



2010/11 - 2019/20

# Long Term Financial Plan

*Creating a living environment*



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## **EXECUTIVE SUMMARY**

This high level 10 year Long Term Financial Plan (LTFP) has been developed by Council to assist Council and the community to plan using a longer term strategic framework.

The first part of the Plan forecasts Council's future financial position on the basis of a continuance of "normal" operations. Whilst this is difficult to define, it can be regarded as the provision of services to stakeholders at levels of service that they have come to expect on a regular basis and excludes 'one-off' and extraordinary items such as non-operational asset sales and acquisitions. In this regard, a key objective of financial forecasting is to project future results using financial assumptions and projections of the future. From these forward projections, the future financial position and financial health of Council can be determined.

A range of parameters were utilised in forecasting Council's annual recurrent budget result and associated key financial indicators over the 10 year timeframe. The budget results use the current year's (2009/10) budget deficit of \$343K as a base and shows the deficit growing to \$2.113 million by 2013/14 and reaching \$6.542 million by 2019/20 (see Table on page 13).

The key measure of Council's overall financial health considered in this Plan is the maintenance of adequate liquidity and other measures (e.g. Working Funds, Unrestricted Current Ratio, Debt Service Ratio, Net Financial Liabilities and Asset Sustainability Ratio). Maintenance of these measures will generally result from balancing inflows and outflows of funds over the period of the LTFP. In this regard, an approximate measure used during each year is a balanced budget.

### **Working Funds (or Working Capital)**

This is a measure of liquidity or net financial position. Council, as a prudent financial manager should set a minimum level at which its Working Capital should be maintained. The target liquidity level is not an overnight proposition but instead should be a targeted goal within Council's Long Term Financial Plan. A minimum level of Working Capital ensures Council retains an appropriate level of liquidity on an ongoing basis and is able to control/determine the value of its annual financial budget surplus or deficit. Forecasts of Council's available working funds are shown in Tables on page 15 and 57.

Council's Working Capital should be set at a level that allows for day to day liquidity and ensures Council is able to "survive" any annual budget shocks during the year – i.e. expenditure overruns and income shortfalls. The following is a guide as to how this amount could be determined:

- Allow for the fact that Council has a "hard core" level of debtors and a minimum level of inventories that are unable to be converted or utilised to repay operational liabilities incurred during the year. Council's hard core rates debtors amount to \$2 million and the level of inventories is \$250,000.
- Allow for expenditure/revenue which may impact on Council.

With respect to the above, an appropriate level of Working Funds would allow for:

• Hard Core Debtors/Inventories	\$2.25 million
• Provision for expenditure shocks	\$0.5 million
• Provision for revenue shocks	<u>\$0.5 million</u>
Total	<u>\$3.25 million</u>

In setting the working capital target it would be reasonable to assume that \$1 million could be assigned from a review of internally restricted assets at any given time. Therefore, a targeted year end working funds result of \$2.25 million would be acceptable if the potential exists to release internally restricted assets to the value of \$1 million. It is noted that the first part of the LTFP shows Council's level of Working Funds deteriorating over the Plan period as a result of ongoing budget deficits.

### **Unrestricted Current Ratio**

This indicator is a measure of a council's ability to meet its financial obligations such as paying for goods and services supplied. It assesses the level of liquidity and the ability to satisfy obligations as they fall due in the short term. A ratio of 1:1 indicates that for every dollar in unrestricted current liabilities, the council has a dollar in unrestricted current assets on hand to meet the liability. If the ratio is less than 1:1, the ratio is considered unsatisfactory and council may be unable to meet its short term commitments.

The 2007/08 Comparative Information on NSW Local Government Councils reported Group 7 councils (of which Hornsby is part) with the lowest average current ratio at 2.09. Hornsby is already below this level with an unfavourable trend forecast going into the future. It is also noted that the first part of Council's LTFP depicts a declining unrestricted current ratio over the period of the Plan (see Table on page 16). The significant contributing factor to this result relates to ongoing budget deficits based on maintaining existing services, maintenance and asset renewal levels.

### **Debt Service Ratio**

This indicator assesses the degree to which revenues from continuing operations are committed to the repayment of debt. The Division of Local Government's benchmark is that a ratio of less than 10% is satisfactory. The 2007/08 Comparative Information on NSW Local Government Councils reported Group 7 councils with an average of 6.25% compared to Hornsby at 4.66%.

Since 2007/08 council has increased its loan borrowing program from \$1M to \$2M annually. This has been required to address infrastructure backlog issues identified as part of a detailed review of Council's infrastructure assets and the development of asset management plans.

The results forecast in the first part of the Plan indicate that by 2015/16, Council's debt service ratio will be at levels significantly better than the industry benchmarks. The debt service ratio of 2.48% estimated in 2019/20 was last achieved in 2003/04. This is a positive result. The above graph also illustrates a drop in the debt service ratio occurring in the 2015/16 year due to the retirement of the Hornsby Quarry loan.

These results are well below industry benchmarks indicating a capacity to undertake increased borrowings. Any increased borrowing would be required to satisfy Council's Loan Borrowing policy and satisfy corporate strategic objectives. The challenge that Hornsby faces in this regard is the lack of capacity from existing revenue to meet debt servicing requirements. It would be prudent to review existing internally Restricted Assets with regard to continued relevance and importance. The aim being to ascertain if these funds can be applied to meet debt servicing requirements for high priority capital works.

### **Net Financial Liabilities**

This measure examines what is owed to others net of money a council already has or is owed (Total liabilities less financial assets (current assets - cash and investments and receivables). A council's indebtedness should be managed to ensure its liabilities and associated costs can be met without the prospect of disruptive service. There is no right or wrong target level for net financial liabilities as this depends on infrastructure plans. The target is that net financial liabilities are no greater than annual operating revenue.

Projections for Net Financial Liabilities over the term of the Plan are shown in Table 28. Whilst Council's Net Financial Liabilities results is not exceeding total operating revenue, the results are trending up and will require monitoring to ensure the future years do not reach unsustainable levels.

### **Asset Sustainability Ratio**

This ratio is the asset maintenance and replacement expenditure relative to the asset consumption for a period. This ratio indicates whether the entity is maintaining and replacing or renewing assets at the same rate that its overall stock of assets is wearing out for the period. Council's asset sustainability ratio for each major asset class is shown in the Table on page 29.

The results indicate that at current levels of service, assets are being consumed at a rate greater than at which they are being replenished. Current estimates have the annual renewal gap deficit at \$4.8 million. Stormwater Drainage – Environmental, Aquatic Centres face significant declines in their sustainability ratios and based on current replacement costs will require considerable funding into the future. To a lesser extent, foreshore facilities is similarly affected, while asset data collection and analysis for Rural Fire Service Facilities has only recently commenced, and further detail is required to make a meaningful assessment. The Sports Centre is a new building, and expenditure of a long term nature has not as yet been necessary, thereby resulting in the low sustainability ratio. (This building is in good condition).

Continuation of the current strategy of judicial borrowings not exceeding \$1 million p.a. will allow for improved 2019/20 sustainability ratios for open spaces and public buildings to something approximating 2009/10 levels. A similar situation applies to environmental stormwater solutions and rural fire service properties. These structures are relatively new and have not reached an age/condition where they need to be replaced. However these strategies will not be sufficient to address the costs

envisaged for replacement of aquatic facilities and the construction of new assets to meet identified shortfalls.

### **Corrective Action in Response to Forecasts in LTFP**

High dependency upon rate revenue both now and as forecasted over the LTFP period will continue to place pressure on Council's ability to keep pace with cost increases and, therefore, maintain services at existing levels. Many of the key performance indicators projected in section 3 of this document will be a challenge to Council's long term financial sustainability if corrective action is not undertaken. The assessment of the long term financial plan results in December 2009 resulted in immediate action being taken during the 2010/11 Budget process.

The 2010/11 and future budgets focussed on the critical issue of addressing and determining infrastructure asset management as the highest priority. There are a number of reasons for this:

- The management of financial and other risks.
- The high volumes of infrastructure assets that are utilised for service provision require substantial costs in both maintaining and replacing these assets.
- Funding gaps to be addressed in future editions of the Long Term Financial Plan.

Overcoming a funding gap in respect of asset renewal requires the balancing of desired future services and service levels against risks and use of available resources. It would be strategically counterproductive to focus too much attention on increasing service levels before existing service levels and associated funding gaps have been quantified and strategically addressed. To do this involves some of the following steps:

- Review of services provided currently to identify areas of possible reductions.
- Review of projected future services to ensure they are appropriate and financially viable.
- Identify any surplus or idle assets for possible sale.
- Asset Rationalisation.
- Source additional funding from operations (increase income or reduce expenses).
- Responsible increases to loan borrowing.
- Community consultation in respect of a special rate levy to fund infrastructure improvements.
- Review internal restrictions for potential release and/or redirection towards asset renewal or towards debt servicing.
- Priority towards asset renewal capital works over upgrade/expansion or new asset creation.
- Transfer of proposed capital upgrade/expansion funding to capital renewal.
- Review of business activities to determine best mode of service delivery and set net subsidy or net surplus levels.
- A maturity assessment undertaken for each asset class.

For borrowings to be undertaken, projects must have had a full lifecycle cost analysis undertaken, proving that future cash inflows will exceed the cash outflows, or alternatively that the additional costs are quantified because of the community benefit associated with the project in the long term financial plan.

Where reasonably possible, fees and charges should be increased, as a minimum, by the CPI and that fee for service activities are provided, as a minimum, on a full cost recovery basis. Current council business activities could be the first activities for review.

The estimated budget deficit for 2010/11 in this Plan (see page 13) was reported at \$1.154 Million. The first cut of the 2010/11 budget resulted in a deficit of \$1.164 Million. Based on the initiatives above the original forecasted budget deficit was reduced and a surplus of \$19,940 was able to be placed on public exhibition. The financial constraints referred to below required considerable effort from staff and Councillors in order to achieve this result and will be made permanent.

Some of the issues that commenced immediately were:

- In order to maintain tight control over expenditure levels in the budget process, advice was provided to budget managers that no increase was able to be applied to operating budget material and contract expenditure. This was despite substantial price increases, particularly for construction materials. Any increase has been required to be offset by productivity improvements, service reductions or increased fees.
- The review of services to achieve a minimum reduction in expenditure of \$620K. The consequences of this review cannot be determined at this stage, but staff and the community will be informed of the decisions that may affect them.
- Operational expenditure budgets reduced by \$250K. This has involved reducing discretionary items such as printing, stationery, subscriptions, publications, postage, catering and other miscellaneous expenses.
- The review of the business activity - child care, to include all direct and indirect costs including the payment of rental in the setting of fees.
- Continuance of an additional \$1M annually in loan borrowing to be allocated towards addressing infrastructure backlogs.
- Priority towards asset renewal capital works over upgrade/expansion or new asset creation.
- Ongoing community consultation towards a special rate variation to fund infrastructure works.

The impact of the above on earlier forecasted results include:

- Adjust Roads to Recovery income back to original levels. Failure to receive ongoing funding at existing levels may require a reduced level of expenditure towards the maintenance of roads.
- Rate pegging allowance to be assessed as the prior years CPI plus an estimated 0.5% based on labour and rates growth. A cap of 3.5% was applied.
- Key initiatives undertaken to balance the 2010/11 will be permanent.

- Proposed reduction in income from service authorities and road opening permits will be offset by reduced expenditure in these areas.
- The deletion of the Works Materials Index. This index was established to ensure that current material and construction resources were able to be maintained into the future.
- Fair Value adjustments for investments based on February valuations.

Based on the above corrective action, the impacts on the various financial indicators are:

***Budget Result***

(N.B. Minus sign denotes a surplus budget result)

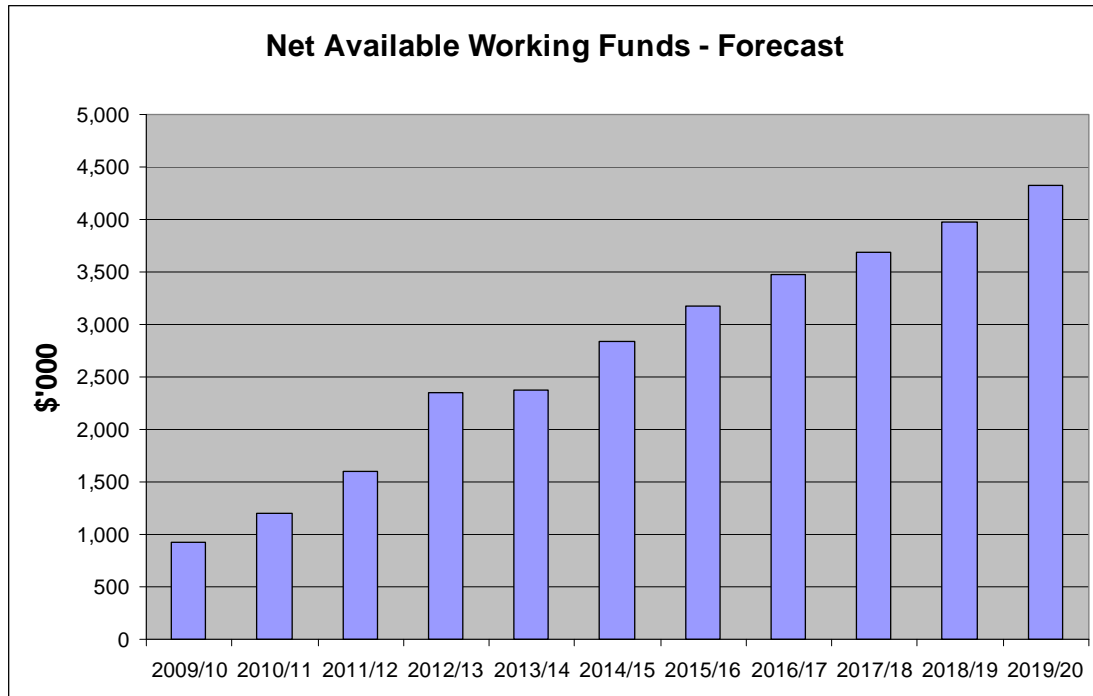
	09/10 \$000	10/11 \$000	11/12 \$000	12/13 \$000	13/14 \$000	14/15 \$000	15/16 \$000	16/17 \$000	17/18 \$000	18/19 \$000	19/20 \$000
Net Operating & Capital Result After Funding	343	-19	12	-125	316	-90	-338	-306	-211	-288	-342

The consequence of permanent expenditure reductions achieved in the 2010/11 Budget process will result in a small budget surplus over the period of this Plan. Council’s ability to expand existing services or to take on new services will be limited unless an existing service is downsized to offset any new or expanded service.

The deletion of the Works Materials Index over the period of the Plan in order to achieve a financially sustainable result will result in maintenance and renewal costs falling below current service levels. This will place ongoing pressure on infrastructure maintenance and renewal requirements. Either this will have to be accepted or further services be reviewed that could be ‘downsized’ and/or closed so that financial resources can be redirected towards renewal and maintenance expenditure. To address the infrastructure shortfall Council has commenced with the process to seek a special rate variation. The infrastructure Levy as it has been referred to will be applied towards improving Hornsby’s ageing infrastructure.

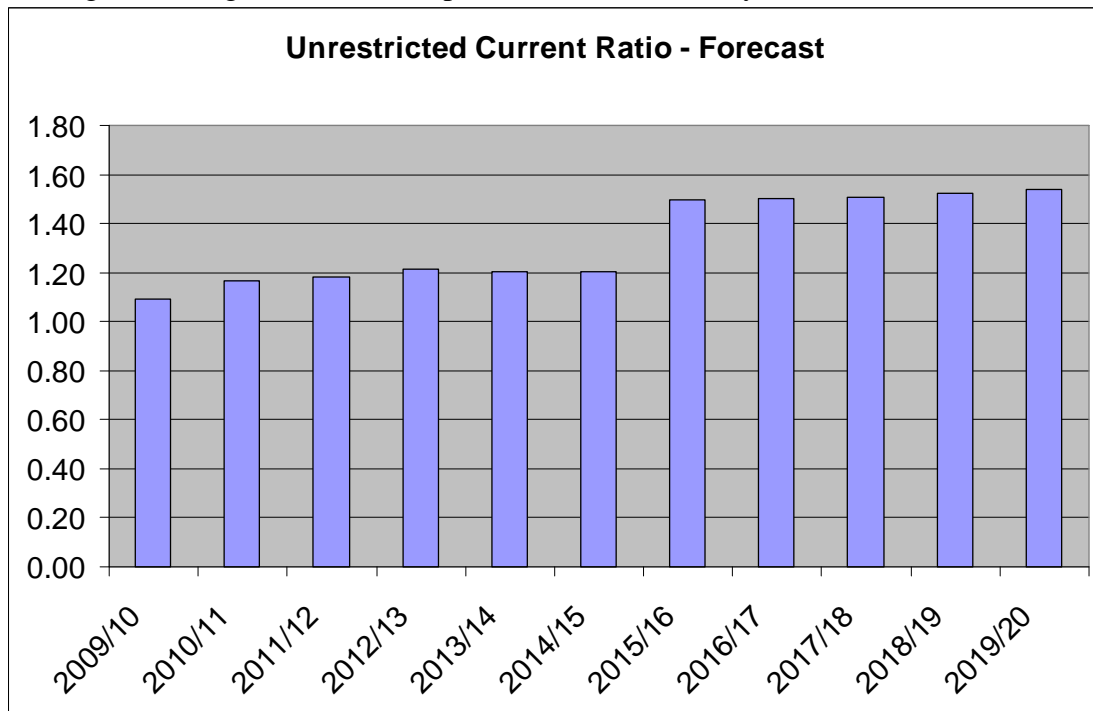
### ***Working Funds Result***

The level of working funds improves significantly over the Plan period reaching suggested targets by 2015/16 – see below.



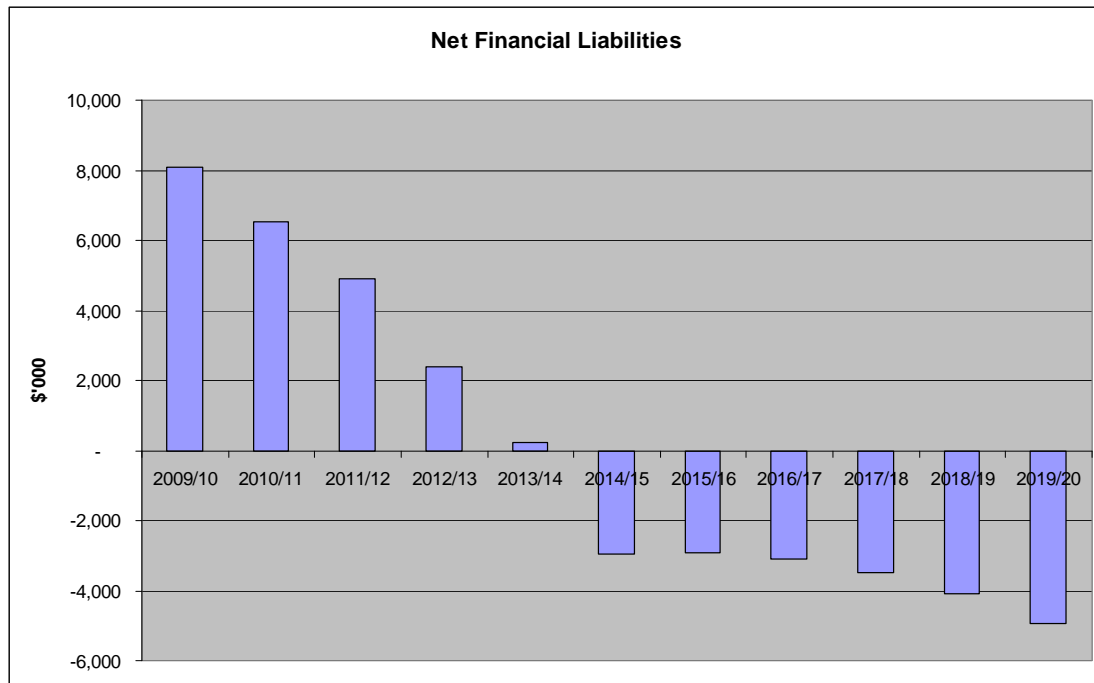
### ***Unrestricted Current Ratio***

As presented in the graph below, Councils unrestricted current ratio is held above the 1:1 target showing a forecasted improvement in the latter years of this Plan.



## Net Financial Liabilities

The level of Net Financial Liabilities as depicted below remains within financially acceptable levels.



Further to the above corrective action and based on community feedback from extensive engagement and consultation activities, Council has confirmed its intent to seek approval from the Minister for Local Government for a special variation to general income of 5.8% above the rate peg to improve Hornsby's ageing infrastructure and build new facilities to meet the changing needs of the community.

The special variation proposed is 5.8% of the combined Ordinary (residential, farmland, business and CBD business) Rate and the Catchments Remediation Rate. The term of the special variation to general income is 20 years in order to align with the proposed loan period and be less than the anticipated life of the new and improved assets funded by the special variation. If approved, the special variation to general income would be known as an infrastructure levy, and commence in July 2010 for 20 years.

The purpose of the proposed infrastructure levy would be to fund the three priority projects: replacement of the Hornsby Aquatic Centre; a new pedestrian overbridge across George Street, Hornsby; and the provision of additional passive and active recreation space in Old Mans Valley

Councillors also recognised the community desire to nominate ward specific projects and, therefore, proposed the total allocation of \$1,500,000 per ward in the first two years of an infrastructure levy. The projects to be funded would be determined by ward Councillors in collaboration with their constituents and according to project

assessment criteria which would include triple bottom line principles and take account of ongoing financial and maintenance implications.

Councillors are aware of the financial burden for pensioners and, therefore, propose a \$10 rebate for pensioners and others eligible for financial relief in accordance with Council's Hardship Policy.

If the special variation is approved, Council will report progress in a variety of ways, including in the Annual Report to the Community and on Council's website, so that those with an interest are able to easily find the information and make comment.

The Table on page 65 provides a summary of the funding proposal for infrastructure work that is expected to be undertaken over the period of the proposed special rate variation.

