

# Financial Planning Assumptions

In preparing the Council's budget, consideration was given to a range of economic and political factors that affect our finances and in turn our capability to maintain existing levels of service and long term financial sustainability.

Based on reputable sources such as Deloitte Access Economics, we have made the following assumptions while putting together this year's budget and long term financial outlook:

1. Market Driven Planning Assumptions and
2. Revenue and Expenditure Assumptions

## 1. Market Driven Planning Assumptions

As part of undertaking financial modelling, key assumptions that underpin the estimates must be made. The following assumptions have been used in the modelling contained in Council's Long Term Financial Plan and Delivery Program.

### Growth

In assessing future growth Council has referred to NSW Planning and Environment's 2014 Final Population Projections for Warringah. In Warringah the population is projected to increase from 148,400 in 2011 to 179,600 in 2031 at an average of 0.95% per annum, or approximately 1,295 extra persons per year.

Under the Metropolitan Strategy, the Draft North East Subregion Strategy, a target of 10,300 dwellings was proposed for Warringah by 2031. The NSW Planning and Environment's 2014 Final Household and Implied Dwelling Projections have revised this to 13,431 at an average of 1.03% per annum. Actual delivery of new dwellings to meet the target will require up-zoning of land with associated supporting infrastructure.

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Additional Dwellings	614	621	627	633	639	646	652	659	665	672
Dwellings Projection	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%

### Inflation (Consumer Price Index (CPI))

In determining the inflationary increase assumption for 2015/16 Long Term Financial Plan, Council has used economic projections, which indicates that inflation projections for the next ten years will be as follows:

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Underlying Inflation	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.50%

## 2. Revenue and Expenditure Assumptions

The following table outlines Council's financial planning assumptions by revenue and expenditure types. Included within the assumptions is a brief description as to how Council has determined the assumption and the external influences on that assumption.

Revenue Assumptions										
Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Rates</b>										
Rate Cap	2.40%	3.00%	2.90%	2.70%	2.60%	2.70%	2.70%	2.70%	2.60%	2.70%
Special Rate Variation	0.60%		6.50%							
<b>Comments:</b>										
The Rate Cap and Special Rate Variations in the years 2015/16 to 2017/18 is based on that advised by IPART in their Determination issued on 3 June 2014. Subsequent years have been calculated based on an estimate of the Local Government Cost Index. This estimated is based on 40% of costs being Employee Costs and 60% being Other Expenses.										
<b>Annual Charges</b>										
Domestic Waste Management	7.40%	4.90%	5.00%	10.00%	10.00%	2.50%	2.60%	2.50%	2.50%	2.40%
<b>Comments:</b>										
Council calculates its Domestic Waste Management Charges to ensure that its total income can fund the operating and maintenance costs associated with providing the service including provisions for major plant replacement. Higher costs reflecting a new bin system roll-out associated with the closure of the Belrose landfill site, changes by the New South Wales Government in the allocation of the WaSIP Grant and the implementation of the Alternate Waste Technology (AWT) facility at the Kimbriki Waste Landfill site in 2018/19 will result in higher domestic waste management costs. Increases in the Domestic Waste Management Charge from 2016/17 to 2019/20 for an 80 litre bin will average \$34 per annum (120 litres: \$52).										
<b>User Charges &amp; Fees</b>										
Fees & Charges (statutory)	Increase is not determined by Council – Increases are in accordance with relevant legislation.									
CPI (Underlying Inflation)	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.50%
<b>Comments:</b>										
Council's User Fees & Charges comprise Statutory Charges which are determined under relevant legislation and Non-Statutory Charges including Childcare Fees, Venue Hire and lease income from Council properties. In determining the rates for its Non-Statutory Charges, Council applies its Pricing Policy which incorporates the Local Government Competitive Neutrality Guidelines. CPI (underlying inflation) has been used to project Council's revenue for future years from User Fees & Charges.										

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Interest &amp; Investment Revenues</b>										
Return on Investment Portfolio	3.40%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
<b>Comments:</b> Council has used information provided by its Investment Advisors to determine forecast projections for interest on investments based on forecast cash balances over the ten years period.										
<b>Other Revenues</b>										
CPI (Underlying Inflation)	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.50%
<b>Comments:</b> Council's Other Revenue principally comprises Recycling Revenue, Environment Protection Authority Revenue, Fine Income and revenue from other activities including Special Events, merchandising, food and beverage sales at Councils' Aquatic Centre and Glen Street Theatre. CPI (underlying inflation) detailed above has been used to project Council's revenue for future years from Other Revenues.										
<b>Grants &amp; Contributions – Operating Purposes</b>										
CPI (Underlying Inflation)	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.50%
<b>Comments:</b> Council receives a number of operational grants from various Government agencies. The largest of these being the Financial Assistance Grant and Council has assumed that this will continue to be received. Council has assumed it will continue to receive other operating grants in relation to ongoing operations e.g. salary grants and that these will increase annually in line with CPI (underlying inflation). Other operating grants received for specific project related purposes have been included in the year Council anticipates they will be received.										
<b>Grants &amp; Contributions – Capital Purposes</b>										
CPI (Underlying Inflation)	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.50%
<b>Comments:</b> S94A Developer Contributions are a significant source of Council's capital revenue. Predicting the amount of revenues received from this source is extremely difficult as it is essentially market driven and depends on the timing of developments. Council has assumed it will receive \$2.2 million in contributions in the 2015/16 financial year and that these will increase annually in line with CPI (underlying inflation). Council has assumed it will continue to receive other capital grants in relation to ongoing programs and that these will increase annually in line with CPI (underlying inflation). Other capital grants received for specific project related purposes have been included in the year Council anticipates they will be received.										
<b>Gain on Disposal of Asset</b>										
CPI (Underlying Inflation)	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.50%
<b>Comments:</b> Council's Gains on Disposal of Assets is predominantly received from the sale of its fleet and properties. The estimate in 2015/16 includes anticipated gains from the sale of Council's fleet as well as the sale of a major property asset. Future years are based on the assumption that the fleet sales will continue at their current level and will increase annually in line with CPI (underlying inflation). The funding of the Dee Why Town Centre Parking and Community Facility will partially come from the proceeds from the disposal of the Kiah site in 2015/16. The completion of a cultural hub at Glen Street is to be funded by the disposal of part of the Library site in 2016/17.										

