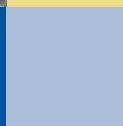


Waverley Council



Long Term Financial Strategy 1 (LTFS1)

DECEMBER 2008



Contents

| | |
|---|-----------|
| EXECUTIVE SUMMARY | 1 |
| 1. INTRODUCTION..... | 4 |
| 1.1 Objectives..... | 4 |
| 1.2 Timeframe..... | 4 |
| 1.3 Method | 4 |
| 1.4 Structure | 5 |
| 1.5 Current Financial Position | 5 |
| 1.6 Current Strategic Position | 6 |
| 1.7 Current Services | 7 |
| 2. POLICY CONTEXT..... | 8 |
| 2.1 Overview | 8 |
| 2.2 Waverley Together Strategic Plan..... | 8 |
| 2.3 Management Plan | 8 |
| 2.3.1 General | 8 |
| 2.3.2 Capital Works Program..... | 9 |
| 2.3.3 Fleet Replacement Policy..... | 9 |
| 2.3.4 Pricing Policy..... | 9 |
| 2.4 Restrictions Policy..... | 9 |
| 2.5 Strategic Asset Management Plans | 10 |
| 2.6 Environmental Action Plan | 11 |
| 2.7 Investment Strategy..... | 11 |
| 2.8 Investment Policy | 12 |
| 2.9 Looking Good Strategy | 13 |
| 2.10 Workforce Strategy..... | 13 |
| 3. BASE LAYER | 14 |
| 3.1 Introduction | 14 |
| 3.2 Financial Assumptions..... | 14 |
| 3.3 Financial Analysis and Result..... | 15 |
| 3.4 Opportunities and Threats..... | 17 |
| 4. INVESTMENT STRATEGY LAYER | 20 |
| 4.1 Introduction | 20 |
| 4.2 Financial Assumptions..... | 20 |
| 4.3 Financial Analysis and Result | 20 |
| 4.4 Opportunities and Threats..... | 23 |
| 5. SUSTAINABLE ASSETS LAYER | 24 |
| 5.1 Introduction | 24 |
| 5.2 Financial Assumptions..... | 25 |
| 5.3 Financial Analysis and Result | 25 |
| 5.4 Opportunities and Threats..... | 27 |
| 6. SUSTAINABLE ENVIRONMENT LAYER | 29 |
| 6.1 Introduction | 29 |
| 6.2 Financial Assumptions..... | 29 |
| 6.3 Financial Analysis and Result | 30 |
| 6.4 Opportunities and Threats..... | 30 |
| 7. OPERATIONAL IMPROVEMENTS LAYER..... | 31 |
| 7.1 Introduction | 31 |
| 7.2 Financial Assumptions..... | 31 |
| 7.3 Financial Analysis and Result | 31 |
| 7.4 Opportunities and Threats..... | 31 |

| | |
|---|-----------|
| 8. CAPITAL IMPROVEMENTS LAYER | 33 |
| 8.1 Introduction | 33 |
| 8.2 Financial Assumptions..... | 33 |
| 8.3 Financial Analysis and Result | 34 |
| 8.4 Opportunities and Threats | 34 |
| 9. CONCLUSION | 35 |
| 9.1 Analysis | 36 |
| 9.2 Building a Solution | 36 |
| 9.2.1 Productivity Improvements..... | 36 |
| 9.2.2 Service Reviews | 37 |
| 9.2.3 Optimisation of Assets | 37 |
| 9.2.4 Other Funding Sources | 37 |
| 9.2.4.1 Potential Contribution to a Solution of a Special Variation to Rates | 38 |
| 9.2.4.2 Potential Contribution of Non-Rates Income Sources to a Solution | 40 |
| 9.3 Next Steps..... | 41 |
| APPENDIX 1 | 42 |

EXECUTIVE SUMMARY

Waverley Council's *Long Term Financial Strategy* (LTFS) contains a set of long range financial projections based on an informed set of assumptions. It is designed to show the financial impacts of providing different levels of service, as well as undertaking different programs of capital works. The LTFS covers the 14 year time period from 2008/09 to 2021/22. This length of time has been selected to align with the timeframe of the *Waverley Together Strategic Plan 2*.

The LTFS is structured as a series of 'layers', each of which shows a specific financial scenario. Each of the layers relates to particular Council plans or policies. The layers are cumulative, so that each layer incorporates the assumptions and financial outcomes of each of the previous layers. This iteration of the LTFS presents financial forecasts associated with:

- a Base Layer, which shows the financial results of delivering current levels of service (and could also be called the 'business as usual' layer);
- an Investment Strategy Layer, which incorporates the financial results of assets sales and reinvestment as per Council's *Investment Strategy* (2007); and
- a Sustainable Assets Layer, which is essentially based on the *Strategic Asset Management Plan 2* (2007) and incorporates the financial results of meeting adopted service standards for the maintenance of a wide range of Council assets.

These three layers of the LTFS project a substantial shortfall in funds to sustain Council's current level of operations up to 2021/22. The Base Layer results in a balanced net financial result up to and including 2010/11. In 2011/12, however, the net result becomes negative and remains negative every year thereafter.

The Investment Strategy Layer results in a slightly improved financial result beginning in 2011/12 and continuing thereafter. This result is achieved due to unrestricted revenue of between \$630,000 and \$740,000 from the Investment Strategy Layer assisting with operational expenses in the Base Layer from 2011/12 onwards. However, the net result of the combined Base and Investment Strategy Layers still becomes negative in 2011/12 and remains negative for every year thereafter.

The Sustainable Assets Layer results in a significantly deteriorated financial result for Council. This result is due to the \$5.8-7.8 million projected to be required on asset renewal every year to 2018/19 and the \$2.6 million projected to be required in the years 2019/20 up to and including 2021/22. In this Layer Council achieves its worst financial result in 2018/19, with a projected net deficit of \$30.1 million.

The level of unfunded expenditure in each of the first three layers of the LTFS is shown in the following table.

| Total Projected Unfunded Expenditure 2008/09 – 2021/22 | |
|---|---------------|
| Base Layer | \$157,728,398 |
| Investment Strategy Layer | \$150,156,382 |
| Sustainable Assets Layer | \$224,324,782 |

In addition to the Base, Investment Strategy and Sustainable Assets Layers, the LTFS begins to set out three other layers. These are:

- a Sustainable Environment Layer, which is intended to show the financial results of changing levels of service in environmental management and will be largely based on the forthcoming *Environmental Action Plans*;
- an Operational Improvements Layer, which is intended to show the financial results of increased levels of service in Council operations; and
- a Capital Improvements Layer, which is intended to show the financial results of additional capital works which are not contained in the previous layers.

Detailed financial projections for the Sustainable Environment, Operational Improvements and Capital Improvements Layers will be incorporated into the second iteration of the LTFS. At present, it is anticipated that these layers will worsen the financial results compared to the first three layers.

There are likely to be several options available to Council to address the funding shortfalls projected in the LTFS. Like all Councils, Waverley may access funds through variety of means including:

- rates
- fees and charges
- loans
- grants
- developer contributions
- parking services
- fines
- commercial business operations.

Given the size of the projected shortfall, a balanced solution is likely to involve maintenance of or an increase in all of the above sources of income. It will also involve the controlling of costs in some service areas and may also involve the review of some services. Service reviews or service level reductions are more likely to arise if economic trends worsen or where other factors come into play that negatively affect income. In general, if we are looking at solutions on the income side, the income source that has the largest capacity to form part of a solution is rates.

At present, modelling of the implications of the LTFS for rates income is in its preliminary stages. Results of modelling thus far indicate that:

- To fund the shortfall in the Base Layer solely from rates, an average cumulative rates increase of 9.2% per annum would be required over seven years to begin in 2011/12, followed by the Minister's assumed CPI increase from 2018/19 to 2021/22.
- To fund the shortfall in the first three layers of the LTFS solely from rates, an average cumulative rates increase of 11.2% per annum would be required over seven years to begin in 2011/12, followed by the Minister's assumed CPI increase from 2018/19 to 2021/22.

The next stage in the preparation of the LTFS will incorporate modelling of further detail on:

- asset management, particularly through the outcomes of the *Strategic Asset Management Plan 3*;
- environmental services and projects, particularly through the outcomes of the *Environmental Action Plans 1 and 2*;
- operational improvements, particularly through the outcomes of the *Waverley Together Strategic Plan 2 and Workforce Plan*; and

- capital improvements, through a range of plans and processes.

In addition, Council will explore ways in which costs in all layers of the LTFS can be controlled and the means by which they might be offset through increases in income other than rates. It is expected that the *Long Term Financial Strategy 2 (LTFS2)*, which will incorporate the modelling and financial implications of all six layers along with recommended strategies for addressing funding shortfalls, will be published in late 2009. LTFS2 will incorporate the results of further modelling to be undertaken on various patterns of potential rate increases to lessen or smooth the impacts on ratepayers wherever possible.

1. INTRODUCTION

1.1 Objectives

A LTFS contains a set of long range financial projections based on an informed set of assumptions. It is designed to show the financial impacts of providing different levels of service, as well as undertaking different programs of capital works.

The objectives of Waverley Council's *Long Term Financial Strategy* are to:

- provide a transparent account of Council's financial situation to the community
- analyse the cumulative financial effects of Council's high level plans and policies
- identify the financial opportunities and challenges confronting Council
- provide a basis for sound and strategic decision making
- achieve a balanced budget over the long term
- meet the requirements of the Department of Local Government's (DLG) integrated planning framework.

1.2 Timeframe

An LTFS may be prepared for any length of time. This Strategy covers the 14 year time period from 2008/09 to 2021/22. This length of time has been selected to align with the timeframe of the *Waverley Together 2 Strategic Plan* (see Section 2.2). In addition, if Council continues to maintain its current levels of service and income, according to current projections the operational budget is likely to be in deficit in the year 2011/12. The LTFS thus sets out a range of options for responsibly managing this financial situation over a 10 year period from when the situation first arises.

This is the first iteration of Waverley's LTFS. It is expected that the LTFS will be progressively updated as a range of corporate planning processes advance. A second iteration of the LTFS, known as 'LTFS2', is scheduled to be prepared in late 2009. Key dependencies for the preparation of LTFS2 include:

- the publication of the second iteration of the Waverley Together Strategic Plan
- the publication of the third iteration of the Strategic Asset Management Plan
- the publication of the first and second iterations of the Environmental Action Plan.

1.3 Method

This LTFS is structured as a series of 'layers', each of which shows a specific financial scenario or case. Each of the layers relates to a particular Council plan or policy. The layers are cumulative, so that each layer incorporates the assumptions and financial outcomes of each of the previous layers. This iteration of the LTFS presents financial forecasts associated with:

- a Base Layer
- an Investment Strategy Layer
- a Sustainable Assets Layer.

In addition, the Strategy begins to set out:

- a Sustainable Environment Layer
- an Operational Improvements Layer
- a Capital Improvements Layer.

Detailed financial forecasts for these layers will be incorporated into LTFS2.

The order of layers in the LTFS is not necessarily meant to imply a predetermined priority for expenditures; although the discretion Council has regarding expenditure in each layer does tend to increase with each successive layer and is relatively low in the earlier layers.

In each of the layers, the financial assumptions have been separated into those associated with operating income and expenditure, and those associated with capital income and expenditure. Throughout the Strategy, the operational costs associated with the capital expenditure in a particular layer generally remain with that layer. For example, if a new child care centre is proposed to be constructed in a particular layer, the costs associated with running the centre are forecast within the same layer as the expenditure of the capital.

In all of the layers, the Consumer Price Index (CPI) has been used to index income and expenditure over time. The CPI used for the first five years of this LTFS is that forecast by Access Economics (see Attachment 1 for the full assumptions regarding CPI and interest rates).

1.4 Structure

This LTFS is structured into three main sections. Section 1 provides a brief introduction to the Strategy and the objectives it aims to meet.

Section 2 details the policy context within which the LTFS has been prepared. It provides an overview of the many strategies, plans, policies and other documents which have implications for the long term financial future of the Council.

Section 3 describes in detail each of the six layers associated with this iteration of the LTFS. It sets out:

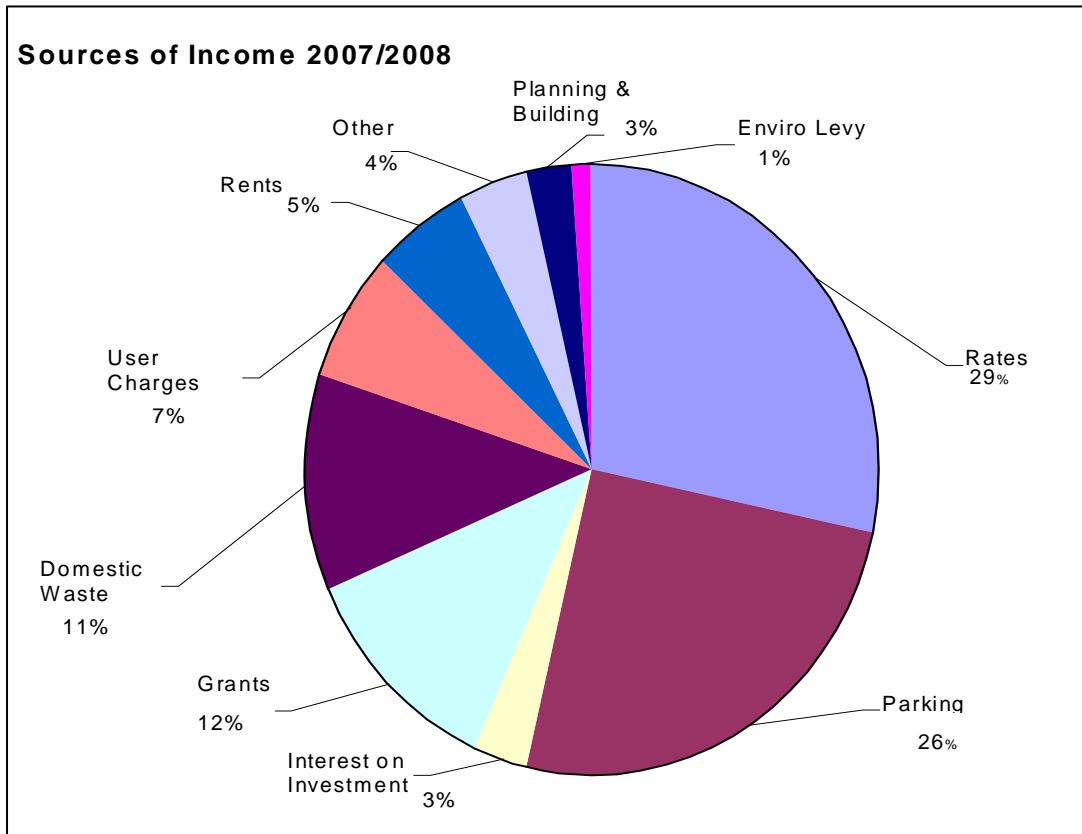
- the assumptions by which each layer was created
- any opportunities and threats which may make the layer sensitive to variation.