As proposed above the cash inflows are to be utilised towards cash outflows over the 20 year period of the special rate variation. This will ensure the annual budget remains as forecasted as cash received from rates will be used to meet either debt servicing and/or capital expenditure requirements.

In respect of other key indicators, the proposed special rate variation is expected to have the following impacts:

**Outstanding Rates and Annual Charges** - no material change is anticipated in the collection of unpaid rates.

**Debt Service Ratio** - to undertake the level of capital expenditure proposed in the special rate variation will require a substantial increase in loan borrowing. In undertaking such borrowing, it is estimated that Council will be below the industry benchmark of 10% and below the Group 7 average other than the years 2013/14 and 2014/15. Refer to the table on page 67.

**Unrestricted Current Ratio** – it is estimated that the unrestricted current ratio remains within acceptable ranges. Refer to the table on page 67.

## 1. INTRODUCTION

Local Government responsibilities and community expectations have increased over many years in a number of areas including child care, aged care, social services, community safety, community facilities, quality of open space and environmental management.

Reasons for the increase in this diversification of functions include:

- Raising the bar, where other spheres of government increase the complexity or standard of a local government services,
- The withdrawal of federal/state funding support to local government to provide a service
- Increased community expectations and policy choice where councils voluntarily choose to expand their service provision
- The devolution of responsibilities from other spheres of government without adequate funding
- Increased environmental legislation

Due to limited increases in the revenue base of local government, councils have needed to be proactive in the minimisation of costs and the maximisation of efficiencies in order to maintain an increasingly diverse service delivery. Successful initiatives have included outsourcing, structural reforms and shared services.

Over recent years financial sustainability in local government has been a major cause for ongoing concern as requests from communities for expanded services have increased beyond those traditionally provided. This demand for expanded services has not always been matched by revenue streams and improved operational efficiencies, as resources have been diverted from traditional areas of local government expenditure. Rate pegging constraints, uncertainty over grant income, caps on local development contributions and increased maintenance due to an ageing infrastructure network all contribute to limit the ability of a council to plan for its future with high levels of certainty.

The development of Asset Management Plans has highlighted the fact that Council's infrastructure is ageing, and that to maintain current levels of service, additional funding is required.

As with any organisation councils can experience sustainability challenges if they do not have robust financial planning, management and governance. This should include a 10 year Long Term Financial Plan (LTFP), consistent annual budgets and detailed quarterly financial reviews. The management quality and financial discipline needs support via effective governance from a council who can clearly establish what

outcomes a community expects and then monitors and guides the General Manager to deliver on those outcomes.

Key questions requiring consideration in the LTFP are:

- Level of Service - Do the levels of service provided align with the amount of revenue available?
- Infrastructure Management – Is there adequate spending on existing assets?
- Borrowing and Financial Position – When should a council borrow? How much can be borrowed?
- Financial Sustainability – What can be afforded in the long term?
- What other efficiencies can be achieved?

Financial indicators can assist to answer some of these questions. A useful and effective way of monitoring the financial health and viability of an organisation is through the use of a range of financial indicators. In using such indicators, attention should not be focussed on one particular indicator in isolation, but rather, a consolidated view should be adopted. The use of financial indicators will be discussed in detail in the following sections of this report.

## **2. LONG TERM FINANCIAL PLAN SCOPE**

A high level 10- year Long Term Financial Plan (LTFP) has been developed as part of Council's ongoing financial planning. The purpose of this LTFP is to assist Council and the community to plan within a longer term strategic framework.

The key measure of Council's overall financial health considered in this Plan is the maintenance of adequate liquidity measures (Working Funds, Unrestricted Current Ratio and Net Financial Liabilities). This will result from balancing inflows and outflows of funds over the period of the LTFP. An approximate measure used during the year is a balanced budget.

Council's future financial position has been forecast on the basis of a continuance of "normal" operations. This is difficult to define but can be regarded as the provision of services to stakeholders at levels of service that they have come to expect on a regular basis. It therefore excludes 'one-off' and extraordinary items such as non-operational asset sales and acquisitions.

The specific assumptions underpinning the Long Term Financial Plan are:

- *Normal continuance of existing services, maintenance and capital renewal allocations.*
- *Financial parameters applied throughout the forecast period have been accessed from the "Long Term Forecasts Australia, 2009 – 2024" publication issued by BIS Shrapnel. These forecasted parameters include the Labour Price Index, Consumer Price Index (CPI), 90 Day Bank Bill Rate and the Prime Overdraft rate for business lending.*

- *A 'Works Material Index' for cost increases associated with construction work (materials & contracts & capital expenditure). This index was developed by the Works Division of Council based on historical cost increases.*
- *Materials & Contract costs increasing in-line with CPI.*
- *Rate pegging assumed at 0.4% above CPI and a growth factor of 0.1% although capped at 3.5%.*
- *Grants & Contributions increasing in-line with CPI.*
- *User Charges and Fees increasing in-line with CPI.*
- *Other Revenues increasing in-line with CPI.*
- *Capital expenditure continuing in line with current allocations with Works Material Indexing applied.*
- *Maintenance expenditure continuing in line with current allocation with CPI applied.*
- *The annual borrowing program assumed to continue at \$2M for capital expenditure over the life of this Plan.*
- *Asset Sales and Purchases remaining constant over the period of the Plan*
- *Tight control over other expenses and other employee expense below CPI.*
- *Road Opening Permits and Payment from Service Authorities decreasing by \$268K from 2014/15 onwards with corresponding decrease to expenditure levels.*
- *Quarry water pumping of \$100K required from 2010/11 onwards.*
- *Asset Management Plans for each asset category covering the period from 2005 –2025 included.*
- *Special Rate Variation – Identified Infrastructure Improvements and revenue generated covered within the body of this Plan.*
- *No return to previous years levels of regulatory application (development applications, construction certificates) revenue.*

### 3. Long Term Financial Plan Forecast Results

A key objective of financial forecasting is to project future results using financial assumptions and projections of the future. From these forward projections the future financial position and financial health of Council can be determined.

The table below details the annual recurrent budget result based on the scope and parameters discussed in the introduction. The result commences with the current year's (2009/10) budget deficit of \$343K growing to \$2.113M by 2013/14 and reaching a \$6.542M deficit by 2019/20.

<b>LTFP Budget Summary Report</b>											
All Principal Activities	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Long Term	Long Term	Long Term	Long Term	Long Term	Long Term	Long Term	Long Term	Long Term	Long Term	Long Term
	Financial Plan	Financial Plan	Financial Plan	Financial Plan	Financial Plan	Financial Plan	Financial Plan	Financial Plan	Financial Plan	Financial Plan	Financial Plan
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Salaries	30,217,106	31,123,619	32,181,822	33,436,913	34,807,826	36,234,947	37,720,580	39,267,124	40,877,076	42,553,036	44,297,710
Wages	7,206,308	7,422,498	7,674,863	7,974,182	8,301,124	8,641,470	8,995,770	9,364,597	9,748,545	10,148,235	10,564,313
Other Employee Expense	7,604,818	7,937,247	8,091,636	8,275,187	8,475,459	8,683,941	8,900,972	9,126,900	9,362,092	9,606,926	9,861,799
Borrowing Expense	1,527,112	1,541,559	1,507,579	1,455,939	1,399,195	1,295,339	1,143,322	1,178,919	1,200,041	1,206,704	1,209,060
Materials & Contracts	29,188,364	29,888,885	30,636,107	31,647,099	32,564,865	33,509,246	34,481,014	35,480,963	36,509,911	37,568,699	38,658,191
Materials Construction	0	221,990	456,313	658,442	905,209	1,172,792	1,462,616	1,776,193	2,115,133	2,481,149	2,876,060
Other Expenses	15,564,893	15,760,733	15,872,610	16,005,303	16,150,242	16,301,123	16,458,190	16,621,696	16,791,907	16,969,096	17,153,550
Internal Expenses	-2,149,242	-2,200,823	-2,255,844	-2,330,287	-2,397,865	-2,467,403	-2,538,958	-2,612,588	-2,688,353	-2,766,315	-2,846,538
Depreciation & Amortisation	13,000,000	17,358,900	17,892,150	17,555,400	17,597,050	18,607,900	19,099,150	19,567,400	20,051,650	20,233,900	20,767,150
<b>Total Operating Expense</b>	<b>102,359,359</b>	<b>109,054,607</b>	<b>112,057,435</b>	<b>114,688,178</b>	<b>117,803,104</b>	<b>121,979,354</b>	<b>125,722,655</b>	<b>129,771,204</b>	<b>133,968,003</b>	<b>138,001,430</b>	<b>142,541,295</b>
Rates & Annual Charges	-72,186,030	-74,279,425	-76,507,808	-79,415,104	-82,115,218	-84,907,135	-87,363,147	-89,231,495	-90,197,365	-93,264,076	-96,435,054
User Charges & Fees	-13,882,595	-14,215,777	-14,571,172	-15,052,021	-15,488,529	-15,669,697	-16,124,118	-16,591,717	-17,072,877	-17,568,990	-18,077,462
Interest	-1,016,000	-1,247,000	-1,566,000	-1,972,000	-1,682,000	-1,798,000	-1,798,000	-1,798,000	-1,798,000	-1,798,000	-1,798,000
Operating Grants	-7,040,709	-7,209,686	-7,389,926	-7,633,796	-7,855,176	-8,082,976	-8,317,382	-8,568,586	-8,806,785	-9,062,162	-9,324,985
Operating Contributions & Donations	-802,891	-822,160	-842,714	-870,524	-895,769	-921,746	-948,477	-975,963	-1,004,286	-1,033,411	-1,063,380
Other Revenues	-3,137,354	-3,212,650	-3,292,967	-3,401,635	-3,500,282	-3,601,790	-3,706,242	-3,813,723	-3,924,321	-4,038,126	-4,155,230
<b>Total Operating Revenue</b>	<b>-98,065,579</b>	<b>-100,986,699</b>	<b>-104,170,589</b>	<b>-108,345,079</b>	<b>-111,536,974</b>	<b>-114,981,344</b>	<b>-118,257,367</b>	<b>-121,969,504</b>	<b>-122,803,635</b>	<b>-126,763,785</b>	<b>-130,854,114</b>
<b>Net Operating Result</b>	<b>4,293,780</b>	<b>8,067,908</b>	<b>7,886,846</b>	<b>6,343,099</b>	<b>6,266,130</b>	<b>6,998,010</b>	<b>10,465,288</b>	<b>10,801,700</b>	<b>11,164,367</b>	<b>11,237,645</b>	<b>11,687,181</b>
WIP Expenditure	10,091,366	10,333,579	10,591,919	10,941,452	11,258,754	11,585,258	11,921,231	12,266,946	12,622,888	12,988,746	13,365,419
WIP Expenditure Construction	0	178,024	365,938	528,034	725,928	940,516	1,172,938	1,424,410	1,696,222	1,989,746	2,306,443
Asset Purchases	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700
<b>Total Capital Expenditure</b>	<b>14,174,066</b>	<b>14,594,303</b>	<b>15,040,557</b>	<b>15,552,187</b>	<b>16,067,382</b>	<b>16,608,474</b>	<b>17,176,869</b>	<b>17,774,056</b>	<b>18,401,610</b>	<b>19,061,192</b>	<b>19,754,563</b>
Capital Grants	-917,000	-939,008	-962,483	-994,245	-1,023,078	-812,748	-836,317	-860,570	-885,527	-911,207	-937,632
Capital Contributions & Donations	-762,080	-780,370	-799,679	-826,275	-850,237	-874,884	-900,266	-926,374	-953,239	-980,882	-1,009,328
Asset Sales -	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000
<b>Total Capital Income</b>	<b>-4,138,080</b>	<b>-4,178,378</b>	<b>-4,221,362</b>	<b>-4,279,520</b>	<b>-4,332,315</b>	<b>-4,146,642</b>	<b>-4,195,583</b>	<b>-4,245,944</b>	<b>-4,297,765</b>	<b>-4,351,090</b>	<b>-4,405,960</b>
<b>Net Capital Result</b>	<b>10,036,006</b>	<b>10,415,925</b>	<b>10,819,194</b>	<b>11,272,666</b>	<b>11,735,067</b>	<b>12,461,832</b>	<b>12,981,286</b>	<b>13,528,112</b>	<b>14,103,844</b>	<b>14,710,102</b>	<b>15,348,602</b>
<b>Net Operating &amp; Capital Result</b>	<b>14,329,786</b>	<b>18,483,833</b>	<b>18,706,041</b>	<b>17,615,765</b>	<b>18,001,197</b>	<b>19,459,842</b>	<b>23,446,574</b>	<b>24,329,812</b>	<b>25,268,211</b>	<b>25,947,747</b>	<b>27,035,783</b>
External Restricted Assets	-875,731	-194,349	84,975	429,086	420,123	620,947	770,822	928,046	1,092,933	1,265,806	1,447,000
Internal Restricted Assets	-1,151,265	-1,100,169	-1,076,142	-1,080,102	-1,069,659	-1,046,997	-1,164,899	-1,164,899	-1,164,899	-1,164,899	-1,164,899
External Loan Proceeds	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000
External Loan Principal Repayments	3,040,478	3,324,094	3,637,082	3,982,888	4,359,136	4,781,786	1,678,162	1,791,897	1,968,918	1,975,004	1,992,171
Depreciation Contra	-13,000,000	-17,358,900	-17,892,150	-17,555,400	-17,597,050	-18,607,900	-19,099,150	-19,567,400	-20,051,650	-20,233,900	-20,767,150
<b>Funding Total</b>	<b>-13,986,518</b>	<b>-17,329,324</b>	<b>-17,246,234</b>	<b>-16,233,729</b>	<b>-15,887,450</b>	<b>-16,252,164</b>	<b>-19,815,065</b>	<b>-20,012,355</b>	<b>-20,154,698</b>	<b>-20,157,990</b>	<b>-20,492,878</b>
<b>Net Operating &amp; Capital Result After Funding</b>	<b>343,269</b>	<b>1,154,509</b>	<b>1,459,807</b>	<b>1,382,036</b>	<b>2,113,746</b>	<b>3,207,678</b>	<b>3,631,509</b>	<b>4,317,457</b>	<b>5,113,513</b>	<b>5,789,758</b>	<b>6,542,905</b>

## **4. LONG TERM FINANCIAL PLAN FORECAST ANALYSIS**

Overall financial health may involve a wide range of performance measures (such as those used by the Department of Local Government disclosed in Note 13 to the General Purpose Financial Reports) which can be derived from these projections.

Informative financial performance measurement indicators include:

- A. Working Funds Available**
- B. Unrestricted Current Ratio**
- C. Debt Service Ratio**
- D. Income Statement**
- E. Balance Sheet**
- F. Cash Flow Statement**
- G. Employee Costs as a % of Total Operating Expenditure**
- H. Percentage Dependence on Rate Revenue**
- I. Outstanding Rates & Annual Charges**
- J. Net Financial Liabilities**
- K. Asset Sustainability Ratio**

Each of the indicators is outlined below with:

- A brief description of the indicator; and
- The Hornsby Shire Council result for the indicator based on the projected LTFP results.

### **A. Working Funds**

This is a measure of liquidity or net financial position. Council, as a prudent financial manager, should set a minimum level at which its Working Capital should be maintained. Council over the medium term, say 3-5 years can look to increasing its Working Capital to an adopted minimum level. The target liquidity level is not an overnight proposition but instead should be a targeted goal within Council's Long Term Financial Plan.

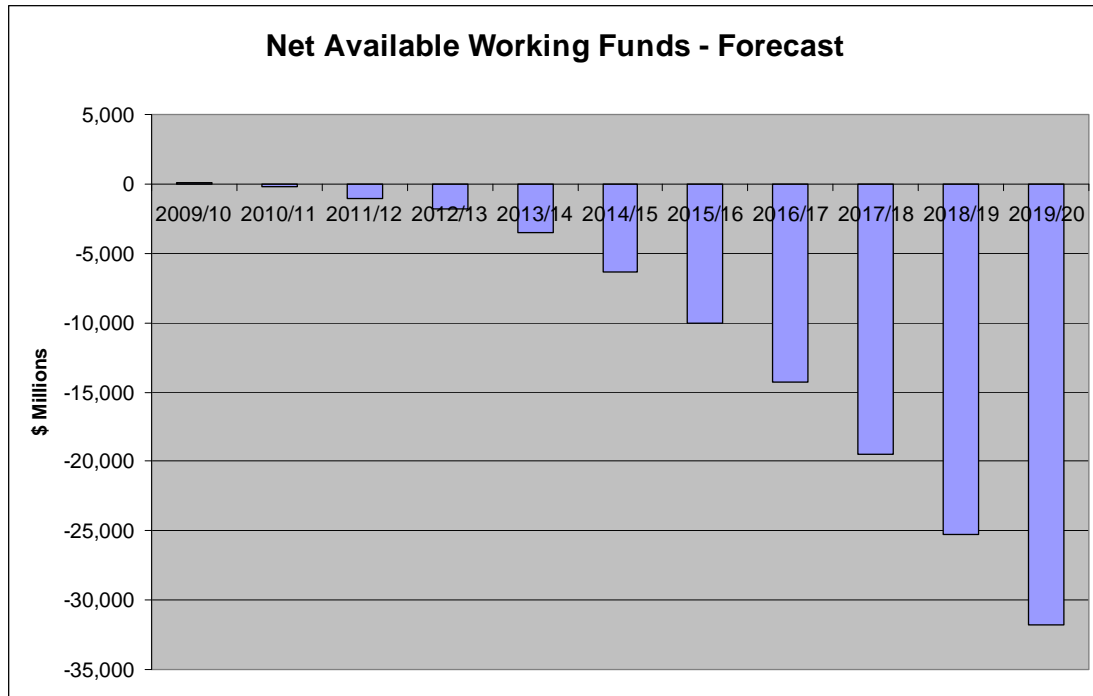
Working Capital is essentially Net Current Assets (allowing for fair value adjustments to investments) excluding external & internal restrictions and current loan repayments & employee leave entitlements (ELE).

Current loan repayments and ELE liabilities are excluded because they are commitments are generally budgeted for each year. There are also reserve funds set aside for ELE liabilities.

A minimum level of Working Capital ensures Council retains an appropriate level of liquidity on an ongoing basis and is also able to control/determine the value of Council's annual financial budget surplus or deficit. In any one year, the Council's

financial budget result should represent the increase or decrease in Working Capital as this will ensure that there is always a limit on a budget deficit.

Council’s working funds available are forecasted to be:



***An appropriate Level of Working Capital***

Council’s Working Capital should be set at a level that allows for day to day liquidity and ensures Council is able to “survive” any annual budget shocks during the year – i.e. expenditure overruns and income shortfalls.

The following is a guide as to how this amount could be determined:

- Allow for the fact that Council has a “hard core” level of debtors and a minimum level of inventories that are unable to be converted or utilised to repay operational liabilities incurred during the year. Council’s hard core rates debtors amount to \$2M and the level of inventories is \$250K.
- Expenditure/Revenue shocks allow for any major impact to council’s revenue and expenditure items.

<b><i>Working Capital Target</i></b>	<b><i>\$’000</i></b>
Hard Core Debtors/Inventories	2250
Expenditure Shocks	500
Revenue Shock	<u>500</u>
Total	<u>3250</u>

In setting the working capital target it would be reasonable to assume that \$1M could be assigned from the review of internally restricted assets at any given time. Therefore

a targeted year end working funds result of \$2.25M would be acceptable if the potential exists to release internally restricted assets to the value of \$1M.

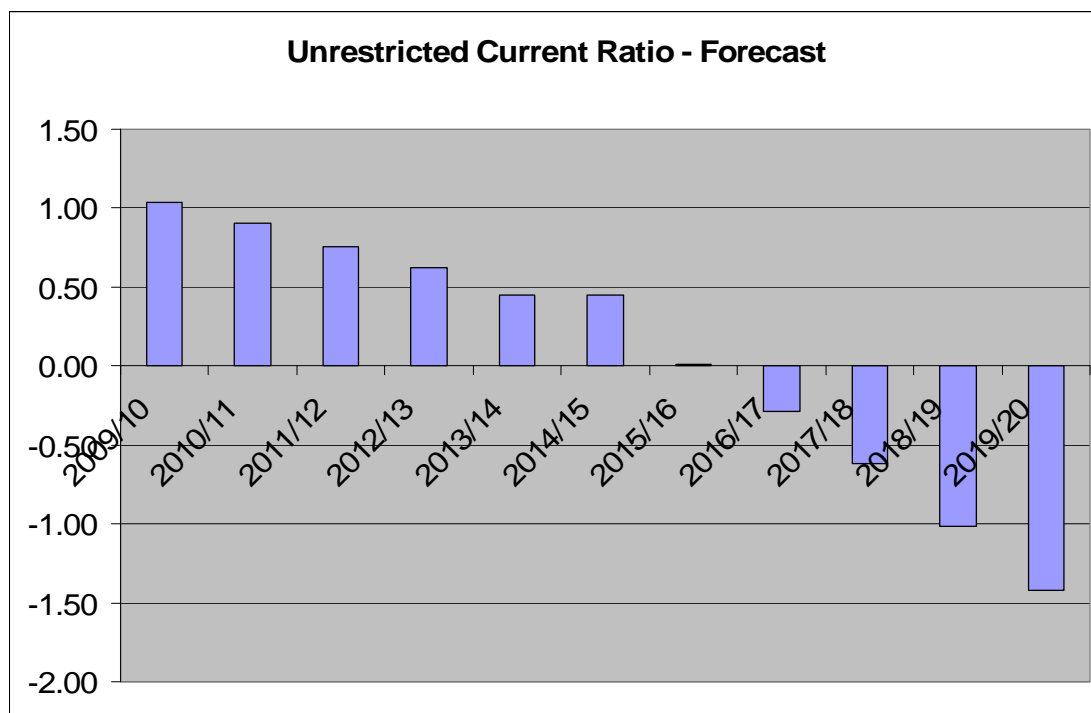
Long Term Financial Plan Forecast Results show Council’s level of Working Funds deteriorating over the Plan period as a result of on-going budget deficits at unsustainable levels.

