CESSNOCK LGA
2026-35

LONG TERM FINANCIAL PLAN

CESSNOCK CITY COUNCIL

Journey Through Time, created by local school students and artist Steven Campbell.

Acknowledgement of Country

Cessnock City Council acknowledges that within its local government area boundaries are the traditional lands of the Wonnarua people, the Awabakal people and the Darkinjung people. We acknowledge these Aboriginal peoples as the traditional custodians of the land on which our offices and operations are located, and pay our respects to Elders past and present. We also acknowledge all other Aboriginal and Torres Strait Islander people who now live within the Cessnock Local Government Area.

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Executive Summary

Objectives of the LTFP

The Long-Term Financial Plan (LTFP) focusses on a 10-year forecast of how Council funds services to the community, including the infrastructure required. This includes an evaluation of different scenarios and the funding and service impacts of these scenarios.

The Plan (LTFP) is part of the Integrated Planning & Reporting (IP&R) framework which provides guidelines on how NSW Councils can plan holistically in a sustainable manner to meet community needs. The IP&R framework includes A Community Strategic Plan, Asset Management Strategy and Plans of 10 years, A Delivery Program for 4 years and other plans and reporting documents. All these documents need to be integrated.

The Long-Term Financial Plan, under the NSW government guidelines, must give due regard to promoting the financial sustainability of the council through:

- the progressive elimination of operating deficits
- the establishment of a clear revenue path for all rates linked to specific expenditure proposals
- ensuring that any proposed increase in services and/or assets is within the financial means of the council including a proposed special variation
- ensuring the adequate funding of infrastructure maintenance and renewal
- the use of borrowing, where appropriate and financially responsible, and
- the fair and equitable distribution of the rate burden across all rate payers.

These guidelines have driven the structure of this document. Scenarios covered focus on what funding is required to meet community expectations and/or minimum standards for the effective maintenance and renewal of key infrastructure. The community has provided clear feedback on which services are most important. The LTFP covers scenarios with different service levels and the funding requirements of each. An evaluation is undertaken of the viability of these different options. Council's Asset Management Plans, which document what is required, are a particularly important input into the LTFP.

Historical context

Council has found it difficult for many years to meet these guidelines. The situation has become more dire in recent years.

It is helpful to compare Cessnock to other similar councils. The graphs on the next page provide some comparison. Cessnock is classified as a Regional Town/City based on its population and being a regional council. There are 36 such councils and this includes a number of councils in the Hunter Region such as Maitland, Singleton, Newcastle, Lake Macquarie and Port Stephens.

Cessnock City Council has in the past sought to constrain expenditure to avoid going to the community to seek additional funds. As can be seen in the graph on the next page the increase in average rates for Cessnock is substantially less than that for other comparative councils.

The last SV application by Cessnock which resulted in increase of significance in rates was nearly two decades ago (for 2006/7). This was for a modest increase of 6.05% above the rate peg for a fixed period till June 2014. In 2013/14 Cessnock successfully sought a 7.25% increase to in effect replace the expiring prior approval and avoid rate revenue actually decreasing.

As a consequence of this funding constraint Council consistently does not have sufficient funds to fully cover expenses (negative ratio). Council also has an Operating Performance Ratio below the average for Council's cohort. The situation has worsened in recent years.

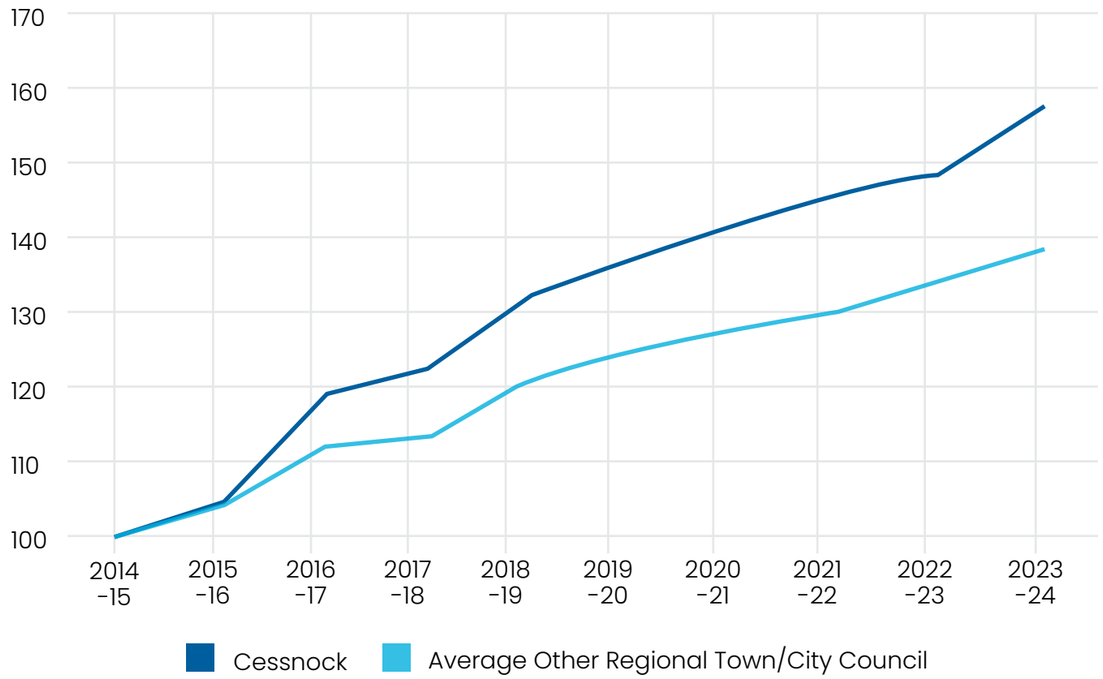
The Operating Performance Ratio measures the percentage of the surplus/deficit in the Net Operating Result. This ratio needs to exceed 0% to meet the sustainability metric, mandated by the state government, and does not meet the guidelines covered above.

A negative Operating Performance Ratio is an indicator that Council is probably not generating sufficient funds to support the renewal of existing infrastructure assets. The Infrastructure Backlog ratio indicates the level of expenditure required to return assets to a satisfactory standard as a percentage of all assets. There was a clear deterioration in the backlog ratio from 2015 to 2019. This deterioration was mitigated somewhat over the last 4 to 5 years. A combination of an asset revaluation and a substantial increase in asset renewal expenditure resulted in a reduction in the backlog ratio, but it still falls short of state government expectations. Asset renewal expenditure increased from $7.6m in 2019, prior to the revaluations increase in renewals expenditure, to $13.5m, $17.0m and $38.0m in the 3 years to 2024. This is not sustainable. The expenditure resulted in Council's cash position deteriorating resulting in additional borrowing and has now reduced to a more sustainable level. Without action Cessnock's investment in existing assets cannot be adequately maintained.

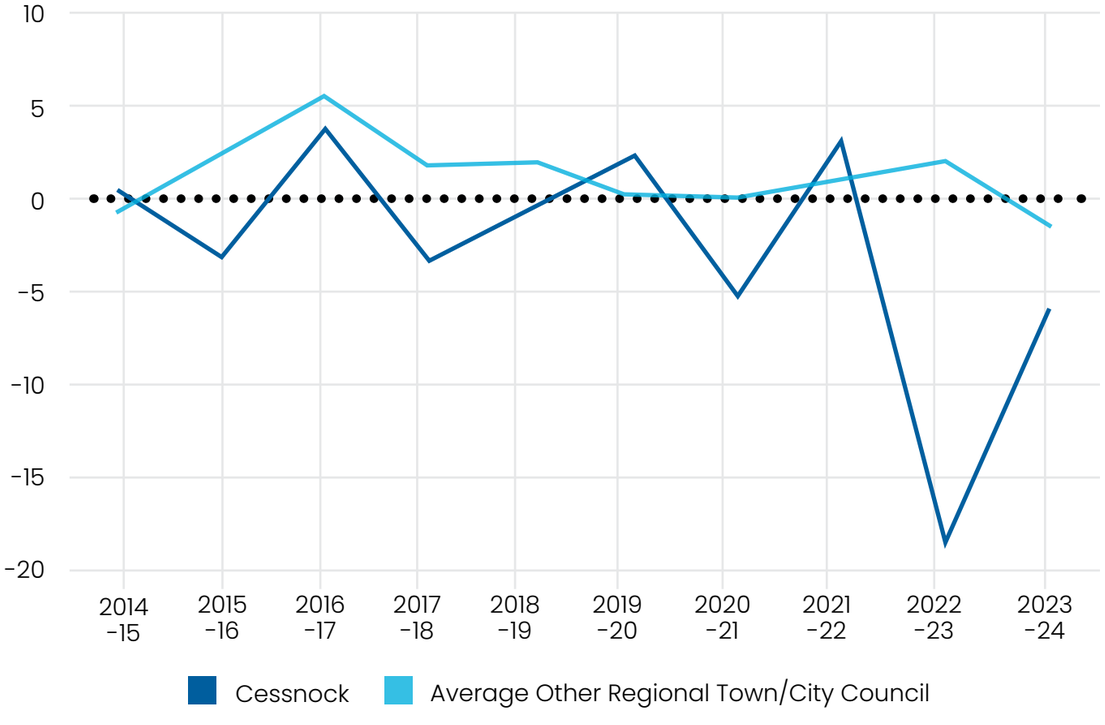
The final graph reflects the substantial growth in population within the Cessnock LGA. Cessnock is one of the fastest growing regions in NSW. This places increased stress on existing assets and requires new assets to be built to support a growing population. It is well recognised by the NSW government that increased rates from new ratepayers are not sufficient to cover the additional costs arising from this growth.

These graphs provide a summary picture of some key factors explaining how Cessnock's challenge has become more acute over recent years. This trend will continue over the next decade.

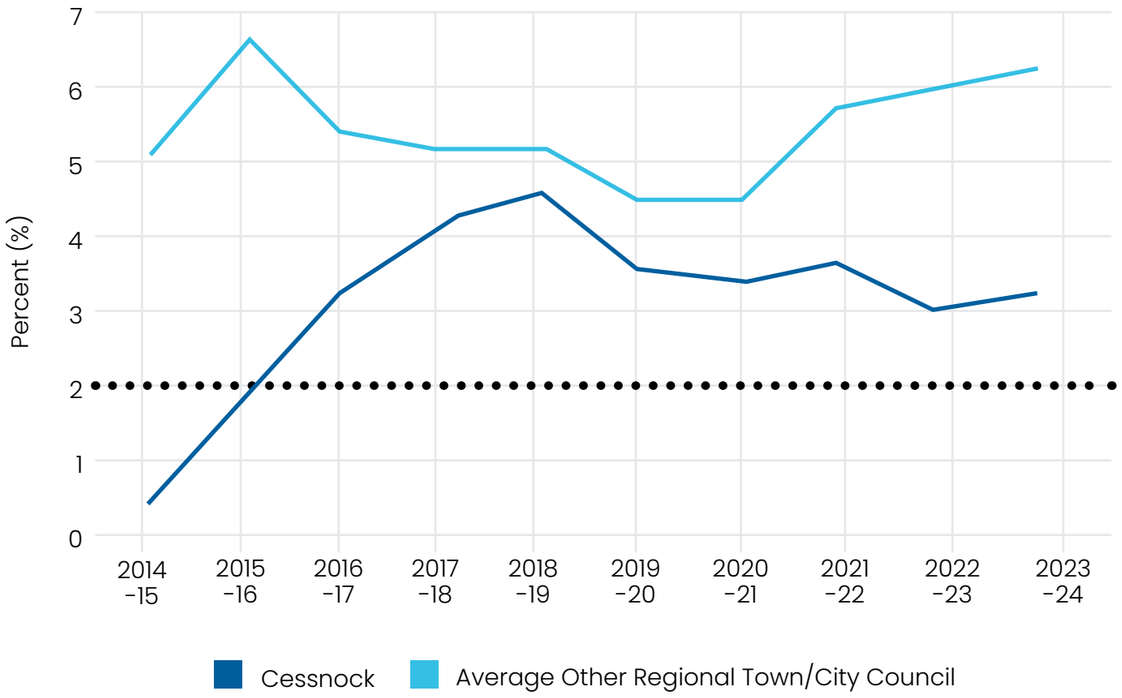
Increase in average residential rates (Index)



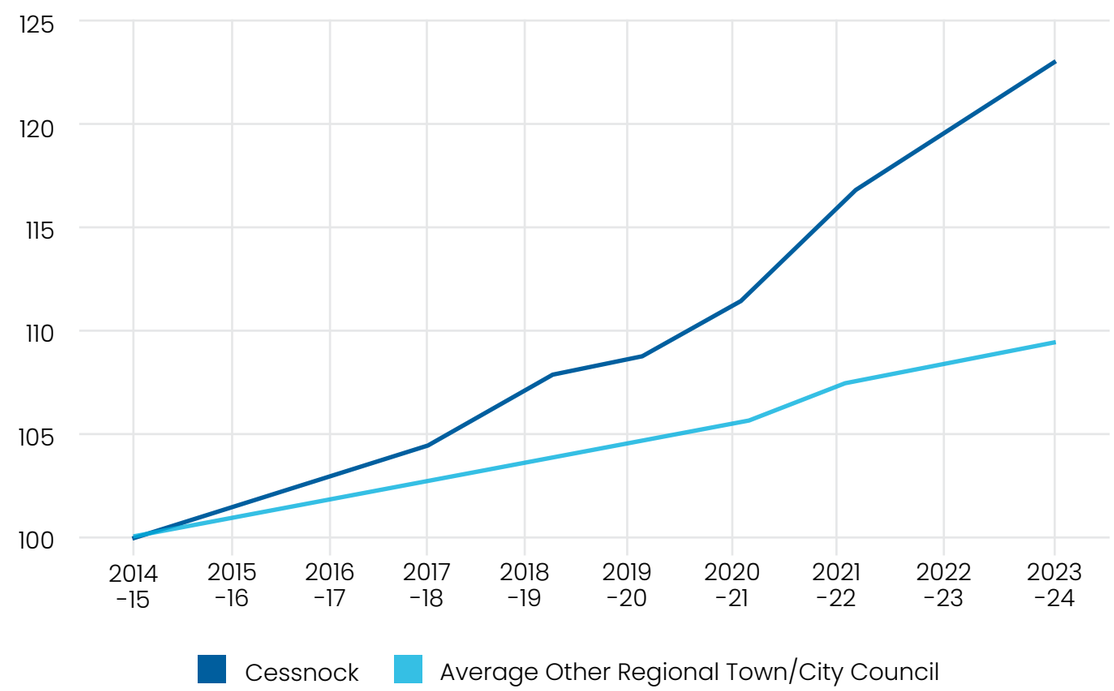
Operating performance ratio comparison (%)



Infrastructure backlog ratio comparison (%)



Population growth (index)



Future considerations

The future for Cessnock will reflect a continuation of these factors which will continue to place pressures on Council's financial sustainability and capacity to adequately maintain and renew Council assets. In addition, there are both legacy factors and future challenges to consider. These future considerations will be integrated into the financial model as assumptions. Sensitivity analysis will be applied selectively to understand how the outcomes change with changing assumptions.

In summary the following factors or drivers need to be considered when modelling Council finances over the next 10 years:

- ***Council is already in a weak position in terms of operating performance and cash position.*** The expansion in the capital works program has, whilst stabilising asset condition and adding assets needed by a growing population, depleted Council's cash position. Council has a $10m deficit in Unrestricted funds per the 2025 Financial Statements and is already undertaking borrowing to shore up its cash position to support the current capital works program.
- ***Council's capital grants in recent years have been largely associated with the dedication of assets, developer contributions, natural disaster relief and signature projects.*** Grants have provided some assistance with funding the renewal of key assets however grants often don't align to greatest need. In addition, as a result of past success in seeking grants, Cessnock's own-sourced income is well below the benchmark. This reflects an over dependence on grants in general. Grants cannot be guaranteed and are often not where funds are most needed by Council. It is expected that Federal and State Governments, which also have funding constraints and major infrastructure projects will reduce the level of grant funding.
- ***Existing Council assets, particularly roads, require significant investment to meet both community expectations and to meet key benchmarks.*** The 2025 Community Satisfaction Survey reconfirmed prior survey results that Roads in particular are viewed as a very important service and satisfaction is at record lows. The Roads asset category constitutes half of all Council assets.
- ***Ongoing cost pressures will remain.*** There were significant inflationary pressures after Covid impacting both the community and organisations such as Councils. There has been some abatement however inflation remains sticky particularly in areas where there are supply / demand imbalances. Council is competing for scarce resources with both significant infrastructure projects and the need for new housing placing demands on scarce skilled trades and the associated materials.
- ***Population growth will continue.*** Significant development of new homes is projected to continue for the next one to two decades. Cessnock is forecast to remain one of the highest growing government areas in NSW with projected growth remaining over 2%. New infrastructure such as roads, pathways, drainage, recreational and sporting facilities will be required.

- ***Cessnock has transitioned from a rural community with a strong mining heritage and towns into a community which supports other activities (such as tourism) and a desirable residential location which is part of the broader Hunter region.*** Initial infrastructure was built or upgraded to support particular purposes in a sparser community concentrated in small towns with less traffic. Roads might have originated as unsealed roads, which were then crudely upgraded to support low volume traffic without the necessary engineering improvements required. This organic growth has resulted in many roads no longer being fit for purpose. These roads need to be upgraded sooner than originally intended due to the increased demands. Impact is therefore not just in building new assets but upgrading existing assets as well.
- ***Weather events might become a more frequent and costly issue.*** Recent years has seen a number of significant weather events. Widespread damage has occurred to Council infrastructure. Costs per event are in the millions of dollars for each event. Council has received Natural Disaster funding which has been a great help however there has generally been a funding gap and not all events have been classed as Natural Disasters. Council does not have any financial contingency or the capacity to build provisions for these events.

These considerations will be addressed in the financial modelling with one exception, weather events. Council modelling covered the need for borrowing to shore up Council finances. Borrowing however is not a long-term option as Council requires the capacity to pay the interest cost and pay back the funds borrowed. Council will therefore evaluate the funding gap and how best to fund any shortfall.

The scenarios will also assume lower levels of grant funding in line with advice received by Council. Roads will be a particular area of focus in line with community preferences and also given the substantial investment required in Council's largest asset class. The model assumptions will reflect the population growth and inflation that is currently the case. Both will be moderated over the 10 years, in line with advice from independent experts. Cessnock has also needed to address legacy issues in asset construction and is applying recognised industry practices when upgrading and renewing existing assets. Approaches being followed will be more sustainable in the longer term.

The rate cap assumptions deviate from the OLG recommendations and we have taken independent expert advice on this matter from a leading economist.

A focus on efficiency to reduce the funding gap

An independent expert has undertaken a detailed analysis on how Cessnock's efficiency compares to its cohort of similar councils. That analysis will not be replicated within this document but demonstrates Cessnock is efficient when benchmarked against other equivalent councils.

The financial modelling undertaken for the LTFP has also included analysis comparing Cessnock with other councils. This analysis was undertaken to understand where there might be opportunities for further efficiencies beyond those already identified. The conclusions from this analysis are as follows:

- Cessnock has been funding constrained for many years which has restricted Council's capacity to undertake expenditure other than on core services. For example:
  - Council's successful cultural programs are largely self-funded relying on a user pays model for events at PACC, merging the performing arts centre and arts gallery and selling the former arts gallery
  - Limited expenditure on events within the region despite being a tourist destination
  - Recreational and sporting facilities where expenditure on much needed upgrades has been deferred and as part of this LTFP will be deferred again.
- Cessnock has focussed investment on roads rather than other asset classes.
  - Cessnock is one the councils with the highest proportion of investment in roads as a percentage of all infrastructure assets (52%)
  - Council expenditure on other asset classes such as buildings, footpath, stormwater is generally substantially less than other Hunter councils or cohort councils.

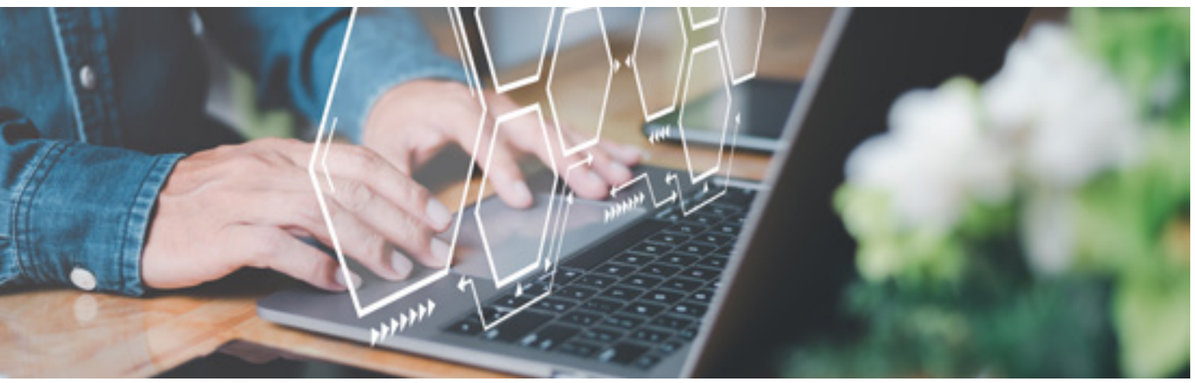
It is essential that Cessnock City Council look at all options for efficiencies so that any funding gap is minimised and the need for a special variation is either avoided or minimised. Efficiency initiatives have been undertaken over the last decade. The benefit of these initiatives is already reflected within Council's baseline numbers.

An exercise has also been undertaken to update the list of current efficiency initiatives. The benefits from this list have not yet been realised and so have been included as savings within all scenarios in the Long-Term Financial Plan. The savings are approximately $2.4m in the next year and are recurring. These are predominantly saving in expenses. The savings are projected to increase to approximately $3.2m by 2035/36. Total savings over the 10 years (from implementation) will be approximately $28m. Notably, the proposed savings have gone through an independent expert assurance process.

Some of the efficiency initiatives identified will involve reducing service levels to the community. This has been limited with most savings achieved through other options. Reduction in service levels will therefore be put forward for consultation. Council, as part of the consultation process, will seek suggestions from the community on how to further improve revenues, reduce costs and/or change service levels to minimise the scale of impact from an SV.

A 10-year forecast is a long but necessary time horizon. Extended planning is necessary due to the long-lived nature of Council infrastructure and the need to ensure adequate funding for these long-term commitments. Substantial change can happen within that time frame. One area of global focus is in the area of Artificial Intelligence (AI). There is a broad range of commentary where this technology might head and the benefits, including productivity, and the dangers of such technology. We believe the prudent approach is to include AI as a financial sustainability initiative but not reflect specific benefits at this time due to the uncertainty. If or when benefits arise from this AI technology council will apply these benefits to accelerating this expenditure to improve services to the community. It the benefits are substantial it will impact all councils and require a response across all councils.

In summary, Cessnock City Council is viewed as efficient in comparison to other councils. Funding constraints over an extended period have restricted expenditure to core services, and $2.4m of additional efficiency initiatives have been identified and incorporated into all scenarios in the LTFP.



Base case and Scenarios Modelled

Council has undertaken financial modelling on the base case and 4 possible scenarios. The purpose of this modelling is to evaluate whether Council can operate largely as business-as-usual and meet key sustainability metrics and meet community expectations for services.

Council has developed a Community Strategic Plan, prior resourcing plans (including an Asset Management Strategy and associated Asset Management Plans and a long-term Financial Plan). These resource plans are all at least 10 years duration. Council also has more detailed plans with shorter planning horizons (Delivery Program – 4 years, Operational Plan – 1 year).