In addition, the first three layers incorporate the financial outcomes which result from the application of the relevant assumptions. The financial forecasts associated with the remaining three layers will be incorporated into LTFS2.

1.5 Current Financial Position

Waverley Council operates from a sound financial position. As indicated in the following chart, the major sources of Council revenue in 2007/08 were rates, parking fees and charges, grants and the Domestic Waste Charge.

Sources of Income 2007/2008



The Management Plan 2008/12 estimated Council's total operating and capital budget for 2008/09 to be \$98.05 million including transfers to reserves, and \$92.72 million excluding transfers to reserves.

The previous financial years have resulted in an operating surplus and, as predicted in the 2008/12 Management Plan, the next three financial years (up to and including 2010/11) are also predicted to result in a surplus. However by 2011/12, with the current levels of expected income and expenditure, an operating deficit is predicted.

Council currently has a loan liability related to capital projects of \$8.52 million. At the current rate of repayment, Council will have repaid these loans by 2015/16. New loans, however, are likely to be taken during that period and in this LTFS it is not intended that Council should move towards operating on a debt free basis.

Like all councils in New South Wales, Waverley is subject to Section 506 of the *Local Government Act*, which gives the right to specify the percentage by which general income (ie rates income) may be increased to the Minister for Local Government. The maximum annual rate increases allowed by the Minister in the six years to 2007/08 varied between 3.3% and 3.6%. In 2008/09, the maximum rates increase without a Special Variation was 3.2%.

1.6 Current Strategic Position

As explained at Section 2.2, the high level opportunities and challenges facing Council are outlined in the *Waverley Together Strategic Plan*. In addition, a detailed outline of Waverley's demographics is contained in the *Social Plan 2005-10*.

Some features of Waverley's current strategic position which impact upon the LTFS include:

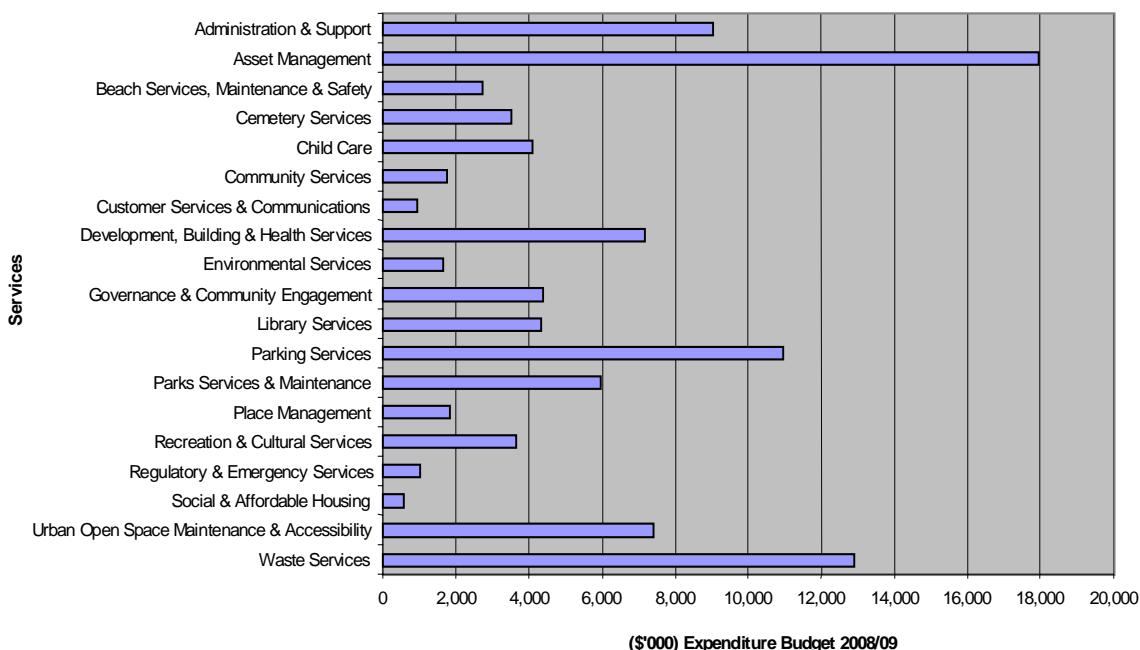
- a residential population which has been stable in size for some years and is not predicted to significantly increase
- a large number of visitors over the summer months
- a residential population which is highly educated and socio-economically diverse
- a local government area which is densely developed (Waverley is the most densely populated Local Government Area in Australia)
- an aging infrastructure
- a natural environment which is highly valued by the community.

The expectations of Waverley's community are increasing for virtually all areas of service provision.

1.7 Current Services

As is shown in the graph below, which shows projected expenditure on services in 2008/09, Council provides an extraordinarily wide range of services.

It should be noted that some of the services listed in this graph, including child care, cemetery, parking and waste services, are largely or entirely funded through user fees and charges, and therefore have little or no negative effect on Council's overall budget result. In some cases, such as parking, the effect is positive.



2. POLICY CONTEXT

2.1 Overview

Waverley Council has for many years had an integrated and well developed corporate planning and reporting framework. This framework accords with the requirements in the *Local Government Act* and associated regulations, as well as incorporating some discretionary best-practice features, such as an overarching Strategic Plan. The keystones of Waverley's planning and reporting framework are:

- the *Waverley Together Strategic Plan*
- the *Management Plan*
- the *Annual Report*.

The DLG has recently proposed changes to the framework by which Councils across New South Wales undertake corporate planning and reporting. Waverley's existing regime is largely compliant with this model, although some alterations to various plans, including the *Strategic Plan*, will be necessary.

In addition, as part of its cycle of continuous improvement, Waverley frequently reviews and revises its corporate planning and reporting documents.

2.2 Waverley Together Strategic Plan

Waverley's first Strategic Plan, called *Waverley Together*, was adopted by Council in April 2006. The Plan covers a 12 year time period and contains Council's high level vision, directions and strategies. The current version of the Strategic Plan also contains a number of implementation examples, which have been progressively actioned through Council's Management Plans.

All of Council's lower level plans, including this *Long Term Financial Strategy* and the plans detailed below, must be consistent with the Strategic Plan.

Due to changes in the DLG strategic planning and reporting framework, as well as to the 'trigger event' of the September 2008 local government elections, the Strategic Plan is currently being reviewed. It is expected that a draft of *Waverley Together 2* will be published in September 2009, with a final version in early 2010.

2.3 Management Plan

2.3.1 General

As required under the *Local Government Act*, Waverley Council has a rolling four year Management Plan. Waverley's Management Plan has eight chapters, seven of which are based on the Strategic Plan and one of which details how Council manages its internal governance.

Each of the Management Plan chapters incorporates the Strategic Plan's directions and strategies, while adding measurable actions that include targets and the allocation of responsibilities. The Management Plan also includes information about how Council intends to fund the various operational and capital activities.

The Management Plan 2008/12 contains three parts:

- Part 1: Management Plan
- Part 2: Finance, Capital Works and Asset Management
- Part 3: Pricing Policy, Fees and Charges

The sections of the Management Plan which are relevant to the LTFS are detailed below.

2.3.2 Capital Works Program

Council's four year Capital Works Program is contained in Part 2 of the Management Plan. The Program for 2008/12 contains 62 projects worth a combined total of \$22.7 million. Specific projects for individual years range in size from the construction of the Coastal Walk from Calga Reserve to Waverley Cemetery, worth some \$2.2 million in a single financial year, to small projects such as the development of a Bronte Road gateway to Bondi Junction, worth \$40,000.

The current capital works program contains some projects associated with Council's *Investment Strategy* and *Strategic Asset Management Plan* (see below for details of these documents).

2.3.3 Fleet Replacement Policy

Council's Fleet Replacement Policy is contained in Part 2 of the Management Plan. The Policy determines that:

- Passenger Fleet be replaced at 60,000km or 3 years or as determined by the General Manager
- Light Commercial Fleet be replaced at 3 years or as determined by the Fleet Manager having regard to condition and usage
- Truck Fleet be replaced at 7 years or as determined by the Director Public Works and Services having regard to condition and usage
- Major Fleet/Plant Items and Specialised Equipment Actual be replaced as determined by the Director Public Works and Services having regard to condition and usage.

The numbers and categories of expected sales of fleet are specified every year in the Management Plan.

As an input to the draft LTFS Council has developed a draft 10 year Capital Equipment Replacement Schedule.

2.3.4 Pricing Policy

The way in which Council sets fees and charges for its wide range of services is known as the 'Pricing Policy' and is contained in Part 3 of the Management Plan. The Pricing Policy is updated annually and is adopted by Council as part of the Management Plan.

The Pricing Policy determines that all fees and charges levied by Council be set according to one of seven principles, ranging from full cost recovery to no charge. The specific fees and charges associated with each service, and the principles by which those fees and charges are set, are detailed in the schedule attached to the Pricing Policy.

2.4 Restrictions Policy

Council regularly builds and maintains reserves of funds for future use in capital and operational improvements. It also maintains reserves to meet future liabilities such as employee leave entitlements, repayments of deposits and bonds, insurance liabilities, domestic waste liabilities, and plant and equipment replacement. Reserves are built using various funding sources such as surpluses from annual operations, developer contributions, domestic waste and other charges, grants and levies.

The purpose for which reserves can be used is in several cases restricted externally by legislation (section 409(3) of the *Local Government Act*, the *Local Government (Financial Management) Regulation* 1999, and other applicable legislation). This is the case for instance with developer contributions made under Section 94 of the *Environmental Planning and Assessment Act*, funds raised under the Domestic Waste Charge imposed under Section 496 of the *Local Government Act*, funds received as grants, and funds raised by levies or special variations to rates such as the Environmental Levy. In other cases, use of reserves may be also restricted by internal policy to the extent thought necessary by Council to ensure it may meet future liabilities, such as for employee leave entitlements or for return of deposits and bonds or for capital projects.

As at 30 June 2008, Council's current and non-current financial reserves totalled \$49.8 million, of which \$8.77 million is externally restricted. Internally restricted reserves totalled \$39.3 million. Unrestricted reserves totalled \$1.77 million.

Financial results shown in this Strategy are affected by these restrictions, as is Council's flexibility with respect to the use of reserves to defray shortfalls. It is assumed that externally restricted reserves are not available for uses other than those permitted by legislation. There is some greater flexibility with respect to the use of internally restricted reserves but this varies depending on the nature of liabilities. Capacity to continue an expansionary capital works program or other discretionary activities is limited by these liabilities and these are regularly reviewed.

A detailed breakdown of the external and internal restrictions applicable for our reserves is provided in Council's Annual Statements of Accounts for 2008/09, Note 6(c), page 27 (http://www.waverley.nsw.gov.au/publications/pdfs/Financial_Statements.pdf).

The next iteration of the LTFS will include the details of Council policies in regards to all internally restricted reserves.

2.5 Strategic Asset Management Plans

The DLG and several Ministers for Local Government have strongly advocated for the improvement of asset management practices by local government in NSW. Waverley has long been a leader in this area, having published its first Strategic Asset Management Plan (known as SAMP1) in March 2006 and its second (known as SAMP2) in December 2007. Council is currently in the process of increasing the knowledge base of its SAMP and is working towards the preparation of SAMP3, which is due for publication in September 2009.

Unlike many other councils, Waverley's SAMP does not use depreciation to derive estimates of costs needed to bring assets to a satisfactory standard. Rather, the SAMPs use condition assessments of assets and an understanding of preferred minimum standards and service levels to determine the resources required to manage and maintain assets.

The SAMPs analyse groups of assets in the following categories:

- Category 1: Roads
- Category 2: Footpaths
- Category 3: Kerbs and Gutters
- Category 4: Stormwater Drainage
- Category 5: Buildings
- Category 6: Urban Open Spaces and Malls
- Category 7: Beach and Coastal Infrastructure
- Category 8: Parks and Reserves

- Category 9: Waverley Cemetery
- Category 10 : Other Assets
- Category 11: Trees

SAMPs 1 and 2 focused on Categories 1-5 and 9, while SAMP3 incorporates the outcomes of the technical investigations for all categories of assets other than Category 6. Later iterations of SAMP will cover asset Category 6 and are likely to include new categories of: parking assets; plant and equipment assets; and information technology assets .