The Long Term Financial Plan was developed based on the key parameter of maintaining the levels of service developed in the 2009/10 Budget. Annual budget deficits over the Plan period will contribute to negative working funds and will require considerable review of services in coming years. Managing growth and the range and levels of service provided will remain an ongoing challenge. Ultimately, Council will determine the breadth and the level of services it offers to the community. This will be reviewed on an annual basis through the budget process.

### B. Unrestricted Current Ratio

This indicator is a measure of a council’s ability to meet its financial obligations such as paying for goods and services supplied. It assesses the level of liquidity and the ability to satisfy obligations as they fall due in the short term. A ratio of 1:1 indicates that for every dollar in unrestricted current liabilities, the council has \$1 in unrestricted current assets on hand to meet the liability. If the ratio is less than 1:1, the ratio is considered unsatisfactory and council may be unable to meet its short term commitments.

The graph below depicts a declining unrestricted current ratio over the period of the Plan. The significant contributing factor to this result relates to on-going budget deficits based on maintaining existing services, maintenance and asset renewal levels.



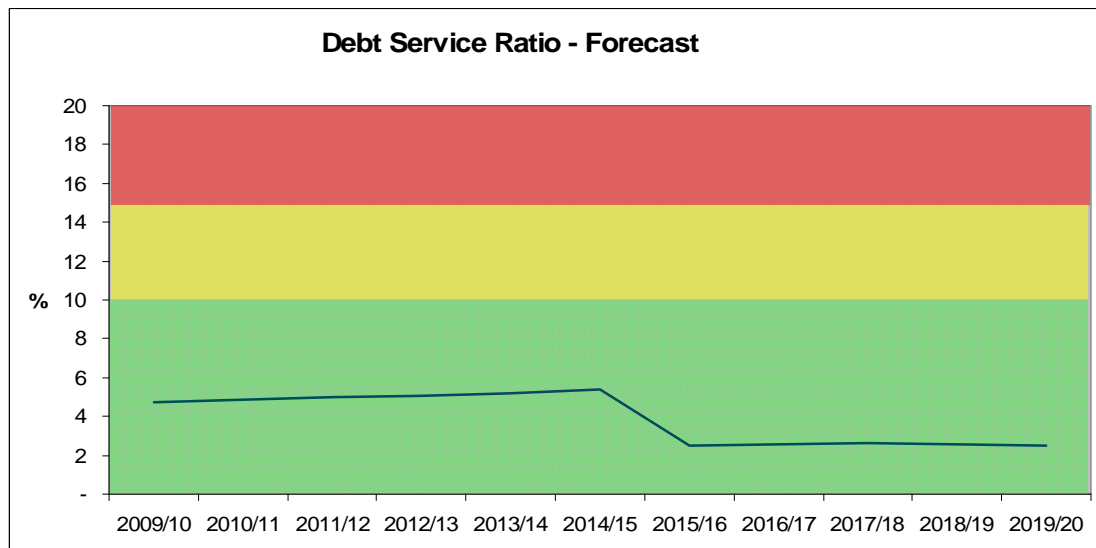
The 2007/08 Comparative Information on NSW Local Government Councils reported Group 7 councils (of which Hornsby is part) with the lowest average current ratio at 2.09. Hornsby is already below this level with an unfavourable trend forecast going into the future.

The results above display a deteriorating trend with the financial risk of not being able to meet creditors' commitments. The results are below recommended benchmarks.

### C. Debt Service Ratio

This indicator assesses the degree to which revenues from continuing operations are committed to the repayment of debt. The Division of Local Government's benchmark is that a ratio of less than 10% is satisfactory.

The graph below displays the debt service ratio over the period of the Plan.



Debt Service Ratio										
2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
4.72	4.88	5.00	5.08	5.23	5.36	2.49	2.54	2.62	2.55	2.48
<10% Satisfactory			10 - 15% High				>15% Very High			

The 2007/08 Comparative Information on NSW Local Government Councils reported Group 7 councils with an average of 6.25% compared to Hornsby at 4.66%. The results forecasted indicate that by 2015/16 Council's debt service ratio will be at levels significantly better than the industry benchmarks. The debt service ratio of 2.48% estimated in 2019/20 was last achieved in 2003/04. This is a positive result. The above graph also illustrates a drop in the debt service ratio occurring in the 2015/16 year due to the retirement of the Hornsby Quarry loan.

Council's current borrowing strategy is to borrow for ten years at a fixed rate of interest repaying principal and interest. This has enabled a degree of certainty regarding the expected repayments over the ensuing ten years.

It has been established practice to use loan funds to assist in funding significant capital projects which will benefit future generations or to acquire assets that are income producing or assets that hold strategic value. The beneficiaries of these future projects will assist in their funding as their rates will be applied in part to repaying the loans. This is in contrast to current ratepayers bearing the entire burden in one year, possibly at the expense of other worthy expenditures.

Even when an organisation is operating sustainably by raising sufficient operating income to cover operating expenses, it may not have generated enough cash to fund peaks in asset replacement activity. In such circumstances it should borrow to accommodate these peaks if it intends to most cost efficiently maintain existing service levels.

Since 2007/08 council has increased its loan borrowing program from \$1M to \$2M annually. This has been required to address infrastructure backlog issues identified as part of a detailed review of Council's infrastructure assets and the development of asset management plans.

These results are well below industry benchmarks indicating a capacity to undertake increased borrowings. Any increased borrowing would be required to satisfy Council's Loan Borrowing policy and satisfy corporate strategic objectives.

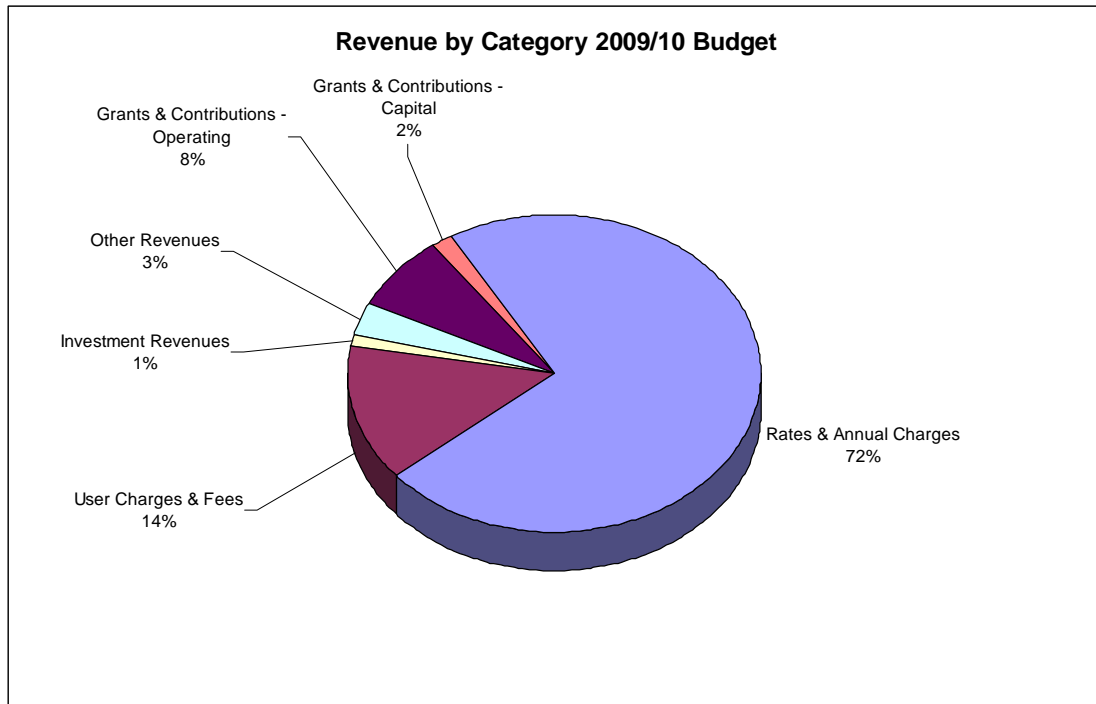
The challenge that Hornsby faces in this regard is the lack of capacity from existing revenue to meet debt servicing requirements. It would be prudent to review existing internally Restricted Assets with regard to continued relevance and importance. The aim being to ascertain if these funds can be applied to meet debt servicing requirements for high priority capital works.

#### **D. Income Statement**

The income statement represents revenue for the financial period less expenses for the period.

The modelling indicates that an operating deficit will continue to widen over the 10 year period. This is in part due to the following main factors:

- 1) A constrained revenue base dominated by rates whereby annual increases are unable to absorb employee, statutory, materials and contract cost increases.
- 2) Increasing replacement costs of assets.



Rate revenue is currently estimated at 72% of Council's 2009/10 operating revenue budget which restricts the ability to factor price increases into existing levels of service provision. The continuing constraint of rate pegging limits Council's ability to provide additional services and has required considerable attention to the need for and efficiency of each service provided.

It should be noted that the annual depreciation expense is influenced by the estimated useful life of the asset. As 'Fair Value' accounting practices are currently being implemented for each major infrastructure asset class, it is anticipated that useful life may increase due to asset management practices becoming more sophisticated.

The table below provides the level of operating deficits over the Plan period. This will become a significant challenge for Council to maintain current levels of services whereby the gap between costs and income will continue to widen.

## Income Statement - Forecast

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>INCOME FROM CONTINUING OPERATIONS</b>											
<b>Revenue</b>											
Rates & Annual Charges	72,186	74,279	76,508	79,415	82,115	84,907	84,363	87,231	90,197	93,264	96,435
User Charges & Fees	13,883	14,216	14,571	15,052	15,489	15,670	16,124	16,592	17,073	17,568	18,077
Investment Revenues	1,145	2,135	2,211	2,596	2,019	2,170	1,798	1,798	1,798	1,798	1,798
Other Revenues	3,137	3,213	3,293	3,402	3,500	3,602	3,706	3,814	3,924	4,038	4,155
Grants & Contributions - Operating	7,844	8,032	8,233	8,504	8,751	9,005	9,266	9,535	9,811	10,096	10,388
Grants & Contributions - Capital	1,679	1,719	1,762	1,821	1,873	1,888	1,737	1,787	1,839	1,892	1,947
<b>Other Income</b>											
Profit from Disposal of Assets	0	0	0	0	0	0	0	0	0	0	0
<b>Total Income from Continuing Operations</b>	<b>99,874</b>	<b>103,594</b>	<b>106,578</b>	<b>110,789</b>	<b>113,748</b>	<b>117,041</b>	<b>116,994</b>	<b>120,756</b>	<b>124,642</b>	<b>128,656</b>	<b>132,801</b>
<b>EXPENSES FROM CONTINUING OPERATIONS</b>											
Employee costs	46,228	47,483	48,949	50,686	52,584	54,560	56,617	58,759	60,988	63,308	65,724
Materials & Contracts	29,188	30,111	31,092	32,306	33,470	34,682	35,944	37,257	38,625	40,050	41,534
Borrowing Costs	1,527	1,542	1,508	1,456	1,389	1,295	1,143	1,179	1,200	1,207	1,209
Depreciation & Amortisation	13,000	17,359	17,892	17,565	17,597	18,608	19,089	19,567	20,052	20,234	20,767
Other Expenses	13,416	13,560	13,617	13,675	13,752	13,834	13,919	14,009	14,104	14,203	14,307
<b>Total Expenses from Ordinary Activities</b>	<b>103,359</b>	<b>110,055</b>	<b>113,057</b>	<b>115,688</b>	<b>118,803</b>	<b>122,979</b>	<b>126,723</b>	<b>130,771</b>	<b>134,968</b>	<b>139,001</b>	<b>143,541</b>
<b>OPERATING RESULT FROM CONTINUING OPERATIONS</b>	<b>-3,486</b>	<b>-6,461</b>	<b>-6,479</b>	<b>-4,899</b>	<b>-5,055</b>	<b>-5,938</b>	<b>-9,729</b>	<b>-10,015</b>	<b>-10,326</b>	<b>-10,346</b>	<b>-10,740</b>

## E. Balance Sheet

The following statements of financial position have been provided over a 10 year period to 2019/20 based on budgeted results.

<b>Balance Sheet - Forecast</b>											
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet	Projected Balance Sheet
<b>ASSETS</b>											
<b>Current Assets</b>											
Cash & Cash Equivalents	10,000	10,000	10,000	10,000	10,000	10,000	10,000	8,894	3,591	-3,127	-10,410
Investment Securities	17,266	15,643	13,913	12,600	10,277	7,115	3,321	0	0	0	0
Debtors - Rates & Annual Charges	2,601	2,691	2,772	2,877	2,975	3,076	3,060	3,160	3,268	3,379	3,493
Debtors - Rates etc non current	361	361	361	361	361	361	361	361	361	361	361
Debtors - User Charges	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260
Debtors - GST claimable	588	575	586	603	621	648	671	693	716	740	766
Inventories	876	876	876	876	876	876	876	876	876	876	876
<b>Total Current Assets</b>	<b>33,952</b>	<b>32,406</b>	<b>30,769</b>	<b>29,576</b>	<b>27,370</b>	<b>24,337</b>	<b>20,549</b>	<b>16,244</b>	<b>11,071</b>	<b>4,469</b>	<b>-2,663</b>
<b>Non-Current Assets</b>											
Property, etc - Purchases	1,725,341	1,724,476	1,719,699	1,714,900	1,710,943	1,707,495	1,703,605	1,699,821	1,696,197	1,692,747	1,689,809
Property, etc - Sales	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459
Property, etc - Depreciation	-13,000	-17,369	-17,892	-17,565	-17,597	-18,608	-19,099	-19,567	-20,052	-20,234	-20,767
Prepayments & Other	0	0	0	0	0	0	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>1,709,882</b>	<b>1,704,658</b>	<b>1,699,348</b>	<b>1,694,876</b>	<b>1,690,887</b>	<b>1,686,429</b>	<b>1,682,047</b>	<b>1,677,795</b>	<b>1,673,686</b>	<b>1,670,054</b>	<b>1,666,583</b>
<b>Total Assets</b>	<b>1,743,834</b>	<b>1,737,065</b>	<b>1,730,116</b>	<b>1,724,452</b>	<b>1,718,257</b>	<b>1,710,765</b>	<b>1,702,596</b>	<b>1,694,039</b>	<b>1,684,757</b>	<b>1,674,543</b>	<b>1,663,329</b>
<b>LIABILITIES</b>											
<b>Current Liabilities</b>											
Payables	-7,263	-7,278	-7,446	-7,663	-7,883	-8,111	-8,349	-8,598	-8,858	-9,129	-9,413
Borrowings	-3,324	-3,637	-3,983	-4,359	-4,782	-1,678	-1,792	-1,969	-1,975	-1,992	-2,006
Provisions - ELE based	-12,707	-13,707	-14,707	-15,707	-16,707	-17,707	-18,707	-19,707	-20,707	-21,707	-22,707
<b>Total Current Liabilities</b>	<b>-23,294</b>	<b>-24,622</b>	<b>-26,136</b>	<b>-27,730</b>	<b>-29,372</b>	<b>-27,496</b>	<b>-28,848</b>	<b>-30,274</b>	<b>-31,540</b>	<b>-32,828</b>	<b>-34,126</b>
<b>Non-Current Liabilities</b>											
Borrowings & Advances - (Repaid)	-16,740	-15,103	-13,121	-10,762	-7,980	-8,302	-8,510	-8,541	-8,566	-8,574	-8,568
Borrowings & Advances - (New)	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000
<b>Total Non-Current Liabilities</b>	<b>-18,740</b>	<b>-17,103</b>	<b>-15,121</b>	<b>-12,762</b>	<b>-9,980</b>	<b>-10,302</b>	<b>-10,510</b>	<b>-10,541</b>	<b>-10,566</b>	<b>-10,574</b>	<b>-10,568</b>
<b>Total Liabilities</b>	<b>-42,034</b>	<b>-41,726</b>	<b>-41,257</b>	<b>-40,491</b>	<b>-39,351</b>	<b>-37,798</b>	<b>-39,358</b>	<b>-40,815</b>	<b>-42,106</b>	<b>-43,402</b>	<b>-44,694</b>
<b>NET ASSETS</b>	<b>1,701,799</b>	<b>1,695,339</b>	<b>1,688,860</b>	<b>1,683,961</b>	<b>1,678,905</b>	<b>1,672,967</b>	<b>1,663,239</b>	<b>1,653,224</b>	<b>1,642,651</b>	<b>1,631,141</b>	<b>1,619,236</b>
<b>EQUITY</b>											
Retained Earnings	-1,568,942	-1,562,462	-1,556,003	-1,551,104	-1,546,048	-1,540,110	-1,530,382	-1,520,367	-1,509,794	-1,498,284	-1,486,379
Asset Revaluation Reserve	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857
<b>TOTAL EQUITY</b>	<b>-1,701,799</b>	<b>-1,695,339</b>	<b>-1,688,860</b>	<b>-1,683,961</b>	<b>-1,678,905</b>	<b>-1,672,967</b>	<b>-1,663,239</b>	<b>-1,653,224</b>	<b>-1,642,651</b>	<b>-1,631,141</b>	<b>-1,619,236</b>

When comparing a local council's balance sheet to the commercial sector a unique difference emerges and that is the substantial amount and value of non-income producing assets that councils own and/or control.

The lifespan of infrastructure assets extends well beyond 10 years. The assets are required for community service provision and need to be maintained and periodically renewed or upgraded..

The value of these assets is shown in the 'Total Non Current Assets' section of the Balance Sheet. Non Current assets represent 98% of the value of all assets disclosed in the Balance Sheet with community land valued at around \$1.17 Billion and infrastructure assets at \$244 Million. This has a significant impact on annual budgeted expenditure considerations now and in the future.

Infrastructure assets (roads, bridges, footpaths, & drainage) and community land are effectively non realisable, i.e. generally they cannot be sold or disposed of. The values in this asset category are influenced by the level of capital expenditure and depreciation as well as general asset revaluations.

The reality is that any expansion of the asset base combined with a revaluation write-up has a flow on impact to depreciation costs. Increased depreciation costs have to be brought to account and this puts further pressure on the operating result in the Income Statement. Priority should therefore be given towards asset maintenance and capital renewal expenditure compared to new and asset enhancement project work.

The Budgeted Summary report reported previously forecasts deficits over the Plan period. The impact of these results has a profound effect on current assets notably cash and cash equivalents and investment securities. Cash and cash equivalents by 2019/20 will be reliant upon an overdraft facility to satisfy cash requirements and there will be a significant depletion of restricted assets. Investment securities will be completely depleted by 2016/17.

This trend is undesirable and will require immediate attention to restore the Balance Sheet to an acceptable state.

## F. Cash Flow Statement

<b>Cash Flow - Forecast</b>											
	Budget 2009/10 \$'000	Budget 2010/11 \$'000	Budget 2011/12 \$'000	Budget 2012/13 \$'000	Budget 2013/14 \$'000	Budget 2014/15 \$'000	Budget 2015/16 \$'000	Budget 2016/17 \$'000	Budget 2017/18 \$'000	Budget 2018/19 \$'000	Budget 2019/20 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>											
<b>Receipts</b>											
Rates & Annual Charges	71,716	74,190	76,427	79,311	82,017	84,806	84,379	87,132	90,090	93,153	96,320
User Charges & Fees	15,758	15,637	16,028	16,557	17,037	17,237	17,737	18,251	18,780	19,325	19,885
Investments Income	1,145	2,135	2,211	2,596	2,019	2,170	1,798	1,798	1,798	1,798	1,798
Grants & Contributions	10,475	10,726	10,995	11,357	11,687	11,762	12,103	12,454	12,815	13,186	13,569
Other operating receipts	6,391	6,409	6,554	6,755	6,954	7,204	7,430	7,658	7,896	8,144	8,402
<b>Payments</b>											
Employee Costs	-45,228	-46,483	-47,949	-49,686	-51,584	-53,560	-55,617	-57,759	-59,988	-62,308	-64,724
Materials & Contracts	-31,971	-32,038	-32,778	-33,734	-34,700	-35,704	-36,753	-37,848	-38,992	-40,187	-41,436
Borrowing Costs	-1,527	-1,542	-1,508	-1,456	-1,399	-1,295	-1,143	-1,179	-1,200	-1,207	-1,209
Other operating payments	-12,788	-12,815	-13,111	-13,494	-13,880	-14,282	-14,701	-15,139	-15,597	-16,075	-16,574
<b>Net Cash provided by (or used in)</b>	<b>13,970</b>	<b>16,219</b>	<b>16,869</b>	<b>18,205</b>	<b>18,151</b>	<b>18,337</b>	<b>15,231</b>	<b>15,368</b>	<b>15,603</b>	<b>15,829</b>	<b>16,031</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
<b>Receipts</b>											
Proceeds from sale of Infrastructure	2,705	2,705	2,705	2,705	2,705	2,705	2,705	2,705	2,705	2,705	2,705
Proceeds from sale of Investment Property											
Proceeds from sale of Real Estate											
Proceeds from sale of Investment	0	0	0	0	0	0	0	0	-247	-1,165	-1,165
Repayments from Deferred Debt	0	0	0	0	0	0	0	0	0	0	0
<b>Payments</b>											
Purchase of Infrastructure, Prop	-19,183	-19,223	-19,667	-20,241	-20,820	-21,423	-22,052	-22,709	-23,395	-24,112	-24,862
Purchase of Investment Property											
Purchase of Real Estate	0	0	0	0	0	0	0	0	0	0	0
Purchase of Investment Securitie	0	0	0	0	0	0	0	0	0	0	0
<b>Net Cash provided by (or used in)</b>	<b>-16,478</b>	<b>-16,518</b>	<b>-16,962</b>	<b>-17,536</b>	<b>-18,115</b>	<b>-18,718</b>	<b>-19,347</b>	<b>-20,004</b>	<b>-20,937</b>	<b>-22,572</b>	<b>-23,322</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
<b>Receipts</b>											
Proceeds from Borrowings & Adv	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Payments</b>											
Repayments of Borrowings & Adv	-3,040	-3,324	-3,637	-3,983	-4,369	-4,782	-1,678	-1,792	-1,969	-1,975	-1,992
<b>Net Cash provided by (or used in)</b>	<b>-1,040</b>	<b>-1,324</b>	<b>-1,637</b>	<b>-1,983</b>	<b>-2,359</b>	<b>-2,782</b>	<b>322</b>	<b>208</b>	<b>31</b>	<b>25</b>	<b>8</b>
<b>Net Increase (Decrease) in cash</b>	<b>-3,548</b>	<b>-1,623</b>	<b>-1,730</b>	<b>-1,313</b>	<b>-2,323</b>	<b>-3,162</b>	<b>-3,794</b>	<b>-4,428</b>	<b>-5,303</b>	<b>-6,718</b>	<b>-7,283</b>
<b>Cash Assets at beginning of rep</b>	<b>30,814</b>	<b>27,266</b>	<b>25,643</b>	<b>23,913</b>	<b>22,600</b>	<b>20,277</b>	<b>17,115</b>	<b>13,321</b>	<b>8,894</b>	<b>3,591</b>	<b>-3,127</b>
<b>Cash Assets at end of reporting</b>	<b>27,266</b>	<b>25,643</b>	<b>23,913</b>	<b>22,600</b>	<b>20,277</b>	<b>17,115</b>	<b>13,321</b>	<b>8,894</b>	<b>3,591</b>	<b>-3,127</b>	<b>-10,410</b>

The Cash Flow Statement is divided into three sections, Operating, Investing and Financing activities. A key business objective should be to produce sufficient cash from operations to fund the Investing and Financing activities of Council over a period of time.