These plans have all been key inputs into the Asset Management Plans (AMPs) to ensure Council delivers what has been agreed with the community. The AMPs also determine the scale of asset maintenance and renewal required to ensure Councils Infrastructure is maintained sufficiently to a satisfactory standard and to meet community service level expectations. The AMPs include plans to support these goals.

The scenarios have been developed within this context and look to answer the question of whether Council can sustainably meet the key IP&R guidelines:

- the progressive elimination of operating deficits
- the establishment of a clear revenue path for all rates linked to specific expenditure proposals ensuring that any proposed increase in services and/or assets is within the financial means of the council including a proposed special variation
- ensuring the adequate funding of infrastructure maintenance and renewal
- the use of borrowing, where appropriate and financially responsible, and
- the fair and equitable distribution of the rate burden across all rate payers.

The question is, can the base case meet these guidelines and if not is there an alternative path Council can take to achieve these guidelines and which path is the optimal path for Council?

SCENARIO	DESCRIPTION	RATIONALE
Base case	***No change Scenario. Expenditure within funding constraints.*** Council does not receive any additional funding and needs to constrain expenditure within funding constraints to remain solvent. Due to significant operating deficits (excluding grants for capital purposes) Council is unable to undertake sufficient renewal of existing assets and cannot undertake projects necessary to support a growing LGA. Asset condition deteriorates significantly under this scenario not meeting community expectations nor key sustainability benchmarks. The base case includes significant efficiency constraints which continue to apply to all scenarios. Efficiency savings have been applied to reduce the funding gap. In addition, operational staffing levels are frozen for the first 5 years. This will require future efficiency initiatives. Materials & Contracts costs are also contained to support only inflation and support for new assets.	This scenario represents Council's likely path without additional funding support. Efficiency initiatives have been included (as they have in all scenarios) to maximise the funds available to maintain existing assets. This scenario's focus on the investment in council assets is to answer the question "Can Council adequately maintain Council assets within current funding constraints?"
Scenario 1	***No additional funding but meet maintenance and renewal expenditure benchmarks for Council assets.*** This scenario identifies the current funding gap if council wants to sustainably fund asset maintenance and renewal in line with IP&R benchmarks. The base case already reflects that Council needs to constrain expenditure to work within funding generated from operations. With that context this scenario considers what is the funding gap and can Council borrow the shortfall in operational funding to finance a sustainable infrastructure maintenance and renewal program. Not investing in assets sufficiently will result in asset condition deteriorating, not meeting community needs and expectations and ultimately costing Council more as replacing such assets is more expensive in the long term. This is not sustainable so is there a borrowing option?	The scenario identifies the extent to which Council cannot fund sustainable levels of investment in Councils existing assets. Ongoing borrowing is not a viable option so this scenario is used solely to reflect the funding gap and in effect that Council would become insolvent. The scenario answers the question "What is the funding gap Council needs to meet key asset sustainability ratios?"
Scenario 2	Council receives a 39.9% special variation and seeks to meet asset sustainability ratios. This scenario recognises that the scale of borrowing proposed under Scenario 1 is not possible and proposes that a special variation of 39.9% will assist Council in becoming financially sustainable. This scenario keeps all other elements the same as Scenario except for the following: • Seek a 39.9% special variation • No longer undertake a program of borrowing to fund the works program and undertake a borrowing program that works to the new funding gap. • Additional borrowing might still be required and this scenario undertakes this borrowing rather than restrict the works program.	The purpose of this scenario is to determine whether Council can (with a 39.9% special variation) fully fund an asset maintenance and renewals program that meets key IP&R benchmarks for these activities. This scenario looks to meet the infrastructure renewal requirements from 2026/27 onwards. It also incorporates the scoped down works program for new/upgrade assets needed for an LGA which is one of the fastest growing in NSW.

SCENARIO	DESCRIPTION	RATIONALE
Scenario 3	***Council receives a 39.9% special variation and maximises investment in Council assets within funding constraints.*** This scenario builds on Scenario 2. It appears that Scenario 2 can support the funding of a sustainable infrastructure maintenance and renewal program and the core works program. However, due to timing issues between funds being generated and when funds are needed as part of the program, significant borrowing is required. This is substantially less than Scenario 1 and also appearing to viable but still significant and something that then constrains the works program in future years due to loan payment commitments. This scenario looks to optimise the capital works program to avoid the need for persistent borrowing but at the same time reach a position, albeit at a later stage, of having a sustainable infrastructure maintenance and renewal program and meet other IP&R sustainability guidelines. Community priorities are also a key input.	The purpose of undertaking this scenario is to identify the best possible outcome for Council with the benefit of the special variation. This scenario looks to optimise and balance expenditure but working with the key priorities of addressing road infrastructure in particular but all asset maintenance and renewal. This scenario looks at the capacity to exceed ratios, if possible, to identify the capacity in the longer term to reduce the infrastructure backlog.
Scenario 4	***Council is successful with a second special variation 5 years after the first special variation. Modelled as a 30% increase in 2031/32.*** A second special variation is not being sought at this time. The purpose of this scenario is to demonstrate the impact a 2nd special variation would have on Council's capacity to accelerate works programs and consequently address the infrastructure backlog more quickly. In addition, although Scenario 3 demonstrates a significant (essential) improvement to Councils financial sustainability and capacity to meet IP&R sustainability guidelines there are still some areas which are marginal. As noted, the infrastructure backlog is the clearest.	The purpose of this scenario is to evaluate what beneficial impact additional funding might provide. Often councils seek multi-year special variations. Cessnock is avoiding this approach and will evaluate how Council progresses if successful with a 39.9% SV. Five years is a long time and circumstances will change so this scenario is illustrative only.

Scenario Outcomes and Recommendation

Ratepayers will want to understand how each of the respective scenarios might impact them. A more detailed calculation will be completed separately from the Long-Term Financial Plan and shared with the community. The community can gain a general view of what the impact might be from reading this document.

To make this assessment the community should be aware that the special variation applies only to Council rates. The Rates notice includes other annual charges including an Environmental Levy, Stormwater and Domestic Waste charge. These are not a component of rates but are separate charges. The Domestic Waste charge will therefore not be subject to, or a part of, the proposed SV increases. These charges are projected to increase based on inflation assumptions in the model.

Choosing an Alternative Scenario

The IP&R guidelines require that Council compare a scenario which represents an alternative path for Council achieving financial sustainability. This LTFP has involved the modelling of 4 scenarios. The best scenario for comparison and evaluation against the base case is Scenario 3. The basis is the following reasons:

- Scenario 1: This scenario modelled undertaking target asset maintenance and renewal within current funding. This resulted in $400m of borrowing which is unsustainable.
- Scenario 4: This scenario models an additional special variation in 2031/32 to further improve Council's financial position and accelerate the infrastructure renewal program. Council can only seek a 2nd SV just prior to when it is being sought. This scenario is not therefore for consideration.

The choice of preferred scenario is between scenarios 2 and 3. A detailed comparison has been provided at the beginning of the analysis for Scenario 2. Based on this analysis it is believed Scenario 3 should be the preferred scenario for comparison. The rationale for this is that Scenario 3 optimises the capital works program and avoids a significant increase in borrowing. Scenario 3 (like scenario 2) prioritises the roads program in line with community preferences and also reflects better outcomes against the IP&R sustainability guidelines.

The comparison between the Base case and Scenario 3 is therefore reflected on page 21.

Sustainability Scorecard: Comparing Base case to Scenario 3

CRITERIA	BASE CASE	SCENARIO 3
Net Operating Result	Net Operating Deficit (before capital grants and contributions) reflects a substantial deficit ($35.9m) Operations ratio is negative at -16.5% in 2035/36.	Net Operating Deficit (before capital grants and contributions) reflects a deficit ($14.6m). This is substantially less than the base case. Operations ratio is just negative (in effect meets ratio is effectively zero (0.04%) as almost 0%. This ratio was positive prior to the one-time asset maintenance adjustment and is likely to become positive again post 2035/36. Based on this metric scored amber.
Trend in Operating Result	Trend is worsening with no possibility of reversing the trend. The Operating Performance ratio is either stable or worsening. Trend is difficult to determine.	Trend is stable if the one-time adjustment in asset maintenance is excluded to see a true trend. The trend in the Operating Performance Ratio was positive prior to increase asset maintenance and is again appearing to improve moderately.
Own Source Revenue	Meets the ratio.	Meets the ratio
Asset Maintenance	Approximately (90%) for the 1st 8 years of the plan (maintaining current levels of maintenance in percentage terms). An increase of $3m in 2034/35 increases the ratio to (100%) so that meets this benchmark. Decision was to balance prioritization of asset maintenance and renewal.	Approximately 90% for the 1st 8 years of the plan (maintaining current levels of maintenance in percentage terms). An increase of $3m in 2034/35 increases the ratio to 100% so that meets this benchmark. Decision was to balance prioritization of asset maintenance and renewal.

CRITERIA	BASE CASE	SCENARIO 3
Funding for Infrastructure	There will not be sufficient funds generated from operations which results in infrastructure renewal and core projects being substantially curtailed.	Infrastructure can be funded from operations. Initially constraints exist which results in infrastructure renewals being below the benchmark however the works program can be increased and delivered over the 10 years with the renewal ratio eventually exceeding the benchmark whilst not requiring additional borrowing and keep cash position stable.
Infrastructure Renewal	Is not able to meet the ratio or demonstrate a trend of improvement. Substantial underinvestment in infrastructure renewal with ratio just above 40% across 10 years.	Initially expenditure on infrastructure renewal is below the ratio (just above 60%) however as funds become available ratio is met (around 2031/32) and subsequently exceeded (over 100%).
Infrastructure Backlog	Ratio deteriorates rapidly from year to year. The ration is projected to be just under 10% by 2035/36.	Ratio initially increases (at a lower rate than the base case) and then stabilizes (at under 6%) and starts trending down moderately. The model has demonstrated funding capacity to increase the works program over time which indicates this ratio can be improved in the long run.
Road Condition	Condition 4 & 5 (poor and very poor) continue to deteriorate significantly with no path to improvement.	Condition 4 & 5 (poor and very poor) continue to deteriorate initially then stabilise and then start to reduce gradually. Very good and good condition increasing consistently.

CRITERIA	BASE CASE	SCENARIO 3
Responsible Borrowing	Borrow initially to shore up cash position and then gradual reduction in borrowing as loans are paid down. On the face of it this is a responsible strategy as Council is constraining the works program to avoid a cycle of borrowing. Council has however already had a loan funding application rejected by TCorp due to not meeting key criteria. A weak position such as is currently the case will result in higher funding costs via other channels and future borrowing might be more difficult across all channels given Council's week position.	Borrow initially to shore up cash position and then gradual reduction in borrowing as loans are paid down. There is a reasonable chance Council will be able to obtain lower cost from TCorp and based on the LTFP would certainly be able to obtain funding. Council can demonstrate that it can sustainably support is works program with its operating position likely to be sustainable along this path in the future.
Cashflow Position	Cash position appears stable and sustainable however if Council cannot obtain sufficient borrowing the works program will need to be even more constrained in the early years to restore council to a sustainable cash position to operate efficiently. As noted above this is a risk.	Cash position appears stable and sustainable. Council is able to both pay down borrowing as planned and also undertake a sustainable capital works program which meets maintenance and renewals rations and fully deliver the scoped down program building new and upgraded infrastructure.

Overall Assessment

In conclusion, the base case is not sustainable.

- The constraints on asset renewal due to insufficient funding arising from operations results in Council only achieving an infrastructure renewal ratio of 40%. In effect Council can only afford to spend 40% of what is required to renew Council infrastructure. As a consequence of this underinvestment Council infrastructure would continue to deteriorate. The community is already unhappy with the condition of Council infrastructure, particularly road assets.
- This weak financial position is reflected in the significant operating deficits projected within the LTFP and Council's current liquidity (cash) challenges.
- Council is in a weak position when actually seeking to borrow funds and there is some risk Council will find it difficult to obtain borrowing based on the current financial position. Council was already recently rejected for loan funding which has resulted in Council acquiring funds at higher commercial lending rates.

Scenario 3 provides the best alternative path for council

- Scenario 3 does provide a sustainable path albeit with some sustainability metrics being marginal.
- Council should be in a position to do the following:
- Gradually expand both infrastructure maintenance and renewal activities to be sustainable.
- Constrain borrowing to what is required to address current liquidity challenges and be in a position to pay this debt down whilst still meeting key infrastructure ratios.
- Position Council to be able to continue (within funding parameters) expand programs to further improve key metrics post 2035/36.

Based on this modelling it is believed the best path for Council is to seek a special variation for 39.9% and pursue the program as modelled under Scenario 3.

LONG-TERM FINANCIAL PLAN: OBJECTIVES & BASELINE

Long-Term Financial Plan: Objectives & Baseline

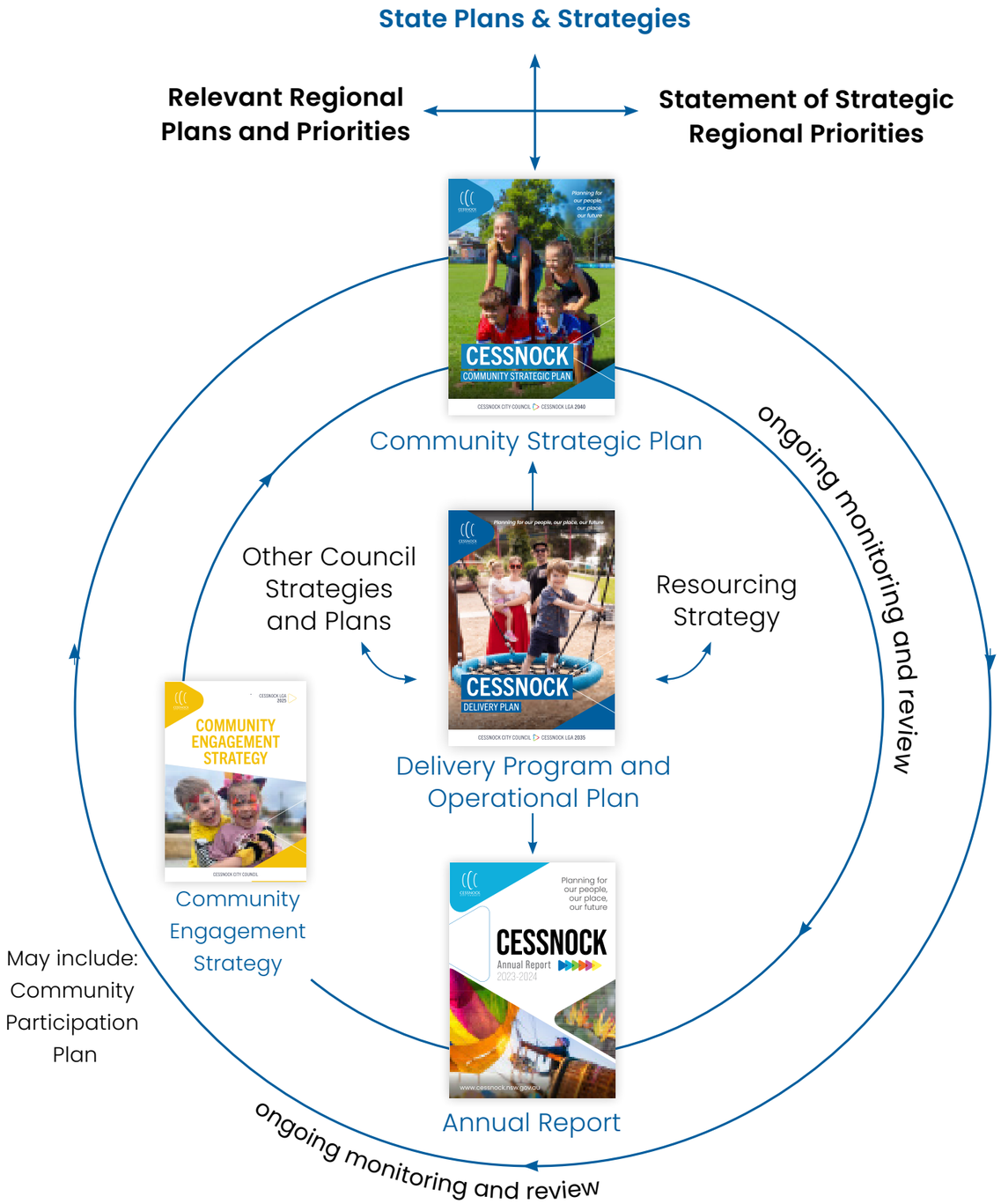
Integrated Planning and Reporting Requirements

The Integrated Planning and Reporting Framework requires every NSW council to undertake strategic planning that is based on community engagement and ensures that its activities are informed by long term plans for their finances, assets, and workforces.

The Integrated Planning and Reporting framework is designed so that the council and community both have a clear picture of:

1. Where we want to go (Community Strategic Plan);
2. How we plan to get there (Delivery Program, Operating Plan and Resourcing Strategy, including the Long-Term Financial Plan); and
3. How we will measure our progress (quarterly and annual reporting and the State of the City Report.

The planning and reporting process ensures that Council's planning is aligned with the community's vision for the future, and that the planning process and the implementation of the Delivery Program is transparent, and those charged with its delivery held accountable.



Integrated Planning and Reporting framework

The Long-Term Financial Plan (LTFP) is an important part of Council's strategic planning process. The LTFP is where Council projects the financial implications of delivering the community's vision for the future; and the aspirations and goals of the community are tested against financial realities. It outlines the pressures and economic drivers behind Council's expected long-term future. Expected growth rates are aligned with community expectations of service delivery and community projects and the social outcomes outlined in the Community Strategic Plan.

The extract below is from the NSW State Government guidelines and set the context and provides some insight into what metrics are of particular importance and what the expectations are for a council to demonstrate they are financially sustainable

Long-Term Financial Planning

General requirements for long-term financial planning

3.3 Each council must prepare and adopt a Long-Term Financial Plan.

3.4 The Long-Term Financial Plan must be used to inform decision-making during the preparation and finalisation of the Community Strtegic Plan and the development of the Delivery Program.

3.5 In developing the Long-Term Financial Plan, due regard must be given to promoting the financial sustainability of the council through:

- the progressive elimination of operating deficits
- the establishment of a clear revenue path for all rates linked to specific expenditure proposals
- ensuring the adequate funding of infrastructure maintenance and renewal
- the use of borrowing, where appropriate and financially responsible, and
- the fair and equitable distribution of the rate burden across all rate payers.

Based on these guidelines the metrics which will receive greatest focus are:

- To address how Council progressively eliminates or mitigates operating deficits the primary focus will be on the Net Operating Result before grants and contributions provided for capital purposes.
  (The rationale for using this particular metric is covered in more detail under the Base case and Scenarios section.
- To answer the question on whether there is sufficient funding for infrastructure maintenance and renewal the following metrics will be focussed upon
  - Metrics to confirm how Council is funding support
    - Net Cash & Investments
    - Borrowing
  - Key infrastructure ratios
    - Asset Maintenance ratio
    - Asset Renewal ratio
    - Infrastructure Backlog Ratio

There needs to be a focus on both sets of metrics to ensure that (1) there is sufficient funds and this is sustainable and (2) these funds can be applied to meet key infrastructure ratios.

These metrics will be cover when evaluating each scenario later in this document.

Council IP&R Documents: Key Inputs

The IP&R documents that receive particular attention within the LTFP are Community Strategic Plan, Asset Management Strategy and Plans, and The Delivery Program.

The 2025 Financial Statements and 2025-2026 Operational Plan and Budget are also relevant as these documents create a starting point for the projections within the LTFP.

It should be noted that the extensive plans listed in the Community Strategic Plan and the Delivery Program are captured in the Asset Management Strategy and Plans. These plans are developed by Asset Category (e.g. roads, buildings, stormwater drainage etc) and these plans prioritise, scope and estimate the cost of each project and incorporate these in the Capital Works program.

These Asset Management plans also recognise the importance of meeting the service levels expected by the community and the importance placed on the assets in each category. Based on this information, an assessment of the condition of each asset, and decision criteria used to prioritise the program, there are separate programs focusing on the renewal and upgrade of existing assets. As a consequence, the LTFP by relying heavily on these Asset Management Plans is also incorporating the priorities reflected in the Community Strategic Plan (CSP) and the Delivery Program.

The CSP and Delivery Program also provide useful information about community feedback captured during the planning process. This is reflected below. These documents also provide information about the extent the community has been informed about the state of Council's finances and the possible need for an SV.

This section will therefore cover each of these documents but place particular focus on the Asset Management Strategy and Asset Management Plans.

Community Strategic Plan 2040

The Community Strategic plan, updated in 2025, provides the following useful guidance obtained from the community. The community indicated their highest priority issues were:

1. Roads

"Prioritising infrastructure particularly roads and traffic control"

"Traffic management in the Cessnock area; the new estates are outgrowing the traffic control, congestion is a major problem including damaging the road."

"Roads near school are not safe because of speeding and disrepair"

2. Costs

"Rising cost of living in the area, specifically housing prices."

"Rising prices in food shopping and house prices, daily living expenses."

3. Recreation & Leisure

"Lack of infrastructure for community."

"More recreational activities, e.g. introduce a cinema, gated playgrounds."

"More pedestrian paths and cycleways."

The community also highlighted, a common trend across community satisfaction surveys, a very low satisfaction score with the maintenance of sealed roads. In 2025 the score was 25% 1.92 - Not at all satisfied. This is the lowest rating category in the Micromex survey, which rates satisfaction from not at all satisfied to very satisfied.

Given this strong focus by the community on roads the LTFP will include specific analysis on how each scenario will impact the condition of roads. In addition, the LTFP has been developed and integrated with the Asset Management Plans. Asset Management Plans have made roads a priority. Where resourcing decisions and prioritisation has been required in the development of works programs the roads programs (particularly relating to renewal) have been preserved to the fullest extent possible. This is reflected in all scenarios.

Delivery Program 2025-2029

The Delivery Program document includes a section on Special Variation.

The document covers some information about the method of determining the amount by which councils are allowed to increase rates known as the "rate peg". A summarised extract is provided below:

Councils rely heavily on rates (as typically their primary funding source) and that since 1977 Cessnock City Council's rate and other revenue streams have been regulated in NSW under an arrangement known as rate pegging.

The 'Rate Peg' is the maximum percentage amount a council can increase its income from rates, and has two (2) components to the calculation:

- Local Government Costs Index (LGCI): designed to reflect the costs that councils incur when providing goods and services to their communities, including labour, construction, and administration cost
- Residential population growth (specific to each council): to cover the increase in costs associated with delivering local government services in growing council areas

The Rate Peg amount is determined annually by the Independent Pricing and Regulatory Tribunal (IPART), which is the independent pricing regulator for water, energy, public transport and Local Government.

The Delivery Program document also references the need for all councils to produce a document called the Long-Term Financial Plan which forecasts our position in 10 years' time. The document notes the challenging financial situation has been highlighted for some time. The following extract is from the Delivery Program document:

> *For a while now, we have been forecasting a big shortfall and have tried to bring the budget back to surplus while continuing asset maintenance. Recently, those forecasts changed for the worse reflecting structural issues.*
>
> *The high inflationary cost increases have meant our predicted losses have become too big to be tackled through cost cutting alone for several reasons:*
>
> - *The rising cost of materials, labour and contractors*
> - *The government's 'rate peg' has not kept up with inflation*
> - *Rate income only provides 32% of council income*
> - *The overall condition of many Council assets - such as roads, buildings and pools – presents high costs for replacement and maintenance*
> - *An increasing community expectation around the quality of these assets*
> - *Limited alternative revenue opportunities*
> - *Federal Government slashing distribution of tax income to local government*
> - *State Government shifting costs onto local government*
>
> *In 2021-2022 the cost to NSW local councils of cost-shifting was $1.36 billion, which is $460.67 per ratepayer. Our Council must divert this amount from the services and infrastructure we provide to our community in order to fund the unrecoverable cost of services, programs and functions that are imposed by the state or federal governments.*

The Delivery Program notes that "Council is currently responsible for managing more than $1.3 billion worth of public assets including roads, parks and open space, buildings, stormwater drainage and an airport. Over the last five (5) years, the cost of materials, wages, and maintaining or replacing our assets has increased at a greater rate than the income our Council can generate".