2.6 Environmental Action Plan

Waverley Council has for many years undertaken a range of significant environmental projects, guided by various mid level plans (such as the *Water Savings Action Plan* and the *Waste Avoidance and Resource Recovery Action Plan*). Since the commencement of the 2006/07 financial year, Waverley has also had a Special Rate for an Environmental Levy which funds a large variety of environmental projects (which are detailed in the Management Plan).

As part of its integrated strategic planning framework, Council is currently preparing an overarching *Environmental Action Plan* (EAP). This is being developed with a ‘targets first’ approach and will be structured around the four broad environmental outcome areas of: greenhouse gas emissions; water; waste and biodiversity. Targets for these areas are to be set based on the best information regarding the actions necessary to protect the environment for future generations.

The first iteration of the Environmental Action Plan (known as EAP1) is scheduled to be published in December 2008. This will incorporate the first draft of the targets for environmental outcomes, as well as outlining a variety of technical investigations which will be undertaken to determine the most effective, least cost environmental management solutions for the short medium and long term. The intention is to scope strategies which will significantly contribute to the achievement of environmental outcomes for the whole local government area, not just the Council’s operations.

The second iteration of the EAP will then include actions, determined through the technical investigations, to work towards the targets. The actions will be well considered, measurable and should maximise our capacity to achieve all targets. Where there is a perceived gap between the necessary target and the capacity of the community and the Council to achieve that target, the plan will steer Council through a course to determine the actions required to bridge the gap over time.

EAP2 is expected to be published in September 2009 and will then feed into the next iteration of this LTFS, as well as any reviews of the Environmental Special Rate.

2.7 Investment Strategy

Waverley Council has a significant portfolio of property assets which it owns or controls. Following a successful strategy implemented in the 1990s, Council began, in mid 2005, developing a new strategy to maximise the performance of these properties. This is consistent with the objectives of Council’s Asset Management Policy (which is contained within the SAMP).

The result was the development of the *Investment Strategy*, which is a flexible blueprint for dealing with key Council assets over a 10 year period. The Strategy aims to maximise the performance of Council’s properties and to achieve a number of social, environmental, accommodation and financial objectives. The *Investment*

Strategy was adopted by Council in September 2007 and is being progressively implemented.

Key *Investment Strategy* projects include:

- construction of sub depots under Syd Einfeld Drive and Hugh Bamford Reserve
- conversion of surplus spaces in the Hollywood Avenue Car Park for sub depot use
- sale of Council's current main depot in Green Square and purchase of a new main depot in conjunction with other councils
- provision of a child care service in a school through a joint venture
- conversion of a portion of Eastgate Car Park to office space
- development of a Bondi Junction Town Square
- preparation of a Waverley Park precinct Master Plan and construction of a new Waverley Park Pavilion
- preparation of a Bondi Pavilion Asset Action Plan and the updating of the Plan of Management for Bondi Park
- renovation of Council Chambers to provide more efficient office space for staff
- preparation of a Master Plan to set out the long term vision of a number of key Council sites in Spring/Ebley Street Precinct
- preparation of Arnold Street road closure design guidelines and sale of the site to fund the Green Links program.

The *Investment Strategy* financial model adopted in 2007 aimed to liquidate under-performing or surplus assets to finance the above projects and to ensure the overall portfolio of assets and investments provides an improved return in terms of social, environmental and financial capacity. The Council is confident that the exchange of assets under this program will achieve this objective. Assets that are being liquidated under the Strategy include

- sale of surplus industrial properties outside the local government area
- sale of other surplus small pieces of land
- conversion of surplus car parking spaces in Eastgate Car Park to commercial office space
- sale of the Waverley-Woollahra Processing Plant at Waterloo
- sale of Council's current works depot at Waterloo.

The latter two assets happen to be located within the State Government's Green Square development and under the Green Square LEP are in the process of being rezoned from industrial to residential, commercial and open space uses.

The success of the *Investment Strategy* is dependent upon realising in excess of \$50 million in sales of assets and a further \$12 million in improved returns from the newly created assets.

2.8 Investment Policy

All cash investments made by councils in New South Wales are subject to Section 625 of the *Local Government Act* and to associated regulations and circulars. All such investments must also be in accordance with the Council's Investment Policy.

Waverley's Investment Policy limits the proportion of investments Council can make by:

- the overall credit exposure of the portfolio
- the credit rating of individual financial institutions
- the terms to maturity.

Council's Investment Policy was last revised in May 2008. Monthly reports on the performance of investments and compliance with the Policy are provided to Council's Finance, Ethics and Strategic Planning Committee.

2.9 Looking Good Strategy

The *Looking Good Strategy* provides a consolidated framework to guide the design and maintenance of the public domain in the Waverley local government area. It directs capital works and maintenance activities to consider both the functioning and the attractiveness of the physical environment, as well as the needs of residents, businesses and visitors and the health and safety of staff.

The *Looking Good Strategy* contains maintenance standards for

- bus shelters
- directional signage
- fences and railings
- footpaths
- garden beds
- graffiti and bill posters
- lighting
- nature strips
- public art and commemorative features
- street furniture
- street trees
- traffic control devices.

The initial *Looking Good Strategy* was adopted by Council in December 2006. The Strategy is intended to be an evolving document which will be updated as Council continues to refine its approach to the design and maintenance of the public domain.

2.10 Workforce Plan

As part of its integrated planning and reporting framework, the DLG has included a 'workforce plan' as one of the three resourcing documents which are intended to sit behind the Strategic Plans (the others being asset management plans and long term financial plans).

Although it currently has a *Human Resources Strategic Plan 2005-2008*, Waverley has yet to prepare a *Workforce Plan*. This project is, however, underway and it is anticipated that a draft document will be prepared by late 2009.

3. BASE LAYER

3.1 Introduction

The first or ‘base’ layer of this *Long Term Financial Strategy* shows the financial results of delivering current levels of service. This could also be called the ‘business as usual’ layer.

3.2 Financial Assumptions

The assumptions in the Base Layer are as follows:

| Operating Income | |
|-------------------------------------|---|
| Ordinary Rates | That the State Government policy of rate capping will continue and that rates will continue to be indexed by a fixed amount announced annually by the Minister for Local Government. That this amount will be equal to the forecasted CPI. |
| Environmental Special Rate | That the Environmental Special Rate will rise by an amount equal to CPI in 2009/10 and 2010/11 and then will be removed in 20011/12 and not reinstated. |
| Domestic Waste Management Charge | That the Domestic Waste Charge will rise annually by an amount equal to the forecasted CPI. |
| General User Fees and Charges | That user fees and charges will rise annually by an amount equal to the forecasted CPI. |
| Parking User Fees and Charges | That off street parking fees and charges will rise annually by 5%. That income from parking meter income will rise by an amount equal to the forecasted CPI. That this be considered by recently formed Councillor/Officer Working Group to Review the Parking System. |
| Regulatory Services | That income received from regulatory services will rise annually by an amount equal to the forecasted CPI. This, however, will be calculated from a reduced base of income compared to previous years due to recent reductions in parking infringement numbers. |
| Grants, subsidies and contributions | That the income received from grants, subsidies and contributions will increase annually by an amount equal to the forecasted CPI. |
| Investments | That net positive yields on cash investments are factored into income. |

| Operating Expenditure | |
|-------------------------|---|
| Employee costs | <p>That employee costs, inclusive of Award increases, service margins and market margins, will increase by 5% per annum.</p> <p>That there will be no net increase in staffing numbers (currently 540 equivalent full time).</p> <p>That environmental services continue to be provided at the current (ie 2008) level.</p> |
| Materials and contracts | That costs associated with materials and contracts will increase annually by an amount equal to the forecasted CPI. |
| Operating expenses | That operating expenses, including electricity, water and insurance, will increase annually by an amount equal to the forecasted CPI. |

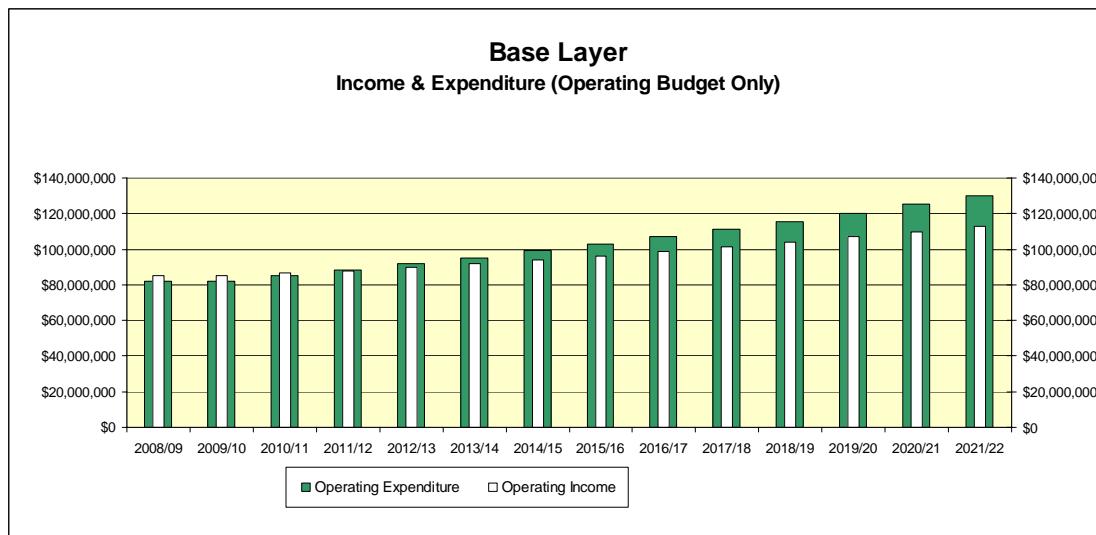
| Capital Income | |
|-------------------------------|--|
| Loans | That no new loans for capital income will be taken. |
| Plant and equipment sales | That plant and equipment will be sold as per the Fleet Replacement Strategy. |
| Property sales | That no property assets will be sold. |
| Developer contributions | That developer contributions will be levied as per Section 94 and 94A of the Environmental Planning & Assessment Act and that the rate of development applications on which the levy is applied will decline from 2010/11. |
| Capital Expenditure | |
| Loans | That the repayment of existing loans will continue. |
| Capital works | That capital works will be undertaken as per the <ul style="list-style-type: none"> ▪ Management Plan 2008/12, with revisions ▪ SAMP2: Categories 1-5. |
| Plant and equipment purchases | That plant and equipment will be purchased as per the Fleet Replacement Strategy. |
| Property purchases | That no property assets will be purchased. |
| Investments | That no new investments will be purchased. |

3.3 Financial Analysis and Result

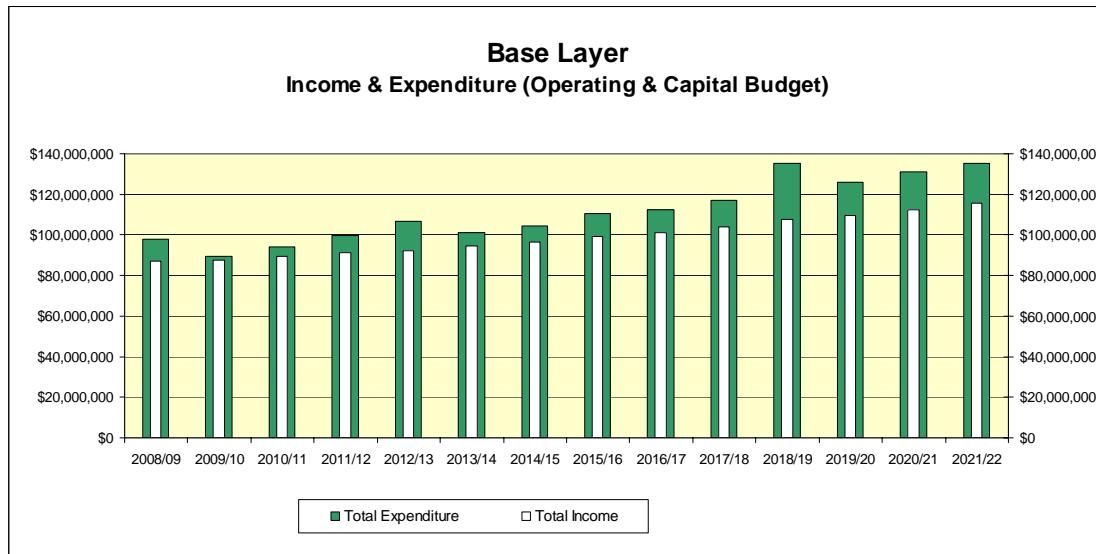
As is illustrated below in the following graph, the Base Layer results in a balanced net financial result up to and including 2010/11. In 2011/12, the net result becomes negative and remains negative every year thereafter.

Even when the projections for the operating budget are considered independently of the capital budget, Council still has a small deficit (of some \$0.4 million) in 2011/12.