The financial challenge faced by Council is that its investment in capital works is intended to provide a service, rather than generating a future income stream. In prior years, the net cash from operating activities has not been sufficient to fund the capital works program (investing activities). This is compounded when the net cash provided must be applied in the first instance towards outstanding borrowings and interest costs (financing activities).

The dilemma Councils face is that if borrowings fund non income producing capital works (investment activities) due to insufficient cash (operating activities), the burden is in the area of meeting debt servicing requirements (financing activities). Therefore the cash flow from operating activities, which is insufficient to fund additional investing activities is put under further pressure because it now has to fund the financing activities. A move towards a one off financing solution by borrowing for additional capital expenditure can actually create a longer term financial problem if the future debt servicing requirements are not managed correctly.

### **G. Employee Costs as a percentage of Total Operating Expenditure**

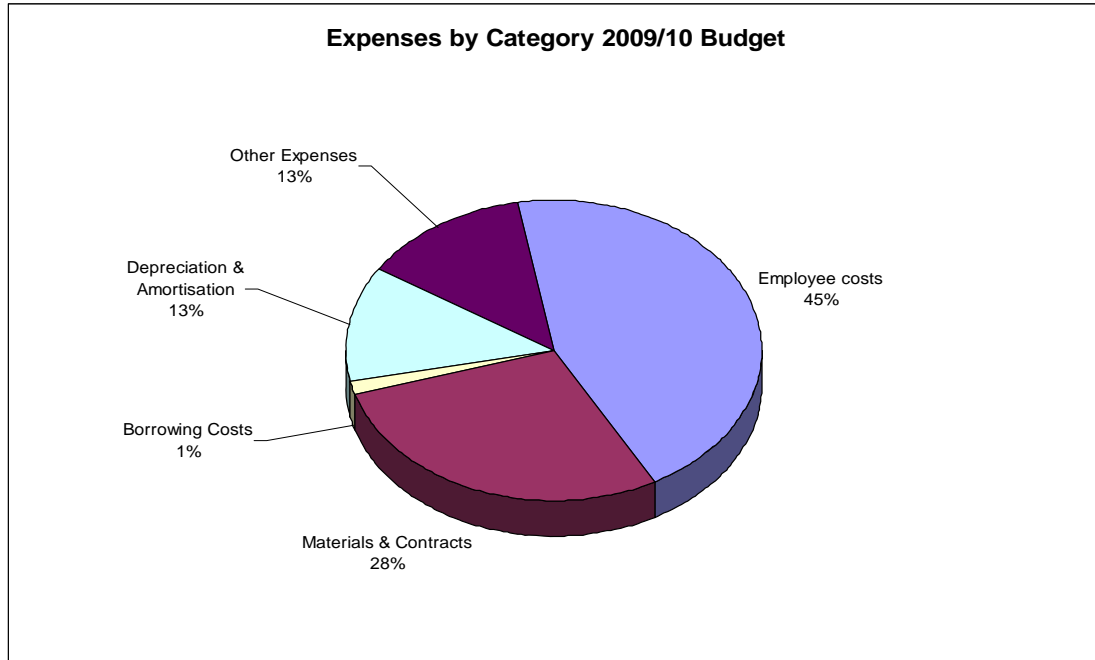
This indicator is designed to show the percentage of total expenditure applied to employee costs. One danger sign would be significantly increasing employee costs compared to operating expenditure. As these costs tend to be fixed in the medium term, in the local government environment increases in this ratio indicate reduced management flexibility to respond to demands for increased productivity or changes in demand for service types or delivery methods.

The percentage will remain in the 44% – 46% range over the Plan period. The 2007/08 Comparative Information on NSW Local Government Councils had the Group 7 average at 39.07% compared to Hornsby at 40.86%. This indicates Hornsby is close to the average for a Group 7 council.

Since the 2007/08 Comparative Information on NSW Local Government Councils was published, two factors have contributed to pushing employee costs higher. These factors are:

1. The global financial crisis has impacted in significantly reducing the value of superannuation fund balances and therefore a shortfall in funds to meet future liabilities. This has resulted in a 68% increase in council's superannuation expenses over the last couple of years. This expense is payable to superannuation funds so that future liabilities can be met.
2. Increased child care regulation resulting in increased staffing levels and expenses over \$1M. Increased expenses have been offset by raising child care fees.

Being a service focussed organisation requires significant labour and other employee related costs. The chart below reflects this requirement in that 45% of Council's 2009/10 operating budget is allocated towards employee costs.

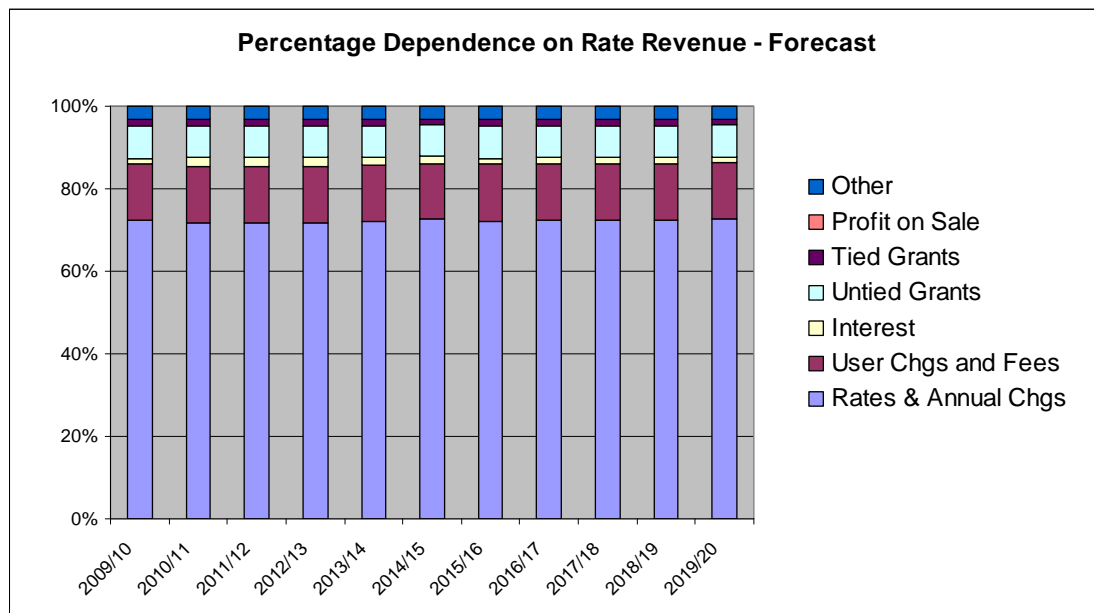


## H. Percentage Dependence on Rate Revenue

This indicator assesses the degree of Council's reliance upon revenue from rates and annual charges. The percentage is determined by dividing rates and annual charges by total revenue from continuing operations.

Over the Plan period this percentage remains reasonably constant. Whilst rates are an assured source of revenue, as highlighted previously, their increase is not under Council's control. By sourcing a greater percentage of revenue from other sources Council can increase its ability to cover increases in expenditure.

Hornsby's rate dependence exceeds the 2007/08 Comparative Information on NSW Local Government Councils reported Group 7 average indicating that other Councils of a similar size are accessing revenue from more varied sources.

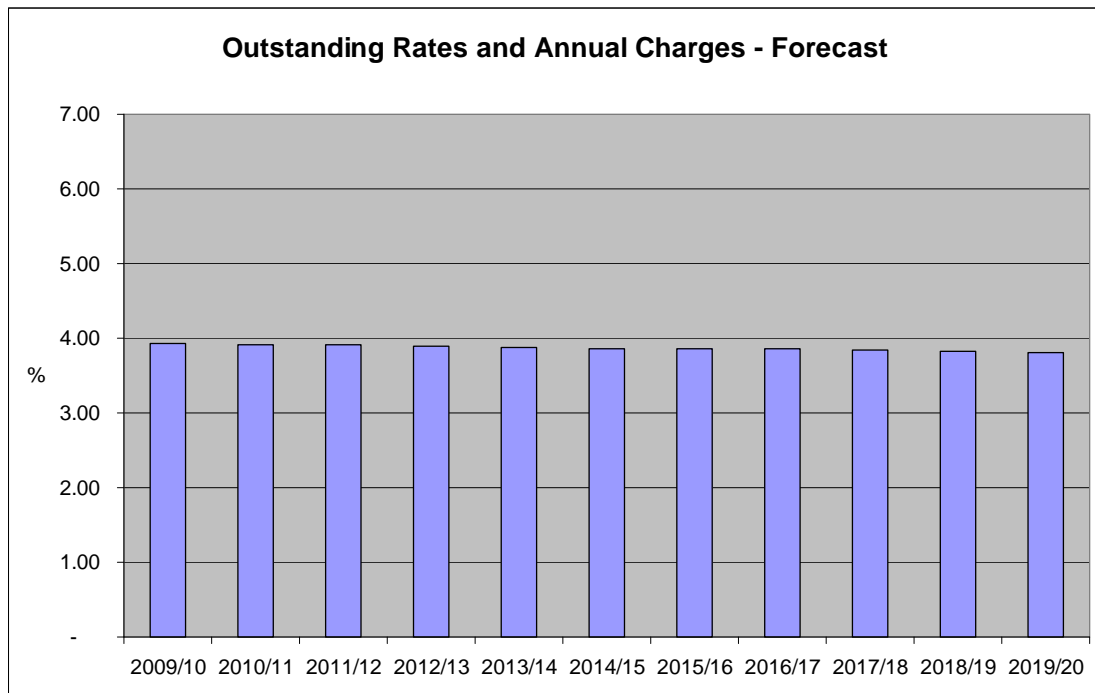


Rates and Annual Charges Coverage Ratio										
2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
72.28	71.70	71.79	71.68	72.19	72.54	72.11	72.24	72.36	72.49	72.62

## I. Outstanding Rates & Annual Charges

This indicator is to assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

The Comparative Information on NSW Local Government Councils reported NSW average for 2007/08 was 5.2% and the Group 7 average was 5.79%. Council's result is 3.47%. This indicates the favourable result of a concerted effort to reduce uncollected rates and annual charges. This effort is to be maintained.

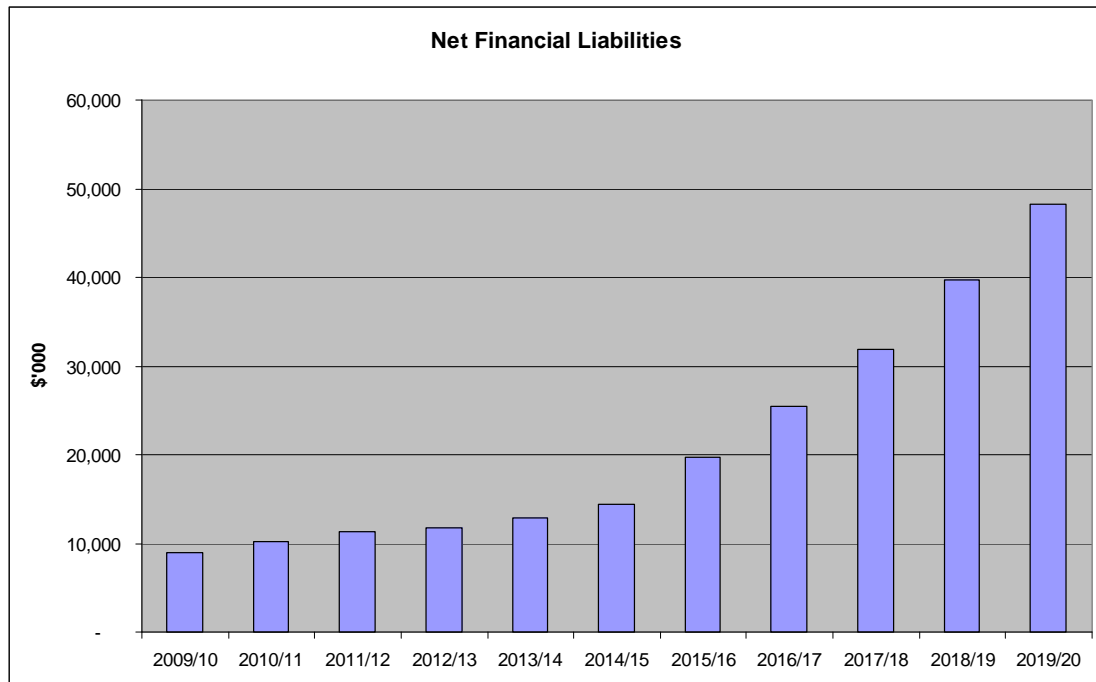


As indicated in the chart above Council will continue to remain below the group average over the Plan period.

## J. Net Financial Liabilities

This measure examines what is owed to others net of money Council already has or is owed (Total liabilities less financial assets (current assets - cash & investments and receivables)).

A Council's indebtedness should be managed to ensure its liabilities and associated costs can be met without the prospect of disruptive service. There is no right or wrong target level for net financial liabilities as this depends on infrastructure plans. The target is that net financial liabilities are no greater than annual operating revenue.



While the Net Financial Liabilities results is not exceeding total operating revenue the results are trending up and will require monitoring to ensure the future years do not reach unsustainable levels.

## K. Asset Sustainability Ratio

This ratio is the asset maintenance and replacement expenditure relative to the asset consumption for a period. This ratio indicates whether the entity is maintaining and replacing or renewing assets at the same rate that its overall stock of assets is wearing out for the period.

The asset sustainability ratio for each major asset class is listed below based on current Infrastructure Asset Management Plan (AMP) data.

### Hornsby Shire Council – Summary of Lifecycle Costs per Asset Category

Infrastructure Asset Management Plan Summary							
<i>Asset Group</i>	<i>Asset Category</i>	<i>Replacement Value \$ M</i>	<i>Average Annual Asset Consumption (AAAC)</i>	<i>Sustainability Ratio (SR)</i>	<i>Lifecycle Cost</i>	<i>Current Renewal and Maintenance Expenditure</i>	<i>Variance</i>
Roads	Roads	\$306.20	\$3,913,743	0.85	\$6,287,056	\$5,325,247	-\$961,809
	Footpaths	\$22.97	\$468,067	0.79	\$1,075,089	\$852,753	-\$222,336
	Street Furniture	\$4.14	\$456,030	1.07	\$606,029	\$650,000	\$43,971
Stormwater Drainage	Stormwater Environmental	\$11.86	\$423,128	0.40	\$695,128	\$276,500	-\$418,628
	Stormwater Civil	\$96.15	\$961,467	0.70	\$2,153,478	\$1,503,559	-\$649,919
Public Buildings	Buildings	\$130.70	\$1,310,000	0.72	\$2,920,000	\$2,090,000	-\$830,000
	Rural Fire Service	\$5.36	\$53,567	0.30	\$76,566	\$23,000	-\$53,566
Open Spaces	Parks & Reserves	\$23.60	\$1,231,921	0.79	\$3,026,210	\$2,376,207	-\$650,003
	Sportsgrounds	\$28.50	\$1,413,704	0.77	\$3,178,676	\$2,457,739	-\$720,937
Leisure Facilities	Aquatic Centres	\$14.10	\$141,000	0.50	\$254,000	\$128,000	-\$126,000
	Sports Centres	\$8.90	\$89,000	0.36	\$119,000	\$43,000	-\$76,000
Foreshore Facilities	Foreshore Facilities	\$3.10	\$110,093	0.50	\$200,093	\$100,000	-\$100,093
<b>Totals</b>		<b>\$655.58</b>	<b>\$10,571,720</b>	<b>0.77</b>	<b>\$20,591,325</b>	<b>\$15,826,005</b>	<b>-\$4,765,320</b>

The results indicate that at current levels of service assets are being consumed at a rate greater than at which they are being replenished. Current estimates have the annual renewal gap deficit at \$4.8M. Stormwater Drainage, Aquatic Centres face significant declines in their sustainability ratios and based on current replacement costs will require considerable funding into the future. To a lesser extent, foreshore facilities is similarly affected, while asset data collection and analysis for Rural Fire Service Facilities has only recently commenced, and further detail is required to make a meaningful assessment. The Sports Centre is a new building, and expenditure of a long term nature has not as yet been necessary, thereby resulting in the low sustainability ratio. (This building is in good condition).

Continuation of the current strategy of judicial borrowings not exceeding \$1 million p.a. will allow for improved 2019/20 sustainability ratios for open spaces and public buildings to something approximating 2009/10 levels. A similar situation applies to environmental stormwater solutions and rural fire service properties. These structures are relatively new and have not reached an age/condition where they need to be replaced. Consequently the expressed sustainability ratios are low because only maintenance costs have been included.

However these strategies will not be sufficient to address the costs envisaged for replacement of aquatic facilities and the construction of new assets to meet identified shortfalls.

### **Asset Management**

Commercial organisations generally acquire assets because they provide a future income stream to the business. Over a period of time the assets will increase the financial wealth of the organisation while reducing in value or being ‘consumed’ until the end of their useful life. Local councils do not primarily exist to generate profits. Most infrastructure assets owned or controlled by councils do not fulfil the ‘profit’ motive criteria.

The infrastructure assets owned or controlled by councils are required for service delivery, not for profit making. The key objective therefore in assessing infrastructure assets is that a specific level of service can be provided now and into the future. Local councils would consider prudent financial management as that which achieves a consistent level of surpluses to fund asset renewal and replacement, rather than profits that increase wealth.

Service provision and, in particular, service levels ultimately determine the infrastructure asset requirements of a council. In turn all assets that are utilised for service provision require proper maintenance and replacement, over a period of time, to guarantee that the specific service levels are actually achieved now and in the future.

The challenge that Hornsby Shire Council and the local government sector as a whole faces is the access to adequate funding sources to finance maintenance and asset renewal in order to maintain a level of service required by the community.

The sustainability ratio results presented previously indicate whether Council is replacing or renewing assets at the same rate that its overall stock of assets is wearing out for the period. Funding gaps obviously emerge when the level of asset consumption is not replaced at the same rate and the sustainability ratio is less than 1. This often results in the infrastructure assets required for service delivery deteriorating over time and subsequently the service levels being provided will also reduce. Deferral of work on assets requiring rehabilitation invariably can be a very costly exercise.

It is important that any funding gaps for existing service levels are identified and strategically addressed. When the objective of generating sufficient funds for asset

renewal has been satisfactorily identified and addressed, Council can then consider funding asset upgrades and expansion works in a financially responsible manner.

Council has been actively engaged in Asset Management since 2002. Following a review at that time of its position in respect of formal asset management practice (this included a review of Asset Management Plans developed for significant asset classes), Council embarked on a strategic exercise to further develop and refine Asset Management Plans for its key asset classes. These infrastructure Asset Management Plans, developed in 2006, determined the financial and physical requirements for a 20 year long term performance of Council's infrastructure assets. Further reviews have been undertaken in 2009 and updates have been made where appropriate.

The main asset classes discussed in this section of the report are:

1. Roads (roads, footpaths, street furniture, traffic facilities, bridges and culverts)
2. Stormwater Drainage (Stormwater Environmental, Stormwater Civil)
3. Public Buildings (Buildings, Commercial Properties, Rural Fire Service)
4. Open Spaces (Parks and Reserves and Sportsgrounds)
5. Leisure Facilities (Aquatic Centres, Sports Centres)
6. Foreshore Facilities (Foreshore Facilities)

## ROADS

### Level of Service

In developing the Asset Management Plans the level of service was drawn from an annual customer service satisfaction survey. The results of this survey are listed below:

ASSET CATEGORY	RESULT OF SURVEY (Performance Score -10 max)	TARGET
Level of street lighting on local roads	6.65	6.5
Overall safety of roads across the Shire	6.52	6.5
The condition of the road surface on local roads	6.38	6.5
Traffic Management i.e. road closures/roundabouts	6.20	6.5
Adequate provision of paved footpaths	5.88	6.0
Maintenance of paved footpath	5.87	6.0

*Performance Score 6.99 – 6.00: Residents consider Council's had performed moderately.*

*Performance Score below 5.99: Residents consider Council's had performed poorly.*

The primary reasons for the two asset categories where residents perceived Council to have performed poorly were:

- ***Adequate provision of footpaths***
  - More new paved footpaths should be constructed.
  - New paved footpaths should be constructed to extend the footpath network.

- ***Maintenance of paved footpaths***
  - More footpath routine maintenance repairs should be undertaken.
  - Footpath routine maintenance repairs should be undertaken for trip edges caused by tree roots.
  - Footpath routine maintenance repairs should be undertaken for smaller trip edges.

## **Future Demand**

Future population estimates indicate growth will occur on the fringe of existing urban areas, with the growth of the North West Sector likely to have the biggest impact on the residents and infrastructure of Hornsby Shire.

The Housing Strategy currently under consideration will introduce medium density housing into areas of lesser population density. This is expected to change the nature of road and footpath services required. The ageing of the population will also impact on this assets class, with an expected increase in the need for footpath construction and accessible infrastructure.