The document notes a Special Variation (SV) allows us to increase rates above the rate peg increase and may enable our Council to increase general income beyond the rate peg limit so that we can continue to fund specific projects, address infrastructure needs, and improve financial sustainability.

The section concluded that Council would consider submitting an application for an SV for the 2026-27 financial year and that IPART will assess the SV application if Council applies for an SV.

As noted above the Delivery Program includes 4-year program of capital projects for each strategic theme. These are covered in the Asset Management Plans. Significant collaboration has occurred in the review of the programs and a number of projects removed or deferred to work within the financial constraints. A list has been developed of such projects and will be covered in the section on the Asset Management Strategies and Plans.

State of the City Report 2021-24

The IP&R documents listed above are more current and also forward looking. The State of the City report which covers the Council scorecard for the last Delivery Program still has useful information.

The report discusses the asset management prioritisation programs. These programs have been developed to bridge the gap between current/historic funding levels and our community's desired level of service. It targets assets or asset components that are falling under this service level, and bringing them back in-line with our communities' expectation.

These programs are recognition that Council is finding it challenging to meet desired service levels within the current funding constraints. This issue will result in assets being prioritised to help meet community expectations. Where assets are generally below community expectations, as has been indicated in numerous community satisfaction surveys, there is a risk that programs need to respond to community feedback to help quell community dissatisfaction and, in some instances, prioritisation might ultimately result in higher costs for Council.

As assets degrade the rate of degradation (e.g., roads) can occur faster and more damage occurs. If intervention does not occur in a timely manner the project to renew the road can become a more expensive exercise. The challenge in this report is therefore highlighting a Council response which is necessary but might not be optimal from a cost perspective. This issue would become more magnified if the asset condition generally deteriorates.

The Top five priority areas identified in the State of the City report

- **96%** of our residents place a very high priority on 'roads, bridges and transport' with **90%** indicating a desire to see more investment into this area.
- **61%** of residents preferring a focus on the maintenance of current assets.
- **59%** would also like to see Council invest more into stormwater and drainage.
- Other high priority areas include; waste, financial management, community services, communications and economic development.

The extract from the State of the City report below highlights the percentage of residents that place a very high priority on the top five.

96%
Roads, bridges and transport

90%
Waste management

88%
Financial management

85%
Community services

82%
Community communication and engagement/economic development

Asset Management Strategy and Plans

As noted, the question of sustainability, as is the case with many councils, whether Cessnock can generate sufficient funds from its operations to support a capital works program which adequately maintains (and renews) Council infrastructure.

It is therefore essential that the Asset Management Planning and Financial Planning (via the LTFP) are integrated and consistent. The Finance and Asset Management Planning teams have worked collaboratively on this process to ensure this. Both sets of documents have been updated as part of this process and are being placed on exhibition.

The feedback process has been a two-way process. The LTFP scenarios include the Asset Management Plans (AMPs) developed and the Asset Management Planning team has revised plans based on funding constraints. Each Asset Management Plan (by asset class) covers the following:

- **Acquisition:** This covers all new assets for an asset class over the 10 years of the plan. Constructed assets include both new and upgrades. To ensure consistency across the LTFP and the AMPs the renewal component of upgrades is included in the renewal category. This means acquisition only reflects actual new assets. Donated assets (via dedications) are also captured in this category.
- **Operation:** The Operation category covers the costs associated with supporting the operations (activities) for each asset class and includes all associated or support activities such as procurement. This is calculated as a percentage of Gross Asset Value (and varies by asset class). This has been discussed and agreed. The increased cost due to additional assets being supported has been also validated.
- **Maintenance:** As is to be expected this a significant cost category and its importance is recognised through a specific ratio (The Asset Maintenance Ratio). Council has generally ensured it has met this ratio. The LTFP includes this cost and also has functionality to ensure that increases as a consequence of new assets is captured. The model has continued to apply the full 100% asset maintenance requirement even for funding constrained scenarios such as the base case. It will be noted that the expense categories involved (Employee and Materials and Contracts) were not reduced for the base case scenario. The model places the growth in maintenance in Materials and Contracts and this category has accordingly increased faster than the index that has been applied.
- **Renewal:** As noted above the Renewal Forecast includes asset renewal associated with upgrade projects to ensure the renewal ratio accurately reflects all renewal work. The Renewal Budget is the constrained budget for the base case and has been applied to the base case scenario in the LTFP. The renewal forecast reflects what is required over the next 10 years. This data has been applied to Scenario 3.

The AMPs and LTFP have been reconciled. Some minor differences exist but these are typically associated with choices made which reflect the treatment required. The most notable variation is that a number of timber bridges are planned for replacement with new materials. This change will save Council money as the timber bridges are expensive to maintain. These projects are reflected as acquisition in the AMP and renewal in the LTFP. The

projects are technically classed correctly as an acquisition however the existing asset is being replaced and this should be recognised as part of the infrastructure renewal ratio. The amount is not significant in the context of the whole program.

Detailed discussions have been held on what impact these plans will have on areas such as asset condition, the level of disposals arising, the composition of upgrade projects (mix of new asset construction v renewal), the scope of projects (for example, what components / layers of road are impacted within each project). The detailed plans from the AMP team have been aggregated to capture the numbers in the LTFP.

A substantial proportion of the capital works program has been developed down to the individual asset level to provide clarity on some of these elements. This is particularly the case with the roads program. For the remaining renewal projects for roads a list of assets has been selected that were in the worst condition and a program optimised to maximise the reduction of the infrastructure backlog across road surface and pavement base (the two layers typically replaced in renewal projects). This detailed effort has been required to be able to evaluate the condition of assets across the road asset class for each scenario. This analysis has assisted in understanding the scale of investment required and the impact this has on both the infrastructure backlog and the condition profile of road assets (these graphs are reflected in each scenario).

In instances where individual assets have not been identified a pooling method has been used where candidate assets are grouped and programs scoped to prioritise the renewal of those assets.

As well as a focus on operational efficiency (covered later) there has been a concerted effort in reducing the capital works program so that the focus is on asset renewal. These have been difficult discussions but the magnitude of the current challenges has been recognised and hard decisions made. The program had already been scoped down from earlier exercises however the most recent review has excluded the following projects:

	SCOPE REDUCTION ($)
BUILDINGS	**8,750,000**
Amenities Masterplan Upgrades	3,500,000
Chappell Park Amenities Upgrade	2,600,000
Mechanical Upgrades	150,000
Upgrade to Birralee Juniors Amenities	2,500,000
OPEN SPACE	**28,290,083**
Aquatic Facilities Masterplan Program	9,869,488
Cliftleigh Meadow Skatepark and Multipurpose Court	1,462,323
Ellalong Park Upgrade	1,754,788
Kurri Kurri Central Removal and Grounds reinstatement - Tennis Courts	2,277,574
Kurri Kurri Central Sportsground Amenities Replacement	10,000,000
Playing field improvements	923,048
Skate dots	442,862
Upgrade Greta Central Skate Park	1,560,000
ROADS	**65,500,000**
Cessnock Contribution Plan, CCC component	10,000,000
Lovedale Link	15,000,000
Southern Connector	40,500,000
STORMWATER	**4,797,909**
Drainage - renewal Program	898,955
Floodplain Management Program	3,000,000
Roadside Drainage & Kerb and Gutter program	898,955
GRAND TOTAL	**107,337,992**

Council recognises that many of these projects are probably not viewed as discretionary by the community however the scale of the challenge needs to be recognised and resources directed towards reaching a sustainable outcome. These projects have been removed from Scenario 3.

It should be noted that the base case is an even more scoped down version of the works program with substantial cuts to all asset classes but effort placed into preserving road renewal. The projects can only be reconsidered when Council is financially sustainable and has met all IPART requirements as part of any Special Variation approval. Council will need to adhere to the agreed program as part of Special Variation for the period stipulated by IPART. If Council applies and is successful with its special variation Council will need to report to IPART on how it is adhering to the key efficiency decisions made so these projects will not be candidates for consideration during that time. The alternative to these restrictions however is a base case with an even more restricted program due to funding simply not being available.

The Asset Management Strategy and Plans have highlighted for some time the adverse impact of funding constraints. The path Cessnock has taken (unlike many other councils) to try and manage Council assets within this funding constraint and without a special variation is no longer a viable option. A tipping point has been reached where the funding gap is now too large and juggling priorities is no longer possible. The community has been aware for some time of these challenges in maintaining Council assets as they have seen how long-standing projects have been constantly deferred or scoped down to levels which have created community dissatisfaction.

There is a service level / cost trade-off which is part of any community consultation with regard to Community Strategic Plans and all other associated Council plans. This is an important discussion to determine how ratepayer funds are best applied. This discussion will continue for services that are not asset dependent. There are limits to the extent to which these services can be reduced (many are regulated and also many services are already limited to what is essential). Services associated with Council infrastructure will not (based on forecasts) be able to meet a minimum sustainable standard let alone the standard sought by the community. This is unsustainable and also ultimately will cost Council more money. Not intervening at the optimal time for either maintenance or renewal is ultimately more expensive. Not having the funds to intervene at the appropriate time therefore not only results in a poor level of service but also ultimately more cost being borne by ratepayers. It is therefore very important to improve the current funding gap for reasons of both service and cost.

Community Feedback Considered

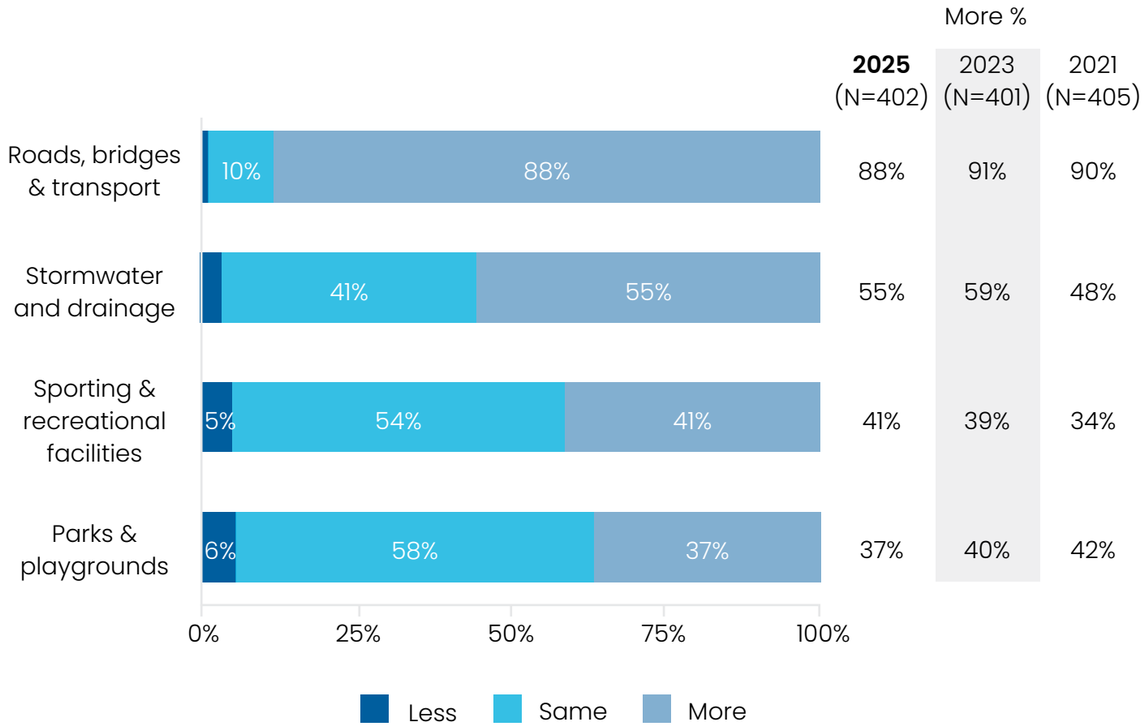
Significant community feedback has already been captured in highlighting the feedback reflected in the IP&R documents above. The 2025 Community Satisfaction survey can provide more background and provides a recent snapshot of community priorities. Roads is again front and centre. The extract below is from the presentation to Councillors earlier this year on the results of the survey.

PRIORITY AREAS	2025 (N=402)	2023 (N=401)
Nett: Roads	**53%**	**64%**
Road maintenance	49%	57%
Traffic/congestion	4%	6%
Safety of roads	6%	4%
Increased cost of living/financial security	11%	6%
Provision of aqeduate infrastructure to service the area, e.g., footpaths, kerb and guttering	**9%**	3%
Crime and safety in the area	**5%**	2%
More and improved recreation and leisure facilities/activities	5%	5%
Housing affordability/availability	4%	3%
Healthcare	3%	2%
Council actions e.g., financial management, planning, transparency and communication	2%	4%
Public transport	2%	1%

Roads are still overwhelmingly the highest priority issue. Cost of living is also a concern, as it is amongst most communities, and has increased in line with macro-economic conditions. It is however dwarfed by the 53% response received for roads. It is also notable that a number of other asset dependent services are on the list. For example, other infrastructure such as footpaths, kerb and gutter (9%). This item has also increased significantly. Recreation and leisure facilities are also mentioned.

The community have also highlighted they want more spent in key infrastructure areas, in particular roads:

Level of investment %



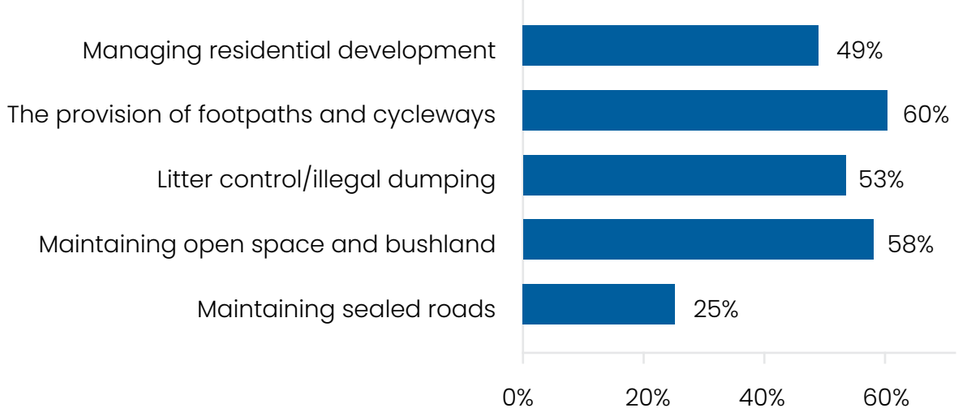
Roads (as has been the case historically) has been rated the most important service and the top three categories with the lowest satisfaction relates to roads.

HIGHER IMPORTANCE	T2 BOX	MEAN
Maintaining sealed roads	97%	4.79
Litter control/illegal dumping	95%	4.70
Waste collection and disposal	94%	4.73
Community safety	93%	4.73
Financial management	92%	4.64
Long term planning and vision	92%	4.61

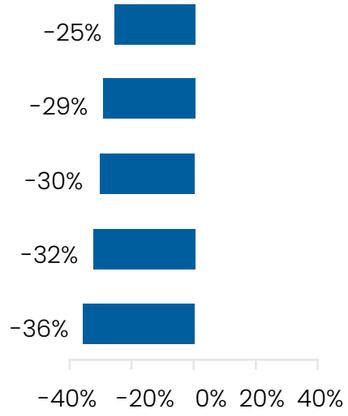
LOWER SATISFACTION	T3 BOX	MEAN
Maintaining sealed roads	25%	1.92
Coverting unsealed roads to sealed roads	35%	2.19
Maintaining unsealed roads	37%	2.12
Managing residential development	49%	2.52
Council's response to community needs	52%	2.46

Most councils when undertaking these surveys have community responses which reflect roads as a high importance service and a high degree of dissatisfaction. Cessnock however due to a lack of capacity to provide adequate maintenance and renewal is significantly below comparative benchmarks. The graph below shows the 5 services where Cessnock performs worst against these benchmarks

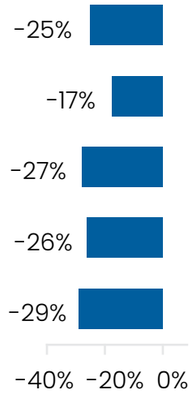
Cessnock City Council Top 3 Box Satisfaction Scores



Variance to the Comparative Benchmark



Variance to the Regional Benchmark



There are of course services for which Cessnock received very positive feedback. The top six are listed below. A number of these services do involve Council infrastructure.

HIGHER SATISFACTION	T3 BOX	MEAN
Library services	94%	4.03
Performing Arts Centre	93%	3.89
Sporting fields	88%	3.69
Tourism support and visitor services	86%	3.56
Parks and recreation areas	84%	3.59
Swimming pools	84%	3.49

Based on this recent community satisfaction survey it is clear where additional resources need to be applied. Priorities on the maintenance of roads assets is essential. This work undertaken by Asset Management reflected in the newly updated Asset Management Plans and this financial modelling has been directed towards this priority. This will be seen in the discussion of each scenario.

Baseline: 2025 Annual Financial Statements

Council's audited financial reports for the year ended 30 June 2025 provide the starting point for reviewing the LTFP. The following tables summarise Council's most recently audited financial position:

Income statement for the year ended 30 June

	ORIGINAL UNAUDITED BUDGET 2025 $000	ACTUAL 2025 $000	ACTUAL 2024 $000
INCOME FROM CONTINUING OPERATIONS			
Rates & annual charges	70,359	71,193	65,986
User charges & fees	9,962	9,926	9,531
Other Rrevenues	2,522	3,339	2,836
Grants & contributions provided for operating purposes	13,193	15,706	19,301
Grants & contributions provided for capital purposes	64,736	71,924	104,578
Interest & investment revenue	2,784	3,891	3,853
Other income	-	642	842
Total income from continuing operations	**163,556**	**176,621**	**206,927**
EXPENSES FROM CONTINUING OPERATIONS			
Employee benefits & on-costs	46,800	49,318	42,362
Materials & services*	32,526	37,269	36,596
Borrowing costs	376	922	263
Other expenses	6,899	7,359	5,555
Net Losses from the disposal of assets	5,000	17,405	10,220
Total expenses from continuing operations	**91,601**	**112,273**	**94,996**
Operating result from continuing operations excluding depreciation, amortisation and impairment of non-financial assets	**71,955**	**64,348**	**111,931**
Depreciation, amortisation and impairment of non-financial assets	20,815	26,202	22,987
Operating result from continuing operations	**51,140**	**38,146**	**88,944**
Net operating result for the year attributable to Council	**51,140**	**38,146**	**88,944**
Net operating result for the year before grants and contributions provided for capital purposes	13,969	33,778	15,634

As noted in the Executive Summary Cessnock City Council has not been able to achieve a positive operating performance ratio in most years. This indicates that Cessnock is not generating sufficient funds to cover its operating expenses.

In the longer term this situation will either result in Cessnock needing to reduce expenditure on infrastructure or undertake borrowing to fund the necessary capital works to renew council assets. Borrowing would only be a short-term solution and not sustainable as Council would not be generating sufficient funds to cover interest costs and repay back the amount borrowed.

The Net Operating Performance Ratio is calculated as follows:

Operating performance ratio

	AMOUNTS 2025 ($000)	INDICATOR 2025	INDICATOR 2024	INDICATOR 2023	INDICATOR 2022	BENCH MARK
Operating performance ratio Total continuing operating revenue excluding capital grants and contributions less expenditure Total continuing operating revenue excluding capital grants and contributions	(16,373) 104,697	(15.64)%	(5.94)%	(11.75)%	3.42%	>0.00%

As can be seen the Operating performance ratio has reflected a significant deficit.

There are also other challenges to Councils financial sustainability that are beyond what is captured within the Operating Performance Ratio. The Ratio excludes the loss on disposal of assets. Although not a cash item this is a real and significant cost to Council and is likely to impact Councils finances in the future.

Depreciation is calculated based on the value and useful life of the assets. An annual amount is calculated to gradually reduce the value of the asset in recognition that the asset is being consumed and to recognise this use results in the asset being degraded over time. This is a non-cash item and therefore helps recognise the consumption of assets. If there is an operating deficit then there is insufficient cash to apply to renewal activity. This is an oversimplification but an accurate representation of what is happening. For 2025 there was no surplus cash being generated for renewal as the deficit of exceeds the depreciation.

The capital grants and contributions can help moderate this issue to some degree as Council might receive capital grants that support the cost of renewing assets. This however is the exception. Most capital grants are for new or upgraded assets. In addition, contributions from developers mainly involve the dedication of new assets, such as new roads they have built in a subdivision, or cash contributions to fund new or upgraded assets. As noted in the Executive Summary, Council will have a shortfall in funds to build new and upgraded assets resulting from ongoing development and the associated population growth. The mandated benchmark of 0% for the operating performance ratio really reflects a scenario for Councils that either have limited growth or receive most of the funding required for new assets or additional costs for upgraded assets from grants and contributions. The LTFP will address this Councils Operating Position and whether Council achieves an operating surplus or deficit under each scenario. An Operating Deficit (excluding capital grants and contributions) usually bring into question whether a council is generating sufficient funds from operations to support a sustainable asset renewal program.

These are the primary considerations in evaluating the operating performance ratio. One other consideration is whether Council is spending enough on the maintenance of assets. If assets are not adequately maintained they will degrade faster and may need earlier renewal.

Asset maintenance ratio

	AMOUNTS 2025 $000	INDICATOR 2025	INDICATOR 2024	INDICATOR 2023	BENCH MARK
Asset maintenance ratio Actual asset maintenance / Required asset maintenance	16,994 / 20,578	82.58%	123.02%	117.02%	>100%

The asset maintenance ratio has generally been above 100%. It is below the benchmark for 2025. This is not cause for concern as the longer-term trend is at or above the benchmark. Persistent asset maintenance below the benchmark might result in assets not being adequately maintained and assets degrading faster than useful life would indicate.

Own source operating revenue ratio

	AMOUNTS 2025 $000	INDICATOR 2025	INDICATOR 2024	INDICATOR 2023	INDICATOR 2022	BENCH MARK
Own source operating revenue ratio Total continuing operating revenue excluding all grants and contributions / Total continuing operating revenue	88,901 / 204,498	43.52%	40.21%	50.98%	55.60%	>60%

Own sourced income remains significantly below the benchmark. This creates considerable risk for Council. Council cannot always obtain grants for the highest priority projects particularly as State government grants are driven by state priorities. There are a number of resultant risks.

The first is that each government will have a view on how much grant funding will become available. These grants might not be in areas where council is most in need and finally Council might not be successful in obtaining grants.

The grants also rarely cover the full cost of a project and there can be delays in obtaining the funding. In addition, grants, might not be for the assets in poorest condition and result in higher disposal costs due to those assets having higher net book values. All these factors add to the risk that Council will not be able to do the projects most in need. Council may be tempted to undertake projects which are not fully aligned to the strategy just to receive much needed funds and as a consequence not have funds for other projects due to co-funding requirements.

Grants are certainly very beneficial and much sought after by Council. There are numerous successful projects on record. Council will continue to seek grants in the future but needs to do so from a more sustainable position where there are sufficient funds to cover priorities where grant funding is unavailable.