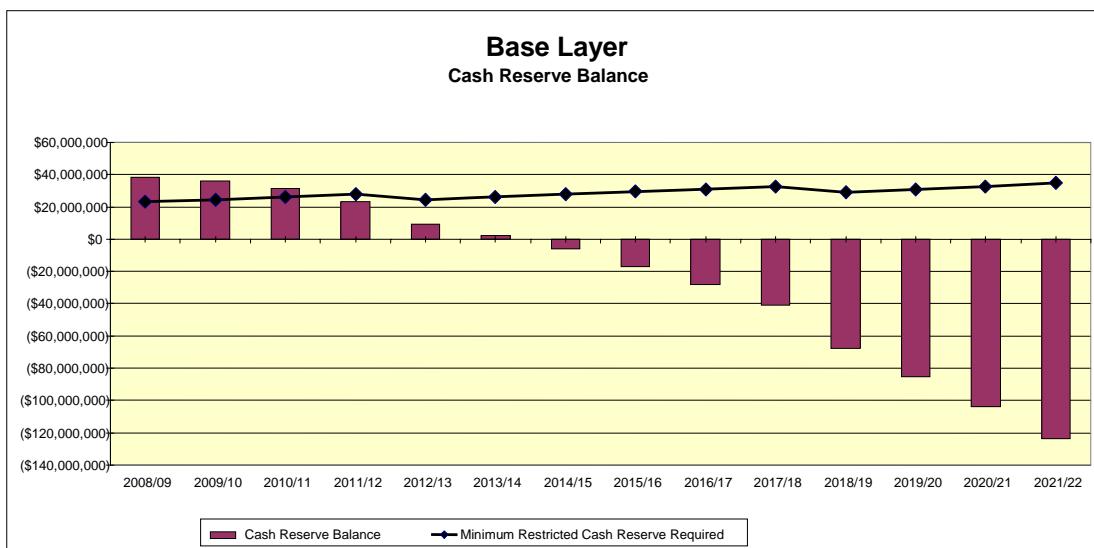
As is shown in the graph below, this is projected to increase to \$17.2 million in 2021/22.



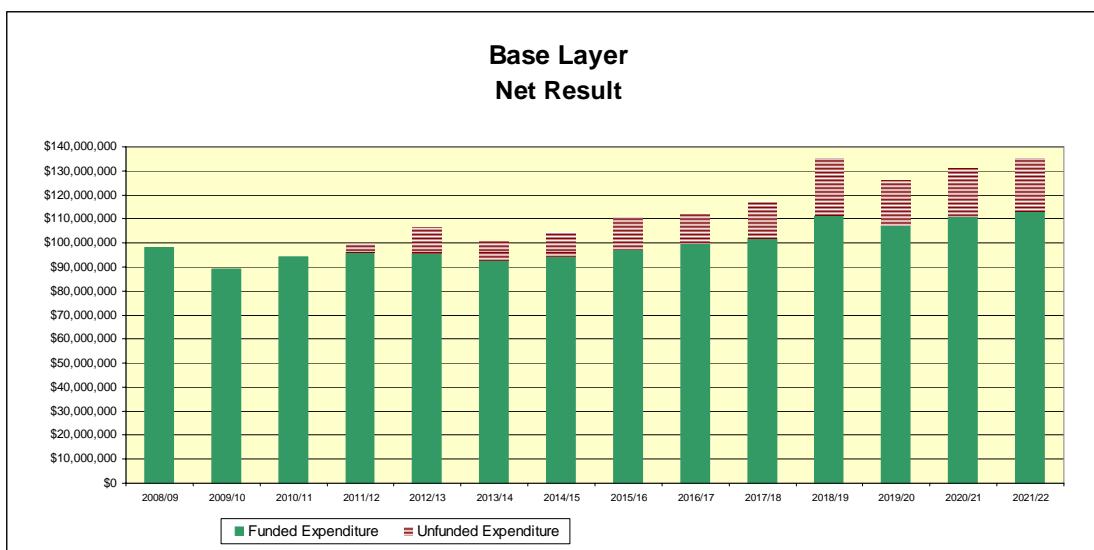
When the operating and capital projections are considered jointly, along with transfers to and from reserves and the repayment of loans, the deficit increases to \$22.1 million by 2021/22, with a high of \$24.2 million in 2018/19.



Under the Base Layer, all of Council's cash reserves are consumed by 2014/15. In 2011/12 Council drops below the level of cash reserve required under the Restrictions Policy (see Section 2.4 above) and remains under that level in every year thereafter (as is shown on the following page).



When the operating and capital expenditures and transfers from unrestricted reserves are included, the Base Layer projects that Council will have a total unfunded expenditure of almost \$158 million up to and including 2021/22.



3.4 Opportunities and Threats

- **Rates income:** In October 2008, the NSW Premier Rees told the annual conference of the Local Government Association that his government may review the current policy of rate pegging. Should the policy be discontinued, it will have significant implications for Waverley's long term financial outlook.
- **Potential loss of Payroll Tax exemption:** In October 2008, the Independent Pricing and Regulatory Tribunal (IPART) recommended that the payroll tax exemption for local governments in NSW be removed. If the Minister for Local Government accepts this recommendation and passes payroll tax on to local governments, it will have significant negative implications for Council's long term financial outlook, regardless of whether the Minister permits the cost of the tax to be passed on to ratepayers.

- **Parking income:** In recent years, fees and charges associated with public parking have accounted for some 26% of Waverley's revenue. Should Council change its policies associated with public parking, it may have significant implications for Waverley's long term financial outlook.
- **Volatility in the CPI:** In recent years, the CPI has varied significantly. According to the Australian Bureau of Statistics, in the year to September 2008, the CPI increased by 5%. In contrast, over the 2006/07 financial year the CPI increased 2.9% and over the 2005/06 financial year the CPI increased 3.2%. As a large proportion of Waverley's budget is expended on employee costs, which are particularly sensitive to changes in the CPI, this variability has significant implications for Waverley's financial outlook.
- **Interest rates:** Interest rates on investments and borrowings have also been relatively variable in recent years. According to the Reserve Bank of Australia, the official cash interest rate has fallen from a high of 7.25% in March 2008 to a current low of 4.25% in December 2008. Any future changes in interest rates will have an impact on Waverley's long term financial outlook.
- **Cost shifting from Federal and State Governments:** The issue of cost shifting has, in recent years, been of significant concern to councils in New South Wales and elsewhere in Australia. Between 2002 and 2005 the House of Representatives Economic Committee conducted an inquiry into the issue, the recommendations of which are currently being considered by the Local Government and Planning Ministers' Council. Should State and Federal Governments continue to transfer responsibilities, and thus costs, for the provision or services to Local Government, this will have negative implications for Waverley's long term financial outlook.
- **Energy prices:** Materials and contracts are subject to variations in the market, and particularly to petroleum prices. As an indicator of this change, the Australian Bureau of Statistics reports that automotive fuel prices increased 25% in the year to September 2008. Should the price of petroleum and petroleum-based products (such as asphalt) continue to rise, this will have negative implications for Waverley's financial outlook. Other energy costs (such as electricity) may similarly impact our financial position.
- **Workers compensation costs:** Given that staff costs are such a significant part of Council's expenditure (over 50%), performance in workforce safety may pose a significant risk to the budget. Waverley's workplace safety performance has generally been improving. However, it is estimated that if incident and injury levels were to deteriorate to levels experienced earlier in the decade, the annual workers compensation premiums would rise by up to \$2 million per annum. This is a very significant rise. An investment of \$750,000 over the next three years has been included in the 2008/12 budget and the Base Case of the LTFS to achieve a standard of workplace safety sufficient to avoid an increase in workers compensation costs.
- **Developer contributions:** In 2005 the *Environmental Planning and Assessment Act* was amended to, among other things, introduce a system for the negotiation of planning agreements between developers and planning authorities. The increased use of planning agreements, as well as changes in the application of Section 94 contributions, may have positive implications for Waverley's long term financial outlook.

- **Commercial business income:** Council operates several substantial commercial businesses built on maximising the natural advantage that comes from ownership and operation of infrastructure assets such as buildings, car parks, open space, roads, footpaths, waste collection plant and vehicles, cemeteries, bus shelters and the like. Council's ability to maximise the return to the community from these assets underpins the budget to a very substantial degree, minimising the proportion of the burden for assets and services that must be borne solely by ratepayers. Business income accounts for over 15% of Council's gross income and there is capacity to increase this to almost 20% within the next 10 years. Deviations from business plans such as the Investment Strategy will therefore have a very substantial effect on Waverley's financial outlook.
- **General insurance costs:** Other insurance costs, such as property and public liability, may also be set to rise by substantial amounts due to the current global economic crisis which is impacting the insurance sector's financial outlook along with the current global warming costs. Waverley pays in excess of \$1 million for these insurances per annum. Instability in the insurance market can have a significant negative effect on the insurance costs for Waverley, notwithstanding the good claims record maintained by Council since 2000.
- **Local Government Superannuation Retirement Scheme:** Due to the recent global financial crisis, superannuation funds have suffered a significant fall in value over the past twelve months. A portion of Council's employees belong to a closed Scheme where the members entitlements are defined as a multiple of their salary. Councils are responsible for ensuring there are sufficient funds available to pay out this benefit when these employees cease employment. Due to the recent erosion of funds in the scheme it is possible that Council's contribution rate may be required to be increased above the current level in the future. Should this occur there would be a negative impact on Waverley's long term financial forecasts.

4. INVESTMENT STRATEGY LAYER

4.1 Introduction

The Investment Strategy Layer incorporates the financial results of assets sales and reinvestment as per Council's *Investment Strategy*, which was adopted in 2007. The major projects associated with the *Investment Strategy* are detailed at Section 2.7.

4.2 Financial Assumptions

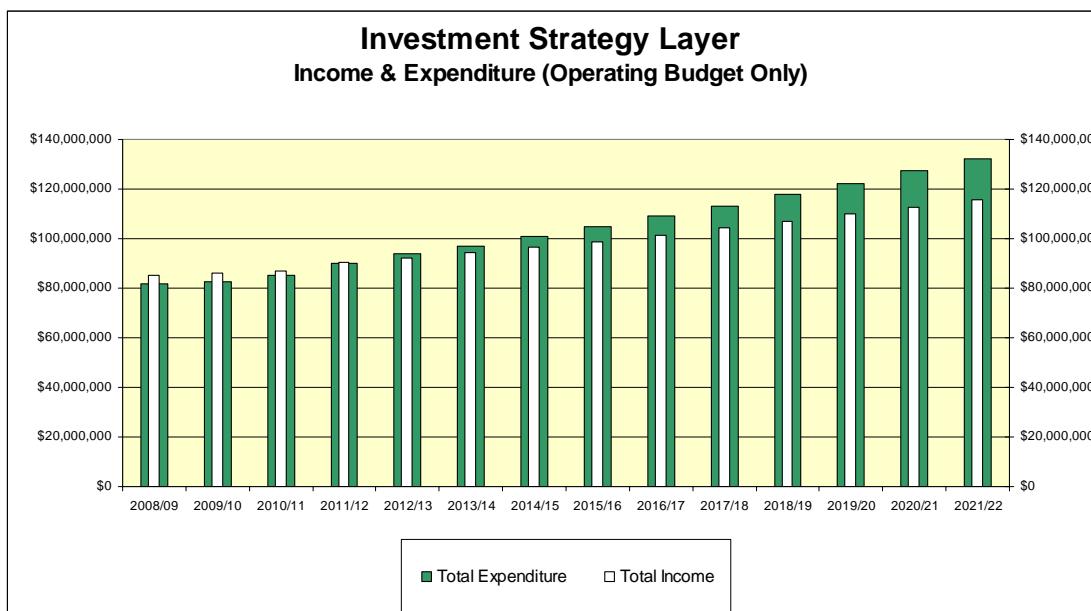
The assumptions in the Investment Strategy Layer are as per the Base Layer, with the following alterations:

| Operating Income | |
|-----------------------|--|
| Rental income | That net positive yields from the rent of properties are returned to Council after capital and operating expenses have been met. |
| Investment income | That net positive yields on cash investments are returned to Council after capital and operating expenses have been met. |
| Operating Expenditure | |
| Employee costs | That employee costs associated with capital expenditure remain in the layer. |
| Operating expenses | That operating costs associated with capital expenditure remain in the layer. |

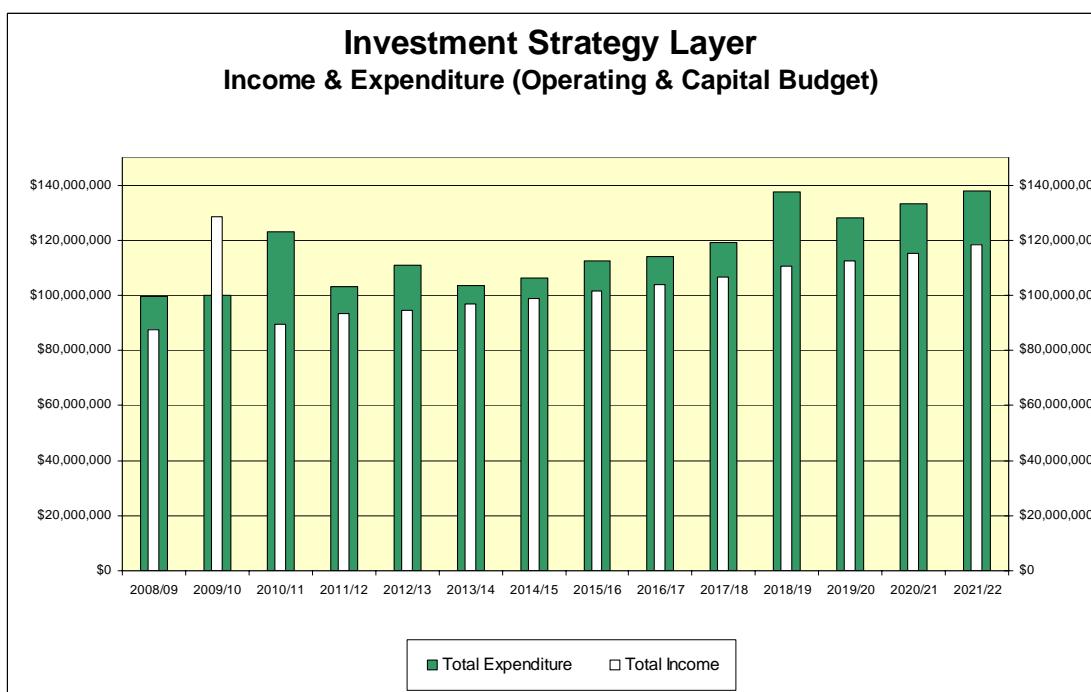
| Capital Income | |
|---------------------|---|
| Asset sales | That property assets will be sold as per the Investment Strategy. |
| Capital Expenditure | |
| Capital works | That the capital works will be undertaken as per the <ul style="list-style-type: none">▪ Management Plan 2008/12, with revisions▪ SAMP2: Categories 1-5▪ Investment Strategy. |
| Asset | That property assets will be purchased as per the Investment Strategy. |
| Investments | That new investments will be purchased as per the Investment Strategy. |