The forecast population for 2025 is 172,950 people; an increase of 15,328 people over Council's projection of 157,622 people in 2006. The existing road infrastructure is not expected to increase significantly due to predicted population growth as "greenfield" lands have already been developed and the current draft Residential Strategy promotes a concentrated rather than a dispersed model.

The increase in road infrastructure will mainly be in the area of road pavement, footpaths and kerb and gutter resulting from road improvement programs and local infill development, as well as the provision of new footpaths to enhance the existing footpath network and to cater for an ageing population. The increased vehicle trips per day resulting from the predicted population growth will also require traffic management facilities, such as intersection signalisation and roundabouts, to be provided. To cater for the younger age group and to promote a healthier lifestyle, it is expected that more cycleways and footpaths will also be required.

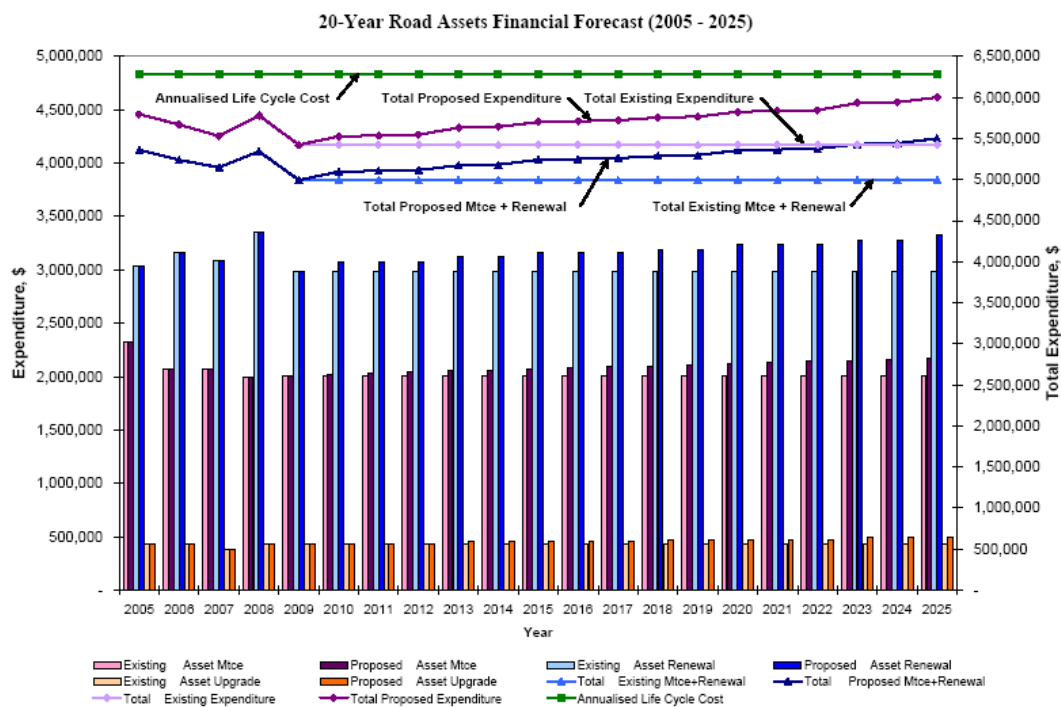
The pedestrian bridge across George Street linking the Hornsby west side to the east is included in this asset class. Repairs were recently undertaken to ensure its continued safe use by the community. However, the overbridge has reached the end of its useful life and no longer has sufficient capacity to accommodate the needs of the local community or users of the Hornsby Railway Station and transport interchange. Replacement is required. As this overbridge represents a significant enhancement, it has not been included in these financial projections. The role of the bridge in providing a safe crossing of a State arterial road introduces a third party to any funding proposal. This is currently being further investigated.

## Financial Forecast

This section outlines the long term financial requirements relating to the operation, maintenance, renewal and capital expenditure for the road assets within Hornsby Shire.

These requirements are based on life cycle costs predicted for road assets for the years spanning from 2005 till 2025. They are based on strategies developed in the Roads Asset Management Plan (Roads AMP) to ensure these assets meet the level of service required over a 20-year period.

The 20-year financial forecast for Council's road assets is summarised below.



Features of these financial projections are:

- Modelling using Council's Pavement Management System (PMS) currently indicates there is no significant funding gap in financing either the maintenance/renewal or capital (improvement) programs for the road assets. Real increases in funding will, however, be required in future years.
- Unsealed road maintenance/renewal are programmed to cease in 2014 as Council currently plans to upgrade all unsealed roads to a sealed standard. As the unsealed roads are eliminated, the funding currently used for this can gradually be transferred to the sealed road maintenance and improvement programmes.

- Since Hornsby Shire is now substantially fully developed, no significant expansion or gifted capital works are anticipated over the period of this AMP. The quantity of sealed pavement area, kerb and gutter and footpath will however increase as streets currently with only central pavements are gradually improved to a fully sealed kerb and gutter standard.
- The Roads to Recovery Program of commonwealth financial assistance to Councils is now in its third tranche (covering the period 2009/10 to 2013/14). Previous programs covered the periods 2001/02 to 2004/05, and 2005/06 to 2008/09. This significant injection of funds - R2R1: \$2.602M, R2R2: \$3.262M, R2R3: \$3.668M - has assisted Council in achieving the current sustainability level for this asset class. However, this funding is conditional on Council maintaining its “own source” expenditure at a predetermined level, with the result that funding decisions for this asset class must be treated differently to other asset classes. The termination of this program (not foreseen at this stage) will have an adverse impact on the future level of service (and sustainability ratio) of this asset class.

## STORMWATER DRAINAGE

### Level of Service

In developing the Stormwater Drainage Asset Management Plans (Stormwater Drainage AMP) the level of service was drawn from an annual customer service satisfaction survey. The results of this survey are listed below:

ASSET CATEGORY	RESULT OF SURVEY (Performance Score -10 max)	TARGET
Maintenance of Stormwater Drainage Systems (Q12)	6.19 n=525	6.5
Awareness of Council’s works to improve Water Quality eg. pollution traps/wetlands (Q30)	44% aware n=600	60%
Performance of Pollution Traps/wetland works (Q31)	6.93 n=263	7.0
Status of Local Streams/Waterways (Q32)	n=600	
Becoming Better	25%	40%
Staying the Same	54%	55%
Becoming Worse	21%	5%
Street and Gutter sweeping per quarter (Q 33 Waste) (Impacts directly on frequency of drainage system maintenance.)	6.28 n=600	7.00

*Performance Score 6.99 – 6.00: Residents consider Council’s had performed moderately.*

*Performance Score below 5.99: Residents consider Council’s had performed poorly.*

Residents perceived that Council has performed moderately with regard to the level stormwater drainage maintenance.

## **Future Demand**

The existing stormwater infrastructure is not expected to increase significantly due to predicted population growth as “greenfield” lands have already been developed and the current draft Residential Strategy promotes a concentrated rather than a dispersed model. On-site detention requirements in medium density developments will assist in management of run-off, although introducing the risk of maintenance failure and subsequent damage to (mostly privately owned) infrastructure.

New developments on vacant or underdeveloped land will however, likely affect existing water quality and quantity conditions in Hornsby Shire’s catchments. New drainage structures, including pipes, gross pollutant traps and detention storages will be required to be implemented as a result of such new development. On this basis, it is reasonable to require a contribution in these areas once the extent of anticipated development and required drainage facilities have been identified.

The current annual level of funding of \$0.5M per year for the Stormwater Drainage Improvement Program, which addresses water quantity, should preferably be increased to \$1.0M to meet the increased demand on infrastructure from population growth and system capacity upgrades. Similarly, the CRR (Water Quality) Improvement Program is currently formulating an extended capital works program for the period 2007-2012, to continue with the retrofitting of structures to address stormwater pollution from existing urbanised areas. All new developments larger than 2,500 m<sup>2</sup> are required to provide permanent water quality assets as a condition of development consent to address pollution and/or percent imperviousness arising from the change in the land use.

Funding for the environmental component of this asset class is hypothecated to the CRR rate levy, and as such is generally not subject to the same constraints that the stormwater quantity component experiences.

Stormwater drainage maintenance works is currently funded at \$1.26M annually, consisting of \$1.22M towards stormwater drainage system (quantity) maintenance and \$0.4M towards maintenance of stormwater quality improvement works. This total expenditure excludes the \$0.27M street sweeping expenditure which assists the system’s performance and may reduce future storm event based maintenance. This funding level is considered to be adequate to maintain the condition of the existing drainage network at the present condition. The Catchments Remediation Rate (CRR) program has budgeted for a proportional increase in maintenance and upgrades in line with increasing new capital works and depreciation of current assets.

The greatest concern with this asset class relates to the need for significant enhancement of drainage systems to cope with levels of stormwater run-off that are currently experienced. Current design standards require drainage infrastructure to handle a 5% annual exceedence probability rainfall event (also known as a 1 in 20 year storm) with above ground provision made for a 1% event (1 in 100 year storm). Many of Council’s drainage systems were only designed (prior to current standards being adopted) to accommodate a 20% (1 in 5 year) or 50% (1 in 2 year) event. Increases in impermeable areas due to in-fill development (prior to on-site detention being specified) have not helped this situation.

In order to address this concern, a series of stormwater planning exercises have been undertaken, resulting in the development of an enhancement program totalling \$38M (2008/09). This is currently only funded at \$500k pa, and is clearly insufficient.

## Financial Forecast

This section outlines the long term financial requirements relating to the operation, maintenance, renewal and capital expenditure for the stormwater drainage assets within Hornsby Shire.

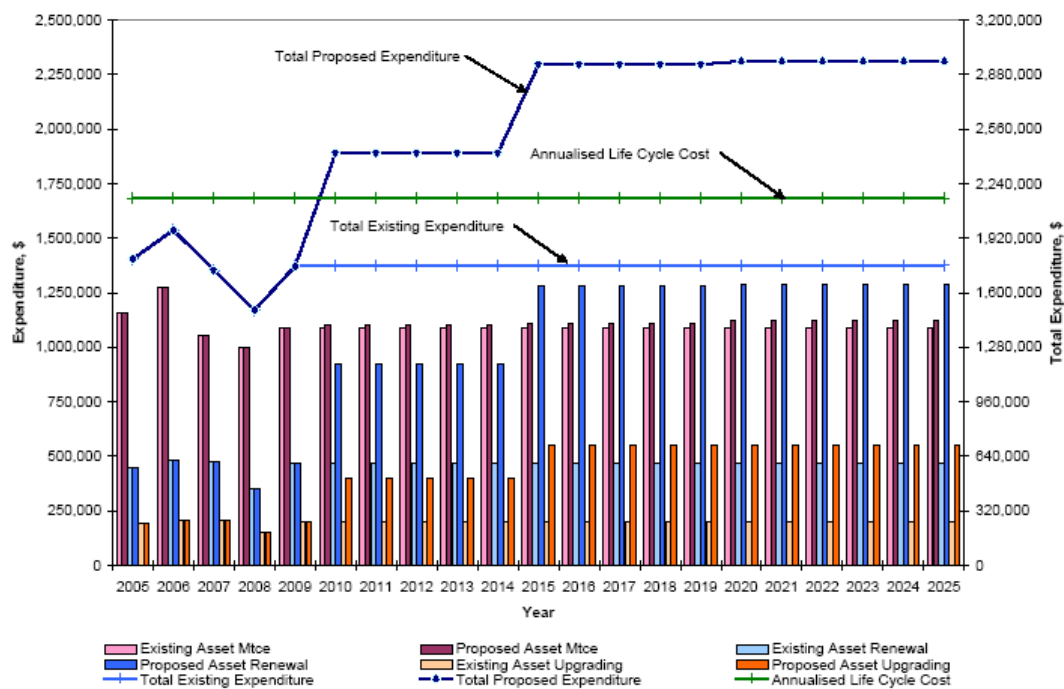
These requirements are based on life cycle costs predicted for stormwater drainage assets for the years spanning from 2005 till 2025. They are based on strategies developed in sections of the Stormwater Drainage AMP to ensure these assets meet the level of service required over this 20-year period, and do not address enhancement issues, as discussed above.

### Stormwater Drainage System

The 20-year financial forecast for Council’s stormwater drainage assets and stormwater quality assets are summarised respectively.

## 20-Year Financial Forecast for Drainage System Assets

20-Year Stormwater Drainage Assets Financial Forecast (2005-2025)



Features of these financial projections are:

- Currently, there are no reliable financial models for life cycle modelling of stormwater drainage assets such as pits and pipes. Present knowledge seems to indicate that these assets, if correctly manufactured and constructed in a benign environment may last for 250-300 years before needing replacement.
- Currently, Hornsby Shire drainage assets have an average residual life of 65 years based on an assumed 100 year life. It can be reasonably assumed that large scale replacement of these assets in the near future, certainly over the 20-year life of the AMP, need not be considered. Until more reliable knowledge of the life cycle of these assets is known and further condition data from Council's inspections is available, it is assumed that current maintenance practices are sufficient to keep the system at the required level of service (neglecting capacity considerations).
- Capital works will primarily consist of renewals and capacity related improvements. These will be adequately catered for by a continuation of current maintenance and funding through the Improvement Programme.
- Since Hornsby Shire is now substantially fully developed, no significant expansion or gifted capital works are anticipated over the period of this AMP. The length of pipe work and number of pits will vary due to infill development and changes due to improvements as part of the Road Improvement Programme where improved stormwater infrastructure is provided when roads are upgraded.

### *Stormwater Quality Structures*

Features of these financial projections are:

- New capital works and ongoing maintenance of water quality assets is currently financed through a special rate (the Catchments Remediation Rate) under the NSW Local Government Act 1993. Currently at 5% of Council's Ordinary Rate and with no sunset clause.
- Cumulative Operating Expenditure (Cum. Op Ex) includes the cumulative operation/maintenance expenditure and asset renewals and upgrades associated with assets reaching their optimum life or age. It is envisaged that around year 2024, the opportunity for new capital work sites across the Shire will decline, resulting in a simultaneous exponential increase in operational and renewal costs. These operational and renewal costs will be met from the existing special rate.

## **PUBLIC BUILDINGS**

In developing the Buildings Asset Management Plan (Buildings AMP) the level of service was drawn from an annual customer service satisfaction survey. The results of the survey are listed below:

<b>ASSET CATEGORY</b>	<b>RESULT OF SURVEY (Performance Score -10 max)</b>	<b>TARGET</b>
Maintenance of Council Buildings (Q37)	7.31	7.00

*Performance score 7.99 – 7.00: Residents consider Council had performed well.*  
*Performance Score 6.99 – 6.00: Residents consider Council had performed moderately.*  
*Performance Score below 5.99: Residents consider Council had performed poorly.*

Council uses the community satisfaction survey as a performance measure of customer satisfaction. Residents perceived that Council has performed moderately well with regard to the maintenance of public buildings.

### **Future Demand**

The numbers of public buildings are not expected to increase significantly due to predicted population growth as “greenfield” lands have already been developed and the Housing Strategy promotes a concentrated rather than a dispersed model.

### **Financial Forecast**

This section outlines the long term financial requirements relating to the operation, maintenance, renewal and capital expenditure for the public building assets within Hornsby Shire.

These requirements are based on life cycle costs predicted for public buildings assets for the years spanning from 2007 until 2027. They are based on strategies developed to ensure these assets meet the level of service required over this 20-year period.

### **Asset Sustainability Model Study**

Council engaged Consultant J Roorda and Associates in November 2006 to undertake a Council wide study to quantify the sustainability of short and long term financial funding for Council’s total asset base.

In undertaking this study, asset types were chosen to represent the expenditure areas displayed below.

### **Asset Sustainability Modelling Categories**

<b>Asset Class – Public Buildings</b>	
<b>Financial Asset Type</b>	<b>Sustainability Asset Modelling Type</b>
Buildings ( includes Administration, Depots, Community, Cultural, Libraries)	Buildings

### **Results of Updated Sustainability Study**

Council’s improvement/upgrading and maintenance expenditure for the key public buildings asset types was recently modelled for financial sustainability using the consultant’s financial model. The table below summarises the components and their assumed useful lives used in this analysis. Detailed Facility Management Plans have been prepared for the majority of these assets.

### Assumed Average Useful Life – Public Buildings Assets

Asset	Assumed Average Useful Life (years)
Buildings	100

Using these inputs, the modelling analysis was undertaken and the table below summarises the results obtained.

### Summary of Financial Modelling as at 30 June 2009

Description	Public Buildings
	Buildings
Total Current Replacement Cost	\$130,707,000
Average Annual Asset Consumption (AAAC)	\$1,310,000
Average Annual Maintenance Expenditure (CME) <sup>1</sup>	\$1,610,000
Average Annual Capital Renewal Expenditure (ACRE) 1	\$480,000
Annualised Life Cycle Cost (ALCC) = AAAC + CME	\$2,920,000
Sustainability Ratio (SR) = (CME+ACRE/ALCC	0.72

#### Notes:

- 1 Average Annual Maintenance Expenditure 2000 to 2010
- 2 Average Annual Capital Renewal Expenditure 2000 to 2010
- 3 Includes Air Conditioning Maintenance and Capital Renewal Expenditure

### Sustainability of Public Buildings Assets

There is currently some considerable uncertainty in estimating actual asset life and as such the consumption of an asset's service potential can be significantly affected by the length of asset life used. This modelling study has been however, based on the best engineering assessments of the remaining life of these assets. As more knowledge in this area becomes available, the model outputs can be refined.

Given these known limitations for this type of financial modelling, an asset with a sustainability ratio between 0.8 and 1.0 is considered to be operating at a sustainable level.

Currently, these results indicate that Council's Public Buildings assets are operating below a sustainable level, at the current level of service and real funding levels.

There has been additional capital renewal expenditure provided for this Centre since 2007, elevating the Sustainability Ratio from 0.7 in 2006. The current annual maintenance expenditure of \$1.61M is sufficient for this asset class. However the required average annual capital renewal expenditure of \$0.637M has not been fully funded, with a current allocation of \$0.423M.

## **OPEN SPACES**

### **Level of Service**

In developing the Open Space Asset Management Plan (Open Space AMP) the level of service was drawn from an annual customer service satisfaction survey. The results of this are listed below:

<b>ASSET CATEGORY</b>	<b>RESULT OF SURVEY (Performance Score -10 max)</b>	<b>TARGET</b>
Maintenance of Parks & gardens & children's playgrounds	7.05	7.80
Maintenance of safe & enjoyable sportsgrounds	7.01	7.50
Sufficient opportunities for skateboarding/rollerblading	3.98	7.50
Sufficient opportunities for exercising dogs	6.17	7.50
Sufficient sports grounds in my neighbourhood	7.15	7.80
Sufficient Parks and children's playgrounds in my neighbourhood	7.14	7.80

### **Financial Forecast**

A 20 year projection (from 2006 – 2026) was prepared for the two broad categories of open space within Hornsby Shire: Parks/ Reserves and Sportsgrounds. The projections are based on lifecycles for each asset within these broad open space categories.

Expenditure is identified by asset group under the following headings:

- Total maintenance (including operational) expenditure
- Total maintenance and renewal expenditure
- Total expenditure
- Annualised lifecycle costs or depreciation.

Description	Open Spaces	
	Parks and Reserves \$	Sportsgrounds \$
Total Current Replacement Cost	23,627,399	28,499,111
Average Annual Asset Consumption <sup>1</sup>	1,231,921	1,413,704
Current Maintenance Expenditure (CME)	1,676,207	1,757,739
CME plus Renewal Expenditure	2,376,207	2,457,739
Annualised Life Cycle Cost	3,026,210	3,171,443
Sustainability Ratio (SR) <sup>2</sup>	79%	77%

**Notes:**

1. Amounts expressed in 2006 dollars.
2. This is an estimate of asset depreciation based on an assumed average economic life for the asset.
3. Sustainability Ratio – Current Maintenance and Renewal Expenditure/Annualised Life Cycle Cost.

Key results of the financial projections are:

- In 2006 the ratio of actual expenditure versus lifecycle cost for local and specialty parks and sportsgrounds was 0.79 and 0.77 respectively.

Generally speaking a ratio below 0.8 suggests that it will be difficult to fund the required improvements from existing budget allocations. Ratios in the order of 0.8 to 1.0 are acceptable.

Accommodating the increased costs for maintaining existing and new improvements as well as renewing old assets will continue to be a challenge. However, the absorption of these costs is feasible, not only through the use of judicial borrowings but potentially options such as disposing of some underutilised assets across the local government area, continuation of productivity improvements and if required the introduction of reduced levels of maintenance services and the like.

## Future Demand

A review of Council's strategic intent, the Hornsby community's aspirations and the anticipated characteristics of its population, has identified a range of public facilities and public amenities as being required to satisfy the demands of the existing and expected population.

- There are apparent gaps in the provision of different types of open space settings and different types of leisure/community facilities.
- There is an under-supply of facilities for some types of organised sport (soccer, cricket and softball) and also for 'unstructured' activities (cycle ways and walking trails, picnic areas, dog off-leash areas and skate and BMX facilities).

Some of these gaps will be accommodated through the imposition of s94 contributions. However, this mechanism will not be sufficient to address the existing shortfall in some forms of open space, notably playing fields (Sports Facility Strategy, 2006). Further, it now appears the imposition of a cap on contributions will require Council to decide between the provisions of local open space vs. district open space opportunities such as sportsgrounds/large specialty parks. For many years Hornsby's strategy has been to maximise, through improvements to increase capacity, use of its existing open space areas as opposed to the acquisition of new areas. This approach, while financially responsible, has exacerbated the undersupply of active open space to such an extent that current active open space areas are now being over used and caps placed on the amount of registrations that clubs can accommodate. The new s94 rules exacerbate the problem.

An opportunity exists to develop land, currently owned by Council, at Old Mans Valley, Hornsby to address the problem of undersupply. This 12 hectare parcel of land is centrally located to many residents in the Shire and in the vicinity of areas nominated for increased population growth. It is capable of accommodating a range of open space preferences, including active sports. Realisation of the project will depend on an injection of substantial funds, currently estimated in the order of \$13 million. It is only possible to provide such a facility in a timely way through the injection of funds through a rate variation as described in the submission accompanying this document. Such a facility will benefit both the current and future residents of the Shire.