<b>Expenditure Assumptions</b>										
<b>Year</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>Employee Benefits &amp; Oncosts</b>										
Industry Award Base Increase	2.70%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Industry Award Step Increase	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Superannuation Guarantee Levy	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	10.00%	10.50%	11.00%	11.50%
Productivity Savings	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
<p><b>Comments:</b></p> <p>The current Local Government State Award provides for annual increase of 2.7% in 2015/16 and 2.8% in 2016/17 as well as salary band step increases. Council has assumed that the Local Government State Award increases will remain at their 2016/17 levels for the final 8 years of the Long Term Financial Plan. Other assumptions relating to employee costs which are included in the Long Term Financial Plan include:</p> <ul style="list-style-type: none"> <li>• No change is expected in existing employee working hours.</li> <li>• Council assumes a 5% vacancy in establishment positions in each financial year.</li> <li>• The average increase as a result of Award based Salary Band step increases will be 0.2% per annum.</li> <li>• Council has modelled future superannuation expenditure based on the freezing of the statutory contribution rate at 9.5% until 2021/22. The contribution will then incrementally increase to 12.0% by 2025/26.</li> <li>• Council will continue to achieve productivity improvements through its continuous improvement program and these will average 0.2% per annum.</li> </ul>										
<b>Borrowing Costs</b>										
Interest Rate – Borrowing	4.30%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
Tip Remediation Discount	\$0.97m	\$1.02m	\$1.09m	\$1.15m	\$1.22m	\$1.29m	\$1.37m	\$1.45m	\$1.54m	\$1.63m
<p><b>Comments:</b></p> <p>Council's borrowing costs over the ten year period comprise a number of components:</p> <p>Interest incurred on borrowings for major infrastructure works: The construction of access road infrastructure at the waste landfill site at Kimbriki. It is anticipated further borrowings will be required in the 2015/16 financial year.</p> <p>Finance Lease Interest Charges – rates on these borrowings are forecast in accordance with the rates outlined above. These have been calculated based on the assumed Interest Rate on Investments plus 1.5%.Tip Remediation Discount. This relates to the remediation of the waste landfill site at Kimbriki. These have been based on a Remediation Plan and a discount rate of 6% per annum.</p>										

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Materials &amp; Contracts</b>										
CPI (Underlying Inflation)	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.50%
<p><b>Comments:</b></p> <p>Materials and contracts (with the exception of Domestic Waste Management) and other expenses which represent the principal costs used to deliver services to the community are forecast to increase in line with the Consumer Price Index. While the rate of growth projected is uneven it is forecast to average 2.5% per annum. Materials and contracts for Domestic Waste Management are forecast to increase by an average of 7.7% between 2015/16 and 2018/19 reflecting additional costs associated with the implementation of the Alternate Waste Technology at the Kimbriki Waste Recovery Facility.</p>										
<b>Depreciation &amp; Amortisation</b>										
Projected Depreciation Cost	\$16.0m	\$17.6m	\$18.3m	\$18.8m	\$19.9m	\$20.5m	\$21.1m	\$21.8m	\$22.4m	\$23.1m
<p><b>Comments:</b></p> <p>The depreciation methodology which Council employs can be found in Note 1 of the General Purpose Financial Statements. The depreciation expense assumed in the Long Term Financial Plan has been calculated in accordance with this methodology. Estimates have also been included for the projected depreciation cost of new assets which have been identified within Council's proposed Capital Works Program.</p>										
<b>Other Expenses</b>										
CPI (Underlying Inflation)	2.50%	2.70%	2.60%	2.50%	2.40%	2.50%	2.50%	2.50%	2.40%	2.40%
<p><b>Comments:</b></p> <p>Other Expenses primarily relate to Utility Costs, Insurances, Statutory Charges (including Election Costs, Emergency Services Levy and Waste Disposal Levy) and Other Program Expenditure. These are generally forecast to increase in line with CPI (underlying inflation).</p>										