4.3 Financial Analysis and Result

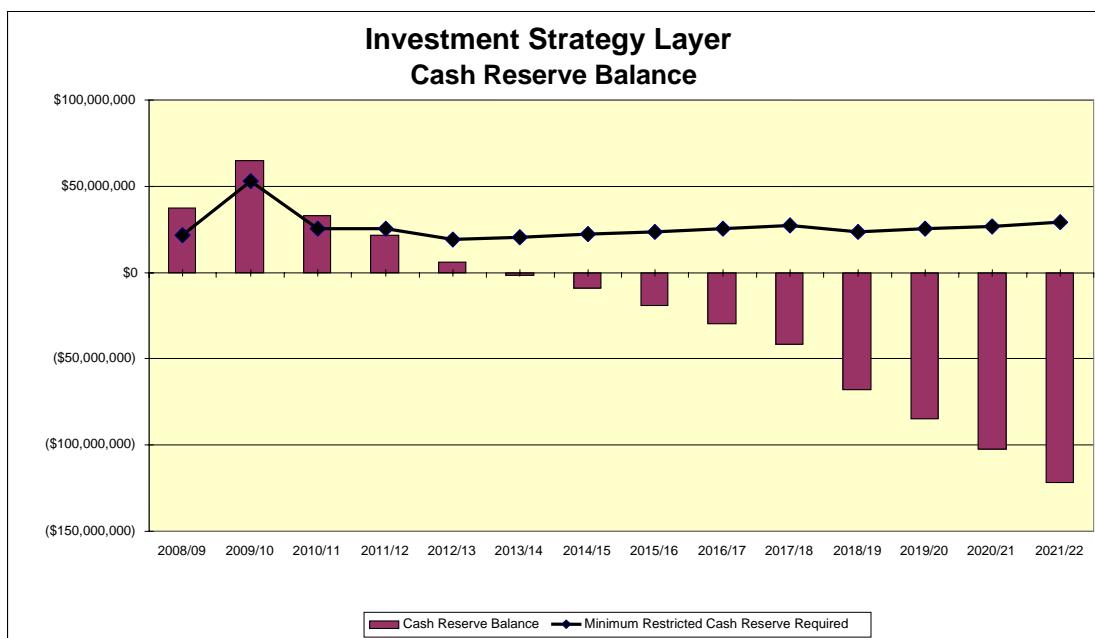
As is shown in the following graph, the Investment Strategy results in a slightly improved financial result in the operating budget in 2011/12 and continuing every year thereafter. The layer therefore projects that the operating budget will not go into deficit until 2012/13, a delay of one year on the Base Layer.



When the operating and capital projections are considered jointly, along with transfers to and from reserves and the repayment of loans, the deficit decreases slightly to \$3.1 million in 2011/12 and \$21.4 million in 2021/22.



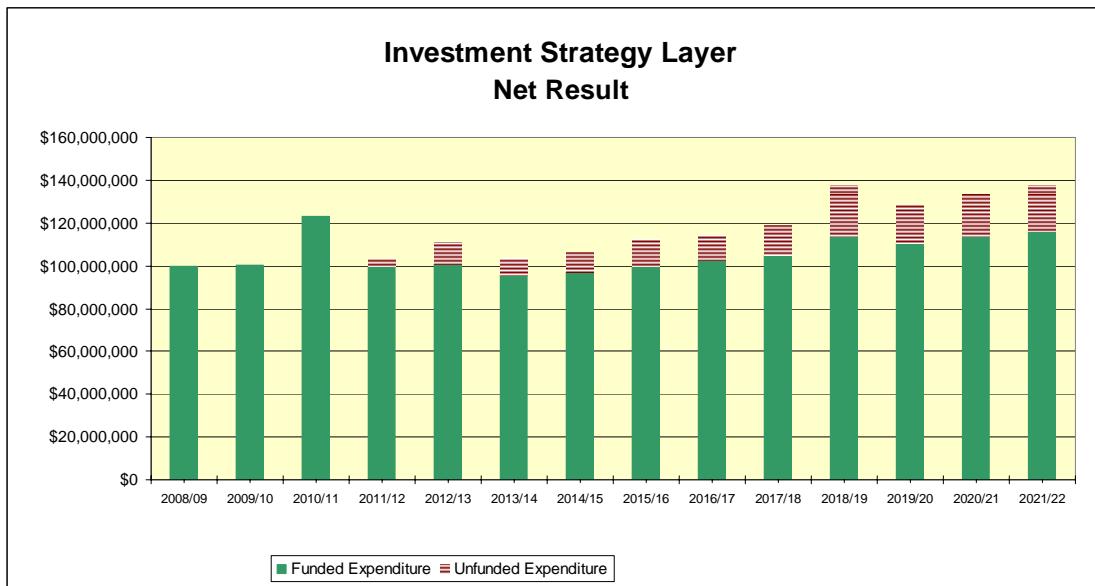
As is shown on the following page, the Investment Strategy Layer also results in a change in cashflow, with a significant amount of income going to Investment Strategy reserves in 2009/10 being used to fund future Investment Strategy works.



Therefore, the Investment Strategy Layer results in a slightly improved financial result beginning in 2011/12 and continuing every year thereafter (with the deficit reduced from \$3.8 million in the Base Layer in 2011/12 to \$3.1 million in the Investment Strategy Layer in the same year). This result is achieved due to unrestricted revenue of between \$630,000 and \$740,000 from the Investment Strategy Layer assisting with operational expenses from 2011/12 onwards.

However, the net result of the combined Base and Investment Strategy Layers still becomes negative in 2011/12 and remains negative for every year thereafter.

When the operating and capital expenditures and transfers from unrestricted reserves are included, the Investment Strategy Layer projects that Council will have a total unfunded expenditure of some \$150 million up to and including 2021/22.



4.4 Opportunities and Threats

- **Property values:** The Investment Strategy Layer of the LTFS is heavily dependent upon the value of property. The recent international financial and economic crisis has added uncertainty to property valuation in NSW and elsewhere. Should volatility in the property market continue into the future, it will have significant implications for the financial outlook associated with the Investment Strategy Layer. The effect is most likely to be on the timing of investments on renewed infrastructure, buildings and services.
- **Eastgate Car Park:** As part of the *Investment Strategy*, Council approved the conversion of part of the Eastgate Car Park to office space. The rents associated with this conversion are projected to result in a significantly increased income to Council. Should Council change its policy regarding the Eastgate Car Park, it may have significant negative implications for the financial returns associated with the *Investment Strategy*.
- **Interest Rates:** As this layer includes the investment of cash for a financial return, it is particularly sensitive to changes in interest rates.
- **Rental Values:** As this layer includes the return of rent from investments in property assets, it is particularly sensitive to changes in rental values. It is also sensitive to changes in the commercial property market in Bondi Junction, and particularly the over or under supply of commercial properties for rent in the area.

5. SUSTAINABLE ASSETS LAYER

5.1 Introduction

This layer incorporates the financial results of meeting adopted service standards for the maintenance of a wide range of Council assets. It is essentially based on the outcomes of the second iteration of the Strategic Asset Management Plan, SAMP2, an overview of which is given at Section 2.5.

The following table provides a summary of the layers in which the costings for each asset category are included.

| Category | Asset Type | Comments |
|----------|----------------------------------|--|
| 1 | Roads | Costings as per SAMP2 incorporated into the Base Layer. |
| 2 | Footpaths | Costings as per SAMP2 incorporated into the Base Layer. |
| 3 | Kerbs and Gutters | Costings as per SAMP2 incorporated into the Base Layer. |
| 4 | Stormwater Drainage | First stage asset renewal costings as per SAMP2, which resolve flooding and drainage system capacity issues, incorporated into the Base Layer. Costs to resolve issues about the structural condition of drains are to be developed in SAMP3. These costs are likely to be very significant. Estimates based on depreciation expenses have been incorporated into the Sustainable Assets Layer. These will be revised when SAMP3 is finalised in September 2009. |
| 5 | Buildings | Costings as per SAMP2 incorporated into the Base Layer. |
| 6 | Urban Open Spaces and Malls | Generally not included in this iteration of the LTFS. Some provisions for the renewal of assets in this category have been included in subsequent layers of the LTFS. |
| 7 | Beach and Coastal Infrastructure | Generally not included in this iteration of the LTFS. However, an amount of \$600,000 has been included in the Base Layer to fund the extension of the Coastal Walk at Waverley Cemetery which will be complete by June 2009. SAMP3 will provide more detail on the impact of this asset category on this layer. |
| 8 | Parks and Reserves | Not included in this iteration of the LTFS. SAMP3 will provide more detail on the impact of this asset category on this layer. |
| 9 | Waverley Cemetery | Costings as per SAMP2 incorporated into the Sustainable Assets Layer. These costs are to be |

| Category | Asset Type | Comments |
|----------|--------------|--|
| | | revised in SAMP3. |
| 10 | Other Assets | Not included in this iteration of the LTFS. |
| 11 | Trees | An allocation of \$100,000 made in the Sustainable Assets Layer for the planting of 200 trees every year from 2009/10. Funding for another 200 trees per annum has already been included in the Base Layer. Fuller costs for tree assets are to be revised in SAMP3. |

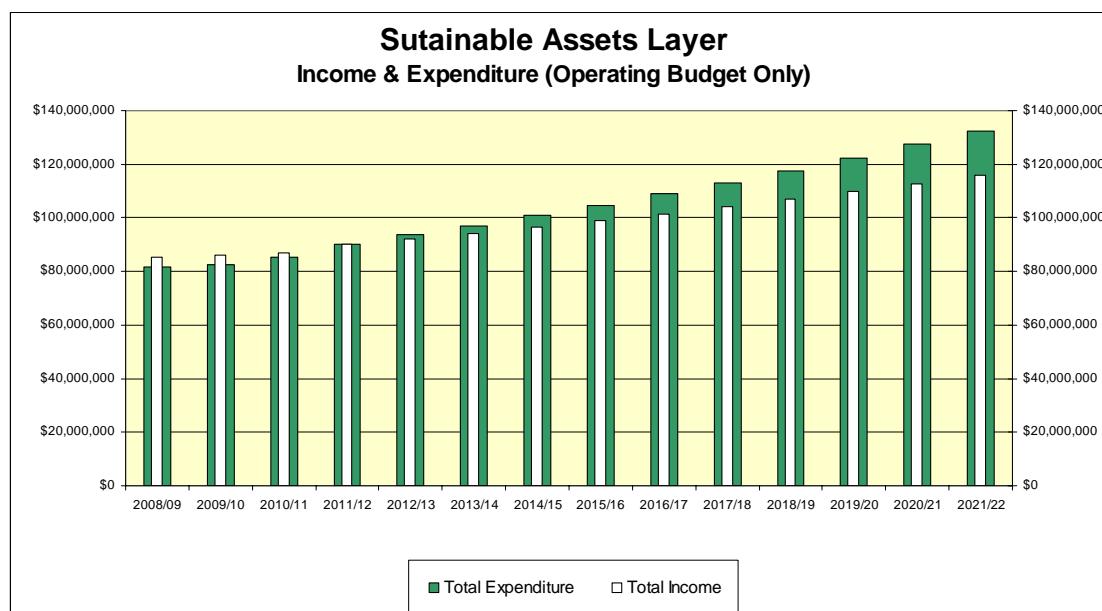
5.2 Financial Assumptions

The assumptions in the Sustainable Assets Layer are as per the Base and Investment Strategy Layers, with the following alterations:

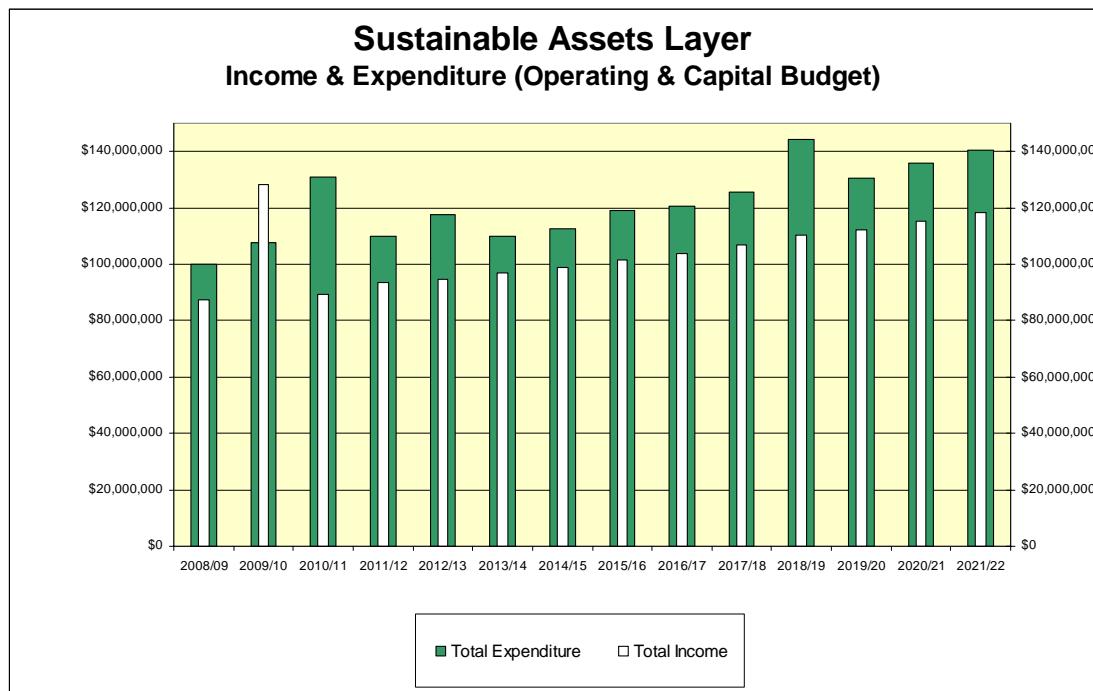
| Capital Expenditure | |
|---------------------|--|
| Capital works | <p>That the capital works will be undertaken as per the</p> <ul style="list-style-type: none"> ▪ Management Plan 2008/12, with revisions ▪ Investment Strategy ▪ SAMP2: Categories 1-5, 9 and 11. <p>Costs for the renewal of assets in SAMP Categories 4, 9 and 11 will be adjusted in SAMP3 and hence will be different in LTFS2. As yet it is unknown whether these costs will be higher or lower.</p> |

