HORNSBY
SHIRE COUNCIL

LONG TERM FINANCIAL PLAN

SUMMARY

2017/18 to 2026/27

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Summary

On 12 May 2016, the Minister for Local Government proclaimed the creation of 19 new Councils across NSW. This included the creation of the City of Parramatta and confirmed the transfer of the Hornsby Shire Council area south of the M2 Motorway to the new City of Parramatta Council effective from the proclamation date. The financial impact of this boundary adjustment was significant to Hornsby Shire Council resulting in the following being transferred to the City of Parramatta:

- Net recurrent revenue of $9.1 million per annum. Over the period of this Plan, with rate increases applied, this would equate to $99.6 million.
- Foregone growth in rates income estimated at a minimum of $2.4 million from current and future development concentrated in this area over the next 10 years.
- Assets that had been identified (in excess of $50 million) which were to be used towards funding the eventual development of the Hornsby Quarry and Westleigh sites.
- Section 94 funds of $14 million collected prior to the proclamation date.
- Significant foregone Section 94 funds from projected future development in the area south of the M2 Motorway totalling tens of millions of dollars.

The main purpose of the Long Term Financial Plan (LTFP) is to guide and inform decision making following the boundary adjustment. The LTFP establishes the framework for sound financial decisions and provides an insight as to the financial sustainability of the council over the planning period of this document. The key objectives in developing this Plan are:

- Balanced Budgets and an ability to fund major capital projects
- Continuous Financial Improvement
- Reduction in External Loan Borrowing
- Achieve/Maintain NSW Treasury Corporation (TCorp) Financial Sustainability Benchmarks

As part of undertaking financial modelling, key assumptions that underpin the forecasts must be made. The 2017/18 Original Budget has been used as its base point, with a number of market driven and internal assumptions to project revenue and expenditure then made over the forecast period. The 2016/17 March Revised Budget has been used to determine opening Balance Sheet items in 2017/18.

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 over past years. Levels of service however may not remain the same given changes in community expectations in future years of the Plan.

Financial planning over a ten-year horizon is difficult and obviously relies on a variety of assumptions that may be subject to change during this period.

Financial Results

The Income Statement result before capital items over the 10-year period predicts small surpluses. This result is within acceptable financial sustainability levels but will not provide sufficient annual available cash to fund significant capital projects into the future and be able to withstand 'budget shocks' that may occur.

Any variation to these moderate increases and/or changes to the 'normal operations' level of service may impact on the surplus forecasts. This includes deterioration in assets at a greater rate than currently planned or natural events that trigger material cash injections to restore infrastructure.

A summary of the Income Statement Result before Capital Items and Profit from Asset Sales is listed below.

	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Net Operating Surplus before Capital Items Result	$1.776M	$1.162M	$0.786M	$1.015M	$0.986M	$2.817M	$2.709M	$1.825M	$0.944M	$1.468M	$0.707M

The results above provide Council with small surpluses during the 2016/17 – 2026/27 period but are a significant reduction on past performance as shown below:

- 2015/16 $14.638M Surplus
- 2014/15 $14.770M Surplus
- 2013/14 $6.688M Surplus

The Balance Sheet result over the 10-year period maintains equity, liabilities and non current assets within acceptable levels. The Cash Flow Statement is within acceptable levels to support 'normal operations' but difficulty may be experienced in the event of budget shocks, major asset deterioration or to fund significant capital projects.

In addition to the key financial statement reports above, Council compares itself to a range of financial indicators as issued by the Office of Local Government and NSW Treasury Corporation. Council is within reasonable levels of these financial indicators other than the cash expense cover ratio, asset maintenance ratio and building & infrastructure renewal ratio (from 23/24 onwards) as shown below:

Indicator	**Benchmark**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	**26/27**
Operating Performance Ratio	>0%	0.96%	0.64%	0.80%	0.75%	2.08%	1.95%	1.28%	0.65%	0.98%	0.46%
Own Source Operating Revenue Ratio	>60%	82.79%	87.41%	87.59%	87.83%	88.04%	88.14%	88.25%	88.36%	88.47%	88.55%
Unrestricted Current Ratio	>1.5	6.18	7.18	6.94	6.72	6.32	6.92	7.22	7.44	7.74	7.86
Infrastructure Backlog Ratio	<2%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Asset Maintenance Ratio	>100%	96%	96%	96%	96%	96%	96%	96%	96%	96%	96%
Cash Expense Cover Ratio	>3 months	2.78	3.10	2.68	1.94	1.53	1.17	1.68	2.07	2.44	2.66
Building and Infrastructure Renewals Ratio	>100%	149%	112%	140%	153%	143%	135%	83%	81%	82%	84%
Outstanding Rates and Annual Charges	< 5.0%	2.43%	2.43%	2.43%	2.43%	2.43%	2.43%	2.43%	2.43%	2.43%	2.43%
Debt Service Ratio	<10%	1.12%	0.85%	0.58%	0.33%	0.21%	0.20%	0.00%	0.00%	0.00%	0.00%

Under 'normal operations' the financial results are at acceptable levels compared to benchmarks yet highlights that there will be no improvement in Council's adjusted financial position following the boundary adjustment on 12 May 2016.