Building and infrastructure renewals ratio

	AMOUNTS 2025 $000	INDICATOR 2025	INDICATOR 2024	INDICATOR 2023	BENCH MARK
Building and infrastructure renewals ratio Actual renewals Depreciation, amortisation and impairment	47,344 23,366	202.62%	329.31%	181.96%	>100%

Infrastructure backlog ratio

	AMOUNTS 2025 $000	INDICATOR 2025	INDICATOR 2024	INDICATOR 2023	BENCH MARK
Infrastructure backlog ratio Estimated cost to bring assets to a satisfactory standard Net carrying amount of infrastructure assets	47,422 1,402,587	3.38%	3.27%	3.08%	<2%

Significant investment in recent years has been made in renewal with Council exceeding the benchmark over the last 3 years. Based on such significant investment there could be an expectation that the backlog should be reducing due to all this work on asset renewals. The $47m spent on asset renewals is considerably greater than the $23m depreciation. There are four reasons which largely explain why this is not the case:

1. 1The first reason has already been discussed. Due to the high level of growth in the population of the Cessnock LGA many assets which are not part of the backlog need to be upgraded. The renewal component is included as part of the upgrade is captured as part of the total renewal cost. The upgrade of these assets does not therefore contribute to reducing the backlog.

2. Council responds to community feedback on the road network in evaluating priorities. For example, some roads are high use and need some degree or renewal even though they are not in poor condition. In some cases, the priority is raised when the community highlights there is an issue and on evaluation Council concludes the road priority needs to be raised.

3. The road is constructed of different layers. The surface is the top layer and needs to be renewed more frequently than the road pavement layer below. If the surface is in poor condition and needs to be renewed there might also need to be work on the pavement (i.e. the pavement needs heavy patching to restore the integrity of the layer). The road pavement in many cases is not classified as in poor condition as most of the asset might be in reasonable condition or the condition is difficult to assess because the road pavement is not visible. As a consequence, this extra work on the road pavement does not reduce the backlog.

4. Each year the condition of all other assets not being renewed. or specifically undergoing maintenance. will degrade to some degree and the condition of some of these assets will be reclassified from fair condition to poor condition. The backlog is capturing the value of all assets classed as poor.

This detail above in explaining why the backlog might not decrease even though significant investment being made in asset renewal are key considerations in the LTFP projections for the basecase and scenarios. A later section of this document provides some analysis explaining the impact of each of these elements.

Conclusions relevant to the LTFP

In summary, Council has incurred a significant operating deficit (excluding capital grants and contributions). This will result in Council not generating sufficient funds for asset renewal. This is further exacerbated by an underspend in asset maintenance. Councils backlog ratio is increasing despite a significant investment in asset renewal. This analysis indicates that Council is currently not financially sustainable. The LTFP analysis will indicate to what extent this position will change over the next 10 years for a business-as-usual (base-case) and different scenarios. The LTFP model will be used to identify how Council can be returned to financial sustainable situation.

Baseline (continued): 2025-26 Operational Plan & Budget

The 2025/26 budget helps establish the baseline the future years of the Long-Term Financial Plan. An analysis of the budget is therefore helpful in understanding the baseline.

Abridged income statement

Revenue

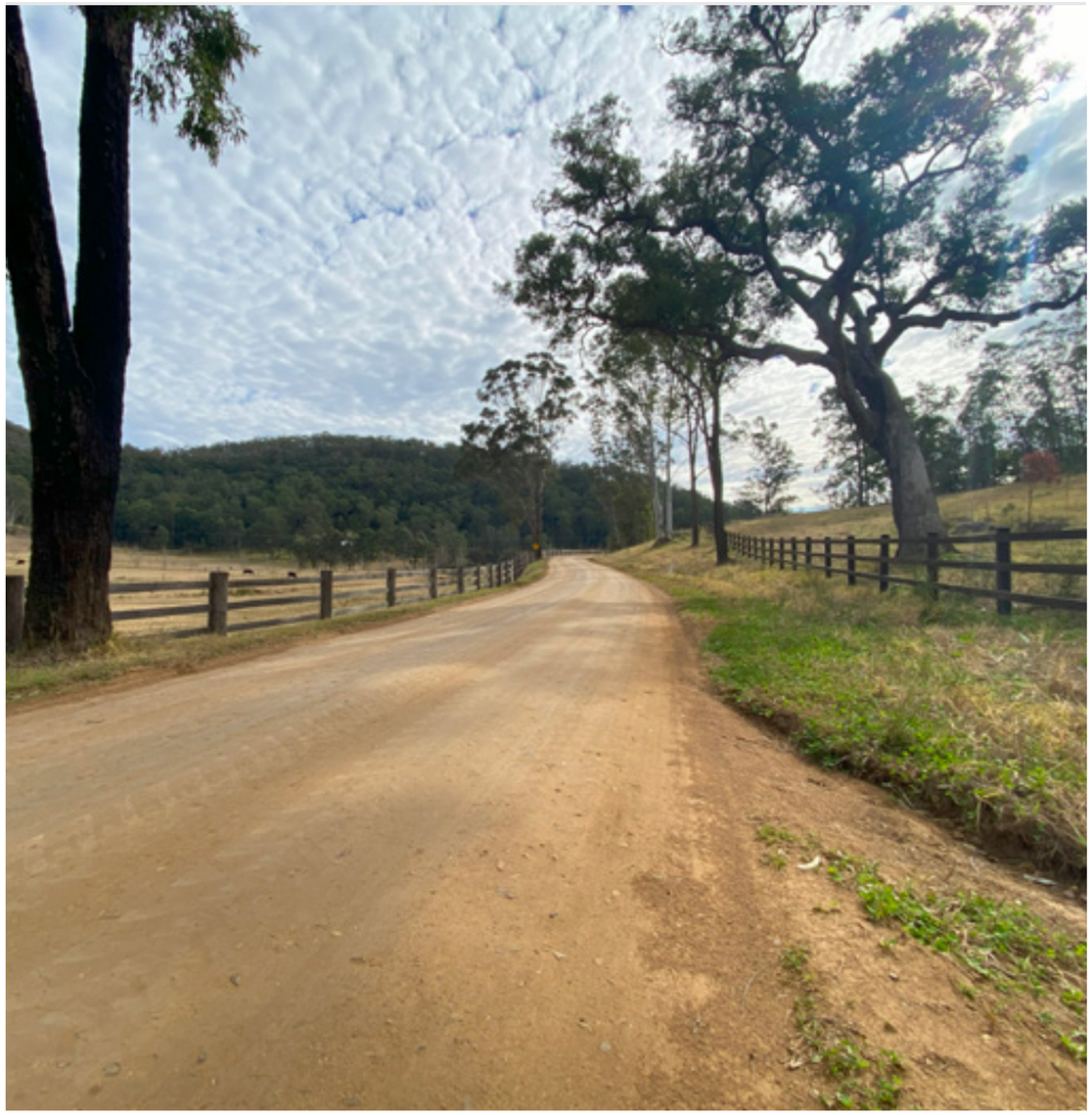
	2024/25 $	B2025/26 $	% INCREASE (DECREASE)
Rates & annual charges	71,193,000	76,566,034	7.5%
User charges & fees	9,926,000	9,949,737	0.2%
Other revenue	3,339,000	3,524,068	5.5%
Grants & contributions (operating)	15,706,000	22,079,848	40.6%
Grants & contributions (capital)	71,924,000	78,785,856	9.5%
Investment revenue & other income	4,533,000	3,102,000	(31.6%)
Total income	**176,621,000**	**194,007,543**	**9.8%**

Expenses

	2024/25 $	B2025/26 $	% INCREASE (DECREASE)
Employee benefits & on-costs	49,318,000	48,194,991	(2.3%)
Borrowing costs	922,000	1,179,647	27.9%
Materials & contracts	37,269,000	44,790,425	20.2%
Depreciation & amortisation	26,202,000	32,323,021	23.4%
Other expenses	7,363,000	7,645,862	3.8%
Net losses from the disposal of assets	17,405,000	6,000,000	(65.5%)
Total expenses	**138,475,000**	**140,133,946**	**1.2%**

	2024/25 $	B2025/26 $	% INCREASE (DECREASE)
Net operating result	38,146,000	53,873,597	41.2%
Net operating result before capital Grants and contributions	(33,778,000)	(53,873,597)	

The budget reflected above has been updated for the first quarter budget update and is therefore the most current version of the budget.



Revenue

- **Rates and Annual Charges:** Both rates and the waste charge have increased due to a combination of price increases and population growth.
    - The rates increased as per the rate peg. The significant growth in population (which also applies to future years) accounts for why the increase in rates is above the rate peg. The per capita (per ratepayer) average charge is however in line with the rate peg.
    - The waste charge is separate from rates (and as noted will not be part of any special variation). This charge is set to recover operating costs, capital investment required and future liabilities that will need incurred in the ongoing maintenance of the landfill site. The waste facility is run as a separate operation and the long-term goal is one of cost recovery for its operations and liabilities. Any surplus made is retained by that business unit and if persistent will ultimately result in a price adjustment as the objective is cost recovery and not to make profit.
- **User Charges & Fees:** User fees and charges have remained flat. It is important that Council generally receives adequate revenue for services which incur fees and charges. There are instances where for policy reasons (or where the fees are regulated) the full cost of a service is not fully recovered. In some instances, a subsidised fee is seen as beneficial to the community. In the end someone pays for the service. If it isn't the recipient of the service that pays the burden resides with ratepayers. Council is undertaking effort to ensure fees and charges are equitable for both service recipients and ratepayers. As a consequence, this category increases year-on-year in the LTFP.

- **Other Revenue:** This category covers fines and sales revenue from venues such as the Performing Arts Centre. The increase is in line with inflation and population growth.
- **Grants and Contributions (Operating):** The large increase in the budget for this item is largely accounted for by a one-time item. Hunter Water has reimbursed Council $5m for water infrastructure that has been built as part of the Wollombi Rd project. This is recognised as a one-time cost in the LTFP and consequently this category decreases in 2026/27. If this cost is excluded the remaining increase is modest.
- **Grants and Contributions (Capital):** This line item has remained elevated due to a combination of factors:
    - Dedications and developer contributions have been budgeted for. These contributions will persist over the next 10 years and continue albeit at a lower level in the second half of the 10-year period.
    - Significant grants were received for infrastructure projects. Wollombi Road was the largest however funds were also received for open space facilities (Weston Bears Sports Ground amenities, and Booth Park netball courts). Given the strong focus on containing upgrade projects in the future and focus on renewal projects (especially roads) it is likely there will be fewer grants. Grants rarely cover all the costs for projects so there is usually a funding commitment required by Council. In addition, assets then subsequently require ongoing maintenance and ultimately need to be replaced in the future. These are funding burdens Council is not in a position to absorb.
- **Investment Revenue & Other Income:** As can be seen investment income has decreased significantly. This is primarily due to investments (term deposits) not being rolled over so the funds are available to cover the shortfall in cash. There has also been a drop in investment rates as interest rates have decreased. Council has been spending more than has been generated from net operating result (i.e. cash revenue less cash expenditure). This will continue this year and next due to significant project commitments and Council projected to continue to incur deficits in Net Operating Deficits (when Capital Grants and Contributions are excluded). Investment revenue will therefore decrease further.

Expenses

- **Employee Benefits:** Council recognised the financial challenges when the 2025/26 budget was developed 18 months ago. Employee costs were as a result constrained in the budget and this is reflected in a reduction against the 2025/26 Budget. It should be noted the efficiency initiatives reflect further savings being achieved.

- **Borrowing Costs:** These have increased due to Council undertaking more borrowing to shore-up Council's cash position. More borrowing will be required due to significant commitment this year and next. Once the capital works program is reduced (in 2027/28) the cash position is stabilised. Borrowing cost with therefore increase.

- **Materials & Contracts:** The costs associated the work undertaken on Wollombi Road on behalf of Hunter Water were booked to Materials and Contracts. Once this $5m is also excluded the increase is approximately 6.7%.

    - The budget reflects a shortfall of approximately $2m in asset maintenance (as compared to what is required per the Asset Management Plans). The base case scenario discussion covers in detail how the gap will be addressed. In brief, the funding gap impacts a number of sustainability measures relating to infrastructure (Asset Maintenance ratio, Asset Renewal ratio and the Infrastructure Backlog ratio).

    - Not meeting each of these has adverse outcomes. The impact of the funding gap is therefore spread across both asset maintenance and asset renewal with a goal to reach both the asset maintenance and asset renewal ratios when Council is in a funding position to do so. These goals are ultimately reached.

- **Depreciation & Amortisation:** Depreciation has increased significantly. There are a number of changes in this number however the end result is that the significant increase is due to a combination of asset revaluation and more assets being added to the asset register. Further increases of this scale are not anticipated however depreciation will continue to increase significantly due to significant assets being added. Dedication of assets by developers is a large component of this growth. In addition, inflation in the construction sector has been significant post COVID. This is reflected in the NSW construction index used.

- **Other Expenses:** This category is almost totally associated with various levies, in particular the waste levy. Increases in this category are outside Council control however the increases in future years are consistent with the increase reflected above. The Purchasing Price Index has been used as this is typically higher than CPI and levies have typically increased at a faster rate than CPI. PPI is therefore is viewed as the most prudent index to use.

- **Net Losses from the Disposal of Assets:** The Net Losses from Disposals has decreased significantly. Part of the reason is that the level of renewal projects is more limited due to a number of large projects which are more related to upgrades. Wollombi Road involves some renewal but is predominantly involved in the construction of new assets. The budgeted amount for disposals is not used in the LTFP as a baseline. The loss on disposals is calculated based on the level of infrastructure renewal. This explains the significant differences across scenarios for the line item as there are significant differences in the level of infrastructure renewals (determined by the available funding)

- **Net Operating Results:** These are a function of the line items above and have no direct bearing on the baseline for the LTFP.

As noted, the budget for 2025/26 establishes the baseline for future years in the LTFP. In some cases, such as loss on disposals, the data is not used as an input. In others, such as investments and borrowing the line items are determined by balances and interest rate assumptions. The model does not apply simple increments in many instances. For example, depreciation and Materials and Contracts are projected taking into account the Gross Book Value of assets.

OTHER MODEL INPUTS

Other model inputs

The only additional inputs to include are: efficiency initiatives and Contributions (s7.11) plans.

a. **Efficiency initiatives:** This section provides more detail on what areas were considered in developing the Efficiency Initiatives, other efficiency related outcomes covered in the LTFP, and a review of Council Revenue and Expense lines to assess opportunities.

b. **Developer s7.11 Commitment Plans:** Some s7.11 projects in the plan are already included in the Asset Management Plans and the capital works program that feeds into the LTFP. The contribution plan however has over $370m of projects listed and needs to be considered due to the possible funding impacts. The section on contributions covers some context and how the LTFP addresses the s7.11 plan within these funding constraints.

a. Efficiency initiatives to address financial sustainability

Historical culture of efficiency

As noted in the executive summary an independent expert has undertaken a detailed analysis on how Cessnock's efficiency compares to its cohort of similar councils. That analysis will not be replicated within this document but demonstrates Cessnock is efficient when benchmarked against other equivalent councils.

In addition, the Cessnock has worked within funding constraints without seeking special variations in the past despite clearly needing the funding to address essential works in infrastructure. Cessnock due to these funding constraints has operated in lean manner out of necessity. Analysis of composition of assets against other councils demonstrates that Cessnock has worked to the 3 R's (Roads, Rates, Rubbish) and focussed on core services. Cessnock's ratio of road assets to total infrastructure is one of the highest in its cohort.

Current & future efficiency initiatives

This section won't replicate what is already reflected in the Executive Summary. That section should be read in conjunction with this one for a full picture. Key information will however be duplicated.

The following are the key points regarding the Efficiency Initiatives from the Executive Summary:

- The benefits of the initiatives have been included as savings within all scenarios in the Long-Term Financial Plan.
- The savings are approximately $2.4m in the next year and are recurring.
- These are predominantly saving in expenses.
- The savings are projected to increase to approximately $3.2m by 2035/36.
- Total savings over the 10 years (from implementation) will be approximately $28m.
- Some of the efficiency initiatives identified will involve reducing service levels to the community. This has been limited with most savings achieved through other options. Reduction in service levels will therefore be put forward for consultation.
- Council, as part of the consultation process, will seek suggestions from the community on how to further improve revenues, reduce costs and/or change service levels to minimise the scale of impact from an SV.

The benefits from the Efficiency Initiatives is reflected below:

Benefits arising from efficiency initiatives

REVENUE INCREASING (RECURRING) ($)	
Rates	10,000
Fee & charges	638,775
Other revenue	277,000
Total revenue increases	**925,775**

EXPENSE REDUCTIONS (RECURRING) ($)	
Employee costs	1,127,798
Materials & contracts	354,432
Total expense reductions	**1,482,230**

Total recurring efficiency benefits **2,408,005**

The efficiency initiatives are covered in more detail in a separate document. That document will also cover current and past efficiency initiatives undertaken.

These Efficiency Initiatives have been added to all scenarios in the LTFP.

Other efficiencies embedded in the LTFP scenarios

There are many other actions Council has taken which are over and above the efficiency initiatives described on the previous pages: These include:

- The capital works program has been revised to focus on existing assets. As noted over $100m in projects has been scoped out of the program. This is within a context that the program was already working to funding constraints.
  - Projects have been scoped out to redirect funds to renewal (e.g. Southern Connector, Lovedale Link Road, Kurri Kurri sportsground upgrade).
  - The roads asset class receives priority
  - s7.11 Plans have been prioritised to utilise contributions and limit council funding (projects with high developer apportionment prioritised)
- Grant funding assumptions are conservative as this is an uncertain funding source. In addition, grants will be targeted to projects which are part of Council's programs to ensure funds are not diverted away from core projects. This in itself means that fewer grant opportunities will meet Council criteria for application. This is reflected in the LTFP which has reduced the budget by 30% with only modest increases until 2035/36.
- In addition, some projects are contingent on grant funding to proceed and will not proceed if this funding does not eventuate. An example is cycleways which even with grant funding will be a significantly scoped down program.
- Council has constrained operational expenses with the following actions taken. This is over and above the efficiency initiatives described above.
  - Operational staffing frozen for 5 years and then with modest increases proposed in the subsequent 5 years. This is in an LGA where the population (and number of ratepayers) is forecast to grow on average 2.6% per annum or just under 30% over the 10 years of the LTFP. There are service level impacts with such constraints and choices associated with this will involve community consultation.
  - The baseline employee costs in 2025/26 already reflects savings. The employee costs reflected in the 2025/26 budget ($48.2m) is lower than that in the 2024/25 financial statements ($49.3m).
  - Materials and Contracts only reflects increases resulting from the indexing of costs and the introduction of new assets.
- Council has also built into the LTFP an increase in Fees & Charges in the first 3 years of additional Feed and Charges revenue.
  - This amounts to an additional 6% per annum over each of the 3 years.
  - Council has been benchmarked against other councils and Fees and Charges are at the bottom of the range compared to that benchmark.
  - It is likely that Council is undercharging for some services and that this burden is being borne by ratepayers. Some Fees and Charges are regulated and cannot be changed and there are also Fees and Charges that for social policy reasons are subsidised and will continue to be subsidised.
  - There are Fees and Charges that should be priced on a user pays basis or based on market prices. These are the Fees and Charges that will be reviewed and adjusted. This will reduce the burden on ratepayers.

An assessment of Councils revenue and expense lines for efficiency opportunities

Expense line efficiency opportunities

Are there other opportunities to reduce costs? A high-level assessment identifies there are only a few expense lines in the income statement where there is the opportunity for discretion and therefore opportunity. Each expense line is listed below with the budgets for 2025/26:

- **Employee benefits ($48.1m).** Efficiency initiatives have identified further savings for 2026/27. This is the primary area of focus for identifying efficiencies. In summary, budget 2025/26 already reflects reductions. In addition to the efficiencies identified the operating staff levels will remain frozen for 5 years and then only grow moderately in the second 5 years.
- **Borrowing costs ($1.2m).** No opportunity to reduce as more borrowing is required. Every effort has been made to limit this expense. The exception is in scenarios 1 & 2 which have been developed to highlight the impact of attempting to fund sustainable levels of asset renewal throughout the 10-year plan. Additional borrowing will be required in the early years of for the other scenarios to ensure Council has sufficient funds to operate effectively.
- **Materials & contracts ($44.8m).** Efficiency initiatives have been identified for 2026/27. These are however of limited scale because although this is a large expense line it is predominantly associated with contracts and materials required for the maintenance of infrastructure assets, an area where Council is underspending. As covered in the plan asset maintenance will need to increase. In addition, new assets and cost increase will both contribute to the cost of this category increasing.
- **Depreciation & amortisation ($32.3m).** Efficiency initiatives have been identified for 2026/27 with some asset sales. Depreciation is driven by the Gross Value of Assets (based on the unit rates and the volume of assets) and the useful life of those assets. Depreciation expense will increase due to the combination of new assets and asset revaluation (reflecting cost increases).
- **Other expenses($7.6m).** No opportunity as levy is determined by the NSW government. This category is predominantly the waste levy. This is a levy that apples to waste that is placed in landfill. It is collected on behalf of the NSW government. The only way Council can reduce this is through initiatives to reduce the amount of landfill. Council as a matter of practice undertakes initiatives to reduce landfill and has had many successes. These benefits are applied to the waste charge and do not impact rates.
- **Net losses from the disposal of assets ($6m).** Disposals can be reduced to some degree by ensuring assets in poor condition receive priority. On balance will increase as more asset renewal is undertaken. The primary factor driving this expense is the write-down of the remaining value of assets being replaced. As is noted elsewhere, this is largely a function of how much renewal work is being undertaken and the net book value of the assets impacted. This expense line again should increase as part of Council reaching sustainable levels of asset renewal. Achieving higher levels of asset renewal is desirable and indeed sought be the community to improve the condition of Council assets. This will however result in an increase in this expense line.

Total ($140.1m). Based on this high-level analysis it can be seen there are limited areas where the opportunity exists for efficiency initiatives. Employee Benefits provides the greatest opportunity and has been the primary focus. Materials and Contracts is the next biggest. Other areas are limited.

Revenue Line Efficiency Opportunities

The evaluation of possible efficiencies has also focussed on identifying revenue opportunities.

- **Rates & Annual Charges ($76.6m):** Efficiency initiative have been identified for 2026/27 however very small benefit. Rates is typically the largest category of revenue that councils receive. The scale of Cessnock's capital grants below will be discussed under that item but is not a reliable source of revenue and is not sustainable at current levels. There are two primary sources in this category:
  - **Rates:** rates are set by IPART and increase requires a special variation
  - **Waste charge:** determined by council to cover all costs (including future liabilities). This is only cost recovery. This activity does not make a profit. Efficiency initiatives do assist in reducing the annual charge (but do assist with other areas of Council).
- **User Charges & Fees ($9.9m):** Efficiency initiatives have been identified for 2026/27 and embedded further revenue in future years. There is opportunity to increase fees in this area and this has been reflected in the forecast. An additional increase (above CPI) has been added to each of the first 3 years of the LTFP for this category. As noted, Cessnock is at the lower end of the benchmark for Fees and Charges (compared to other equivalent councils) and this means ratepayers are in all likelihood subsidising these services.
- **Other Revenues ($3.5m):** Efficiency initiatives have been identified for 2026/27. This category is a combination of compliance revenue and sales revenue from venues. Council has identified some revenue opportunities in sales at venues and also in the waste area.
- **Grants & Contributions (Operating) ($22.0m)** No significant opportunity and not a recurring benefit.
  - **Financial Assistance Grant:** Determined by the NSW government and the main source of this category.
  - **Other Operational Grants:** Limited and targeted grants.
- **Grants & Contributions (Capital) ($78.8m)** No significant opportunity as Council will need to rely less on Capital Grants. Can be great benefit when grants available match Council's needs and priorities.
  - **Capital Grants:** Can be significant and of great benefit to Council. The Wollombi Road Upgrade Project is a good example of a project that wasn't able to proceed without grant funding. Grant funding applications need to be carefully targeted to only seeking grants for projects Council needs to undertake as part of its works programs. Usually, Council needs to contribute so it is important council does not add projects (and the resultant assets) which require council funding but are not priorities for the community and are discretionary in nature. Such projects

add long term cost commitment and can adversely impact Council's financial sustainability.