5.3 Financial Analysis and Result

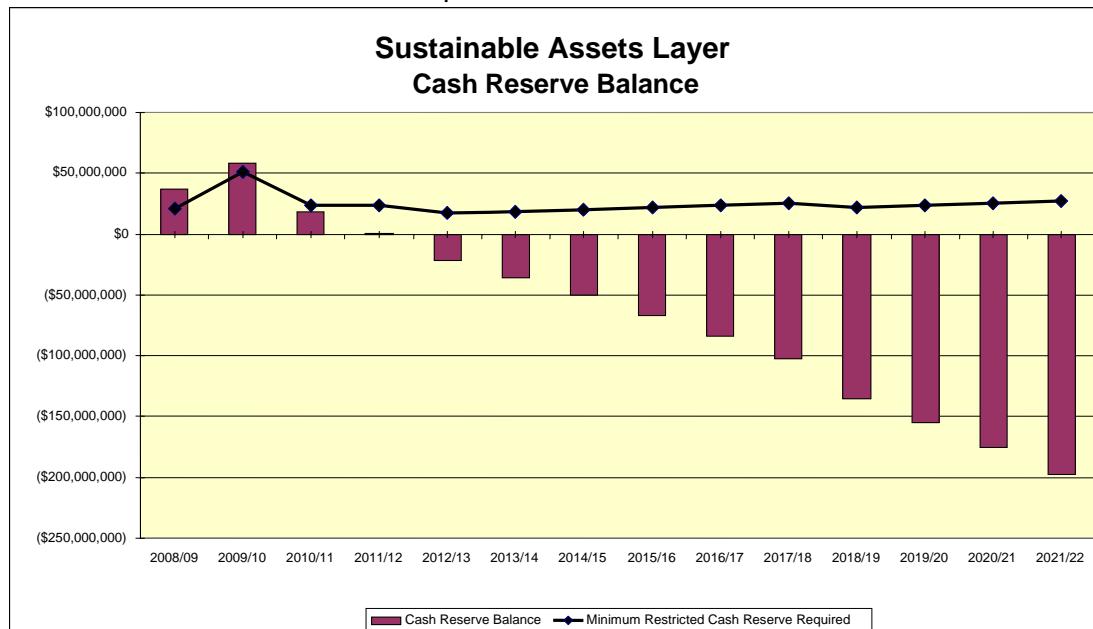
When the operating budget is considered independently, the Sustainable Assets Layer returns a very similar result to the Investment Strategy Layer (see over).



However, when the operating and capital projections are considered jointly, along with transfers to and from reserves and the repayment of loans, the situation deteriorates markedly. By 2021/22, the deficit in the Sustainable Assets Layer is \$24.0 million, up from \$21.4 million in the Investment Strategy Layer.



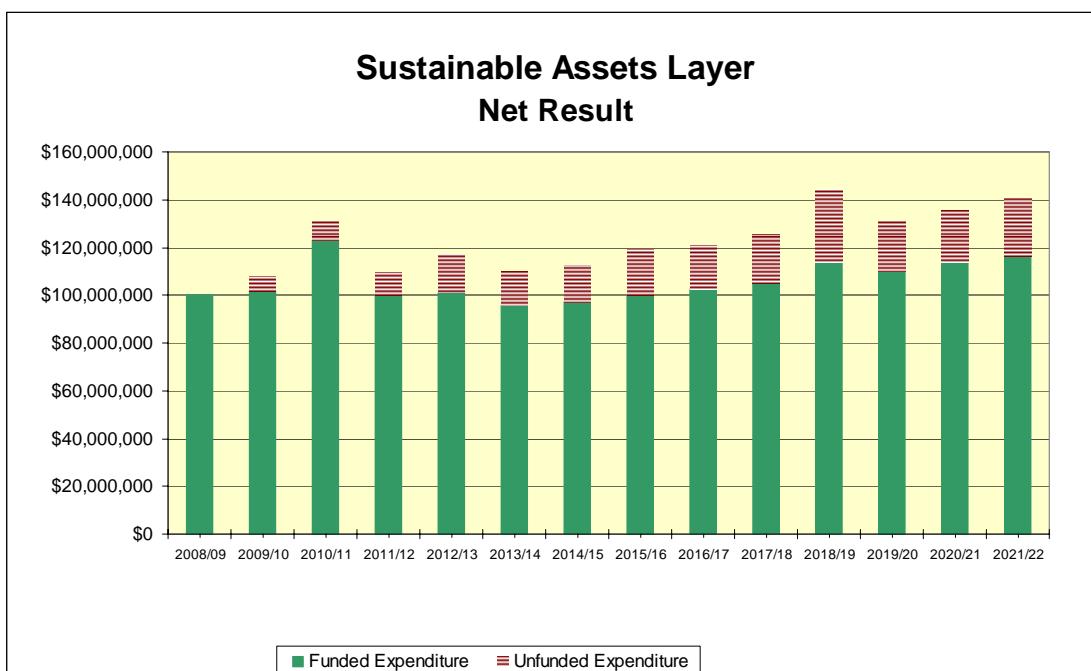
The use of unrestricted reserves does not improve the situation, with the reserve balance projected to drop below the level required by the Restrictions Policy in 2010/11 and remain below the required level thereafter.



As is illustrated in the graph below, the Sustainable Assets Layer thus results in a significantly deteriorated financial result for Council.

This result is due to the \$5.8-7.8 million projected to be required on asset renewal every year to 2018/19 and the \$2.6 million projected to be required in the years 2019/20 up to and including 2021/22. In this Layer Council achieves its worst financial result in 2018/19, with a projected net deficit of \$30.1 million.

When the operating and capital expenditures and transfers from unrestricted reserves are included, the Sustainable Assets Layer projects that Council will have a total unfunded expenditure of some \$224 million up to and including 2021/22.



5.4 Opportunities and Threats

- **Development of technical information:** This iteration of the LTFS is based on SAMP2, which includes an initial assessment of the expenditure necessary for the maintenance and management of stormwater drainage assets and the Waverley Cemetery (see Section 2.5 for further information). Once SAMP3 is completed in September 2009, the LTFS will be able to incorporate the financial implications of improved information on stormwater drainage and the Cemetery. This may see the projected expenditure associated with these asset categories significantly increase or decrease.

In addition, SAMP3 will incorporate the outcomes of condition assessments associated with coastal and retaining infrastructure, parks infrastructure and landscapes and trees. The LTFS will be able to incorporate the financial implications of these condition assessments after September 2009. This will result in an increase in projected expenditure associated with the Sustainable Assets Layer.

- **Interest Rates:** As this layer may incorporate the borrowing of monies for capital works, it is particularly sensitive to changes in interest rates.

- **Energy Prices:** Materials and contracts associated with the Sustainable Assets Layer are particularly subject to variations in the market, and particularly to petroleum prices. As an indicator of this change, the Australian Bureau of Statistics reports that automotive fuel prices increased 25% to the September quarter 2008. Should the price of petroleum and petroleum-based products (such as asphalt) continue to rise, this will have negative implications for the funding of the Sustainable Assets Layer.

6. SUSTAINABLE ENVIRONMENT LAYER

6.1 Introduction

This layer is intended to show the financial results of changing levels of service in environmental management. The Sustainable Environment Layer also makes specific assumptions about the continuation of the Environmental Special Rate. The financial modelling associated with this layer will be incorporated into LTFS2.

In the future, this layer will be closely aligned with the Environmental Action Plan (EAP), which is outlined at Section 2.6.

The following table provides a summary of the high level programs which the Sustainable Environment Layer will fund.

| Program Area | Comments |
|--------------------------|---|
| Greenhouse Gas Emissions | The EAP2 will provide detail on the financial impact of this program on this layer. |
| Water | The EAP2 will provide detail on the financial impact of this program on this layer. |
| Waste | The EAP2 will provide detail on the financial impact of this program on this layer. |
| Biodiversity | The EAP2 will provide detail on the financial impact of this program on this layer. |

6.2 Financial Assumptions

The assumptions in the Sustainable Environment Layer are as per the Base, Investment Strategy and Sustainable Assets Layers, with the following alterations:

| Operating Income | |
|----------------------------|--|
| Environmental Special Rate | That the State Government policy of rate capping will continue and that rates will continue to be indexed by a fixed amount announced annually by the Minister for Local Government. That, for the Environmental Special Rate, this amount will be equal to the forecasted CPI. That the Environmental Special Rate will be renewed in 2011/12 and again in 2018/19. |
| Business income | That various new operations activities as they arise may be funded in whole or part by fees and charges identified within business plans. |
| Operating Expenditure | |
| Employee costs | That employee costs, inclusive of Award increases, service margins and market margins, will increase by 5% per annum. That environmental services continue to be provided as a |

| | |
|--|--|
| | minimum at the current (ie 2008) level, with a focus as per the Environmental Action Plan. |
|--|--|

| Capital Income | |
|--------------------------|--|
| Grants and contributions | That various new operations activities as they arise may be funded in whole or part by grants, the quantum of which will be further detailed in LTFS2. |
| Capital Expenditure | |
| Capital works | That the capital works will be undertaken as per the <ul style="list-style-type: none"> ▪ Management Plan 2008/12, with revisions ▪ Investment Strategy ▪ SAMP2: Categories 1-5, 9 and 11 ▪ Environmental Action Plan. |

6.3 Financial Analysis and Result

Detailed financial forecasts for the Sustainable Environment Layer will be incorporated into LTFS2.

6.4 Opportunities and Threats

- **State and Federal Government policy:** At present Australia, like much of the world, is considering a wide variety of initiatives to reduce the country's carbon emissions. The implementation of greenhouse gas reduction initiatives (such as an emissions trading scheme, carbon pollution trading tax or charges for discharge of waste to landfill) at a Federal and/or State Government level will have significant implications for this layer of the Long Term Financial Strategy.
- **Institutional barriers:** The erection or maintenance of institutional barriers to greenhouse gas reduction and energy efficiency programs will also have significant, and negative, implications for this layer.

7. OPERATIONAL IMPROVEMENTS LAYER

7.1 Introduction

This layer is intended to show the financial results of increased levels of service in Council operations. The financial modelling associated with this layer will be incorporated into LTFS2.

In the future, the Operational Improvements Layer will also include any increases in service levels which may arise from *Waverley Together 2* (see Section 2.2).

7.2 Financial Assumptions

The assumptions in the Operational Improvements Layer are as per the Base, Investment Strategy, Sustainable Assets and Sustainable Environment Layers, with the following alterations:

| Operating Income | |
|--------------------------------|--|
| Business Income | That various new operations activities as they arise may be funded in whole or part by fees and charges identified within business plans. |
| Operating Expenditure | |
| Employee and operational costs | That there will be an increase in services and an associated increase in costs in the following areas: <ul style="list-style-type: none">▪ graffiti removal of \$50,000 per year commencing 2009/10▪ landscape maintenance of \$1.2 million per year commencing 2011/12▪ street cleaning of an, as yet, unknown amount▪ community services of an, as yet, unknown amount▪ economic development of an, as yet, unknown amount▪ diversified business operations in areas such as Waverley Cemetery. |

7.3 Financial Analysis and Result

Detailed financial forecasts for the Operational Improvements Layer will be incorporated into LTFS2.

7.4 Opportunities and Threats

- **Lack of detailed information:** The preparation of this layer of the LTFS is still in its infancy. A more detailed financial analysis of this layer will not be possible until *Waverley Together 2* and the *Workforce Plan* have been further progressed (ie late in 2009).
- **Changes in revenue sources:** This layer is particularly sensitive to changes in existing sources of revenue, the most significant of which (as detailed in Section 1.4) are: rates; parking fees and charges; the Domestic Waste Charge; and grants.

- **Volatility in CPI:** As noted in the Base Layer, the CPI has varied significantly in recent years. As increases in employee costs are related strongly to the CPI, this layer is particularly sensitive to such variations.
- **Business income and management:** The capacity of the Council to raise income from operation of businesses and to manage those businesses efficiently can have a significant positive effect on this layer.

8. CAPITAL IMPROVEMENTS LAYER

8.1 Introduction

This layer is intended to show the financial results of additional capital works which are not contained in the previous layers. The financial modelling associated with this layer will be incorporated into LTFS2.