## LEISURE FACILITIES

The scope and value of the assets covered by the Leisure Facilities AMP are given in Table 1.1.

### Value of Assets in the Leisure Facilities AMP

Asset Type	Replacement Value as at 30 June 2009 (\$)
Hornsby Aquatic Centre	4,652,000 *
Galston Aquatic Centre	3,293,000
Epping Aquatic Centre	5,067,000
Thornleigh Brickpit Stadium	8,931,000

\* Council has been advised that the future of the Hornsby Aquatic Centre cannot be guaranteed after 30 June 2012. The replacement of this facility is currently being considered by Council. The anticipated capital commitment (of the order of \$20M) is significant and cannot be addressed within current budget forecasts. Funding for this asset renewal task is not covered in the scope of this financial plan.

### Level of Service

In 2006, Council engaged Owl Research and Marketing Pty Limited to prepare its annual Customer Satisfaction Study and Community Satisfaction Study. The study found:

“Council providing swimming pools were very important to residents (8 out of 10 in importance) with 41% (84 people) of this sample having used at least one of Council’s swimming pools within the previous 3 years, with these users most likely to have been female, aged 16-39 years and to have children under 12 years of age.

Some relevant questions asked in relation to Aquatic facilities are listed below.

Q.27. In the past 3 years, have you used one of the Council swimming pools in the Shire?

Q.27. In the past 3 years, have you used one of the Council swimming pools in the Shire?

	Total	Respondent Age				Household Composition				Gender		Ward		
		16-39	40-55	56-75	76+	Young Singles/ Couples	Family <12 years	Family > 12 years	Mature Couple	Male	Female	Ward A	Ward B	Ward C
No of Respondents	203	44	63	85	11	8	48	62	85	107	96	95	51	57
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
YES	41	68	43	31	9	50	67	42	26	33	51	47	43	30
NO	59	32	57	69	91	50	33	58	74	67	49	53	57	70

Q.30. The importance of Council providing aquatic facilities.

	Total	Respondent Age				Household Composition				Gender		Ward		
		16-39	40-55	56-75	76+	Young Singles/ Couples	Family <12 years	Family > 12 years	Mature Couple	Male	Female	Ward A	Ward B	Ward C
No of Respondents	203	44	63	85	11	8	48	62	85	107	96	95	51	57
<b>MEAN SCORES - the closer the number is to 10 - the better</b>														
Importance of Facility	7.99	9.02	7.78	7.65	7.73	6.63	8.92	7.81	7.73	7.83	8.17	8.51	7.45	7.61

8 out of 10 as a score, indicates that residents consider it to be very important for Council to provide aquatic facilities, with this level of importance rising even higher (8.92 out of 10) amongst families with children < 12 years of age.

The Research Study also showed that residents consider it to be very important for Council to provide aquatic facilities, with the level of importance increased amongst families with children less than 12 years of age.”

A customer satisfaction survey of patrons at the Aquatic Centres was carried out by Owl Research and Marketing in 2006 that indicated that the level of service provided by the centres were generally highly satisfactory however the facilities required upgrading of the change rooms and toilets and the centres required repainting. Significant Maintenance and Capital Renewal Expenditure provided for Epping Aquatic Centre and Galston Aquatic Centre since 2007 has addressed these concerns..

A survey (self-completion questionnaire) amongst a cross-section of regular users of Council’s three (3) Aquatic Centres was developed and distributed to regular pool users at the three aquatic centres. The following key findings were noted:

- Good water quality
- Need to upgrade changing facilities
- Poor parking at Hornsby
- User rating in terms of value for money was as follows - Epping: 88%, Galston: 89% and Hornsby: 92%.
- Overall satisfaction - Epping: 8.69, Hornsby: 8.22, Galston: 8.15 (out of 10).

**It should be noted that there has been significant Maintenance and Capital Renewal Expenditure provided for Epping Aquatic Centre and Galston Aquatic Centre since 2007 following this customer satisfaction survey.**

### **Future Demand**

Based on the 2001 Census, Hornsby Shire had a population of 145,968 people, comprising 3.7% of Sydney’s urban population of 3,997,321 people.

The forecast population for Hornsby Shire, based on Council and State Government projections for 2006 to 2025 at five year intervals, is presented in Table 3.1. The forecast population for 2025 is 172,950 people; an increase of 15,328 people over Council’s projection of 157,622 people in 2006. The existing leisure facilities are not expected to increase significantly due to predicted population growth as “greenfield” lands have already been developed and the Residential Strategy promotes a concentrated rather than a dispersed model.

### **FINANCIAL FORECAST**

This section outlines the long term financial requirements relating to the operation, maintenance, renewal and capital expenditure for the leisure facilities assets within Hornsby Shire.

These requirements are based on life cycle costs predicted for leisure facilities assets for the years spanning from 2007 till 2027. They are based on strategies developed in earlier sections of this asset management plan to ensure these assets meet the level of service required over this 20-year period.

### **Council Asset Sustainability Model Study**

Council engaged Consultant J Roorda and Associates in November 2006 to undertake a Council wide study to quantify the sustainability of short and long term financial funding for Council's total asset base.

In undertaking this study, asset types were chosen to represent the expenditure areas displayed in Table 6.1.

#### **Asset Sustainability Modelling Categories**

<b>Asset Class – Leisure Facilities</b>	
<b>Financial Asset Type</b>	<b>Sustainability Asset Modelling Type</b>
Aquatic Centres	Aquatic Centres
Sports Centres	Sports Centre

### **Results of Sustainability Study**

Council's improvement/upgrading and maintenance expenditure for the key leisure facilities asset types were then modelled for their financial sustainability using the consultant's financial model. Table 6.2 summarises the components and their assumed useful lives used in this analysis.

#### **Assumed Average Useful Life – Leisure Facilities Assets**

<b>Asset</b>	<b>Assumed Average Useful Life (years)</b>
Hornsby Aquatic Centre	***
Galston Aquatic Centre	100
Epping Aquatic Centre	100
Sports Centre	100

\*\*\*\* Hornsby aquatic Centre will reach the end of its serviceable life in June 2012. Planning is currently underway for the replacement centre.

Using these inputs, the modelling analysis has been updated and Table 6.3 summarises the results obtained. The financial modelling includes the replacement of Hornsby Aquatic Centre as the current centre will reach the end of its serviceable life as at 30 June 2012 based on structural engineering advice.

## Summary of Financial Modelling

Description				
	Hornsby Aquatic Centre	Galston Aquatic Centre	Epping Aquatic Centre	Thornleigh Sports Centre
Total Current Replacement Cost	\$4,652,000	\$3,693,000 <sup>1</sup>	\$5,667,000 <sup>2</sup>	\$8,931,000
Average Annual Asset Consumption	\$47,000	\$37,000	\$57,000	\$89,000
Average Annual Maintenance Expenditure (CME)	\$25,000 <sup>3</sup>	\$36,000 <sup>3</sup>	\$ 52,000 <sup>3</sup>	\$30,000 <sup>4</sup>
Average Annual Capital Renewal Expenditure (ACRE)	0 <sup>5</sup>	\$ 5,000 <sup>5</sup>	\$10,000 <sup>5</sup>	\$13,000 <sup>5</sup>
Annualised Life Cycle Cost ALCC = (CME + AAAC)	\$72,000	\$73,000	\$109,000	\$119,000
Current Sustainability Ratio SR = (CME+CRE)/ALCC	0.35	0.56	0.57	0.36

1. Includes Mechanical Plant Equipment Replacement Cost of \$400,000

2. Includes Mechanical Plant Equipment Replacement Cost of \$600,000

3. Average Annual Maintenance Expenditure 2000 to 2010

4. Average Annual Maintenance Expenditure 2005 to 2010

5. Average Annual Capital Renewal Expenditure 2000 to 2010

6. Average Annual Capital Renewal Expenditure 2005 to 2010

### Sustainability of Leisure Facilities Assets

There is currently some uncertainty in estimating actual asset life and as such the consumption of an asset's service potential can be significantly affected by the length of asset life used. This modelling study has been however, based on the best engineering assessments of the remaining life of these assets. As more knowledge in this area becomes available, the model outputs can be refined.

Given these known limitations for this type of financial modelling, an asset with an SR between 0.8 and 1.2 is considered to be operating at a sustainable level:

- The Hornsby Aquatic Centre is currently operating well below a sustainable level as only essential maintenance is being carried out at the centre.
- The Galston Aquatic Centre is operating below a sustainable level. There has been significant Maintenance and Capital Renewal Expenditure provided for this Centre since 2007 elevating the Sustainability Ratio from 0.35 in 2006. It

is desired to increase the Sustainability Ratio to at least 0.8. It should be noted that that this centre is entering a phase whereby significant capital renewal expenditure on replacement of mechanical plant equipment is required over the next four years.

- The Epping Aquatic Centre is operating below a sustainable level. There has been significant Maintenance and Capital Renewal Expenditure provided for this Centre since 2007 elevating the Sustainability Ratio from 0.30 in 2006. It is desired to increase the Sustainability Ratio to at least 0.8. It should be noted that that this centre is also entering a phase whereby significant capital renewal expenditure on replacement of mechanical plant equipment is required over the next four years hence the current elevated sustainability ratio.
- The Thornleigh Sports Centre is a relatively new centre and is currently appears as operating well below a sustainable level as it has required few capital renewal works to date since the creation of the asset.

## 20 Year Maintenance and Capital Renewal Expenditure

Table below provides a **20 Year Average Annual Maintenance Expenditure and Average Annual Capital Renewal Expenditure** summary for each asset from 2007 to 2027.

Asset	2007/2012	2012/2017	2017/2022	2022/2027
<b>Galston Aquatic Centre</b>	<b>\$88,000</b>	<b>\$70,000</b>	<b>\$136,000</b>	<b>\$100,000</b>
<b>Epping Aquatic Centre</b>	<b>\$184,000</b>	<b>\$88,000</b>	<b>\$157,000</b>	<b>\$154,000</b>
<b>Hornsby Aquatic Centre</b>	<b>\$50,000*</b>	<b>\$150,000**</b>	<b>\$150,000**</b>	<b>\$150,000**</b>
<b>Thornleigh Brickpit Stadium</b>	<b>\$36,000</b>	<b>\$171,000</b>	<b>\$121,000</b>	<b>\$258,000</b>

\* Includes essential structural repairs

\*\* New aquatic centre based on 1% of construction cost of \$15m.

## Funding of Annual Maintenance and Capital Renewal Works

1. Annual Asset Maintenance Plans and Capital Renewal Plans for the next twenty years have been recently developed for the Leisure Facilities utilising an analytical program developed by Asset Future Pty Ltd.

2. The Annual Asset Maintenance Plans determine the funding required to maintain the Leisure Facilities at their desired level of service. Additional funding for the maintenance works of Epping and Galston Aquatic Centres has been requested in the 2010/11 Budget to supplement existing maintenance funding provided annually from General Working Funds. The additional funding together with the existing funding represents the average annual maintenance expenditure required over a twenty year period.
3. Hornsby Aquatic Centre is reaching the end of its serviceable life and existing annual maintenance funding is being utilised to carry out only essential maintenance works and essential structural repair work. The aquatic centre is expected to reach the end of its serviceable life in June 2012.
4. The Capital Renewal Plans determine the funding required to replace major components of the leisure facilities over a twenty year period. The Capital Renewal funding for the Aquatic Centres is currently not funded, and must be considered by Council on an annual basis in the event that additional loan borrowings are agreed. The annual Capital Renewal Works compete with other projects within Council as “Phase-ups” funded from either excess General Working Funds or Borrowings. Capital Renewal and Maintenance works for the aquatic centres have been funded by an “Asset Management Loan” for the past three years.
5. The Thornleigh Sports Centre is self sustainable and annual maintenance works and capital renewal works are funded by a Restricted Asset fund sourced by income received for hire of the facility by the various sporting groups.

## **FORESHORE FACILITIES**

### **Level of Service**

In developing the Foreshore Facilities Asset Management Plan (Foreshore Facilities AMP) the level of service was drawn from an annual customer service satisfaction survey. The results of this survey are listed below:

<b>ASSET CATEGORY</b>	<b>RESULT OF SURVEY (Performance Score -10 max)</b>	<b>TARGET</b>
Performance of water quality works	6.93	7.0

*Performance Score 6.99 – 6.00: Residents consider Council’s had performed moderately.*

*Performance Score below 5.99: Residents consider Council’s had performed poorly.*

This is a good result with longer term residents rating Council higher than newer residents.

## **Future Demand**

The forecast population for 2025 is 172,950 people; an increase of 15,328 people over Council's projection of 157,622 people in 2006. The existing stormwater infrastructure is not expected to increase significantly due to predicted population growth as "greenfield" lands have already been developed and the current draft Housing Strategy promotes a concentrated rather than a dispersed model.

Population growth across the Hornsby Shire and across Sydney in general, will increase the pressure on its waterways. The Shire's foreshore facilities are currently heavily used especially during week ends. These facilities will face increasing pressures for upgrading and maintenance due to increase usage as the population increases. The pumpout facility at Kangaroo Point currently collects more than 300,000 litres of raw effluent each year and it is estimated that this is only half of the effluent generated on the waterway. Current maintenance of this facility costs \$70,000 pa. These costs will continue to increase through time. Increasing population also correlates to increased nutrient pollution from the catchment. This impacts on the incidence of harmful algal blooms in the estuary and results in the need to manage these blooms with the assistance of the algal bloom monitoring probe at Calabash Bay. Current maintenance costs of this facility are \$20,000 pa.

Foreshore facilities maintenance works is currently funded at \$180,000 annually: consisting of \$90,000 towards wharf and jetty maintenance; and \$90,000 towards maintenance of monitoring probes and the pumpout facility. This funding level is considered to be inadequate to maintain the condition of the existing foreshore facilities at the present condition.

The future impact of sea level rise has not been currently taken into account in Asset Management Plans developed for this asset class. The extent of any impact on this asset class is currently unknown but is being further investigated as part of the ongoing review of this asset class.

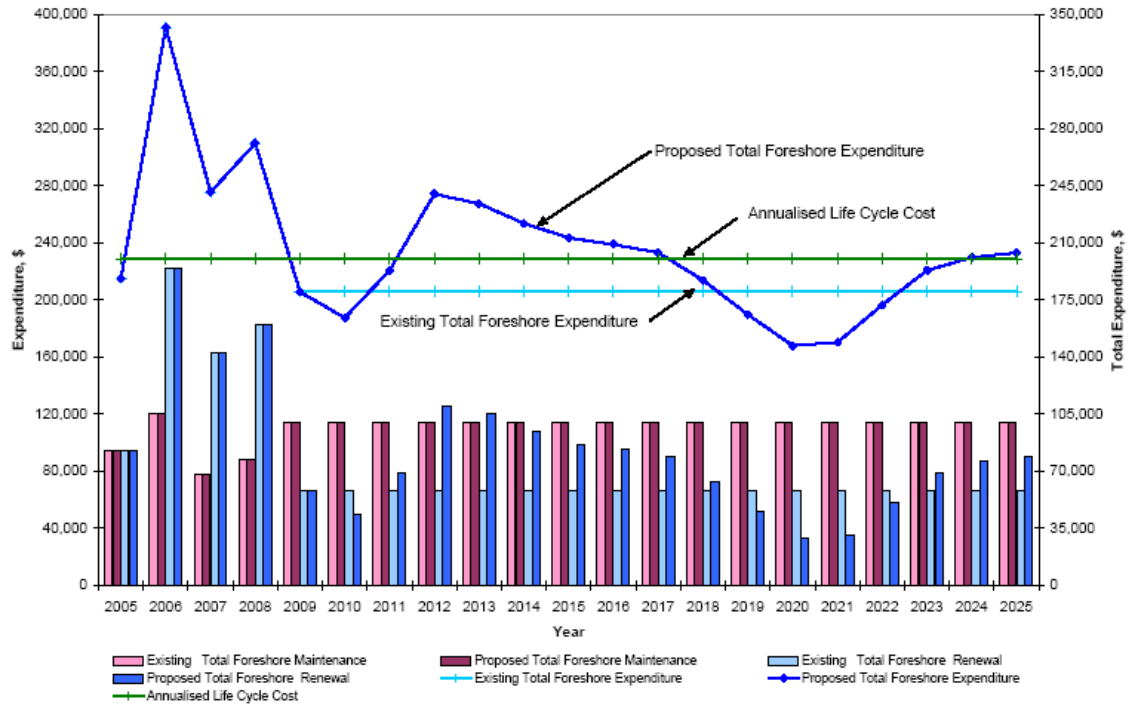
## **Financial Forecast**

This section outlines the long term financial requirements relating to the operation, maintenance, renewal and capital expenditure for the foreshore facilities within Hornsby Shire.

These requirements are based on life cycle costs predicted for foreshore facilities for the years spanning from 2005 till 2025. They are based on strategies developed in sections of the Foreshore Facilities AMP to ensure these assets meet the level of service required over this 20-year period.

The 20-year financial forecast for Council's foreshore facilities is summarised below.

**20-Year Foreshore Facilities Assets Financial forecast (2005-2025)**



H:\AssetManagementPlans\Foreshore Facilities\Foreshore Facilities AMP.Financial Forecast 2005\_2025(2).Aug06.xls\Chart A\_Oct09

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#### **4.0 DEVELOPMENT CONTRIBUTIONS**

Council's ability to fund new services and infrastructure and augment existing services and infrastructure to accommodate an increase in population was significantly dampened with the NSW Government's introduction of a cap on local development contributions. In January 2009, a direction was issued to councils under the EP&A Act limiting local development contribution charges to a maximum of \$20,000 for a typical residential dwelling.

Under the Metropolitan Strategy, the NSW Government requires Council to provide an additional 11,000 dwellings by 2031, of which the first 2,600 dwellings are required within the next 10 years. Council has identified housing growth over the next 10 years within the (draft) Hornsby Shire Housing Strategy.

The new growth identified under the Housing Strategy will require Council to provide new community facilities and infrastructure including open space (passive and active), community facilities, road improvements and augment existing drainage. It is anticipated that the most expensive infrastructure will be the acquisition of land for open space purposes and intersection upgrades on existing roads. In some precincts, it is anticipated that infrastructure costs will be in the order of \$30,000 to \$35,000, which is considerably more than the \$20,000 cap imposed by the NSW Government.

## **5.0 HORNSBY QUARRY**

In 2002, Council was required, pursuant to the Hornsby LEP, to acquire the lands comprising the former Hornsby Quarry. This land is 29ha in area and includes a disused Quarry pit of 10ha, approx 300m wide and 100m in depth. The land is community land and has an open space zoning. The requirement to acquire this land presented Council with a significant financial challenge.

The former owners of the land were entitled to compensation as determined by the Valuer General, who determined the compensation at \$25.1 Million. Council subsequently received approval to levy a special rate to 2014/15 to fund that part of the purchase that was not able to be covered from existing funds.

Since the date of acquisition, council has been responsible for the maintenance and security of the lands, and has adopted a policy of essential actions only to ensure the site is fenced and safe until the lands can be used by the community in a meaningful manner. Activities are limited to security, maintenance of protective fencing and such activities necessary to ensure that Council staff can access the site in safety for essential maintenance purposes. This work has been funded from working funds, and will continue to be so funded. Activities of a capital nature have been funded from restricted assets held by Council, but will need to be funded from working funds when these assets are exhausted.

A number of planning and technical studies have been undertaken to assist Council in its planning for the future management of the lands. These have been funded from restricted assets held by Council in each case. Legal advice has been similarly funded.

Council has resolved to seek the necessary approvals that will enable it to fill the quarry pit with VENM fill, thereby rendering the site safe for use by the community following embellishment. It is envisaged that work associated with the approvals will cost in the order of approximately \$300K. The filling of the quarry pit is a long term project that, if approved, will extend beyond the term of this plan, and will incur an as yet unquantifiable cost. In the interim, Council has commenced to pump the quarry pit clear of water in order to stabilise the sides of the pit against collapse, as recommended by Council's geotechnical consultants. This project will incur an annual cost of approximately \$100K (in 2009 dollars), and has been included in the current projections.

Council is also engaged in a number of legal actions seeking recovery of the monies paid for the acquisition of the lands. These actions have been commenced with the concurrence of Council's legal advisors and have been funded to date from restricted assets held by Council. Success will mean that additional funds will return to Council. This eventuality has not been provided for in this Plan.

Developments in respect of the quarry lands are fluid, and will be closely monitored for any impact on this Plan, and action taken as necessary.

## 6.0 FUTURE BUSINESS FOCUS

High dependency upon rate revenue both now and as forecasted over the LTFP period will continue to place pressure on Council's ability to keep pace with cost increases and therefore maintain services at existing levels. Many of the key performance indicators projected in section 3 of this document will be a challenge to Council's long term financial sustainability if corrective action was not undertaken. The assessment of the long term financial plan results in December 2009 resulted in immediate action to be taken during the 2010/11 Budget process. The action taken and impact on key financial indicators will be discussed below.

### *2010/11 Budget Action*

The 2010/11 and future budgets focussed on the critical issue of addressing and determining infrastructure asset management as the highest priority. There are a number of reasons for this:

- The management of financial and other risks.
- The high volumes of infrastructure assets that are utilised for service provision require substantial costs in both maintaining and replacing these assets.
- Funding gaps to be addressed in future editions of the Long Term Financial Plan.

Overcoming a funding gap in respect of asset renewal will require balancing desired future services and service levels against risks and use of available resources. It would be strategically counterproductive to focus too much attention on increasing service levels before existing service levels and associated funding gaps have been quantified and strategically addressed. This will involve some of the following steps:

- Review of services provided currently to identify areas of possible reductions.
- Review of projected future services to ensure they are appropriate and financially viable.
- Identify any surplus or idle assets for possible sale. Asset Rationalisation.
- Source additional funding from operations (increase income or reduce expenses).
- Responsible increases to loan borrowing.
- Community consultation in respect of a special rate levy to fund infrastructure improvements.
- Review internal restrictions for potential release and/or redirection towards asset renewal or towards debt servicing.
- Priority towards asset renewal capital works over upgrade/expansion or new asset creation.
- Transfer of proposed capital upgrade/expansion funding to capital renewal.
- Review of business activities to determine best mode of service delivery and set net subsidy or net surplus levels.
- A maturity assessment undertaken for each asset class.