The 2018-2027 LTFP represents Council's progress towards financial sustainability with financial reports and indicators within acceptable levels compared to benchmarks. The foundation had been laid over the last several years by a range of initiatives that have substantially reduced Council expenses whilst increasing income. The Council has been prudent with these budget improvements by applying the funds towards reducing debt and setting aside surplus funds in a restricted asset account to fund major capital projects. This to date has avoided the need to undertake external loan borrowing and/or to increase rates above the rate pegging limit.

Future Direction

While all financial indicators are within acceptable levels, the impact of the NSW Government's boundary adjustment has resulted in a significant reduction in Hornsby Council's current operating capacity. Further, rate increases on a reduced rate base and the missed opportunity from rate growth from the area south of the M2 Motorway (due to concentrated development) has significantly reduced future benefits to improve the Council's operating capacity. In excess of $50 million in assets that were to be realised to fund some significant projects over the period of this Plan have also been transferred to the City of Parramatta Council with no recompense to Hornsby.

It is this reduced financial ability into the future that will now limit council in a number of ways:

1. Major Capital Projects

The funding available for the redevelopment of the Hornsby Quarry, dubbed by many as the future 'Centennial Park of the North', will be limited to the restricted asset funds that have been set aside for this project. Increased community expectations around the scope of this project will need to be limited to the amount that has been set aside in this restricted asset account. The former Westleigh Water Board site recently acquired by Council to meet future sports and recreation needs will also need to be placed on hold until funding options can be secured. Project cost increases above the amount set aside for the Hornsby Quarry project would require using other restricted asset funds, a special rate increase, external loan borrowing or a combination of all three. The ability to maintain these sites once built will require careful consideration as part of any redevelopment to ensure that future budgets have the ability to meet the lifecycle costs of these assets.

2. Loan Borrowing

While point 1 above suggests consideration of external loan borrowing, this would need to be critically evaluated against the ability of the Council to meet debt service obligations. The Income Statement result over the forecast period results in small surpluses only so Council's borrowing capability will be limited by this factor.

3. Section 94 Infrastructure Works

The works schedule available as part of the Section 94 Development Contributions Plan provides the detail in respect to the infrastructure planned to be undertaken as a result of an increasing population. The works schedule is not fully funded by the amount of income received from Section 94 fees. Therefore, Council will need to set aside surplus funds from its general operations to fund this Section 94 gap.

The current Section 94 funding gap is approximately $40 million with an amount allocated in each annual budget to reduce this gap. It has been calculated that over the 10 years of this Plan a shortfall of $28 million will exist. An alternative strategy would be to review existing assets as to utilisation levels and determine if they are in surplus to current and future needs for the purpose of using asset sale proceeds to assist in funding the Section 94 gap.

4. Normal Operations

It is expected that current service levels of Council will be required to be retained in line with that produced in 2017/18. A limited operating capacity will restrict any further expansion of services currently provided unless a ‘trade-off’ between services can be agreed to. Diligence especially be required around staffing levels to ensure current labour costs are maintained at a satisfactory level.

Action to Improve Future Direction

To improve Council's future operating capacity to be able to deliver on significant capital projects for the community and to meet the Section 94 Plan gap will require consideration of the following:

- The Premier and Minister for Local Government's response to Council's request that if an amalgamation with Ku-ring-gai Council is not to be progressed, that the NSW Government reinstates the area south of the M2 Motorway to Hornsby Shire Council, or alternatively provide compensation to the residents of Hornsby while this Council adjusts to the scale of a smaller council.
- Continuance of financial improvement initiatives (periodic reviews of business activities, service levels and organisational staffing levels)
- Updating of asset management plans as key inputs into future asset maintenance and renewal expenditures while considering asset rationalisation (ie. asset reviews of community facilities and small parks)
- Rate increases above the rate pegging limit
- A greater emphasis on Section 94 capital project works.

In respect to Council owned community facilities, much of the portfolio was constructed in the 1960's and 1970's and now requires significant budget allocation towards asset renewal and maintenance works. Many of the facilities operated by Council no longer meet community expectations due to their layout and age. A current trend across the local government sector is to construct multi-purpose facilities that more appropriately address community expectations and ongoing maintenance and renewal costs that have to be met by councils. It would be prudent for Council to consider the future demand and purpose of these facilities against rising maintenance costs with the aim of upgrading and/or constructing new facilities through asset rationalisation of some of these facilities. Of course, such an action is dependent upon substantial investigation, consultation and deliberation by Council and the community.

Council has for more than 10 years adopted a policy of improving the capacity of existing infrastructure to accommodate the increased demand generated by a new incoming population. An example of this approach has been the provision of open space. Today, many of Council's existing sportsgrounds have reached/exceeded their capacity and significant funds will be required to construct new facilities and/or increase the carrying capacity of existing grounds to meet identified shortfalls. There are currently small parks owned by Council that due to their location and size are under utilised that potentially could be sold for residential purposes. In fact, a prudent approach would be to sell these parcels of land and then use the proceeds to augment / provide open space in the nominated growth areas. Of course such an action is dependent upon substantial investigation, consultation and deliberation by Council and the community.