8.2 Financial Assumptions

The assumptions in the Capital Improvements Layer are as per the Base, Investment Strategy, Sustainable Assets, Sustainable Environment and Operational Improvements Layers, with the following alterations:

| Capital Income | |
|---------------------|--|
| Loans | <p>That a loan of \$5 million be taken to fund the construction of a pavilion at the Waverley Cemetery in 2011/12.</p> <p>That a loan of an, as yet, unknown amount be taken to fund the construction of the Bondi Junction Town Square.</p> |
| Asset sales | <p>That through the development of future Investment Strategies, asset sales may fund, in whole or part, expenditure on priority capital projects such as reconstruction of the Council Chambers Building.</p> <p>That the residual of the current Investment Strategy as at 2021/22 will provide some contribution to future investment assets.</p> |
| Capital Expenditure | |
| Capital works | <p>That the capital works will be undertaken as per the</p> <ul style="list-style-type: none">▪ Management Plan 2008/12, with revisions▪ Investment Strategy▪ SAMP2: Categories 1-5, 9 and 11▪ Environmental Action Plan. <p>That, in addition, the following capital works will be undertaken:</p> <ul style="list-style-type: none">▪ construction of a pavilion and retaining infrastructure at the Waverley Cemetery worth \$5 million in 2011/12▪ streetscape improvements worth \$500,000 in 2014/15▪ upgrade of the Oxford Street Mall worth \$1 million in 2015/16▪ unspecified capital works worth \$5 million in 2016/17 and every year thereafter▪ construction of an Olympic-sized indoor swimming pool worth \$20 million in 2017/18▪ demolition and rebuilding of the Council Chambers building worth \$20 million in 2018/19▪ construction of capital improvements associated with the Recreation Plan worth an, as yet, unknown amount▪ construction of capital improvements associated with the Waverley Park Plan of Management worth an, as |

| | |
|--|--|
| | <p>yet, unknown amount</p> <ul style="list-style-type: none"> ▪ construction of capital improvements associated with the Bondi Park Plan of Management worth an, as yet, unknown amount ▪ construction of the Bondi Junction Town Square an, as yet, unknown amount. |
|--|--|

8.3 Financial Analysis and Result

Detailed financial forecasts for the Capital Improvements Layer will be incorporated into LTFS2.

8.4 Opportunities and Threats

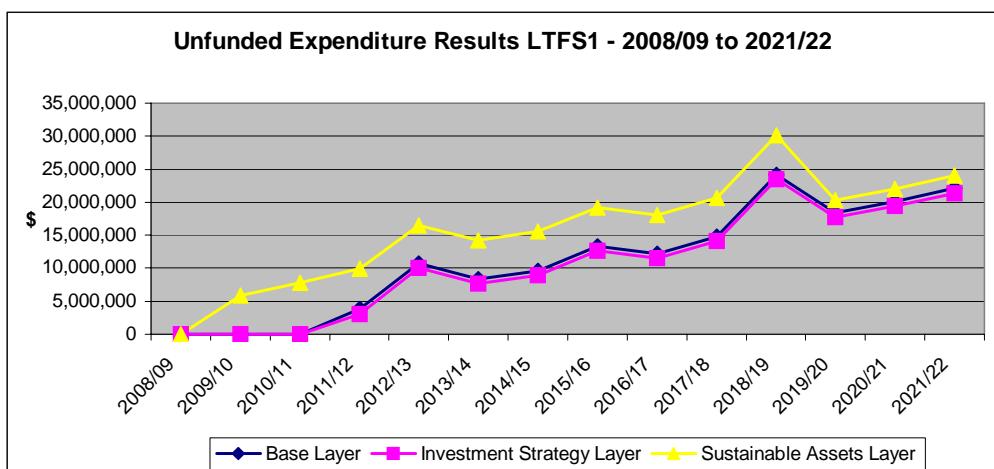
- **Lack of detailed information:** The preparation of this layer of the LTFS is still in its infancy. A more detailed financial analysis of this layer will be incorporated into this layer as part of LTFS2 (ie in September 2009).

9. CONCLUSION

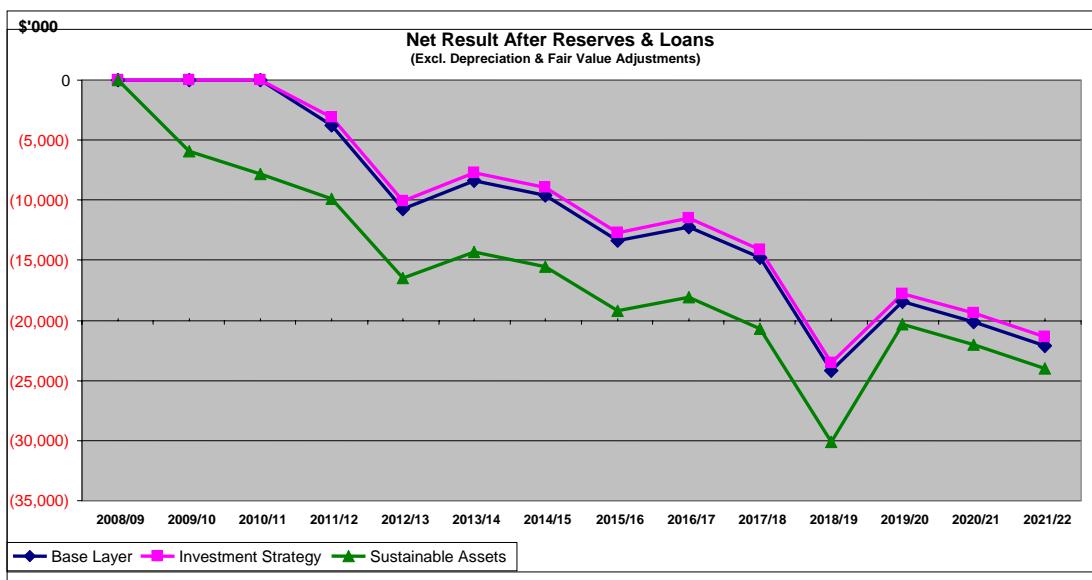
LTFS1 forecasts a substantial shortfall in funds to sustain our current level of operations up to 2021/22. This shortfall applies to the Base Layer – the “business as usual” scenario where there is no assumption of an increase or decrease in service levels compared to the current service levels. Under the Investment Strategy, the situation improves slightly but it can be expected that in all the subsequent layers the shortfall in funding will worsen substantially compared to the Base Layer. The following table shows the total of unfunded expenditure in each of the first three layers of the LTFS.

| Total Projected Unfunded Expenditure 2008/09 – 2021/22 | |
|--|---------------|
| Base Layer | \$157,728,398 |
| Investment Strategy Layer | \$150,156,382 |
| Sustainable Assets Layer | \$224,324,782 |

The following graph shows the total unfunded expenditure in each Layer per annum.



In the Base and Investment Strategy Layers, the budget can be kept in balance until the end of 2010/11 as long as further investment necessary to achieve sustainable assets is not commenced. However, after 2010/11 there is no scenario in which a balanced budget can be achieved without accessing further sources of income or achieving savings through service reductions.



9.1 Analysis

The biggest contributor to the financial difficulty is the condition of assets. Waverley is the second oldest Local Government Area in Australia and a significant proportion of its assets is over 100 years old. Like every council, Waverley is now feeling the effects of prolonged under-investment in assets and is attempting to catch up with investment in order to ensure its assets can continue to support, as a minimum, the service delivery levels that they have been able to offer in the past.

Through its Strategic Asset Management Plans, SAMP1 and SAMP2, Waverley has been refining cost estimates to bring assets to a satisfactory standard and this has resulted in a welcome reduction in earlier estimates of expenditure increases necessary to restore roads, footpaths and kerbs and gutters to an acceptable service level. The resultant increases have been factored into 2008/12 adopted budget and the Base Layer of the LTFS. This has shown that Council can deliver programs to keep pace with demand in relation to roads, footpaths and kerbs and gutters until 2010/11 without an increase in income. We can also continue to deliver current environmental programs until 2010/11. By 2011/12, however, current service levels across the board will not be sustainable and this reduces the prospect of indefinitely continuing our recently increased level of investment in assets, let alone increasing that investment as the Sustainable Assets Layer requires.

Increased investment in assets is without doubt a necessity, as our current investment does not provide for the basics in drainage, retaining infrastructure and other major asset renewals. Costs for these will be refined in SAMP3 and factored into LTFS2 by December 2009. Early indications from technical studies currently underway are not painting an optimistic picture of the situation, particularly for drainage or Waverley Cemetery. It may be expected that the estimates for renewal of assets contained within the Sustainable Assets Layer are on the low side.

9.2 Building a Solution

9.2.1 Productivity Improvements

In general it would not be expected that such a large shortfall could be reduced significantly through efficiency/productivity improvements. Waverley Council's productivity levels have improved since the year 2000 as the following table shows:

| | Change since 2000 |
|---|--------------------------|
| Staff equivalent full time numbers | Increased by 30% |
| Value/cost of works and services delivered | Increased by 74% |
| Proportion of services delivered by contracting out | No change |
| Estimated increase in productivity over last 8 years | 9%* |

* = % Change between A and B, where A. is Value of services delivered per staff member in 1999/2000 in today's \$s (excluding employee costs) = \$66,064; and B. is Value of services delivered per staff member in 2007/2008 (excluding employee costs) = \$72,198. Hence $((B-A)/A)*100$.

There will be opportunities to continue this trend of increasing output and we will continue targeting efficiencies through our Business Excellence programs, especially through the Organisational Development Plan and the Human Resources Strategic Plan. Nevertheless, it is not expected that in what is largely a service industry with human resource intensive services (such as child care, community services, waste collection, events management, planning, and parks and asset maintenance), it will be as easy to increase productivity as it would in, say, manufacturing industries which can more readily access efficiencies through technology improvements.

9.2.2 Service Reviews

Service reviews can offer efficiency improvement opportunities and these will be identified progressively in business excellence programs. In the event that economic trends worsen and there is a corresponding drop in income, there will be an added impetus to review services and an increased potential for deletion of services or reduction of service levels to stem losses. Decisions on service level changes if required would be based on information about customer and community views of the relative value of services. Generally, however, this LTFS does not assume that service level reductions would form part of strategy to reduce a shortfall. It assumes demand is not likely to decrease and that existing services and service levels should not be eroded.

9.2.3 Optimisation of Assets

Capacity to improve financial results by rationalising assets has been substantially increased through the Investment Strategy. The Investment Strategy Layer results in:

- a 5% reduction in the Base Layer funding shortfall;
- a significant service level improvement from existing assets such as the Waverley Pavilion, Bondi Pavilion, the Council Chambers Building and our depots; and
- an increased capacity in child care service delivery (likely to exceed 25%).

It is expected that by 2021/22 the Investment Strategy Layer should contribute approximately \$58 million, with asset sales and improved recurrent returns, to Council. It follows that without the Investment Strategy, the shortfall on the Base Layer would be almost \$58 million higher than it is. This is because the Investment Strategy is actually renewing existing assets that would otherwise have to be renewed in the Base Layer to ensure they can continue to contribute to the current service levels for open space, active recreation, staff accommodation and cultural and beach services. The Investment Strategy makes it possible to renew these assets without burdening the Base Layer and at the same time gain some service enhancements in the form of child care, recreation and cultural services capacity.

All in all, the Investment Strategy has increased capacity by over 35% compared to the shortfall that might otherwise have resulted from necessary expenditure on existing assets under the Base Layer. As such, between the productivity increases outlined above and the positive contribution of the Investment Strategy, Council has done a substantial amount to reduce the future burden for contributions to a continuation of current service levels.

The Investment Strategy does not have capacity to contribute further to a reduction of the shortfall and its capacity to contribute is sensitive to a range of factors outlined in Section 4.4 above.

9.2.4 Other Funding Sources

In addition to funds from asset sales and optimisation, councils may access funds through a variety of means including:

- rates,
- fees and charges,
- loans,
- grants,
- developer contributions,
- parking services,
- fines, and
- commercial business operations.

Given the size of the shortfall a balanced solution is likely (in addition to productivity, service review and Investment Strategy programs) to necessarily involve maintenance of or an increase in all of the above sources of income.

Nonetheless, the income source that has the largest capacity to form part of the solution is rates.

9.2.4.1 Potential Contribution to a Solution of a Special Variation to Rates

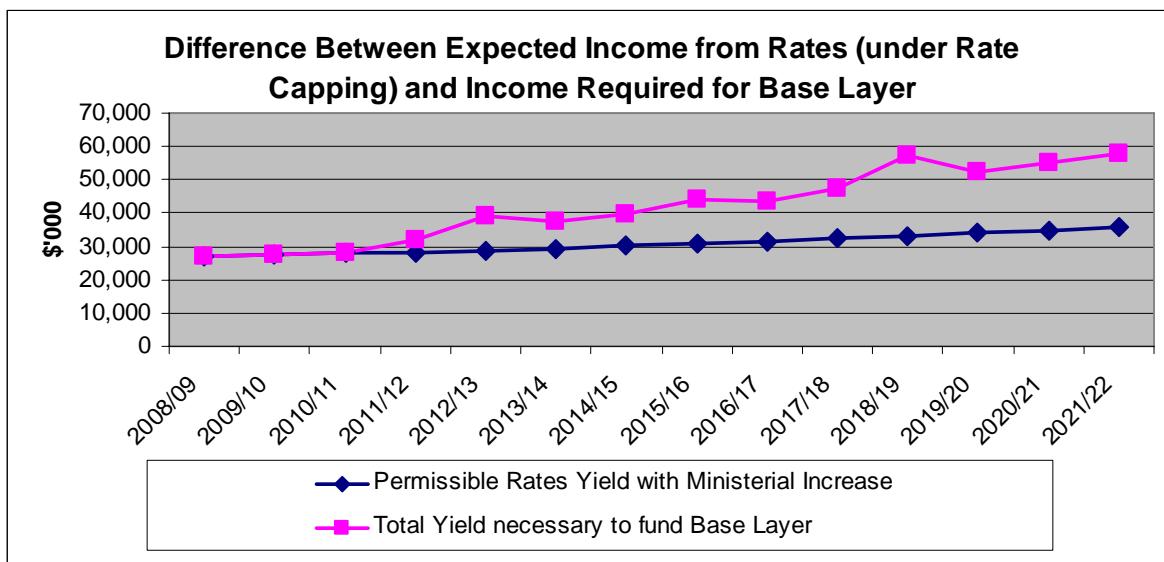
In New South Wales, increases to council rates are capped annually by the Minister for Local Government. The average rate increase permitted by the Minister in the last six years is just over 3.3% per annum.

