3.61	4.61	5.72	6.56	6.85
Net Operating Result with Extra Labour and CPI Costs - $m	1.33	1.55	1.66	0.50	0.19	0.82	1.54	1.95	1.80

Figure 7.4 – Operating Performance Ratio – excluding and including additional labour and CPI costs conducted in sensitivity analysis

Comparative Operating Performance Ratio	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Operating Performance Ratio (LTFP with 15% Rate Increase) -%	1.68%	2.01%	2.25%	1.64%	1.57%	2.15%	2.75%	3.16%	3.23%
Operating Performance Ratio with Extra Labour and CPI Costs -%	0.11%	0.26%	0.34%	-0.45%	-0.63%	-0.22%	0.22%	0.46%	0.36%