- **Contributions and Dedications:** no opportunity.

- **Interest & Investment Revenue ($3.1m):** No opportunity to reduce as Council won't sufficient investible funds. Often an initiative in councils is to improve returns on investments via various options available. Cessnock will not have sufficient investment balances to justify such a path.

- **Other Income ($0.6m):** Very small category so no real opportunity.

Total Income ($194.0m): Primary opportunity across Council Revenue lines is in the Fees and Charges with some opportunity in Other Revenues. A number of initiatives have been identified in these areas.

Summary of Outcomes

A comprehensive review of Council's revenue and expense areas has been undertaken. This was in a context where there have already been severe constraints due to Council's tight funding situation over many years. Current asset mix reflects these constraints. Council has identified further savings which amount to $2.4m initially in 2026/27 and with recurring benefits will translate to an estimated $3.2m by 2035/36.

In addition, Council is placing significant constraints in areas where there is some discretion. Examples include: Over $100m in projects has been removed from scope, a freeze on any increases in operational staff for 5 years, and over 18% of additional Fees and Charges built into revenues to reflect plans to increase this category in line with other councils.

There will be some service level trade-offs in future but these decisions will be undertaken in consultation with the community. With a special variation and the focus on asset renewal there will be service level improvements in the services most important to the community, most notably roads. There will however be other services which are considered less important where Council will consider revising the service level to support the path to financial sustainability.

This process of reviewing services is nothing new. Council has need to undertake this activity in the past due to funding constraints. In the past lower service levels have happened to some degree by default. By not investing sufficiently in core assets the service level over time decreases (and does not meet community expectations). The goal will be to ensure service level management is a more active process and that the service that are most important receive the resources necessary to improve the service level over time.

A high-level analysis indicates the scope of the efficiency initiative assessment has focussed on the right revenue and expense lines and that some of the other areas do not provide further opportunity.

All of these initiatives and actions have either already been put in place, or will be as part of the plan built into this LTFP. These actions will minimise the amount need as a special variation to assist Council reach a financially sustainable outcome.

b. Developer commitment plans impact assessment and LTFP approach

Context

A key objective of Council is to maximise the benefit to the community from its capital works program within the funding constraints that apply. This resource allocation is recognized within the IP&R framework with the LTFP a key tool for ensuring this is the case.

The s7.11 Contribution plan list projects which will be undertaken within local catchment areas (associated with subdivisions), district and regional locations. The s7.11 plan currently reflects over $370m of projects.

- Only a small portion (other than Wollombi Rd which is currently being built) is reflected in Council's 10-year capital works program.
- The $375m estimated was determined in mid-2025. To obtain a current estimate this would need to be indexed. There are also some risks given detailed estimates were developed over 5 years ago and the indexing from that date has been approximate for many of the projects.

These projects, when planned for, will constitute a significant component of Council's capital works program and if all the projects are completed will require significant council funding (over $130m). This level of Council commitment is not possible over the next 10 years and therefore an approach is required (and has been developed) to facilitate progress on this plan whilst working to Council's funding constraints.

In the long term, such a substantial portfolio of new assets will add significantly to the ongoing maintenance burden of Council. Approximately $600m is additional assets will be added (when considering both dedicated assets and the s7.11 contributions plan) to the approximately $2 Billion in assets (gross value of all assets including all land and assets as reflected in the 2024/25 financial statements).

- This is a substantial increase in new assets and does not include new assets which are not part of the s7.11 contribution plans and will be required by a growing community.
- Council already has funding challenges for supporting the existing base of infrastructure assets and is unable to apply sufficient funding to sustainably meet key ratios. At a macro level it is clear that the additional of these assets identified and additional upgrade activity will place more demands on ratepayers.
- The ratepayer base is projected to increase by just over 9,000 rateable parcels in the 10-year period an increase closer to 30%. It is likely Council's additional maintenance and renewal requirements will exceed this increase in rates.
    - As noted above the assets arising from dedications and the s7.11 projects (largely new or upgrades) with a value of over $600m equates to approximately a 30% increase in Council assets. With other growth-related projects (which are not part of the plan) it is quite possible that council's additional costs exceed additional rate income from new ratepayers.
    - Dedications involve a lot of land (open space) being transferred. These assets have significant maintenance requirements (much higher proportion than land value might infer).

LTFP approach

Council's share of infrastructure costs is estimated to be approximately $130 million, allocated across the following key infrastructure categories:

- Open Space and Recreation Facilities – $30 million
- Community Facilities – $8 million
- Cycleways – $49 million
- Roads and Traffic Facilities – $43 million

To fund the s7.11 plan over the next 10 years would require Council contributing at least $13 million per year (in today's dollars). Council could seek grants to support its share of the funding however there are likely to be a significant funding gap and any funds applied to these projects are funds that are being diverted from the primary objective which is to fund asset renewal, particularly roads.

The approach within the LTFP to address this dilemma is as follows:

- Work within the funding constraint and maximise the overall benefit of the program within the constraint. Prioritise projects to ensure the community receives the most benefit early.
- Focus on projects which align with other Council objectives – for example roads should have priority
- Focusing on projects with a high apportionment rate will enable more project spend to occur for the same amount of Council funding
- Ensure projects are only delivered when there is clear demand within the community and not earlier. Apply a lens to ensure program is sufficiently balanced across catchments Current Position

Current position

The current position is as follows:

- Wollombi is a substantial project demonstrating the benefit grants can provide (and has both grant funding and the use of s7.11 contributions)
- There is approximately $50m of restricted funds that have been received under the s7.11 plan. A substantial portion of this is being used for Wollombi Road.
- Council is projected to receive approximately another $60m over the next 10 years as contributions.
- There are some s7.11 projects built into the capital works program as they can be justified based on meeting other objectives.

Application of the Approach to LTFP Scenarios

This approach has been applied to the LTFP scenarios by first prioritising projects within the plan and then allocating funds based on the funding cap placed for a particular scenario.

Prioritise s7.11 projects

The goal will be to complete all projects ultimately within the s7.11 contribution plan. Given the long timeframes involved, there might be some rescoping in the future. The rate of contributions being received indicates that will have received just under half of the develop commitments that make up the plan. On this basis Council can phase projects and extend the delivery beyond 2035/36.

Based on less than half the projects (based in dollar terms) being undertaken in the 10-years of the LTFP the projects were be prioritised as follows:

- Identify projects which are 100% developer funded that should proceed within the 10 year program (as no Council funding required provided costed correctly)
- Select the most important projects from the list of remaining projects with apportionment above agreed threshold (cut-off used was above 65% developer funding)
- It needs to be noted that pooling of funds (restricted funds) will be applied and pooling can only happen within certain constraints
- Determine the Council funding cap for different scenarios and comply with that funding cap.

Base case Scenario and Scenarios 1 and 2

These scenarios are very funding constrained: to the extent that decisions are clearly not-optimal or even viable. Under these scenarios no Council funding is applied to the s7.11 projects not already selected in the capital works program. This means that only projects which are 100% developer funded can be considered. If on further assessment these projects involve a funding gap that needs to be met by council they will need to be scoped out. These projects have been prioritised to make roads the top priority.

Scenarios 3 and 4 (SV and 2nd SV)

A Council funding cap of $15m is provided which enables more flexibility. Projects have again been prioritised to maximise the projects that can be undertaken within the funding cap. As with the base case (and other scenarios) if projects have a higher funding requirement from Council when re-estimated they will need to be reassessed and priorities changed.

Concluding comments

The approach described above ensures the s7.11 contribution plan is captured in the LTFP and infrastructure can be delivered to new sub-divisions with the extreme funding constraints that exist.

LONG-TERM FINANCIAL PLAN OBJECTIVES

Long-Term Financial Plan Objectives

The IP&R Guidelines set objectives that are required when developing the Long-Term Financial Plan. The guidelines require due regard must be given to promoting the financial sustainability of the council through:

- the progressive elimination of operating deficits
- the establishment of a clear revenue path for all rates linked to specific expenditure proposals ensuring that any proposed increase in services and/or assets is within the financial means of the council including a proposed special variation
- ensuring the adequate funding of infrastructure maintenance and renewal
- the use of borrowing, where appropriate and financially responsible, and
- the fair and equitable distribution of the rate burden across all rate payers.

The IP&R Handbook also provides some guidance:

The LTFP is a tool to aid decision making, priority setting and problem solving. It is a guide for future action, to be reviewed and updated annually, and addresses the following:

- how council will survive future financial pressures
- opportunities for future income and economic growth
- whether council can afford what the community requests
- how council can achieve outcomes agreed with the community

The review of IP&R documents and feedback from the most recent Community Satisfaction has provided some background on what are the community priorities are.

There are also some specific objectives that need to be met as part of a Special Variation application.

OLG Requirements for a Special Variation under IP&R

The criteria against which IPART is to assess each application are based on what councils are required to do under IP&R. Criteria 1 and 6 have particular relevance to the LTFP. Other criteria are covered in other IP&R and application documents. These criteria are:

1. The ***need for, and purpose of, a different revenue path*** for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should ***canvas alternatives to the rate rise***. In demonstrating this need councils must indicate the financial impact in their Long-Term Financial Plan applying the following ***two scenarios***

    - ***Baseline scenario*** – General Fund revenue and expenditure forecasts which reflect the business-as-usual model, and exclude the special variation, and
    - ***Special variation scenario*** – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

The IP&R documents and the council's application should provide evidence to establish this criterion. This could include ***evidence of community need/desire for service levels/project and limited council resourcing alternatives*** also include ***analysis of council's financial sustainability*** conducted by Government agencies.

6. The IP&R documents or the council's application must ***explain and quantify the productivity improvements and cost containment strategies*** the council has realised in past years and plans to realise over the proposed special variation period. Councils should present their productivity improvements and cost containment strategies in the context of ***ongoing efficiency measures*** and indicate if the estimated financial impact of the ongoing efficiency measures have been ***incorporated in the council's Long-Term Financial Plan***.

With this context the objectives of this LTFP are:

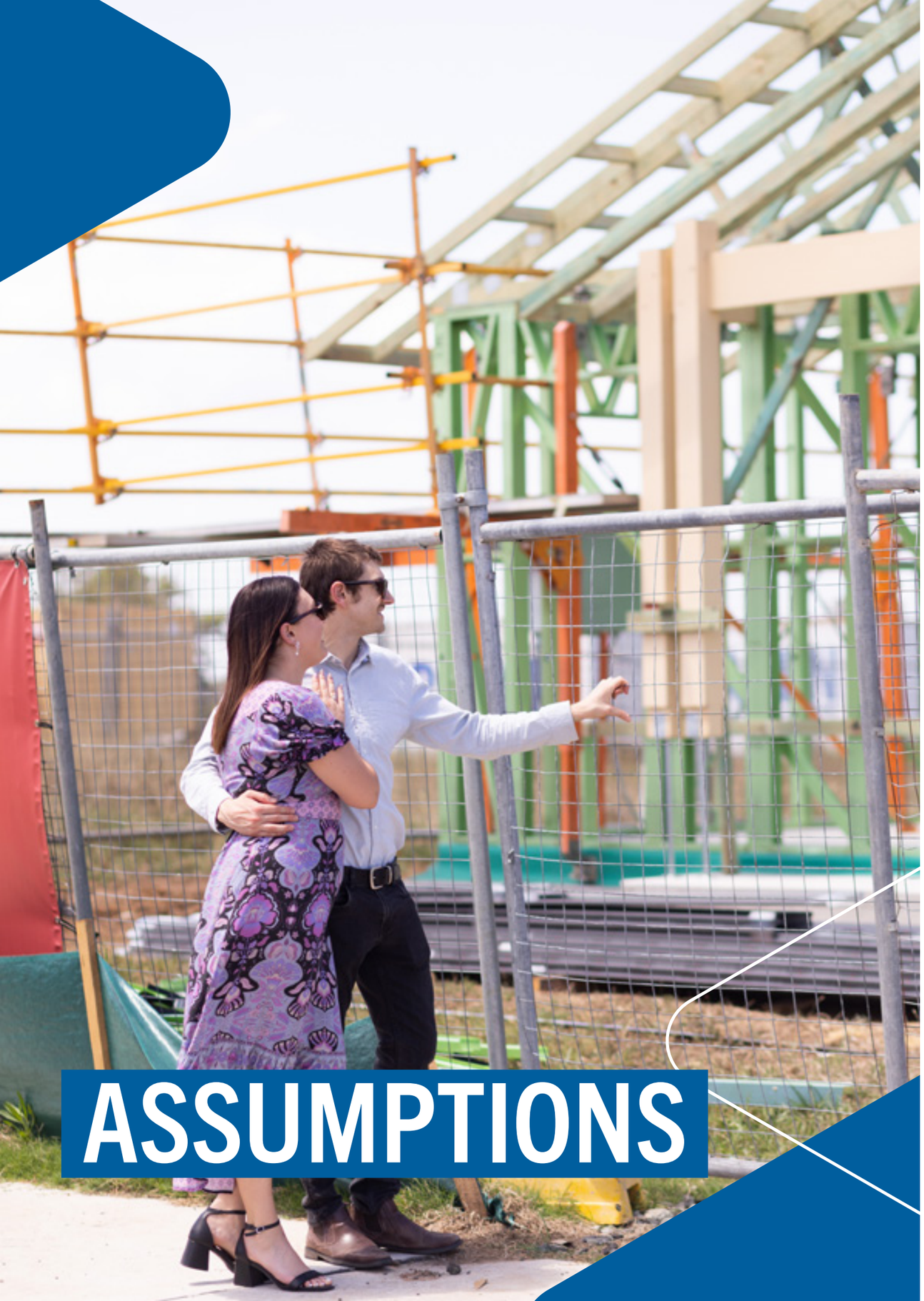
- **Identify whether Cessnock can meet sustainability criteria for business-as-usual (base case).** This includes an assessment against the IP&R financial sustainability criteria by answering the following:
    - Can Cessnock progressively eliminate operating deficits?
    - Is there a clear revenue path under the base case for the specific expenditure proposals ensuring that they are within the financial means of the council? For this item the LTFP will focus heavily on what scope is possible in the capital works program and whether the capital works program itself is sustainable. In evaluating this item there is also focus on what the community expectations are.
    - Can Cessnock ensure the adequate funding of infrastructure maintenance and renewal?
    - Can Cessnock utilise borrowing, where appropriate and financially responsible?
    - What efficiencies can be applied to the base case and how does this assist Council become sustainable? The efficiency benefits will be quantified, confirmed whether recurring and applied to the LTFP so that the impact is captured.
- **Based on the answers to these questions, if the base case is demonstrated to not be financially sustainable identify the need for an alternative revenue path and considering alternatives.**
    - The LTFP will evaluate a number of options. This includes a variant of the base case where there is an attempt to meet the infrastructure sustainability requirements to determine if there is an option without a special variation that is viable.
    - A number of options or variations will be assessed to determine the best path (or scenario) to follow. A preferred alternative scenario as per the requirement will be identified as the second scenario and evaluated.
    - These other scenarios will use the same criteria as the base case above
- **Understand how Council can support the Community Strategic Plan and Delivery Program as agreed with the community.**
    - The LTFP will achieve this objective by ensuring strong integration with the Asset Management Strategy and Asset Management Plans (AMPs).
    - The AMPs cover plans that address both the maintenance and renewal of existing assets (and what is required for sustainability) and also the construction of new assets.
    - Iteration has been necessary between AMPs and the LTFP to find an optimal solution which will result in financial sustainability, achieve key infrastructure benchmarks and largely preserves the capital works program to the extent possible based on resourcing constraints. Where choices have to be made community preference and priorities have been a key input.

With this context the objectives of this LTFP are:

- **Identify whether Cessnock can meet sustainability criteria for business-as-usual (base case).** This includes an assessment against the IP&R financial sustainability criteria by answering the following:
    - Councils operating position, whether the scenario involves deficits and whether there is a trend to eliminating operating deficits?
    - Does Council meet own-source revenue benchmarks so there is not an over reliance on other revenue sources?
    - Does Council meet asset maintenance requirements (via the asset maintenance ratio)?
    - Is sufficient cash being generated from operations to fund sustainable asset renewal?
    - Is the capital works program aligned to what is needed based on resource constraints, sustainability criteria and community expectations and priorities?
    - Does Council meet the building and Infrastructure Renewal ratio?
    - Is the infrastructure backlog trending in the right direction?
    - Given the community has a particular focus on roads: Do the scenarios address community expectations for this particular service?
    - Can Council manage to these requirements and maintain a stable and sustainable cash position?
    - Is borrowing reasonable, adequate and sustainable?

All scenarios will include the efficiency initiatives and other constraints to minimise any additional funding needs through a special variation. As this is built into each scenario it does not need to be evaluated.

By answering each of these questions with clear metrics for each scenario an assessment can be made of which scenario is the best path for Council. By answering these questions, the sustainability requirements that the LTFP needs to address as per the IP&R guidelines should be met.



Assumptions

The assumptions used for the model are very important as they do determine the rate of increase of revenues and expenses over the 10 years of the model. As 10 years is a significant period of time applying different assumptions can result in very different projections of either revenues or expenses and associated inputs such as the revaluation of assets. In addition, councils have investments and often borrow either permanently or more intermittently for particular projects. All of these apply to Cessnock.

Each of the revenue and expense categories have particular drivers which determine what drives costs. In some instances, it is easy to determine what the driver might be. Examples are:

- Increases in Rates is determined by IPART based on a basket of costs typically incurred by councils. As will be seen this is very helpful as it in effect links both Council's primary revenue source rates to the underlying costs. As a result, if this can be linked in the model then changes in rate of increase in costs will feed through to the estimate of the rate peg. This removes the risk to a degree in any forecasting errors.

- Other categories are very transparent in terms of the underlying drivers. Employee costs for example are clearly associated with the cost on employee staff. Typically (although not in recent times) labour costs increase at a rate marginally above indices such as CPI.

- With respect to borrowing, Council could elect to utilise fixed rate borrowing which for a certain period would provide certainty on the borrowing costs. Quoted rates for longer term fixed loans are available if borrowing in the near future.

Some categories have been made more granular to ensure the most appropriate indices are selected. For example, Materials and Contracts (M&C) is best split into its components to understand the underlying drivers. A significant portion of M&C is associated with asset maintenance (either though contracts or the procurement of materials). A relevant construction index best applies for these expenses. Other components of M&C involve the procurement of other types of items are made more granular to assist in might require more analysis to understand the composition of the revenue and expenses and what the underlying drivers might be.

In other lines there needs to be an understanding of the primary costs to determine the best index. For example, the annual waste charge: This charge is to fully recover the waste service costs (including recognition of future liabilities). The waste management function goal is full cost recovery without making a profit over time. There might be some years where there is a surplus but if it is identified that the annual waste charges are too high an increase will be moderated in the future to achieve alignment. The waste management facility operations involve staff, heavy machinery, materials etc. In addition, there is waste levy imposed by the NSW government which is a substantial portion of the cost. In this instance an approximate increase slightly above CPI was assumed to be the best option.

One conclusion reached during this analysis is that CPI was rarely identified as the most appropriate index for Council expenses (as Councils expenses don't align

with the CPI basket) but does have utility in areas such as fees and charges (as Council fees and charges and other charges to the community will be compared to the CPI). This possibly explains why IPART undertakes its own analysis to determine the rate peg each year and seeks to understand the composition of costs (and the increase in those costs) to councils.

A review of the weights that apply for the CPI highlight why there is little alignment. The weights have been provided below.

GROUP	WEIGHTS (%) 2019 (PRE-COVID)	WEIGHTS (%) 2024	WEIGHTS (%) 2025
Food and non-alcoholic beverages	15.75	17.15	17.44
Alcohol and tobacco	7.71	6.98	6.58
Clothing and footwear	3.23	3.40	3.25
Housing	22.93	21.74	21.39
Furnishings, household equipment & services	8.56	8.43	8.02
Health	5.88	6.43	6.73
Transport	10.68	11.42	11.45
Communication	2.41	2.14	2.13
Recreation and culture	12.81	12.55	12.74
Education	4.44	4.34	4.69
Insurance and financial services	5.59	5.43	5.58

CPI does remain relevant as a secondary driver. For example, employee indices might some limited correlation. Enterprise Agreement negotiations might reference CPI for example.

This link however needs to be approached with caution. For example, labour costs growth can have many other factors impacting the likely cost increases. Council is competing for staff with other employers. There can be shortages in certain skills or high demand for certain skills because of the level of activity. This has certainly been the case with many trades and also other roles such as engineers and project managers.

CPI has however been considered in the model and where CPI is assumed to decrease this has also been reflected in other indices such as the construction and labour indices used.

As noted, CPI has been used in the model for many line items which are revenue related. The rationale for this is that the community possibly expects Council to increase fees and charges and other revenue items more in line with CPI given that is the metric they most relate to.

One index that has not been discussed but is extremely relevant for Cessnock is population growth assumptions. This is a very important assumption and will be covered in depth as part of this section.

In conclusion, as will be seen below effort has been undertaken to determine the relevant indices. These indices are listed against the different revenue and expense lines. In some cases, these items have been decomposed further to enable different indices to be used.

This section will then provide a list of indices with the forecast rates and the rationale or basis for these forecasts.

To maximise transparency of how assumptions have been applied the approach is to break it into 2 parts and use indices:

a. Assess scale of each revenue and expense line and assign a particular index to each (and the reasons)

b. For each index highlight the values each year and the rationale for the percentages.

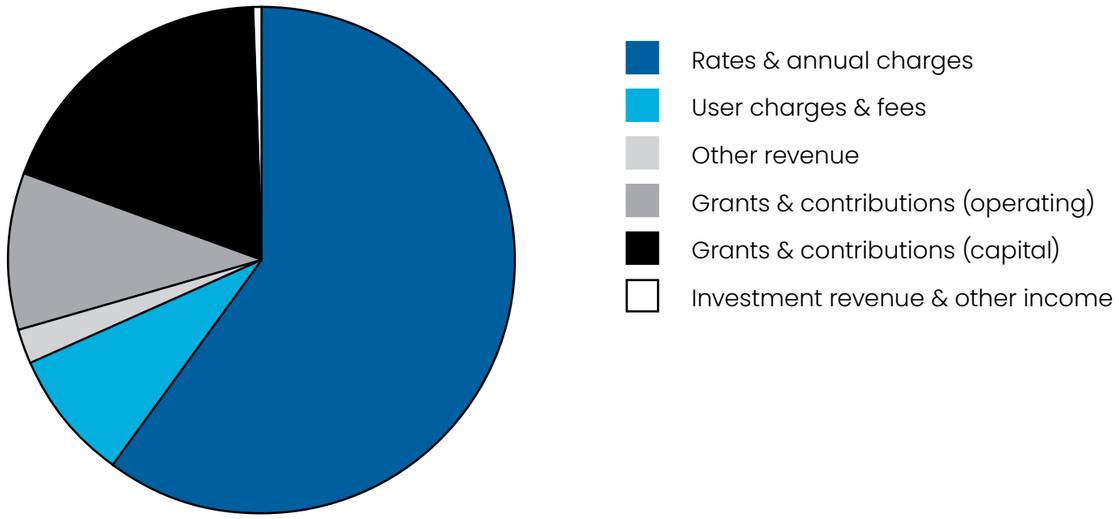
a. Revenue & Expense lines Scale & Index selection for each line

Mix of Revenue: Which revenue lines are most important?