For borrowings to be undertaken, projects must have had a full lifecycle cost analysis undertaken, proving that future cash inflows will exceed the cash outflows, or

alternatively that the additional costs are quantified because of the community benefit associated with the project in the long term financial plan.

Where reasonably possible, fees and charges should be increased, as a minimum, by the CPI and that fee for service activities are provided, as a minimum, on a full cost recovery basis. Current council business activities could be the first activities for review.

The estimated budget deficit for 2010/11 in this Plan (see page 1) was reported at \$1.154 Million. The first cut of the 2010/11 budget resulted in a deficit of \$1.164 Million. Based on the initiatives above the original forecasted budget deficit was reduced and a surplus of \$19,940 was able to be placed on public exhibition. The financial constraints referred to below required considerable effort from staff and Councillors in order to achieve this result and will be made permanent.

Some of the issues that commenced immediately were:

- In order to maintain tight control over expenditure levels in the budget process, advice was provided to budget managers that no increase was able to be applied to operating budget material and contract expenditure. This was despite substantial price increases, particularly for construction materials. Any increase has been required to be offset by productivity improvements, service reductions or increased fees.
- The review of services to achieve a minimum reduction in expenditure of \$620K. The consequences of this review cannot be determined at this stage, but staff and the community will be informed of the decisions that may affect them.
- Operational expenditure budgets reduced by \$250K. This has involved reducing discretionary items such as printing, stationery, subscriptions, publications, postage, catering and other miscellaneous expenses.
- The review of the business activity - child care, to include all direct and indirect costs including the payment of rental in the setting of fees.
- Continuance of an additional \$1M annually in loan borrowing to be allocated towards addressing infrastructure backlogs.
- Priority towards asset renewal capital works over upgrade/expansion or new asset creation.
- Ongoing community consultation towards a special rate variation to fund infrastructure works.

### ***Impact on Key Financial Indicators***

Additional amendments to earlier forecasted results:

- Adjust Roads to Recovery income back to original levels. Failure to receive ongoing funding at existing levels may require a reduced level of expenditure towards the maintenance of roads.
- Rate pegging allowance to be assessed as the prior years CPI plus an estimated 0.5% based on labour and rates growth. A cap of 3.5% was applied.

- Key initiatives undertaken to balance the 2010/11 will be permanent.
- Proposed reduction in income from service authorities and road opening permits will be offset by reduced expenditure in these areas.
- The deletion of the Works Materials Index. This index was established to ensure that current material and construction resources were able to be maintained into the future.
- Fair Value adjustments for investments based on February valuations.

Key financial indicators that have been impacted by the remedial action taken above have been restated below. The financial indicators: Debt Service Ratio and Outstanding Rates & Annual Charges are not anticipated to materially change.

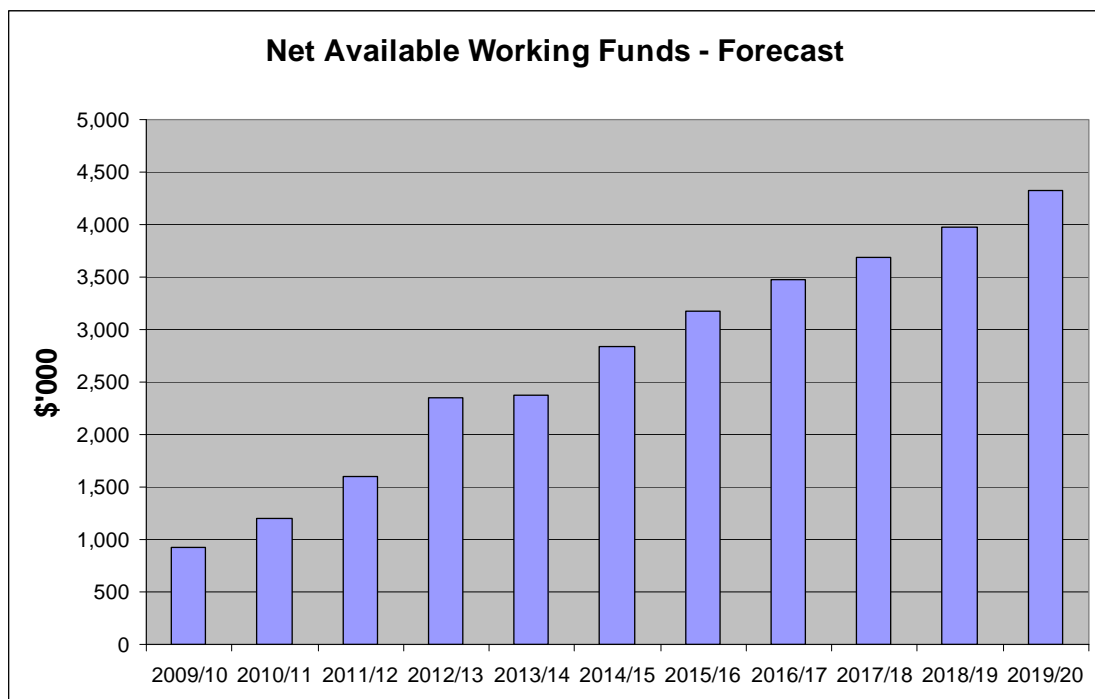
## Budget Result

<b>LTFP Budget Summary Report</b>											
All Principal Activities	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year	Total Year
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Original Budget	Original Budget	Long Term Financial Plan	Long Term Financial Plan	Long Term Financial Plan	Long Term Financial Plan	Long Term Financial Plan	Long Term Financial Plan	Long Term Financial Plan	Long Term Financial Plan	Long Term Financial Plan
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Salaries	30,217,106	31,315,710	32,380,444	33,643,281	35,022,656	36,458,594	37,953,366	39,509,475	41,129,364	42,815,668	44,571,110
Wages	7,206,308	7,457,084	7,710,624	8,011,339	8,339,804	8,681,736	9,037,687	9,408,232	9,793,970	10,195,522	10,613,539
Other Employee Expense	7,804,818	8,082,624	8,237,213	8,420,564	8,620,936	8,829,318	9,046,349	9,272,277	9,507,469	9,752,303	10,007,176
Borrowing Expense	1,527,112	1,518,060	1,507,579	1,455,939	1,399,195	1,295,339	1,143,322	1,178,919	1,200,041	1,206,704	1,209,060
Materials & Contracts	29,188,364	29,887,651	30,634,842	31,645,732	32,563,520	33,507,862	34,479,590	35,479,498	36,508,404	37,567,147	38,656,595
Materials Construction	0	0	217,203	0	0	0	0	0	0	0	0
Other Expenses	15,564,893	15,382,893	15,494,771	15,627,464	15,772,402	15,923,283	16,080,350	16,243,857	16,414,067	16,591,256	16,775,710
Internal Expenses	-2,149,242	-2,129,468	-2,182,704	-2,254,734	-2,320,121	-2,387,404	-2,456,639	-2,527,882	-2,601,190	-2,678,625	-2,754,247
Depreciation & Amortisation	13,000,000	17,359,000	17,892,150	17,565,400	17,597,050	18,607,900	19,099,150	19,567,400	20,051,650	20,233,900	20,767,150
<b>Total Operating Expense</b>	<b>102,359,359</b>	<b>108,873,554</b>	<b>111,892,121</b>	<b>114,115,045</b>	<b>116,995,341</b>	<b>120,916,617</b>	<b>124,383,195</b>	<b>128,131,777</b>	<b>132,003,774</b>	<b>135,685,876</b>	<b>139,846,093</b>
Rates & Annual Charges	-72,106,030	-74,351,050	-76,507,230	-78,802,447	-81,402,928	-84,170,628	-87,034,635	-89,998,213	-92,971,472	-95,954,700	-98,948,000
User Charges & Fees	-13,862,595	-14,206,440	-14,561,601	-15,042,134	-15,478,356	-15,869,228	-16,113,346	-16,580,633	-17,061,471	-17,556,254	-18,065,385
Interest	-1,016,000	-1,389,054	-1,566,000	-1,972,000	-1,682,000	-1,798,000	-1,798,000	-1,798,000	-1,798,000	-1,798,000	-1,798,000
Operating Grants	-7,040,709	-7,554,714	-7,743,582	-7,999,120	-8,231,095	-8,489,796	-8,715,420	-8,968,168	-9,228,244	-9,495,863	-9,771,244
Operating Contributions & Donations	802,891	-796,900	-816,823	-843,778	-868,247	-893,426	-919,336	-945,996	-973,430	-1,001,660	-1,030,708
Other Revenues	-3,137,354	-3,513,055	-3,600,881	-3,719,710	-3,827,582	-3,938,582	-4,052,801	-4,170,332	-4,291,272	-4,415,719	-4,543,774
<b>Total Operating Revenue</b>	<b>-98,065,579</b>	<b>-101,811,213</b>	<b>-104,796,118</b>	<b>-108,379,190</b>	<b>-111,490,208</b>	<b>-114,929,661</b>	<b>-118,233,538</b>	<b>-121,941,342</b>	<b>-125,770,890</b>	<b>-129,726,196</b>	<b>-133,811,407</b>
<b>Net Operating Result</b>	<b>4,293,780</b>	<b>7,062,340</b>	<b>7,096,004</b>	<b>5,735,855</b>	<b>5,505,133</b>	<b>5,986,957</b>	<b>9,149,657</b>	<b>9,190,435</b>	<b>9,232,884</b>	<b>8,959,681</b>	<b>9,034,686</b>
WIP Expenditure	10,091,386	10,034,656	10,285,522	10,624,945	10,933,068	10,982,127	11,300,609	11,628,326	11,965,548	12,312,549	12,669,613
WIP Expenditure Construction	0	0	152,810	282,808	443,084	0	0	0	0	0	0
Asset Purchases	4,082,700	3,847,000	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700	4,082,700
<b>Total Capital Expenditure</b>	<b>14,174,086</b>	<b>13,881,656</b>	<b>14,521,032</b>	<b>14,990,452</b>	<b>15,458,852</b>	<b>15,064,827</b>	<b>15,383,309</b>	<b>15,711,026</b>	<b>16,048,248</b>	<b>16,395,249</b>	<b>16,752,313</b>
Capital Grants	-917,000	-1,492,656	-1,529,972	-1,580,461	-1,626,295	-1,673,457	-1,721,988	-1,771,925	-1,823,311	-1,876,187	-1,930,597
Capital Contributions & Donations	-762,080	-1,913,000	-1,980,825	-2,025,532	-2,084,273	-2,144,717	-2,206,913	-2,270,914	-2,336,770	-2,404,537	-2,474,268
Asset Sales -	-2,459,000	-2,474,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000	-2,459,000
<b>Total Capital Income</b>	<b>-4,138,080</b>	<b>-5,879,656</b>	<b>-5,949,797</b>	<b>-6,064,994</b>	<b>-6,169,568</b>	<b>-6,277,174</b>	<b>-6,387,901</b>	<b>-6,501,839</b>	<b>-6,619,082</b>	<b>-6,739,724</b>	<b>-6,863,865</b>
<b>Net Capital Result</b>	<b>10,036,006</b>	<b>8,002,000</b>	<b>8,571,235</b>	<b>8,925,459</b>	<b>9,289,284</b>	<b>8,787,653</b>	<b>8,995,408</b>	<b>9,209,187</b>	<b>9,429,166</b>	<b>9,655,525</b>	<b>9,888,448</b>
<b>Net Operating &amp; Capital Result</b>	<b>14,329,786</b>	<b>15,064,340</b>	<b>15,667,239</b>	<b>14,661,314</b>	<b>14,794,418</b>	<b>14,774,610</b>	<b>18,145,065</b>	<b>18,399,622</b>	<b>18,662,051</b>	<b>18,615,205</b>	<b>18,923,133</b>
External Restricted Assets	-875,731	-675,648	-103,591	71,334	21,011	198,522	324,365	456,878	596,292	742,928	897,099
Internal Restricted Assets	-1,151,265	626,274	704,300	724,345	738,780	762,492	612,640	612,640	612,640	612,640	612,640
External Loan Proceeds	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000	-2,000,000
External Loan Principal Repayments	3,040,479	3,324,094	3,637,082	3,983,688	4,359,136	4,781,786	1,678,162	1,791,897	1,968,918	1,975,004	1,992,171
Depreciation Contra	-13,000,000	-17,359,000	-17,892,150	-17,565,400	-17,597,050	-18,607,900	-19,099,150	-19,567,400	-20,051,650	-20,233,900	-20,767,150
<b>Funding Total</b>	<b>-13,986,518</b>	<b>-15,084,280</b>	<b>-15,654,359</b>	<b>-14,787,833</b>	<b>-14,478,124</b>	<b>-14,865,100</b>	<b>-18,483,963</b>	<b>-18,705,984</b>	<b>-18,873,799</b>	<b>-18,903,328</b>	<b>-19,265,241</b>
<b>Net Operating &amp; Capital Result After Funding</b>	<b>343,269</b>	<b>-19,940</b>	<b>12,880</b>	<b>-125,719</b>	<b>316,294</b>	<b>90,490</b>	<b>-338,898</b>	<b>-306,362</b>	<b>-211,749</b>	<b>-288,122</b>	<b>-342,108</b>

The consequence of permanent expenditure reductions achieved in the 2010/11 Budget process will result in a small budget surplus over the period of this Plan. Council's ability to expand existing services or to take on new services will be limited unless an existing service is downsized to offset any new or expanded service.

The deletion of the Works Materials Index over the period of the Plan in order to achieve a financially sustainable result will result in maintenance and renewal costs falling below current service levels. This will place ongoing pressure on infrastructure maintenance and renewal requirements. Either this will have to be accepted or further services be reviewed that could be ‘downsized’ and/or closed so that financial resources can be redirected towards renewal and maintenance expenditure. To address the infrastructure shortfall Council has commenced with the process to seek a special rate variation. The infrastructure Levy as it has been referred to will be applied towards improving Hornsby’s ageing infrastructure.

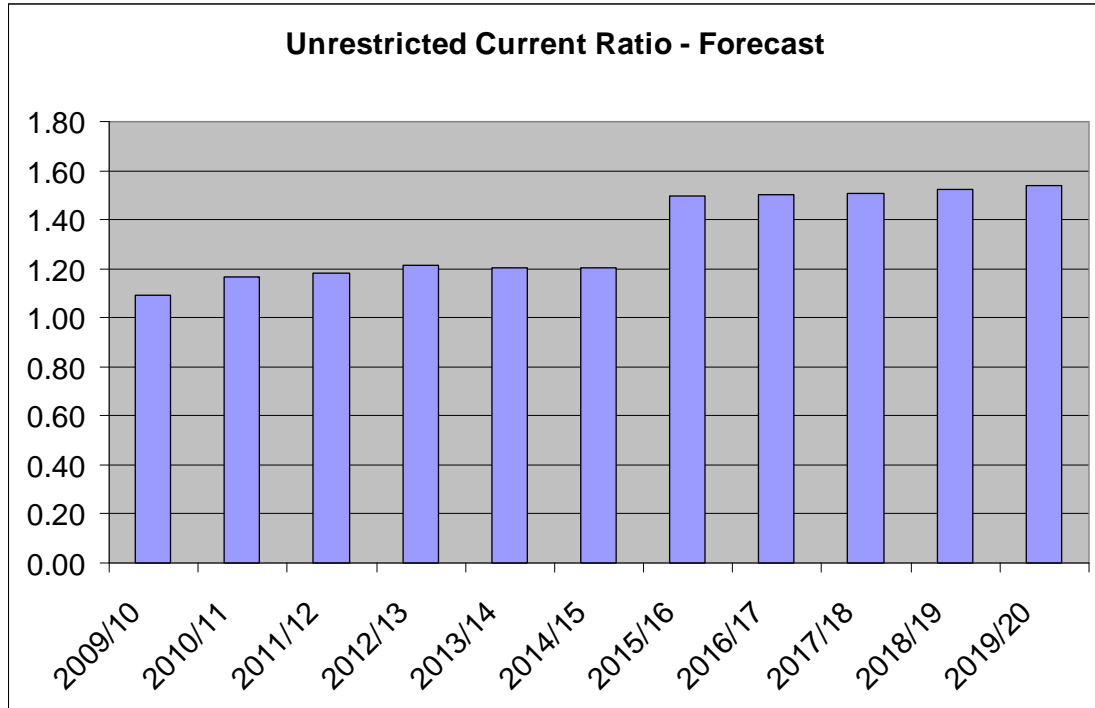
**Working Funds Result**



The level of working funds improves significantly over the Plan period reaching suggested targets by 2015/16.

### *Unrestricted Current Ratio*

As presented in the graph below, Councils unrestricted current ratio is held above the 1:1 target showing a forecasted improvement in the latter years of this Plan.



## Income Statement

While the Income Statement is significantly improved due to expenditure reductions and improved investment income, the issue of rate revenue dominating council's total revenue will continue. Annual rate increases will be unable to absorb employee, statutory, materials and contract cost increases.

HORNSBY SHIRE COUNCIL BUDGET - TMI Management Reporting System											
Income Statement - Forecast											
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>INCOME FROM CONTINUING OPERATIONS</b>											
<b>Revenue</b>											
Rates & Annual Charges	72,186	74,351	76,507	78,802	81,403	84,171	83,635	86,478	89,418	92,459	95,602
User Charges & Fees	13,883	14,206	14,562	15,042	15,478	15,659	16,113	16,581	17,061	17,556	18,065
Investment Revenues	2,003	1,650	1,975	2,596	2,019	2,170	1,798	1,798	1,798	1,798	1,798
Other Revenues	3,137	3,513	3,601	3,720	3,828	3,939	4,053	4,170	4,291	4,416	4,544
Grants & Contributions - Operating	7,844	8,352	8,560	8,843	9,089	9,363	9,635	9,914	10,202	10,498	10,802
Grants & Contributions - Capital	1,679	3,406	3,491	3,606	3,711	3,818	3,929	4,043	4,160	4,281	4,405
<b>Other Income</b>											
Profit from Disposal of Assets	0	0	0	0	0	0	0	0	0	0	0
<b>Total Income from Continuing Operations</b>	<b>100,731</b>	<b>105,478</b>	<b>108,596</b>	<b>112,609</b>	<b>115,538</b>	<b>119,120</b>	<b>119,162</b>	<b>122,984</b>	<b>126,931</b>	<b>131,007</b>	<b>135,216</b>
<b>EXPENSES FROM CONTINUING OPERATIONS</b>											
Employee costs	46,228	47,855	49,328	51,075	52,983	54,970	57,037	59,190	61,431	63,763	66,192
Materials & Contracts	29,188	29,888	30,852	31,646	32,564	33,508	34,480	35,479	36,508	37,567	38,657
Borrowing Costs	1,527	1,518	1,508	1,456	1,399	1,295	1,143	1,179	1,200	1,207	1,209
Depreciation & Amortisation	13,000	17,359	17,892	17,565	17,597	18,608	19,099	19,557	20,052	20,234	20,767
Other Expenses	13,416	13,253	13,312	13,373	13,452	13,536	13,624	13,716	13,813	13,915	14,021
<b>Total Expenses from Ordinary Activities</b>	<b>103,359</b>	<b>109,874</b>	<b>112,892</b>	<b>115,115</b>	<b>117,995</b>	<b>121,917</b>	<b>125,383</b>	<b>129,132</b>	<b>133,004</b>	<b>136,686</b>	<b>140,846</b>
<b>OPERATING RESULT FROM CONTINUING OPERATIONS</b>	<b>-2,628</b>	<b>-4,396</b>	<b>-4,197</b>	<b>-2,506</b>	<b>-2,457</b>	<b>-2,796</b>	<b>-6,221</b>	<b>-6,148</b>	<b>-6,073</b>	<b>-5,679</b>	<b>-5,630</b>

## Balance Sheet

As represented below significant improvement will occur in Cash and Investments compared to earlier predictions. The depletion of Cash and Investments will no longer be anticipated thereby ensuring prudent current asset levels.