Under Sections 508(2) and 508(A) of the *Local Government Act*, councils may apply to vary rates by an amount in excess of the general rate variation permitted by the Minister each year. Waverley Council currently has a special variation to rates under Section 508(2) for the five years to June 2011 (the Environmental Levy worth \$902,000 for 2008/09) which, with the addition of other funds, covers its current level of expenditure on environmental services. If we are to sustain both these environmental services and the current levels of expenditure on assets, a rates variation of a substantially larger amount than the current Environmental Levy will be required from the 2011/12 financial year onward.

If the whole shortfall in the Base Layer of \$157,728,398 were to be funded by a rates increase, this would require an increase greater than the total annual rate yield that might be expected to be permitted under the rate capping system, as shown below:

| Funding shortfall for Base Layer - '\$000 | | | | | | | | | | |
|---|----------|---------|---------|----------|----------|----------|----------|----------|----------|----------|
| 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
| \$3,785 | \$10,743 | \$8,367 | \$9,630 | \$13,329 | \$12,202 | \$14,791 | \$24,195 | \$18,451 | \$20,114 | \$22,122 |

Total Increase required to fund shortfall in Base Layer = \$157,728,398



To fund the Base Layer solely from rates, the annual necessary percentage variation to the rates yield would therefore need to be:

| Variation to Rates Required to Fund Shortfall in Base Layer (% Change to Rate Yield Compared to Previous Year) | | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |

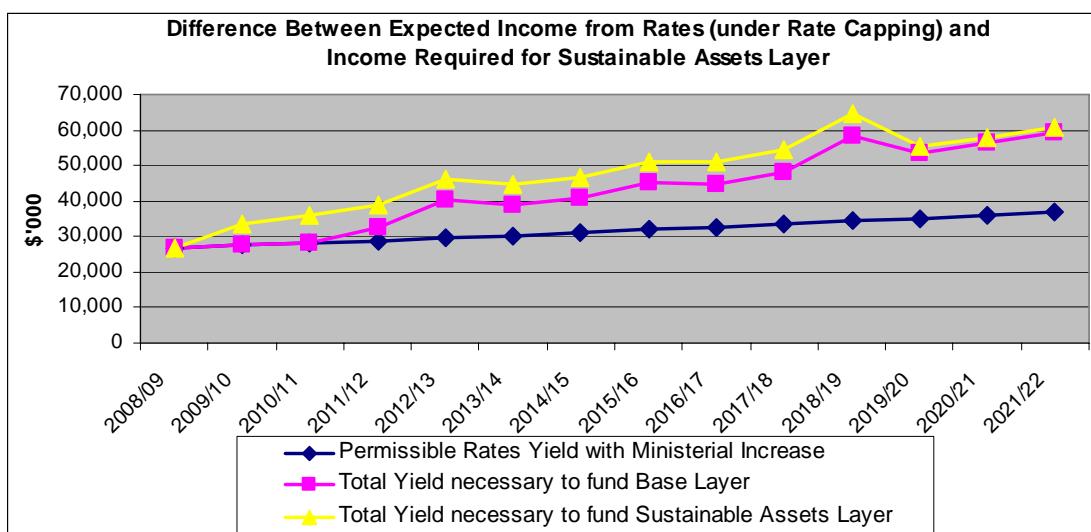
| | | | | | | | | | | |
|--------|--------|--------|-------|--------|--------|-------|--------|--------|-------|-------|
| 12.69% | 24.14% | -4.22% | 5.29% | 11.21% | -0.81% | 7.71% | 21.65% | -8.56% | 4.79% | 5.24% |
|--------|--------|--------|-------|--------|--------|-------|--------|--------|-------|-------|

Section 508(A) of the *Local Government Act* only permits approved variations for a maximum of seven years. Therefore to ensure the full level of funding necessary to cover the Base Layer shortfall we would need an **average cumulative rates increase of 9.2% per annum over seven years beginning in 2011/12, followed by the Minister's assumed CPI increase from the 2017/18 yield from 2018/19 to 2021/22**. If this additional rates increase were to be applied, by 2021/22 the total rates yield would be approximately 61% higher than it otherwise might be if no variation to rates is approved after the current Environmental Levy ceases in June 2011.

It should be noted that average residential rates in Waverley are currently travelling at approximately 12% below the state average (see NSW Department of Local Government Comparative Information on NSW Councils 2006/07).

If the Investment Strategy is successfully implemented, the rate variation necessary to fund the Base Layer shortfall is marginally smaller. However, if there is a need to fund the Sustainable Assets Layer, then the pressure for income increases obviously intensifies and it commences sooner.

Were it necessary to fund both the Base Layer and the Sustainable Assets Layer solely from an increase to rates, the impact on ratepayers would be as follows:

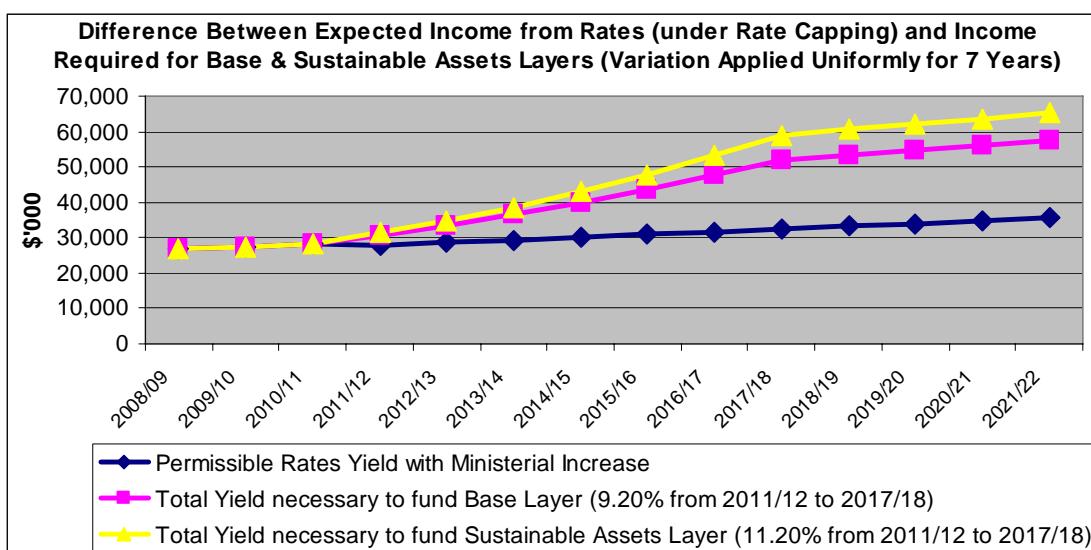


In this scenario the total increase in rates that would be necessary to fund the Sustainable Assets Layer would be:

| % Variation to Rates Including Assumed Ministerial Increase Required to Fund Shortfall in Base Layer + Sustainable Assets Layer (% Change to Rate Yield Compared to Previous Year) | | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
| 34.45% | 19.28% | -3.36% | 4.55% | 9.77% | -0.70% | 6.82% | 19.26% | -14.21% | 4.65% | 5.09% |

This represents an **average cumulative rates increase of 11.2% per annum over seven years beginning in 2011/12, followed by the Minister's assumed CPI increase from 2018/19 to 2021/22**. If this additional rates increase were to be applied, by 2021/22 the total rates yield would be approximately 82% higher than it otherwise might be if no variation to rates is approved after the current Environmental Levy ceases in June 2011.

The above estimated increases to rates necessary to fund the shortfalls in each case are plotted as strict increases on the previous year sufficient to cover the estimated shortfall arising from uneven expenditure across the years. In reality the expenditure would be smoothed to allow for a more even cumulative increase in the rates, which would be preferable to the rather bumpy pattern of changes shown above. The following graph shows examples of the effect of smoother escalations in rates necessary to fund the shortfalls in each case. The resultant yield of rates over the 11 years is the same as the yields illustrated above.



The steepness of these increases could be softened if the Minister were to approve application of the cumulative increases over a period greater than 7 years. While this would raise no greater yield over the 11 year period than the above curve, it would have flow on effects after 2021/22 which would be less favourable to the ratepayer as subsequent Ministerial increases would flow off a higher base yield applying in that year.

LTFS2 will incorporate the results of further modelling to be undertaken on various patterns of potential rate increases to lessen or smooth the impacts on ratepayers wherever possible. Consultation on an increase to rates will be undertaken in 2009 as part of the consultation process on the preparation of the next Waverley Strategic Plan, *Waverley Together 2*.

9.2.4.2 Potential Contribution of Non-Rates Income Sources to a Solution

Other income sources such as:

- fees and charges,
- loans,
- grants,
- developer contributions,
- parking services,
- fines, and
- commercial business operations

all have potential to reduce the burden on rate payers.

The potential need to maximise these income sources is likely to increase when:

- SAMP3 results of cost estimates for renewal of existing assets are factored in;
- and

- the remaining three Layers of the LTFS are populated with data on cost estimates in LTFS2.

At present it is anticipated that the remaining three layers:

- the Sustainable Environment Layer,
- the Operational Improvements Layer, and
- the Capital Improvements Layer

will worsen the financial results compared to the Base and Sustainable Assets Layers.

9.3 Next Steps

In the year to December 2009 Council will explore ways in which the extra costs of the later layers in the LTFS can be controlled and the means by which they might be offset through innovative income generation. There are several opportunities open to Council in the form of improved contributions from developers, increased grants from the Federal Government, revision of fees, and improved income from business operations through detailed business planning. Key areas in which business plans are to be developed include Waverley Cemetery and off-street Parking Services. Another possible area of business development is the Sustainable Environment Layer.

At the same time there will be considerable discussion in 2009 about the structure of income from Parking Services which now forms Council's second biggest source of income after rates. A Councillor/Officer Working Group has been formed to review the parking system to achieve system optimisation and maximise the service level that the system can provide. This may positively or negatively effect total income from parking. As small variations in the parking system can have very large financial impacts, effects are likely to be substantial in either direction. This will in turn have a substantial impact on the projections outlined above for the size of a special variation to rates that will be necessary to fund the various layers of the LTFS. Sale of services provided by the parking system asset allows Waverley to spread the burden for asset renewal and service provision to non-resident/visitors, all of whom do have a significant impact on Waverley assets. If there is a decrease in income from parking this will substantially increase the proportion of the burden for service provision that must be borne by ratepayers compared to the proportion of the burden they currently bare. The distribution of burden for funding the shortfalls outlined in this plan is an issue that Councillors will consider over the next year.

Finally, Council's reliance on debt will be reviewed in 2009. There is a general agreement that with a total outstanding loans of \$8.52 million and a debt service ratio of 1.82%, our level of debt is too low and that an increase in debt would allow us to spread the burden of future costs more equitably across future generations and reduce the growth in renewal costs that arises from delay in investment in assets. Council has capacity to service more debt. In this situation, as a minimum, the use of debt financing is likely to increase for investments which can generate sufficient returns to repay the debt. An external review of debt financing and current loans is already underway.

All the above analyses assume that current service levels and current levels of investment in assets will be maintained. This is a matter for ongoing review and for consideration by Councillors with the community. In 2009 it is expected that consultation on the Waverley Strategic Plan, *Waverley Together 2*, will test this assumption.

APPENDIX 1

| Year | CPI | Interest Rate |
|---------|-------|---------------|
| 2009/10 | 2.70% | 4.80% |
| 2010/11 | 2.40% | 4.90% |
| 2011/12 | 2.70% | 5.20% |
| 2012/13 | 2.50% | 5.60% |
| 2013/14 | 2.50% | 5.60% |
| 2014/15 | 2.50% | 5.60% |
| 2015/16 | 2.50% | 5.60% |
| 2016/17 | 2.50% | 5.60% |
| 2017/18 | 2.50% | 5.60% |
| 2018/19 | 2.50% | 5.60% |
| 2019/20 | 2.50% | 5.60% |
| 2020/21 | 2.50% | 5.60% |
| 2021/22 | 2.50% | 5.60% |

Notes:

- CPI for the first 4 years is based on Access Economics September 2008 forecasts, then forecast at 2.50% in every year thereafter.
- Interest Rates for investments for the first 4 years are based on 0.40% less than the Access Economics September 2008 forecasts, then forecast at 5.60% in every year thereafter.

Waverley Council

Cnr Paul Street & Bondi Road
Bondi Junction

PO Box 9
Bondi Junction 2022

DX 12006 Bondi Junction

Email waverley.nsw.gov.au

Web www.waverley.nsw.gov.au

Telephone Enquiries

General business **9369 8000**

General fax **9387 1820**

TTY for hearing impaired **9389 9827**

After hours emergencies **9369 8000**

Your call will be directed to the appropriate area.