To understand the impact of the assumptions it is helpful to understand the composition of revenue within Council. The assumptions that apply to the larger revenue categories are the most important as these assumptions will have the biggest impact on the model.

The pie chart below provides a revenue split. The Base case 2035/36 Revenue mix is being used. Understanding what the numbers are projected to be helps identify which number to focus on.

Base case: revenue mix 2035/36



- **Rates & Charges:** The largest revenue contributor to Council finances is Rates and Annual Charges. Rates constitutes approximately 72% of the $133m total. The Waste Charge accounts for almost all the remaining balance.
- **Capital Grants and Contributions:** is the next biggest item however this is a very volatile category and growth is not driven by indices. CPI has been used to reflect the real dollars across years.
- **Other non-interest revenue** is limited in scale and CPI has generally been used to as CPI is a consumer index and therefore relevant to the community. The community will evaluate changes User Fees and Charges & other costs they incur against CPI.
- **Investment Revenue** will be negligible a basic rate has been applied but will have little impact.

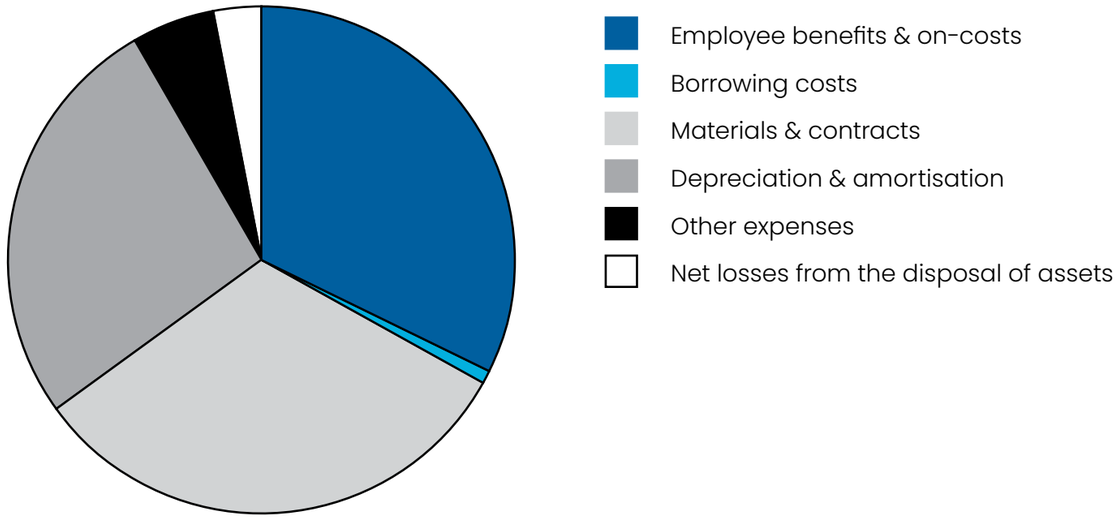
Indices that apply to each Revenue line

SUB-CATEGORY	INDEX	INDEX DESCRIPTION & RATIONALE OF USE
Rates	Rates Cap	This index is the forecast of the IPART rate peg. In the year of the special variation the SV rate is used instead of the rate peg. In addition, the population index does not apply when an SV looks to mirror (at a high level) what IPART does
Annual Charges – Domestic Waste	Waste Index	A separate index has been created. This is very similar to CPI but slightly higher to reflect historical experience that the waste levy has increased faster than inflation.
Other Annual Charges	CPI	As noted above CPI has been used in line with likely community expectations regarding annual increases.
User Charges	CPI	As per Other Annual Charges.
Fees	CPI	As per Other Annual Charges.
Other Revenues	CPI	As per Other Annual Charges.
Interest & Investment Revenues – o/s Rates & Annual Charges	Rates Cap	This income is limited however is projected to grow in line with the growth in rates
Interest & Investment Revenues – Investments	Investment Interest	Due to Council having limited investible funds this revenue source is negligible
Operating Grants – Financial Assistance Grant	Financial Assistance Grant Index	The Financial Assistance grant increases largely in line with CPI but has a population component to it so a separate index has been established.
Operating Grants – Other	CPI	An Operational Grants index has been created for model flexibility but currently this links to the CPI index. The rationale is that the Federal and NSW State governments have limited capacity to increase grant funding to local government.
Operating Contributions	CPI	As above
Capital Grants	CPI equivalent	Significantly reduced in 2026/27. Then increases gradually using a separate index has been created but has similarities to CPI but a bit lower (2.5%)
Capital Contributions – Developer Contributions	CPI equivalent	As above.

Mix of Operational Expenses: Which expense lines are most important?

As with revenue, operational costs will be evaluated for scale and indices selected per line (or in some cases at a lower level).

Base case: operating expenditure mix 2035/36



- The three largest areas deserve most attention as the assumptions underlying these areas will result in the biggest impact on the projections:
    - **Employee benefits:** A separate employee index has been chosen for this category. Typically (but not always) employee costs have increased moderately above CPI. At times there are wage pressures associated with shortages for certain skills. Council's largest workforce is in infrastructure related activities. Where there is currently (and probably for the foreseeable future) competition for similar resources with federal and state government infrastructure programs and possibly residential housing development. At times Council needs to use contract staff to fill certain gaps. It is likely that this index possibly sits somewhere between CPI and the construction index. This is where the index has been positioned for this model.
    - **Materials & Contracts:** This category has a significant component of contractor and materials for infrastructure related activities. This category is broken down in subareas however for most of the cost the construction index will be used. This category increases also from the increase in gross assets (arising predominantly from dedications)
    - **Depreciation:** This line item is not indexed directly but is derived from the gross value of assets (and the useful life of those assets). Infrastructure assets are being revalued in the model using the construction index. In effect therefore like Materials and Contracts the increase in depreciation is impacted by both the index used for infrastructure assets and asset additions.
- The other smaller categories:
    - **Other expenses:** predominantly the waste levy. This is difficult to forecast as increases are often policy driven. It is assumed the increases are probably on average higher than CPI (based on past experience). PPI is used on this basis (which has been estimated as similar to the construction index. Impact should not be too great given scale.
    - **Borrowing Costs:** This is a minor cost to Council (except for Scenario 1) and therefore the assumption for this item has limited impact. Interest rates are assumed to decrease only moderately from this point (maybe one to two further 0.25% decreases). There is even discussion of the next move by the RBA being an increase. Forecast borrowing rates over the 10 years are in a narrow band reflecting this situation.
    - **Net Losses on Disposal of Assets:** Similar to Materials & Contracts and Depreciation this is in effect indexed by the construction index. Capital works projects are indexed by the construction index (the same as asset revaluation). This consistency is important so all assets are valued the same way. Loss on Disposals is a function of the scale of asset renewal program and assumptions on the net book value of assets. In some asset classes, such as roads, the actual net book values have been used (indexed by the construction index). In other asset classes assumptions are made with the most common being 25% of the gross value (in effect condition 4).

Indices that apply to each Expense line

SUB-CATEGORY	INDEX	INDEX DESCRIPTION & RATIONALE OF USE
Employee Costs	Employee index	
Materials & Contracts – Raw Materials & Consumables	Road & Building Construction indices	Used ABS indices for NSW in these categories to build a construction index
Materials & Contracts – Contracts	Road & Building Construction indices	Used ABS indices for NSW in these categories to build a construction index
Materials & Contracts – Legal Expenses	PPI (legal)	ABS PPI index for legal services was an input
Materials & Contracts – Other	Road & Building Construction indices	Used ABS indices for NSW in these categories to build a construction index
Borrowing Costs	Loan interest index	Use the RBA rate and forecast to impute changes to current loan interest rates in the future
Depreciation	Construction Index (indirect)	Depreciation is the result of writing down the gross book value based on the useful life. Infrastructure is revalued annually in the model using the construction index.
Other Expenses – Statutory & Regulatory	PPI	Refer to commentary on the waste levy above.
Other Expenses (Councillors)	Employee index	Assume councillor increments are similar to staff
Other Expenses (Other)	PPI	Refer to commentary above

b. Indices and methodology for determining their value

Rate peg and its calculation

IPART calculates council rates each year. The process is transparent with a report published on how the rate for each council is determined. The calculation below is an estimate of the rate peg each year applying a similar methodology. It is recognised this will not have the accuracy of the IPART calculation but will help demonstrate to the community how the rate increases have been calculated.

		2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Ind-Rates		**3.8%**	**3.8%**	**3.7%**	**3.5%**	**3.4%**	**3.2%**	**3.4%**	**3.2%**	**3.2%**	**3.2%**
CPI	65%	2.0%	2.0%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Staff	35%	1.4%	1.4%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%
ESL		0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Election year				0.2%				0.2%			
Population factor		0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%

The rate is determined as follows:

- A mix of CPI and staff costs (the split below approximates the percentage of council costs that are staff related)
- A contribution to cover the emergency services levy
- An election year adjustment in recognition that councils need an adjustment to cover election costs
- The population factor reflects recognition that Cessnock is a fast-growing region. The adjustment for 2026/27 was 0.8%. A much lower rate is being used and is absorbing a reduction in the election year increment in following years.
- As can be seen the LTFP assumes a gradual reduction in the rate peg from the current rate of 3.8% to 3.2%. This reflects the models realistic but conservative approach.

Other Operational Revenue Indices: value and basis

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Waste index	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Investment Index	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Financial Assistance Grant	3.5%	3.5%	3.4%	3.4%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Popn factor to add to CPI	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Operational Grants Index	3.0%	3.0%	2.9%	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%

The primary operational revenues other than rates are the waste charge and the Financial Assistance Grant.

- **Waste Index:** The waste charge is moderately above CPI. This reflects that the waste management service has a "construction" element to the operation with the building of waste cells and capping of waste cells at end of life. There is also a waste levy that historically has at times increased more than CPI.
- **Financial Assistance Grant:** The NSW government has a methodology for calculating the Financial Assistance Grant for each council. The calculation applied for the LTFP is a combination of CPI and a population growth factor. A population growth factor is currently being used but methodologies can change in the future so there is an element of risk in this assumption.

Capital Revenue & Expenditure

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Captial Grants	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Developer Contributions	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Infrastructure	4.3%	4.3%	4.3%	4.3%	4.2%	4.1%	4.0%	4.0%	4.0%	4.0%

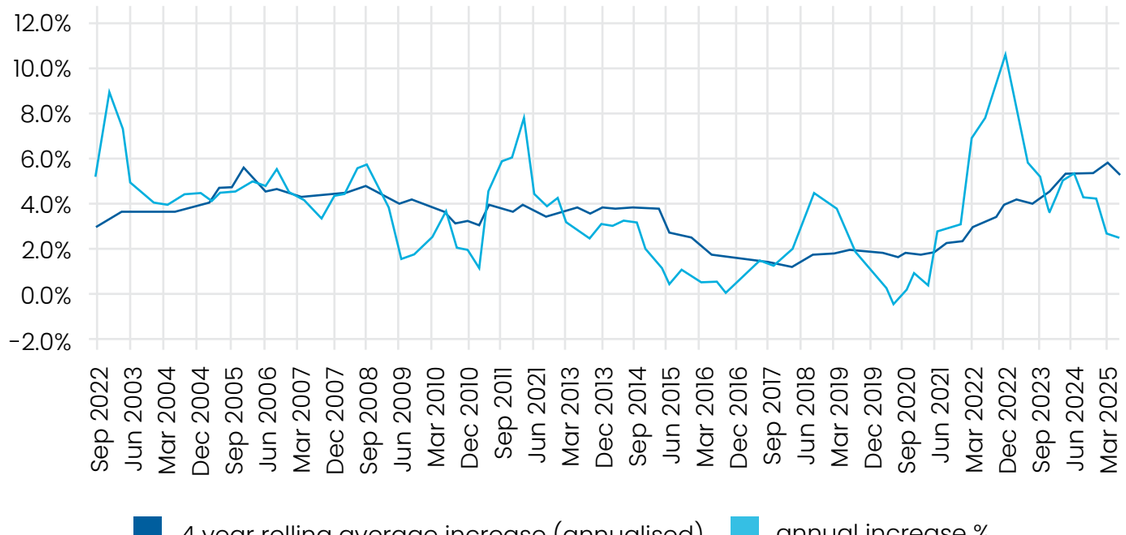
- **Capital Grants:** The increase or decrease in capital grants is not related to any price related metrics but dependent on grant availability, relevance of those grants to Council and if course Council's success. As noted, the model assumes less grants initially. A proxy for CPI (slightly lower) has been used just to ensure grants remains reasonably consistent in real terms across years.
- **Developer Dedications and Contributions:** Similar treatment is capital grants. No real certainty on projections. This index reflects a conservative approach.
- **Infrastructure:** As noted Infrastructure (revaluations and projects) use the Construction index. This indirectly impacts Materials & Contracts, Depreciation and Loss of Disposal of Assets.

Expense related Indices; value and basis

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Employee Index	4.0%	4.0%	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%
CPI	3.0%	3.0%	2.9%	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
PPI	4.3%	4.3%	4.3%	4.3%	4.2%	4.1%	4.0%	4.0%	4.0%	4.0%
Construction Index	4.3%	4.3%	4.3%	4.3%	4.2%	4.1%	4.0%	4.0%	4.0%	4.0%
Average Interest Rate (Loans)	5.00%	5.00%	5.00%	5.00%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

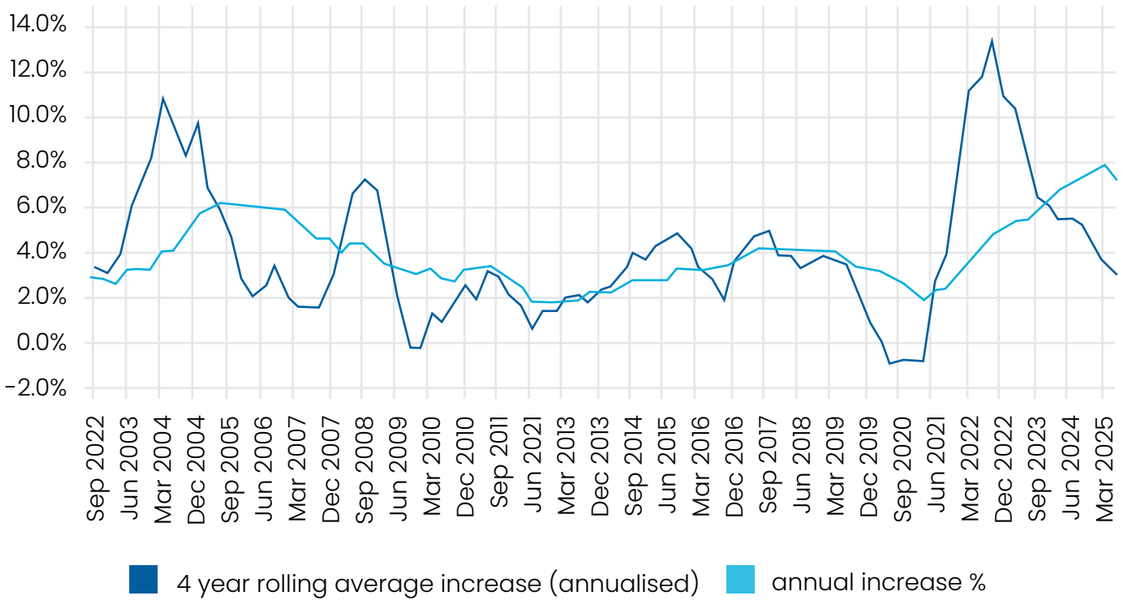
- **Employee Index:** Staff costs under the award had recent increases as follows: 1/7/2023 – 4.5%, 1/7/2024 – 3.5%, 1/7/2025 – 3%. The Enterprise Agreement (2025) has an additional 1% super each year for the life of the agreement – i.e. 2025 = 13%, 2026 = 14% and 2027 = 15%. The employee index for the LTFP reflects gradually reducing increases to 2035/36. Generally (but not always) wages are a little higher than CPI.
- **CPI:** Although CPI is an expense related index it is being used within the LTFP to calculate fees and charges for services to the community. As noted above most costs within council do not have a direct association with CPI.
    - As noted above CPI has been used for the indexing of Fees and Charges and other revenues as charged to the community rather than for Councils own expenses.
    - The implications are that a reduction in CPI will actually adversely impact Council revenues. There however is probably some limited correlation between CPI and other cost indices. CPI might decrease in a situation where the economy is weak and demand pressures abate. This might affect other indices such as the Construction indices and PPI. The degree of correlation and how other factors impact the relationship are uncertain. For example, the need for residential housing supply and tight labour conditions might continue even if economy as a whole weakens.
- **Construction Index & PPI:** A number of ABS indices have been analysed to assist with developing the construction index and the PPI (legal services). All indices are very volatile.
    - To obtain some semblance of any trend two moving averages have been calculated: a 1 year and 4 year moving average. The four-year moving average as expected is less volatile.
    - The roads/bridges index appears to have a average annual increases approximating 4% with the exception being just before and around COVID. The index has subsequently increased and been higher than the average 4% that has applied in the past. There is significant evidence that there are labour shortages in the infrastructure and high demand with many infrastructure projects occurring across the country.

ABS Road & Bridge Construction Index NSW



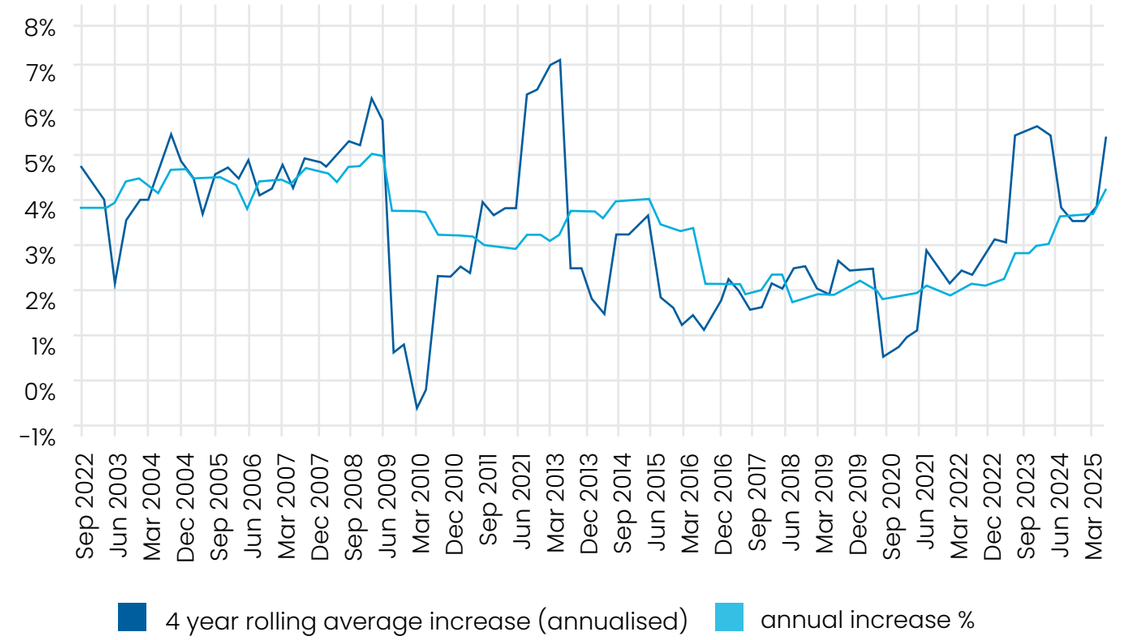
- The building index has less relevance as the capital works program for buildings has been substantially reduced and roads is really the primary asset class with works reflected in the works program. The trend for the building index is harder to discern however there are similarities to the road construction index. Like the roads index there have been higher costs recently and given the demand for building construction and the well documented discussions on shortages in trades it is viewed unlikely that price increases will moderate any time soon.

ABS Building Index NSW



- PPI Legal services is another volatile index. The only real data to work with is that in the last year there has been a significant increase in rates. The period from 2002 to 2015 saw increases approximating 4%, this then moderated and has now increased again. The cost is not significant in council so to keep the indices simple this is similar to the other indices listed in this section.

PPI Legal Services



Population Growth Assumptions

Cessnock is a high growth area. As noted in the executive summary Cessnock's population has grown by an average of 2.3% of the last 9 years (based on MyCouncil data sourced from the ABS) and 3% over the last 4 years.

Impact of population growth on the model

This is an important assumption within the model. The population growth assumption will impact the amount of Rates revenue obtained and have some impact on other lines.

Council Revenues

Many are impacted directly.:

- **Rates:** Id (informed decisions) utilises detailed sub-division plans by developers to identify the number of lots (ultimately rateable parcels) and being created into the future. In effect their population forecasts assume relatively stable people per dwelling and therefore it is reasonable to use id percentage population growth to project the increase in rateable parcels.

There is discussion about data sources in the next section: both id (informed decisions) and DPHI (NSW Department of Planning, Housing and Infrastructure) have both been important contributors to the development of the growth assumptions.

- **Waste charge:** For the same reason as rates the percentage population growth can be used to project increases in the growth in the waste charge.
- **Fees & Charges and Other Revenue:** It is also reasonable to assume these will grow in proportion to growth in population. For some areas the relationship might be more complex.

An example of an area where the link is more tenuous is DA applications. DA applications will be impacted by other factors (economic conditions, consumer confidence etc) however these are difficult to predict. There is likely to be some correlation between number of properties and number of DAs. This should therefore be recognised. A review of fees and charges does indicate population growth / number of rateable parcels are a reasonable proxy to reflect growth.

- **Operational Grants:** The Financial Assistance Grant (the main component of this category) has a component built into the grant which recognises population growth. The population growth index is therefore not reflected for this line.
- **Other revenue lines:** these are not impacted by the population growth index.