HORNSBY SHIRE COUNCIL BUDGET - TM1 Management Reporting System											
Balance Sheet - Forecast											
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet	Balance Sheet
<b>ASSETS</b>											
<b>Current Assets</b>											
Cash & Cash Equivalents	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Investment Securities	18,123	19,211	20,299	21,921	22,779	24,191	25,638	27,083	28,570	30,282	32,204
Debtors - Rates & Annual Charges	2,601	2,693	2,772	2,855	2,949	3,049	3,034	3,133	3,239	3,349	3,463
Debtors - Rates etc non current	361	361	361	361	361	361	361	361	361	361	361
Debtors - User Charges	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260	2,260
Debtors - GST claimable	588	516	520	526	536	537	544	553	562	571	581
Inventories	876	876	876	876	876	876	876	876	876	876	876
<b>Total Current Assets</b>	<b>34,809</b>	<b>35,917</b>	<b>37,087</b>	<b>38,798</b>	<b>39,761</b>	<b>41,274</b>	<b>42,714</b>	<b>44,266</b>	<b>45,869</b>	<b>47,700</b>	<b>49,745</b>
<b>Non-Current Assets</b>											
Property, etc - Purchases	1,725,341	1,723,764	1,718,452	1,713,091	1,708,526	1,703,534	1,697,951	1,692,004	1,686,025	1,679,910	1,673,969
Property, etc - Sales	-2,459	-2,474	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459	-2,459
Property, etc - Depreciation	-13,000	-17,369	-17,892	-17,565	-17,597	-18,608	-19,099	-19,567	-20,052	-20,234	-20,767
Prepayments & Other	0	0	0	0	0	0	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>1,709,882</b>	<b>1,703,931</b>	<b>1,698,101</b>	<b>1,693,067</b>	<b>1,688,469</b>	<b>1,682,467</b>	<b>1,676,293</b>	<b>1,669,977</b>	<b>1,663,515</b>	<b>1,657,217</b>	<b>1,650,743</b>
<b>Total Assets</b>	<b>1,744,691</b>	<b>1,739,848</b>	<b>1,735,188</b>	<b>1,731,865</b>	<b>1,728,230</b>	<b>1,723,742</b>	<b>1,719,006</b>	<b>1,714,243</b>	<b>1,709,383</b>	<b>1,704,917</b>	<b>1,700,489</b>
<b>LIABILITIES</b>											
<b>Current Liabilities</b>											
Payables	-7,263	-7,139	-7,313	-7,479	-7,660	-7,750	-7,914	-8,090	-8,272	-8,460	-8,653
Borrowings	-3,324	-3,637	-3,983	-4,359	-4,782	-1,678	-1,792	-1,969	-1,975	-1,992	-2,006
Provisions - ELE based	-12,707	-13,707	-14,707	-15,707	-16,707	-17,707	-18,707	-19,707	-20,707	-21,707	-22,707
<b>Total Current Liabilities</b>	<b>-23,294</b>	<b>-24,483</b>	<b>-26,002</b>	<b>-27,545</b>	<b>-29,149</b>	<b>-27,135</b>	<b>-28,413</b>	<b>-29,766</b>	<b>-30,954</b>	<b>-32,159</b>	<b>-33,366</b>
<b>Non-Current Liabilities</b>											
Borrowings & Advances - (Repaid)	-16,740	-15,103	-13,121	-10,762	-7,980	-8,302	-8,510	-8,541	-8,566	-8,574	-8,568
Borrowings & Advances - (New)	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000	-2,000
<b>Total Non-Current Liabilities</b>	<b>-18,740</b>	<b>-17,103</b>	<b>-15,121</b>	<b>-12,762</b>	<b>-9,980</b>	<b>-10,302</b>	<b>-10,510</b>	<b>-10,541</b>	<b>-10,566</b>	<b>-10,574</b>	<b>-10,568</b>
<b>Total Liabilities</b>	<b>-42,034</b>	<b>-41,586</b>	<b>-41,123</b>	<b>-40,307</b>	<b>-39,129</b>	<b>-37,437</b>	<b>-38,922</b>	<b>-40,306</b>	<b>-41,520</b>	<b>-42,732</b>	<b>-43,934</b>
<b>NET ASSETS</b>	<b>1,702,657</b>	<b>1,698,261</b>	<b>1,694,065</b>	<b>1,691,558</b>	<b>1,689,101</b>	<b>1,686,305</b>	<b>1,680,084</b>	<b>1,673,937</b>	<b>1,667,864</b>	<b>1,662,185</b>	<b>1,656,555</b>
<b>EQUITY</b>											
Retained Earnings	-1,569,800	-1,565,404	-1,561,208	-1,558,701	-1,556,244	-1,553,448	-1,547,227	-1,541,080	-1,535,007	-1,529,328	-1,523,698
Asset Revaluation Reserve	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857	-132,857
<b>TOTAL EQUITY</b>	<b>-1,702,657</b>	<b>-1,698,261</b>	<b>-1,694,065</b>	<b>-1,691,558</b>	<b>-1,689,101</b>	<b>-1,686,305</b>	<b>-1,680,084</b>	<b>-1,673,937</b>	<b>-1,667,864</b>	<b>-1,662,185</b>	<b>-1,656,555</b>

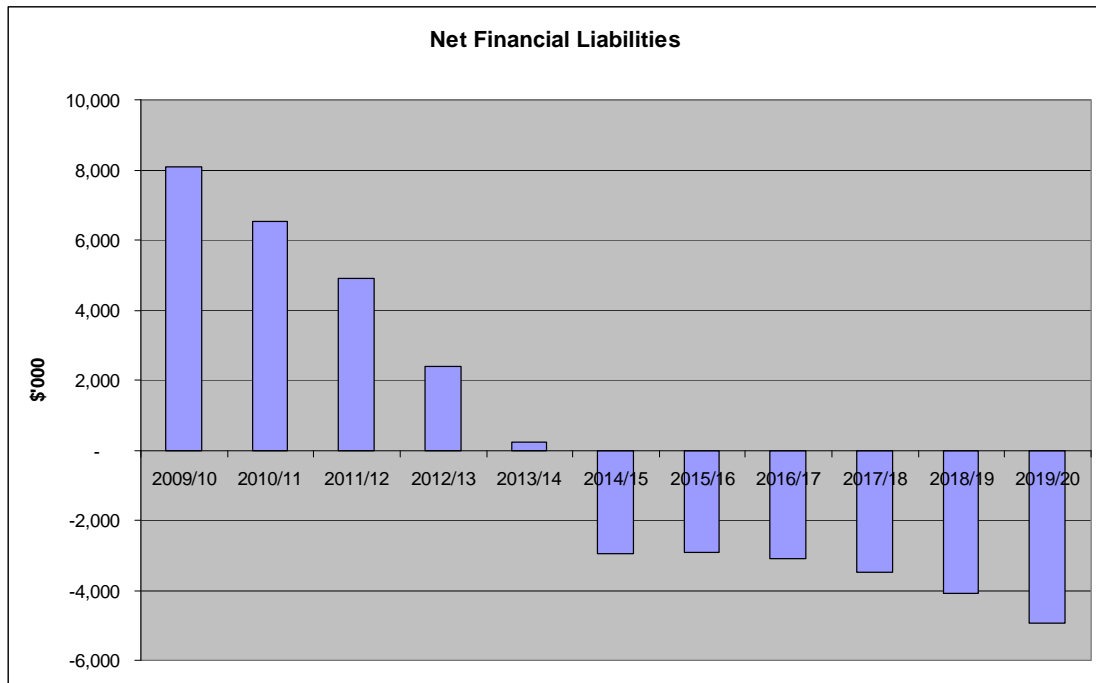
## Cash Flow Statement

Annual budgets now predicting a budget surplus will result in an immediate improvement to previously stated levels of forecasted cashflow.

HORNSBY SHIRE COUNCIL - BUDGET - TFM Management											
Cash Flow - Forecast											
	Budget 2009/10 \$'000	Budget 2010/11 \$'000	Budget 2011/12 \$'000	Budget 2012/13 \$'000	Budget 2013/14 \$'000	Budget 2014/15 \$'000	Budget 2015/16 \$'000	Budget 2016/17 \$'000	Budget 2017/18 \$'000	Budget 2018/19 \$'000	Budget 2019/20 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>											
<b>Receipts</b>											
Rates & Annual Charges	71,716	74,259	76,429	78,719	81,309	84,070	83,650	86,379	89,312	92,349	95,488
User Charges & Fees	15,758	15,627	16,018	16,546	17,026	17,225	17,725	18,239	18,768	19,312	19,872
Investments Income	2,003	1,650	1,975	2,596	2,019	2,170	1,798	1,798	1,798	1,798	1,798
Grants & Contributions	10,475	12,933	13,256	13,694	14,091	14,500	14,920	15,353	15,798	16,256	16,727
Other operating receipts	6,391	6,444	6,559	6,720	6,890	7,018	7,181	7,353	7,531	7,715	7,904
<b>Payments</b>											
Employee Costs	-45,228	-46,855	-48,328	-50,075	-51,983	-53,970	-56,037	-58,190	-60,431	-62,763	-65,192
Materials & Contracts	-31,971	-31,425	-32,190	-32,922	-33,720	-34,115	-34,836	-35,611	-36,412	-37,239	-38,090
Borrowing Costs	-1,527	-1,518	-1,508	-1,456	-1,399	-1,295	-1,143	-1,179	-1,200	-1,207	-1,209
Other operating payments	-12,788	-12,570	-12,876	-13,169	-13,488	-13,646	-13,934	-14,244	-14,565	-14,895	-15,236
<b>Net Cash provided by (or used in)</b>	<b>14,827</b>	<b>18,545</b>	<b>19,334</b>	<b>20,653</b>	<b>20,744</b>	<b>21,958</b>	<b>19,322</b>	<b>19,898</b>	<b>20,599</b>	<b>21,325</b>	<b>22,063</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
<b>Receipts</b>											
Proceeds from sale of Infrastructure	2,705	2,721	2,705	2,705	2,705	2,705	2,705	2,705	2,705	2,705	2,705
Proceeds from sale of Investment Property											
Proceeds from sale of Real Estate											
Proceeds from sale of Investment	0	0	0	0	0	0	0	0	0	0	0
Repayments from Deferred Debt	0	0	0	0	0	0	0	0	0	0	0
<b>Payments</b>											
Purchase of Infrastructure, Prope	-19,183	-18,855	-19,314	-19,753	-20,232	-20,469	-20,901	-21,366	-21,847	-22,343	-22,854
Purchase of Investment Property											
Purchase of Real Estate	0	0	0	0	0	0	0	0	0	0	0
Purchase of Investment Securitie	0	0	0	0	0	0	0	0	0	0	0
<b>Net Cash provided by (or used in)</b>	<b>-16,478</b>	<b>-16,133</b>	<b>-16,609</b>	<b>-17,048</b>	<b>-17,527</b>	<b>-17,764</b>	<b>-18,197</b>	<b>-18,661</b>	<b>-19,142</b>	<b>-19,638</b>	<b>-20,149</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
<b>Receipts</b>											
Proceeds from Borrowings & Adv	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Payments</b>											
Repayments of Borrowings & Adv	-3,040	-3,324	-3,637	-3,983	-4,359	-4,782	-1,678	-1,792	-1,969	-1,975	-1,992
<b>Net Cash provided by (or used in)</b>	<b>-1,040</b>	<b>-1,324</b>	<b>-1,637</b>	<b>-1,983</b>	<b>-2,359</b>	<b>-2,782</b>	<b>322</b>	<b>208</b>	<b>31</b>	<b>25</b>	<b>8</b>
<b>Net Increase (Decrease) in cash</b>	<b>-2,691</b>	<b>1,087</b>	<b>1,088</b>	<b>1,622</b>	<b>858</b>	<b>1,412</b>	<b>1,448</b>	<b>1,444</b>	<b>1,487</b>	<b>1,712</b>	<b>1,922</b>
Cash Assets at beginning of rep	30,814	28,123	29,211	30,299	31,921	32,779	34,191	35,638	37,083	38,570	40,282
Cash Assets at end of reporting	28,123	29,211	30,299	31,921	32,779	34,191	35,638	37,083	38,570	40,282	42,204

## Net Financial Liabilities

The level of Net Financial Liabilities as depicted below remains within financially acceptable levels.



## **7.0 INFRASTRUCTURE LEVY**

Based on community feedback from extensive engagement and consultation activities the Councillors, at a workshop in February, confirmed their intent to seek approval from the Minister for Local Government for a special variation to general income of 5.8% above the rate peg to improve Hornsby's ageing infrastructure and build new facilities to meet the changing needs of the community.

The special variation proposed is 5.8% of the combined Ordinary (residential, farmland, business and CBD business) Rate and the Catchments Remediation Rate. The term of the special variation to general income is 20 years in order to align with the proposed loan period and be less than the anticipated life of the new and improved assets funded by the special variation. If approved, the special variation to general income would be known as an infrastructure levy, and commence in July 2010 for 20 years.

The purpose of the proposed infrastructure levy would be to fund the three priority projects of:

- Replacement of the Hornsby Aquatic Centre
- A new pedestrian overbridge across George Street
- The provision of additional passive and active recreation space at Old Mans Valley

Councillors also recognised the community desire to nominate ward specific projects and, therefore, proposed the total allocation of \$1,500,000 per ward in the first two years of an infrastructure levy. The projects to be funded would be determined by ward Councillors in collaboration with their constituents and according to project assessment criteria which would include triple bottom line principles and take account of ongoing financial and maintenance implications. Local projects suggested by the community include:

- Extension to the Brickpit Stadium
- Stormwater drainage improvements
- Upgrades to Epping and Galston pools
- Improvements to community buildings
- Footpath upgrades
- Improved disabled access
- Town Hall/Performing Arts Centre
- Learn to swim facility at Berowra
- Bike and skateboard parks
- Bike tracks and trails
- Improvements to amenities at local ovals
- Upgrades to playgrounds

Councillors are aware of the financial burden for pensioners and, therefore, propose a \$10 rebate for pensioners and others eligible for financial relief in accordance with Council's Hardship Policy.

If the special variation is approved, Council will report progress in a variety of ways, including in the Annual Report to the Community and on Council's website, so that those with an interest are able to easily find the information and make comment.

Community comment and feedback regarding the proposed infrastructure levy has been collected and collated since January 2010 in order to provide the Minister for Local Government with valid data reflective of community opinion. Submissions received during the proposed further exhibition period from 18 March to 19 April 2010 will be included in the data forwarded to the Minister at the end of the exhibition period.

## Funding Proposal for Infrastructure

Listed below in summary is the funding proposal for infrastructure work that is expected to be undertaken over the period of the proposed special rate variation.

<b>BUSINESS PLAN FOR INFRASTRUCTURE LOAN - 2010</b>																				
Financial Year Ending	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cash Inflows</b>																				
Special Rate Variation	-3,242	-3,339	-3,440	-3,543	-3,649	-3,759	-3,871	-3,987	-4,107	-4,230	-4,357	-4,488	-4,622	-4,761	-4,904	-5,051	-5,203	-5,359	-5,520	-5,685
Less Pensioner Discount	70	72	74	76	79	81	84	86	89	91	94	97	100	103	106	109	112	116	119	123
Borrowings			-15,000	-18,000	-3,000															
	-3,172	-3,267	-18,365	-21,466	-6,570	-3,677	-3,788	-3,901	-4,018	-4,139	-4,263	-4,391	-4,523	-4,658	-4,798	-4,942	-5,090	-5,243	-5,400	-5,562
<b>Cash Outflows</b>																				
<b>Capital Expenditure</b>	2,800	3,913	15,212	16,498	2,186	0	0	0	0	0	0	0	0	0	0	123	0	0	0	0
Ward Based Projects	2,250	2,250																		
Old Mans Valley		513	2,912	7,498	2,186											123				
Aquatic Centre	500	1,000	9,500	9,000																
Pedestrian Overpass	50	150	2,800																	
<b>Borrowing Expenses</b>	0	0	2,018	3,818	4,106	4,106	4,106	4,106	4,106	4,262	4,262	4,262	4,262	4,262	6,488	5,249	5,249	5,249	5,249	5,249
Loan 1			1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703					
Loan 1a			315	315	315	315	315	315	315	315	315	315	315	315	315	779	779	779	779	779
Loan 2				1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	4,026	4,026	4,026	4,026	4,026	4,026
Loan 3					288	288	288	288	288	288	445	445	445	445	445	445	445	445	445	445
	2,800	3,913	17,229	20,316	6,292	4,106	4,106	4,106	4,106	4,262	4,262	4,262	4,262	4,262	6,488	5,372	5,249	5,249	5,249	5,249
<b>Net Cash Flow</b>	-372	645	-1,136	-1,150	-279	428	318	204	87	123	-1	-129	-261	-396	1,690	430	159	6	-151	-313
		273	-863	-2,013	-2,292	-1,864	-1,546	-1,342	-1,255	-1,131	-1,132	-1,261	-1,522	-1,918	-228	202	361	367	216	-98
<b>Movements Restricted Assets</b>																				
Outflow		645				428	318	204	87	123					1,690	430	159	6		
Inflow	-372		-1,136	-1,150	-279						-1	-129	-261	-396						-151
	-372	645	-1,136	-1,150	-279	428	318	204	87	123	-1	-129	-261	-396	1,690	430	159	6	-151	-313
Balance		273	-863	-2,013	-2,292	-1,864	-1,546	-1,342	-1,255	-1,131	-1,132	-1,261	-1,522	-1,918	-228	202	361	367	216	-98
<b>Borrowings</b>																				
	<b>Term Yrs</b>	<b>P&amp;I Yrs</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>															
Loan 1 (13yrs P&I)	13	13	12,000																	
Loan 1a (13yrs IO, 5yrs P&I)	18	5	3,000																	
Loan 2 (11yrs IO, 6yrs P&I)	17	6		18,000																
Loan 3 (5yrs IO, 11yrs P&I)	16	11			3,000															
<b>Assumptions</b>																				
Special Rate Variation	5.80%																			
Rate Pegging	3.00%																			
Pensioner Rebate	3.00%																			
Loan Interest Rate			10.5%	10.0%	9.6%															

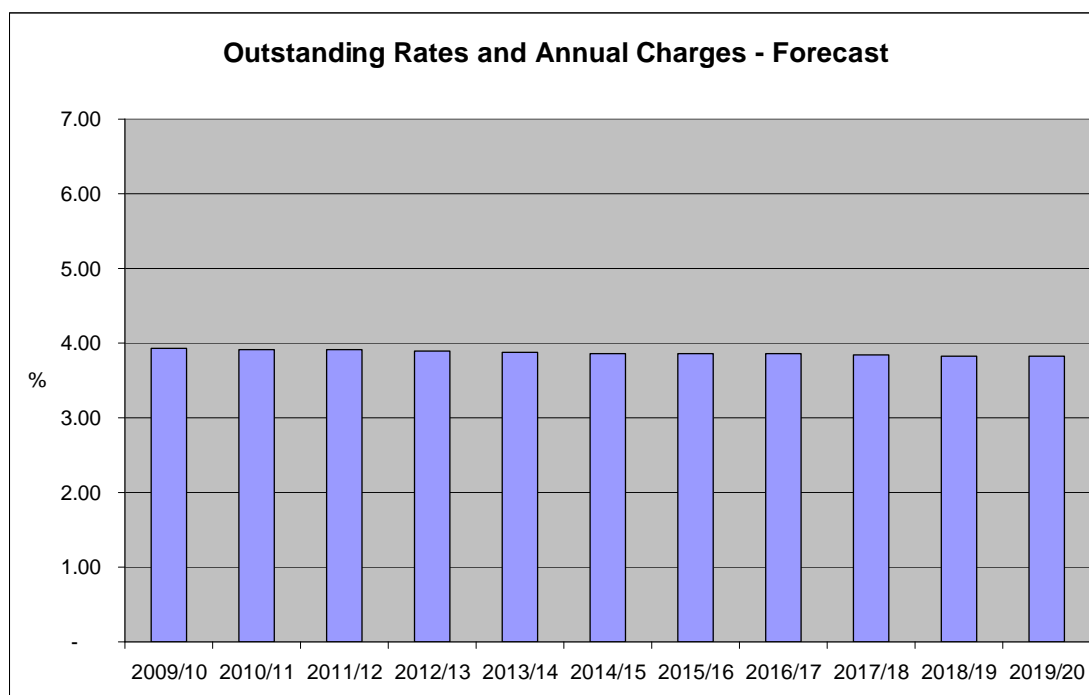
### ***Impact of Special Rate Variation on Key Indicators***

As proposed above the cash inflows are utilised towards cash outflows over the 20 year period of the special rate variation. This will ensure the annual budget remains as forecasted as cash received from rates will be used to meet either debt servicing and/or capital expenditure requirements. Other key indicators requiring review based on the proposed special rate variation are:

#### ***Outstanding Rates & Annual Charges***

No material change is anticipated in the collection of unpaid rates.

The 2007/08 Comparative Information on NSW Local Government Councils has reported the NSW average at 5.2% and the Group 7 average at 5.79%. As forecasted below it is anticipated that Hornsby will remain below these averages.

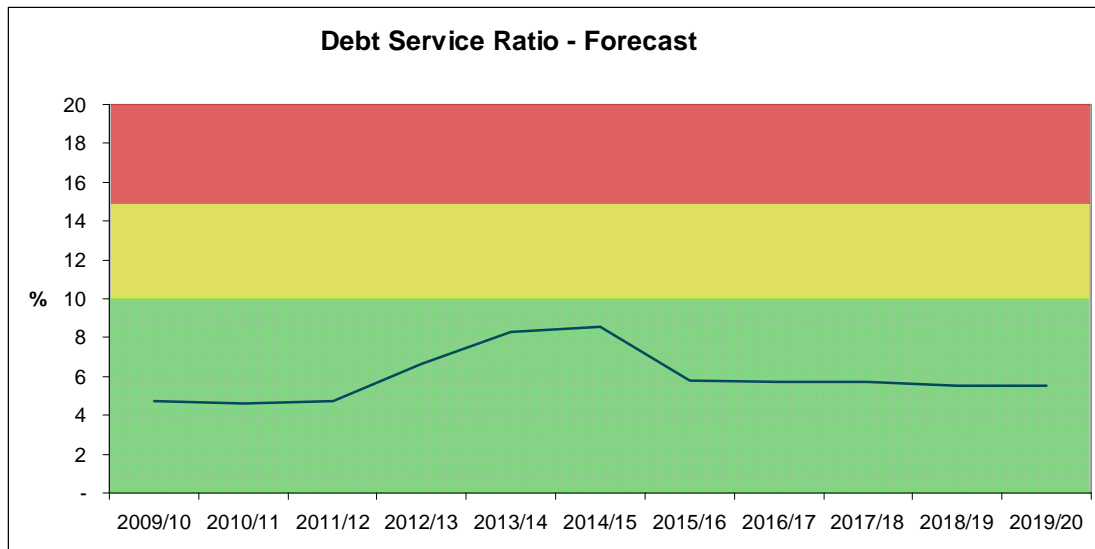


#### ***Debt Service Ratio***

To undertake the level of capital expenditure proposed in the funding proposal presented above will require a substantial increase in loan borrowing. The results of the increased borrowing are reflected in the chart below.

The Division of Local Government's benchmark is that a ratio of less than 10% is satisfactory. This view is supported by Councils External Auditor. The 2007/08 Comparative Information on NSW Local Government Councils reported Group 7 councils with an average of 6.25%. The results below demonstrate that the Hornsby

Council will be below the industry benchmark of 10% and below the Group 7 average other than the years 2013/14 and 2014/15.



Debt Service Ratio										
2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
4.72	4.60	4.74	6.65	8.30	8.56	5.80	5.74	5.72	5.55	5.51
<div style="background-color: #90EE90; border: 1px solid black; padding: 2px;">                     &lt;10% Satisfactory                 </div>			<div style="background-color: #FFFF00; border: 1px solid black; padding: 2px;">                     10 - 15% High                 </div>			<div style="background-color: #FF0000; border: 1px solid black; padding: 2px;">                     &gt;15% Very High                 </div>				

**Unrestricted Current Ratio**

The unrestricted current ratio remains within acceptable ranges as displayed below.