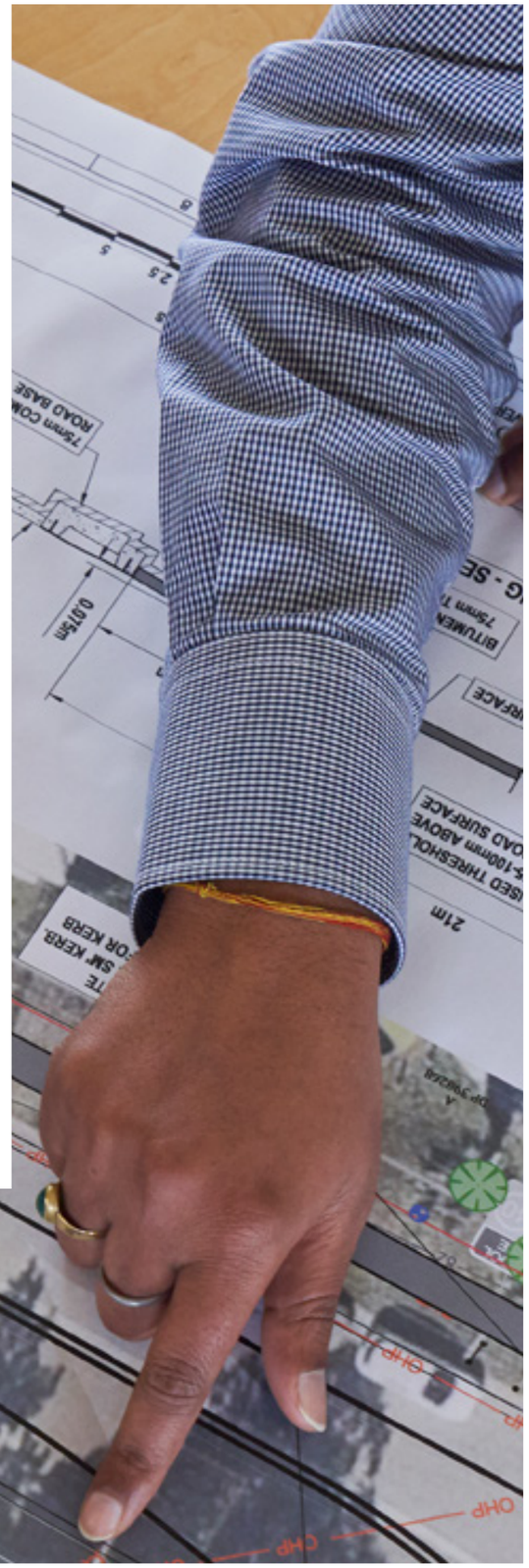
There are some areas impacted indirectly by assumptions of increases in rateable parcels:

- **Dedications and developer contributions:** These are both forecast based on certain assumptions about the growth in new lots in developer sub-divisions. Over 9,000 new parcels (which will ultimately become rateable parcels) are forecast over the next 10 years. Past dedications and developer contributions vary greatly from one year to the next. An assumption however has to be made as dedications impacts both Materials & Contracts and Depreciation due to dedications increasing the total gross value of infrastructure assets. Contributions help fund capital works of assets associated with sub-division development. If population growth was moderated the assumptions of these amounts should also probably be reduced.

It should be noted however, as is reflected in the section below, that the projection for population growth does factor in a slowing in the rate of growth. In addition, the dedications and contributions are also projected to decrease from current levels over the 10 years. This is in recognition that it is difficult to forecast in the medium to long term as many factors could impact future growth. Dedications for example are projected to reduce by approximately third over the 10 years. A similar decrease is projected for contributions.

Council Expenditure

- **Employee Costs:** As discussed in the section on Efficiency Initiatives employee costs are kept frozen except for recognising wage increases in the first 5 years. Operational staff numbers are in effect being capped at this time.
- **Materials & Contracts and Depreciation:** As noted above these expense lines are impacted by the level of dedications which results in an increase in the Gross Value of Assets. Contributions has a similar effect (albeit less) as the funding enables project work to occur. These lines are not impacted by the population index per se but are related through dedications and developer contributions.
- **Other Expenses:** Other expense lines have not been adjusted for population growth.



Population Growth Assumption and Basis

There are a number of sources available for population forecasts. Cessnock City Council utilises two sources, NSW Department of Planning, Housing and Infrastructure (DPHI) and Informed Decisions (id). Both DPHI and id apply similar methodologies for projecting population growth. The projections are based on number of households x average household size. Both organisations also use ABS statistics as the base.

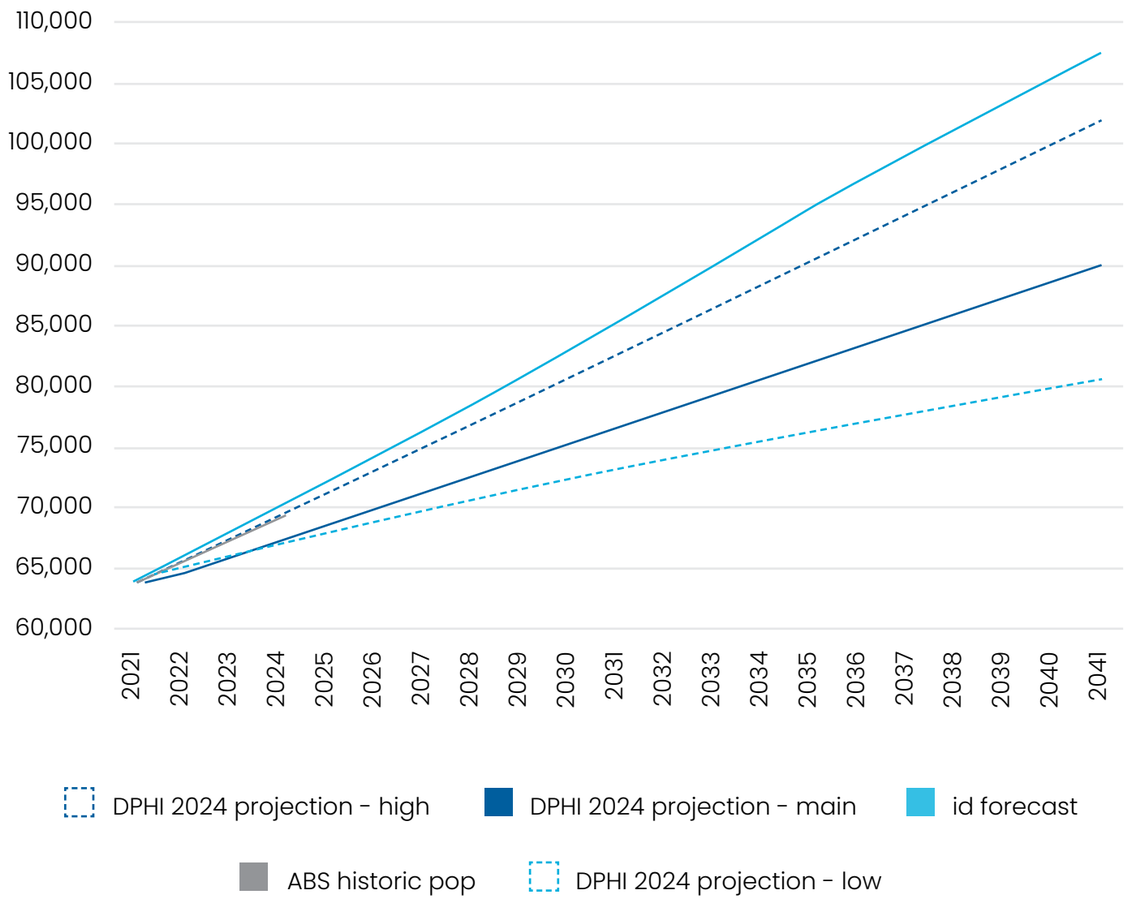
The population forecast reflects similar population growth to what has occurred over the last 4 years (which has exceeded 3% per annum) but then moderates population growth in line with historical trends (population growth over than 9 years has been approximately 2.3%)

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Population growth forecast	2.40%	2.84%	2.83%	2.86%	2.66%	2.58%	2.50%	2.43%	2.37%	2.30%

This forecast above is fairly is consistent with both id and the DPHI. Both organisations moderate their population growth assumptions in recognition that there is less certainty in the forecast the further out you go.

As can be seen in the graph below the estimates diverge to some degree over time. The actual growth as per the ABS numbers appears to align closest to the department's high-end projection. The id forecast is the closest of the two standard forecasts.

Cessnock LGA population - past and projected



As is to be expected the forecast whilst they apply similar methodologies do vary because of different objectives. The following are relevant considerations:

- It is very important for the DPHI to produce forecasts which aggregate nationally so whilst migration from and to Australia is considered the internal flows across different LGAs is not modelled. This approach in general for most councils would not present any issues however for a council such as Cessnock with high sub-division activity that will probably attract new residents from outside the area (or at least rateable parcels which could be occupied) this would result in growth projections that are overly conservative.

- id is approaching forecasting from a different perspective as it has a strong focus on development activity. Id seeks to understand the level of development activity and works with councils and developers to obtain more detailed information about all principal developments in an LGA and the yields for each. Id looks to consider internal migration (between LGAs) in its forecasting.

- Cessnock held a couple of meetings with id and DPHI, including a meeting at which both id and DPHI attended together. The meeting was extremely helpful and highlighted the complexities of longer-term forecasting of population growth. This accounts for the more conservative projections further out.

- id provided some trends they believe are currently taking place and possibly will continue. These include:

    - Due to this focus id is considering internal migration and believes there will continue to possibly be migration from Sydney due to housing prices being cheaper.

    - id is projecting higher births and also high migration to the area. This reflects in particular a higher number of females than DPHI forecasts. Id has referenced the last census (2021) confirming the younger family and birth rate assumptions.

- id confirm that many housing subdivisions are suited to couples seeking to have families and young families.

- Cessnock supply of Greenfield sites probably lasts a few decades and supports housing whereas Newcastle and surrounds has a shortage of greenfield sites. Densification will likely be the main source of growth. Greenfield is viewed as more suited to families and family formation.

- Generally, an overall assessment of development sites is that forecasts are tracking in line with general expectations. Some developments are progressing to plan, other developments are either exceeding original forecasts or are developing more slowly. On balance the growth is largely in line.

    - id is reviewing forecasts and might reduce forecasts slightly.

Based on the very valuable feedback obtained from both set of forecasts Council has concluded there is sufficient similarity in forecasts for Council to assume population growth in the immediate term will track at similar rates to recent history and that the population growth will moderate towards longer-term historical trends towards the latter years in the 10-year plan.

Demographic changes noted will in the longer term continue to facilitate further population growth and might place demands on council for infrastructure related to these demographic changes.

BASE CASE & SCENARIOS

Base case and Scenarios

Base case and Scenarios Modelled

Council has undertaken financial modelling on the base case and 4 possible scenarios. The purpose of this modelling is to evaluate whether Council can operate largely as business-as-usual and meet key sustainability metrics and meet community expectations for services.

Council has developed a Community Strategic Plan, prior resourcing plans (including an Asset Management Strategy and associated Asset Management Plans and a long-term Financial Plan). These resource plans are all at least 10 years duration. Council also has more detailed plans with shorter planning horizons (Delivery Program – 4 years, Operational Plan – 1 year).

These plans have all been key inputs into the Asset Management Plans (AMPs) to ensure Council delivers what has been agreed with the community. The AMPs also determine the scale of asset maintenance and renewal required to ensure Councils Infrastructure is maintained sufficiently to a satisfactory standard and to meet community service level expectations. The AMPs include plans to support these goals.

The scenarios have been developed within this context and look to answer the question of whether Council can sustainably meet the key IP&R guidelines:

- the progressive elimination of operating deficits
- the establishment of a clear revenue path for all rates linked to specific expenditure proposals ensuring that any proposed increase in services and/or assets is within the financial means of the council including a proposed special variation
- ensuring the adequate funding of infrastructure maintenance and renewal
- the use of borrowing, where appropriate and financially responsible, and
- the fair and equitable distribution of the rate burden across all rate payers.

The question is can the base case meet these guidelines and if not is there an alternative path Council can take to achieve these guidelines and which path is the optimal path for Council?

SCENARIO	DESCRIPTION	RATIONALE
Base case	***Council does not receive any additional funding and needs to constrain expenditure within funding constraints to remain solvent.*** Due to significant operating deficits (excluding grants for capital purposes) Council is unable to undertake sufficient renewal of existing assets and cannot undertake projects necessary to support a growing LGA. Asset condition deteriorates significantly under this scenario not meeting community expectations nor key sustainability benchmarks. The base case includes significant efficiency constraints which continue to apply to all scenarios. Efficiency savings have been applied to reduce the funding gap. In addition, operational staffing levels are frozen for the first 5 years. This will require future efficiency initiatives. Materials & Contracts costs are also contained to support only inflation and support for new assets.	This scenario represents Council's likely path without additional funding support. Efficiency initiatives have been included (as they have in all scenarios) to maximise the funds available to maintain existing assets. This scenario's focus on the investment in council assets is to answer the question "Can Council adequately maintain Council assets within current funding constraints?"
Scenario 1	***No additional funding but meet maintenance and renewal expenditure benchmarks for Council assets.*** This scenario identifies the current funding gap if council wants to sustainably fund asset maintenance and renewal in line with IP&R benchmarks. The base case already reflects that Council needs to constrain expenditure to work within funding generated from operations. With that context this scenario considers what is the funding gap and can Council borrow the shortfall in operational funding to finance a sustainable infrastructure maintenance and renewal program. Not investing in assets sufficiently will result in asset condition deteriorating, not meeting community needs and expectations and ultimately costing Council more as replacing such assets is more expensive in the long term. This is not sustainable so is there a borrowing option?	The scenario identifies the extent to which Council cannot fund sustainable levels of investment in Councils existing assets. Ongoing borrowing is not a viable option so this scenario is used solely to reflect the funding gap and in effect that Council would become insolvent. The scenario answers the question "What is the funding gap is Council is to meet key asset sustainability ratios?"
Scenario 2	***Council receives a 39.9% special variation and seeks to meet asset sustainability ratios.*** This scenario recognises that the scale of borrowing proposed under Scenario 1 is not possible and proposes that a special variation of 39.9% will assist Council in becoming financially sustainable. This scenario keeps all other elements the same as Scenario except for the following: • Seek a 39.9% special variation • No longer undertake a program of borrowing to fund the works program and undertake a borrowing program that works to the new funding gap. • Additional borrowing might still be required and this scenario undertakes this borrowing rather than restrict the works program.	The purpose of this scenario is to determine whether Council can (with a 39.95 special variation) fully fund an asset maintenance and renewals program that meets key IP&R benchmarks for these activities. This scenario looks to meet the infrastructure renewal requirements from 2026/27 onwards. It also incorporates the scoped down works program for new/upgrade assets needed for an LGA which is one of the fastest growing in NSW.

SCENARIO	DESCRIPTION	RATIONALE
Scenario 3	***Council receives a 39.9% special variation and maximises investment in Council assets within funding constraints.*** This scenario builds on Scenario 2. It appears that Scenario 2 can support the funding of a sustainable infrastructure maintenance and renewal program and the core works program. However due to timing issues between funds being generated and when needed as part of the program significant borrowing is required. This is substantially less than Scenario 1 and also appearing to viable but still significant and something that then constrains the works program in future years due to loan payment commitments. This scenario looks to optimise the capital works program to avoid the need for persistent borrowing but at the same time reach a position albeit at a later stage of having a sustainable infrastructure maintenance and renewal program and meet other IP&R sustainability guidelines. Community priorities are also a key input.	The purpose of undertaking this scenario is to identify the best possible outcome for Council with the benefit of the special variation. This scenario looks to optimise and balance expenditure but working with the key priorities of addressing road infrastructure in particular but all asset maintenance and renewal. This scenario looks at the capacity to exceed ratios if possible to identify the capacity to in the longer term reduce the infrastructure backlog.
Scenario 4	***Council is successful with a second special variation 5 years after the first special variation. Modelled as a 30% increase in 2031/32.*** A second special variation is not being sought at this time. The purpose of this scenario is to demonstrate the impact a 2nd special variation would have on Council's capacity to accelerate works programs and consequently address the infrastructure backlog more quickly. In addition, although Scenario 3 demonstrates a significant (essential) improvement to Councils financial sustainability and capacity to meet IP&R sustainability guidelines there are still some areas which are marginal. As noted, the infrastructure backlog is the clearest.	The purpose of this scenario is to evaluate what beneficial impact additional funding might provide. Often councils seek multi-year special variations. Cessnock is avoiding this approach and will evaluate how Council progresses if successful with a 39.9% SV. Five years is a long time and circumstances will change so this scenario is illustrative only.

Summary of Scenario Outcomes

The section below is a copy of what is in the executive summary for easy reference whilst the scenarios are evaluated.

Choosing an Alternative Scenario

The IP&R guidelines require that Council compare a scenario which represents an alternative path for Council achieving financial sustainability. This LTFP has involved the modelling of 4 scenarios. The best scenario for comparison and evaluation against the base case is Scenario 3: The basis is the following reasons:

- Scenario 1: This scenario modelled undertaking target asset maintenance and renewal within current funding. This resulted in $400m of borrowing which is unsustainable.
- Scenario 4: This scenario models an additional special variation in 2031/32 to further improve Council's financial position and accelerate the infrastructure renewal program. Council can only seek a 2nd SV just prior to when it is being sought. This scenario is not therefore for consideration.

The choice of preferred scenario is between scenarios 2 and 3. A detailed comparison has been provided at the beginning of the analysis for Scenario 2. Based on this analysis it is believed Scenario 3 should be the preferred scenario for comparison. The rationale for this is that Scenario 3 optimises the capital works program and avoids a significant increase in borrowing. Scenario 3 (like scenario 2) prioritises the roads program in line with community preferences and also reflects better outcomes against the IP&R sustainability guidelines.

The comparison between the Base case and Scenario 3 is therefore reflected below.

Sustainability Scorecard: Comparing Base case to Scenario 3

CRITERIA	BASE CASE	SCENARIO 3
Net Operating Result	Net Operating Deficit (before capital grants and contributions) reflects a substantial deficit ($35.9m) Operations ratio is negative at -16.5% in 2035/36.	Net Operating Deficit (before capital grants and contributions) reflects a deficit ($14.6m). This is substantially less than the base case. Operations ratio is just negative (in effect meets ratio is effectively zero (0.04%) as almost 0%. This ratio was positive prior to the one-time asset maintenance adjustment and is likely to become positive again post 2035/36. Based on this metric scored amber.
Trend in Operating Result	Trend is worsening with no possibility of reversing the trend. The Operating Performance ratio is either stable or worsening. Trend is difficult to determine.	Trend is stable if the one-time adjustment in asset maintenance is excluded to see a true trend. The trend in the Operating Performance Ratio was positive prior to increase asset maintenance and is again appearing to improve moderately.
Own Source Revenue	Meets the ratio.	Meets the ratio
Asset Maintenance	Approximately (90%) for the 1st 8 years of the plan (maintaining current levels of maintenance in percentage terms). An increase of $3m in 2034/35 increases the ratio to (100%) so that meets this benchmark. Decision was to balance prioritization of asset maintenance and renewal.	Approximately 90% for the 1st 8 years of the plan (maintaining current levels of maintenance in percentage terms). An increase of $3m in 2034/35 increases the ratio to 100% so that meets this benchmark. Decision was to balance prioritization of asset maintenance and renewal.
Funding for Infrastructure	There will not be sufficient funds generated from operations which results in infrastructure renewal and core projects being substantially curtailed.	Infrastructure can be funded from operations. Initially constraints exist which results in infrastructure renewals being below the benchmark however the works program can be increased and delivered over the 10 years with the renewal ratio eventually exceeding the benchmark whilst not requiring additional borrowing and keep cash position stable.
Infrastructure Renewal	Is not able to meet the ratio or demonstrate a trend of improvement. Substantial underinvestment in infrastructure renewal with ratio just above 40% across 10 years.	Initially expenditure on infrastructure renewal is below the ratio (just above 60%) however as funds become available ratio is met (around 2031/32) and subsequently exceeded (over 100%).

CRITERIA	BASE CASE	SCENARIO 3
Infrastructure Backlog	Ratio deteriorates rapidly from year to year. The ration is projected to be just under 10% by 2035/36.	Ratio initially increases (at a lower rate than the base case) and then stabilizes (at under 6%) and starts trending down moderately. The model has demonstrated funding capacity to increase the works program over time which indicates this ratio can be improved in the long run.
Road Condition	Condition 4 & 5 (poor and very poor) continue to deteriorate significantly with no path to improvement.	Condition 4 & 5 (poor and very poor) continue to deteriorate initially then stabilise and then start to reduce gradually. Very good and good condition increasing consistently.
Responsible Borrowing	Borrow initially to shore up cash position and then gradual reduction in borrowing as loans are paid down. On the face of it this is a responsible strategy as Council is constraining the works program to avoid a cycle of borrowing. Council has however already had a loan funding application rejected by TCorp due to not meeting key criteria. A weak position such as is currently the case will result in higher funding costs via other channels and future borrowing might be more difficult across all channels given Council's week position.	Borrow initially to shore up cash position and then gradual reduction in borrowing as loans are paid down. There is a reasonable chance Council will be able to obtain lower cost from TCorp and based on the LTFP would certainly be able to obtain funding. Council can demonstrate that it can sustainably support is works program with its operating position likely to be sustainable along this path in the future.
Cashflow Position	Cash position appears stable and sustainable however if Council cannot obtain sufficient borrowing the works program will need to be even more constrained in the early years to restore council to a sustainable cash position to operate efficiently. As noted above this is a risk.	Cash position appears stable and sustainable. Council is able to both pay down borrowing as planned and also undertake a sustainable capital works program which meets maintenance and renewals rations and fully deliver the scoped down program building new and upgraded infrastructure.

Base case: No Special Variation with Constrained Expenditure

The base case is the most likely scenario if Council does not obtain a Special Variation:

This scenario involves Council reducing the capital works program to fit within the funding constraints that currently apply. Some initial borrowing is required to ensure Council can operate with sufficient cash to support ongoing operations.

Further borrowing is avoided as Council is in a weak financial position and Council might not have the capacity to repay a significant amount of debt. Due to Council's weak financial position Council might find it difficult to undertake additional borrowing that is believed necessary. There would also likely be conditions attached limiting what Council can do.

A separate scenario where additional borrowing has not been undertaken because it would simply involve even greater constraints on Council's expenditure which would further impact the capital works program and result in a worse outcome than is reflected in the base case. As will be seen from the analysis the base case is viewed as not being sustainable.

The base case also establishes the baseline against which other scenarios can be evaluated. As a result, this particular scenario will be covered in more detail providing both context and a foundation against which all other scenarios can be evaluated. The base case should therefore be read before the other scenarios.

As noted, this scenario reflects the likely situation for Council if it does not successfully apply for a special variation. If Council does not have sufficient funds difficult choices will need to be made as to priorities. The approach taken has been to severely restrict expenditure on new assets and direct available funds as much as possible to preserving the condition of existing infrastructure assets. Particular focus has been placed on preserving the road renewal program as much as possible. As will be seen in the analysis the funding constraints result in a significant impact on the general condition of Council infrastructure assets. The financial modelling therefore indicates this scenario is not a sustainable option.

The analysis below for this scenario (and all other scenarios) will focus on addressing key questions arising from the requirements listed within the IP&R guidelines:

- What is the path to eliminating operating deficits?
- What is the revenue path for expenditure proposals: how are rates being applied to specific expenditure?
- Is there adequate funding for infrastructure maintenance and renewal?
- What financially responsible borrowing is possible?

The analysis will also focus on community expectations as reflected over many years of community feedback from either surveys or other sources. The community has provided very strong feedback that the maintenance of roads needs to be the greatest priority.

Council is not seeking to increase services within any of the scenarios but instead direct to maintaining existing services and associated assets and support, where possible, the upgrade of assets to adequately support the infrastructure needs in a high growth local government area. Given the strong community feedback regarding roads all scenarios will prioritise investment in the road asset class and particularly on the maintenance and renewal of existing assets.

With this as context the analysis below will cover the following:

a. Assessment of Operating Revenue and Expenditure Projections: This will evaluate high level trends, the reasons (drivers) behind these trends and the impact.

b. An Analysis of Net Funds Generated from Operations to assess the implications of Councils operating position on capital projects. This will focus on whether adequate funds are being generated to support infrastructure maintenance and renewal.

c. Infrastructure Works Program: This will cover the scale of investment based on funding available and the impact of this investment on asset condition. There will be a particular focus on roads. This analysis will address whether there is adequate funding and investment.

d. Overall Funding Analysis: This analysis presents a graphical view of Council cash flows under each option (using the Cash Flow Statement). This analysis aids understanding of what funds are available, how they are used and whether the funding choices made (including borrowing and expenditures) are sustainable and responsible.

e. Assessment of the Scenario: This section will summarise the key conclusions arising from the analysis.

a. Assessment of Operating Revenue and Expenditure

The table below as an abridged version of the Income Statement generated within the LTFP. A full version with all years is included in the appendices.

Abridged income statement

Revenue	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE
Rates & annual charges	71,193,000	133,674,920	5.9%
User charges & fees	9,926,000	18,743,733	5.9%
Other revenue	3,339,000	4,672,057	3.1%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%
Grants & contributions (capital)	71,924,000	42,095,937	(4.8%)
Investment revenue & other income	4,533,000	770,002	(14.9%)
Total income	**176,621,000**	**222,320,429**	**2.1%**

Expenses	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	48,318,000	70,318,000	3.2%
Borrowing costs	922,000	1,644,420	5.4%
Materials & contracts	37,269,000	69,307,898	5.8%
Depreciation & amortisation	26,202,000	57,510,320	7.4%
Other expenses	7,363,000	11,481,946	4.1%
Net losses from the disposal of assets	17,405,000	6,097,422	(9.1%)
Total expenses	**138,475,000**	**216,088,161**	**4.1%**

	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	6,232,268	(15.2%)
Net operating result before capital Grants and contributions	(33,778,000)	(35,863,668)	

Gross value infrastructure assets ($m)

The final year of the LTFP (2035/36) is being analysed against the recently audited Financial Statements for 2024/25.

Revenue

Council revenues are heavily dependent on rates and annual charges.

Whilst grants and contributions are significant in 2024/25 there is risk in over reliance as grants cannot be certain. Governments over the years have substantially reduced grants for a variety of reasons (including austerity measures, changes in policy, election promises of reduced government spending). In addition, as discussed below, many components of the capital grants and contributions do not result in actual funds being received. All items in this category are also restricted for particular purposes and are also for capital works. As a consequence, this category does not assist in covering operational costs.

Other revenue lines only provide limited revenue but have evaluated for the potential of additional revenue.

Revenue is covered by category below:

- **Rates and User Charges:** Annual growth in rates and user charges of 5.9% reflect a combination of application of the rate peg (averaging 3.4%) and average population growth (forecast to average approximately 2.6%). The growth rate in these categories can therefore be fully explained by the combination of forecast population growth and the IPART rate peg applied to all Councils. Whilst the model uses population growth as the assumption the growth correlates closely with the introduction of new lots through sub-divisions. Over 9,000 new lots are forecast for the Cessnock LGA. This increase in the number of lots, and therefore future rated properties, in line with projected population growth.
- **Other Revenue:** This income is projected to increase in line with inflation. This category includes fines and sales income from venues.
- **Grants and Contributions (Operating):** are forecast to increase marginally above inflation. Council might benefit from a population adjustment in grants received in the future. This is by no means certain as future increases are dependent on government policy. In the past a large component of operating grants has been frozen. The government can also change how funds are allocated across councils. The adjustment in its current form does not fully account for population growth.
- **Grants and Contributions (Capital):** Capital grants are a large revenue item for most councils but can vary significantly from year to year and therefore cannot be relied upon to be available each year. The LTFP has therefore decreased this amount in the forecast.

Background on why Capital Grants & Contributions will be reduced

To understand the reason for the decrease in this revenue line the components need to be understood:

- The largest item in the 2024/25 financial statements is Dedications totalling $26.4m. These are land and assets built by developers as part of a sub-division. These assets include roads, open space and stormwater assets. The developer transfers ownership of these assets to Council ownership. Council becomes responsible for future maintenance and the assets replacement when required in the future. This is a non-cash item. These dedications vary significantly in amount from year to year. In 2023/24 the amount was $63.5m (this did also include found assets).
- Council received $8.9m in natural disaster funding to assist Council in repairing assets damaged in recent weather events. These funds are essential for a funding constrained Council such as Cessnock but do not fully cover the cost of remediation and were only provided for events classified as a natural disaster.
- Council received $12.6m in developer contributions. These are funds provided to Council to assist council in either developing new infrastructure or upgrading existing assets. Council will need to contribute Council funds to these projects. In aggregate Council will need to contribute substantial funds towards these projects.
- The remaining grants totalled approximately $24m of the $71m. These were for flood mitigation ($2.7m), roads and bridges ($14.2m) and recreation ($7m). The roads grant funding was predominantly for Wollombi Road. As the community is aware Wollombi Road has been in poor condition for many years but funds have not been available for such a substantial project. These grants are typically lumpy, by no means certain and grants might not be in the areas of Council's greatest need. Prudence is therefore appropriate.

Local government expert advice is of the view that both Federal and State governments have undertaken significant expenditure in recent years and might seek areas in which to pull back spending. Grants to councils might be an area impacted. Based on this the above forecasts appear prudent without being overly conservative.

The LTFP therefore moderates this category as follows:

- Dedications are included at $30m per annum with additional assets forecast within the middle of the 10-year forecast for some expected open space dedications and buildings associated with recreational facilities. Dedications are then moderated to $20m. The rationale for this is that recent / current population growth has in some instances exceeded 3% per annum and this is forecast to moderate closer to 2.6%.
- There will no doubt be future weather events which will impact Council assets. These cannot be predicted and have not been built into the modelling. This is a risk to Council as there will no doubt be costs of which a significant portion will be borne by Council. As the cost of such events is not included any possible grant funding has also not been included.
- Similar to dedications, Council will continue to receive developer contributions. These are received based on the calculated amount per lot and the number of lots a developer completes for future sale. As with dedications the amount is forecast to decrease over time with lower projected population growth. The model assumes just under $8m initially decreasing to $6.7m.
- The last item is what most residents would view as what this category entails, namely capital grants received from the Federal or State governments. As noted, the receipt of grants is unpredictable. Council does not typically receive grants of the scale received for the Wollombi Road Upgrade project. Based on an analysis of the last 3 years grant funding has been assumed to increase from $10.3m in 2026/27 to just under $13m by 2035/36. This is a modest discount on typical repeat grant funding and viewed as a prudent approach to avoid Council having a funding hole to fill in the future due to an over reliance on grant funding which subsequently does not eventuate.

Abridged income statement

Revenue

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- **Investment Revenue & Other Income:** To keep the abridged statements to a limited number of lines this is an aggregation of two smaller categories in the Income Statement.
    - The first is Investment Income. Due to Councils lack of funds Investments held to fund Council operations and projects have been liquidated to ensure sufficient cash is available. This process continues over the 10 years of the LTFP (2026/27 to 2035/36). Investment income is projected to decrease from $3.9m to $0.5m (a decrease of 87%).
    - Other Income. This is very limited and also is projected to decrease.

In summary, revenue is forecast to increase by a modest 2.1%. Based on the analysis it is clear there is limited opportunity for significant increases in revenue.

Expenses

As can be seen, in the table above, a number of expense categories have been contained to ensure funds are available for the maintenance and renewal of Council's infrastructure. This is despite the additional demand that will arise for many services due to the high level of population growth in the LGA.

With this as context each of the expense lines will be analysed:

- **Employee Benefits:** This category covers all the employee costs incurred by Council except those costs capitalised as part of working on the capital works program. This area is being tightly constrained within all scenarios of the LTFP.
    - The cost savings benefits of the efficiency initiatives have been reflected in the staffing expenses.
    - Operational staffing numbers are assumed to remain static for the first five years of the LTFP.
    - Subsequent growth in staff numbers is also constrained to approximately half the impact of the population growth in the second half of the 10-year period.
- **Borrowing Costs:** In this scenario some limited borrowing is undertaken early in the 10-year period to shore up Council finances.
    - The interest rates used reflect a further two interest rate cuts. It is believed not prudent to use rates significantly below this assumption. Unfortunately, Council is unlikely to receive concessionary rates from NSW Treasury Corporation having already been refused. Without a Special Variation Council's ability to meet key lending criteria is unlikely.
    - Further borrowing is limited as Council is not in a financial position to undertake extensive borrowing. As will be seen in a later section loan balances reduce after the initial increase in loan balances.
    - Extensive borrowing to achieve other objectives such as a larger capital works program is not sustainable. The impact of more extensive borrowing is covered as part of the following scenario.
- **Materials & Contracts:** This area is significantly impacted by the growth in Council's infrastructure assets and also the condition of those assets. This category is predominantly associated with contractor and materials relating to asset maintenance activities.

Background on why Materials & Contracts needs to increase

- The majority of costs in this area is for contracts associated with maintenance of Council assets and materials required for that maintenance. This is reflected in the average percentage growth in this line item from the baseline of 2024/25.
- It is important to maintain the required level of maintenance. Reducing maintenance can result in assets deteriorating faster. In addition, as assets do degrade, they are likely to need more maintenance. For example, a road in poor condition is likely to require potholes to be repaired more frequently.
    - Council has consistently under budgeted for asset maintenance due to ongoing funding constraints
    - In the 2024/25 financial statements the Asset Maintenance Ratio was only 82.6% (the target is 100%). There was approximately a $3.6m shortfall in the necessary expenditure.
    - The 2025/26 budget also reflects a shortfall. This is approximately $2m.
- In all scenarios there are funding constraints in the initial years of the forecast resulting in Council needing to decide where to spend funds. It has been decided to share the shortfall in funding across both asset maintenance and renewal. There is no easy decision.
    - As noted above insufficient asset maintenance will probably accelerate the degradation of assets.
    - Insufficient renewal will result in assets requiring renewal not being addressed resulting in lower service standards and also ultimately probably higher remediation costs because of the poorer condition.
    - Both of these situations are suboptimal. Consequently, all scenarios will reflect an initial shortfall in asset maintenance (to ensure easy comparison) and asset renewal will be increase in 2034/35 for all scenarios to meet the asset maintenance ratio target of 100%.

Scenario 1 & 2 actually model the impact of Council's work program supporting a 100% asset renewal ratio (as noted however to ensure easy comparison between scenarios and they will follow the same approach)

- Council's assets are increasing rapidly in line with the population growth. To ensure the asset maintenance ratio does not deteriorate further this growth has been factored into projections. These assets need to be maintained. Dedicated assets have a five-year warranty by the developer delaying when Council becomes responsible for ongoing maintenance. Council has however already received significant dedications. For example, the warranty on dedications portion of the $63.5m will expire in 2028/29 and Council will become responsible for ongoing maintenance. On this basis the model does not delay maintenance in recognition there will be additional maintenance each of the 10-year plan arising either from recent dedications and subsequently from future dedications.

The LTFP has preserved Materials and Contracts at a level of funding that preserves the budgeted asset maintenance ratio. As noted, the forecast is increase in 2034/35 to meet the 100% target as specified in the Asset Management Plans.

- The LTFP model reflects growth based on the increase in assets and the indexation of costs.
    - Despite the base case constraining the construction of new assets Council will still have a significant increase in assets from dedications (over $250m across the 10 years)
    - Two indices, The ABS NSW road index and NSW building construction index, have been used as a guide. Typically, whilst these indices have been quite volatile, they have averaged approximately 4% for an extended time. LTFP assumptions are in line with this history.

Abridged income statement

Revenue

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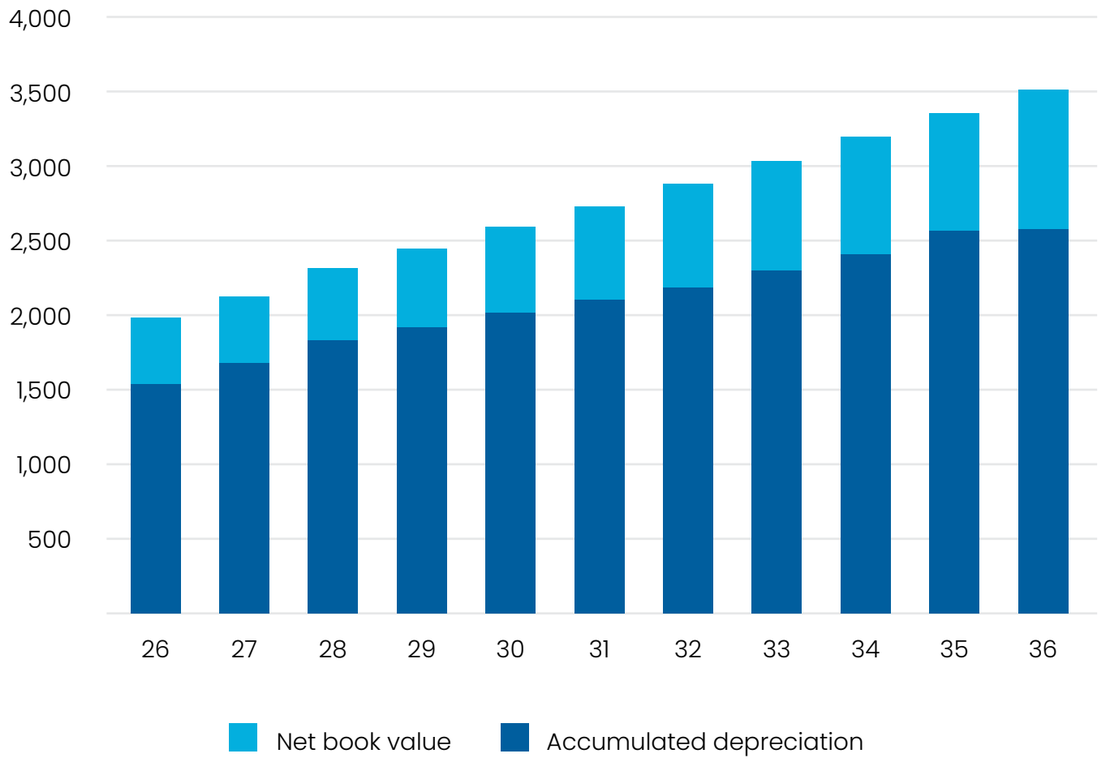
Rates & annual charges	71,193,000	133,674,920	5.9%
User charges & fees	9,926,000	18,743,733	5.9%
Other revenue	3,339,000	4,672,057	3.1%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%
Grants & contributions (capital)	71,924,000	42,095,937	(4.8%)
Investment revenue & other income	4,533,000	770,002	(14.9%)
Total income	**176,621,000**	**222,320,429**	**2.1%**

Expenses

	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	49,318,000	70,046,155	3.2%
Borrowing costs	922,000	1,644,420	5.4%
Materials & contracts	37,269,000	69,307,898	5.8%
Depreciation & amortisation	26,202,000	57,510,320	7.4%
Other expenses	7,363,000	11,481,946	4.1%
Net losses from the disposal of assets	17,405,000	6,097,422	(9.1%)
Total expenses	**138,475,000**	**216,088,161**	**4.1%**

	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	6,232,268	(15.2%)
Net operating result before capital grants and contributions	(33,778,000)	(35,863,668)	

Gross value infrastructure assets ($m)



- **Depreciation & Amortisation:** The expense will increase in line with the growth in Council's infrastructure assets.

Background on Depreciation & Amortisation and its purpose

- Depreciation is determined based on the gross value of assets and the useful life of those assets when new. Depreciation therefore reflects the loss in value of assets as they are used and degrade.
- Depreciation is a non-cash item on the Income Statement. The recognition of depreciation as an expense assists Councils (and other organisations) "reserve" funds for the purpose of replacing assets when their condition means the required service cannot be met. Council has a portfolio of assets at varying stages of condition. There are assets currently that need replacement and more assets will need replacement in the future.
- This role of depreciation is in effect recognised within the IP&R framework. One of the key infrastructure sustainability ratios used is the Infrastructure Asset Renewal Ratio (this is covered later). Briefly this ratio measures the degree to with Council is renewing its assets compared to the depreciation.
- Council is required to regularly review the replacement value of assets. Having to complete these valuations continues to drive up the cost of depreciation.

As can be seen in the table above depreciation has the largest average increase of all the expense categories.

  - This is reflective of the two elements mentioned (asset valuations and useful life) along with the addition of new assets.
  - The construction index, has been used to index the value of Council assets. This is the most relevant index as it reflects the cost of building assets such as Council's infrastructure.

- **Other Expenses:** This category is almost totally associated with various levies. The growth in this cost category reflects the nature of the expenses and the lack of control Council has on the setting of these levies.
  - The largest is the waste levy at $5.5m. Fire and emergency related levies are over $1.5m. This accounts for most of the $7.4m in this expense in the 2024/25 financial statements.
  - Past experience indicates these costs increase at a higher rate than inflation. This accounts for the assumed average 4.1% increase assumed.
  - Any increases in this category are totally outside the control of Council.
- **Net Losses from the Disposal of Assets:** This line item reflects the write-off of the remaining book value of assets either replaced or sold. The primary disposal costs arise from upgrade and renewal work on existing infrastructure assets, in particular roads.

Background on Net Losses from Disposal

- Losses on disposal arise when Council sells or writes-off an asset and the proceeds (if there are any) are less the remaining book value.
- The primary event that results in net losses in Council is the write-off of infrastructure assets when they are replaced or renewed.
- This is an expected cost as assets usually have some residual value when Council undertakes the renewal.
- Assets are classified in condition from 1 (very good) to 5 (very poor). Condition 3 is satisfactory.
- When assets reach condition 4 they still have (in most cases) approximately 25% of the original value remaining. This is because the asset can usually still be used and therefore still has some useful life.
- Assets in condition 4 do not however meet community service level expectations and therefore need to be replaced.
- It is best practice to replace or renew these assets long before the asset reaches condition 4 or 5. The reasons are as follows:
  - Assets in such poor condition will not meet community expectations or service standards
  - Assets might actually become unsafe in such a poor condition
  - Often earlier intervention will result in a lower cost as the level of renewal or remediation required is less. For example, a road is constructed with multiple layers (road surface, pavement base, pavement subbase and formation). If the surface is damaged there will be an impact on lower layers if not addressed in a timely manner resulting in a larger project being required and greater cost.

A lower cost in this line item is not necessarily a positive outcome. The analysis below will highlight the key factors that need to be considered:

- The significant disposal cost reflected for 2024/25 is due to the write-off of the Net Book Value remaining for infrastructure assets replaced. One reason this cost is so high is that substantial capital works was undertaken in 2024/25
- Just as 2024/25 has a high disposal cost in part due to the scale of capital works, this base case scenario has a low disposal cost due to a heavily constrained program of capital works. The base case scenario does focus predominantly on renewal rather than new capital works and also has preserved a lot of the renewal projects for roads. The funding constraints have however meant that all asset classes have been impacted albeit roads are impacted least.

- **Net Operating Result:**

Background on Net Operating Result

There are two separate numbers capturing the Net Operating Result on the Income Statement.

- The more useful number is the Net Operating Result before Capital Grants and Contributions.
- The reason is that this number excludes revenue which is solely for capital purposes and is best compared with capital works and dedications to assess the level of funding of those activities.
- The capital works associated with these grants is not captured on the income statement so a more useful view is to identify revenue that is classified as operational and compare to operating expenses.
- Excluding capital grants assists in determining whether Council is operating sustainably (i.e. generating sufficient revenue to cover operations) and given depreciation represents the funding required for renewal that Council can sustainably support renewal of existing assets.

The Net Operating Result (before Capital Grants and Contributions) are similar with both the 2024/25 financial statements and 2035/36 base case reflecting significant deficits ($33.8m and 32.7m respectively). Both sets of results are poor results, indeed the recent financial performance of Council has been the catalyst for seeking a Special Variation.

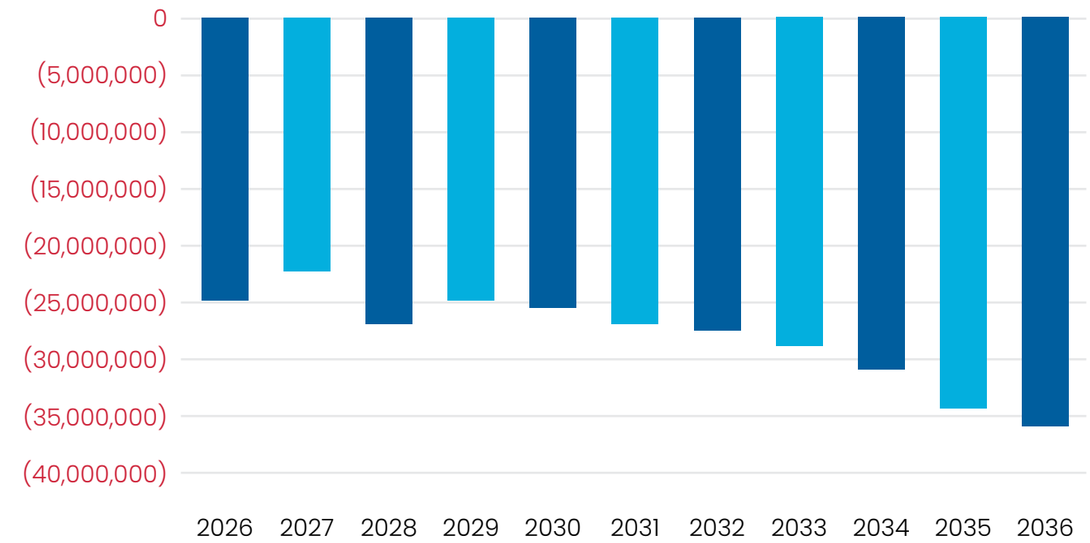
The 2035/36 result however reflect a worsening situation. This will also become more apparent with an analysis of other aspects such as the condition of Council assets. Key differences are:

- A significant contributor to the deficit for the 2024/25 results is the significant net loss on disposals. This is due to the significant program of capital works. If a similar quantum of works was undertaken disposal costs for 2024/25 would be significantly lower.
- The lower investment income and higher borrowing costs in the 2035/36 base case reflect a significant change in Council's funding position (this will be covered later in more depth).
- As noted during the analysis of expenses the Employee Benefits are significantly constrained with headcount constraints applied (with a headcount freeze in the first 5 years).
- There is a risk that Materials and Contracts expenses exceeds projections if the worsening condition of existing assets results in more maintenance being required.

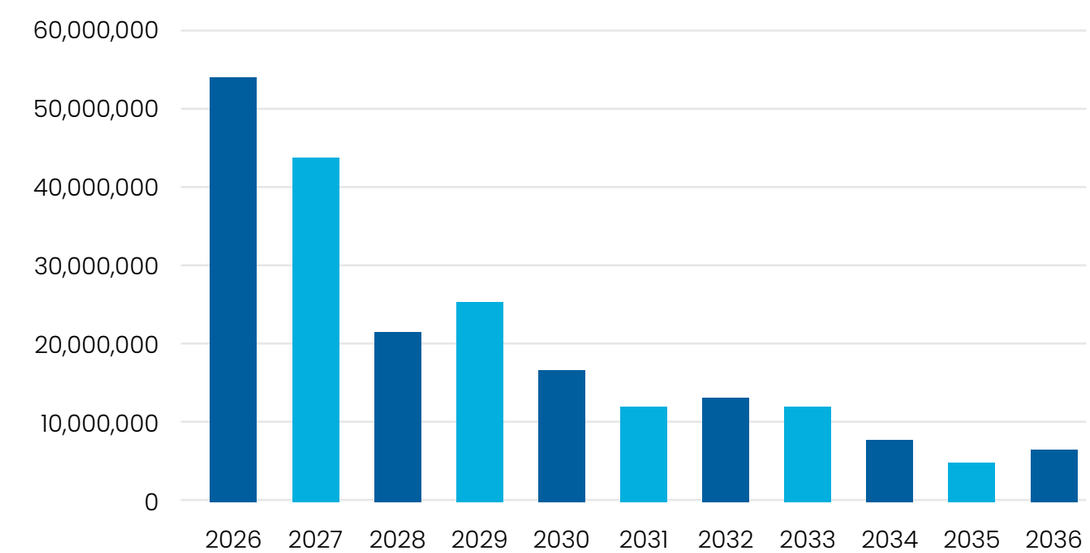
The following sections will build on this analysis and cover the impact of the funding gap, how this funding gap contains the capital works program and its implications and Council's funding position.

b. Analysis of Net Funds Generated from Operations

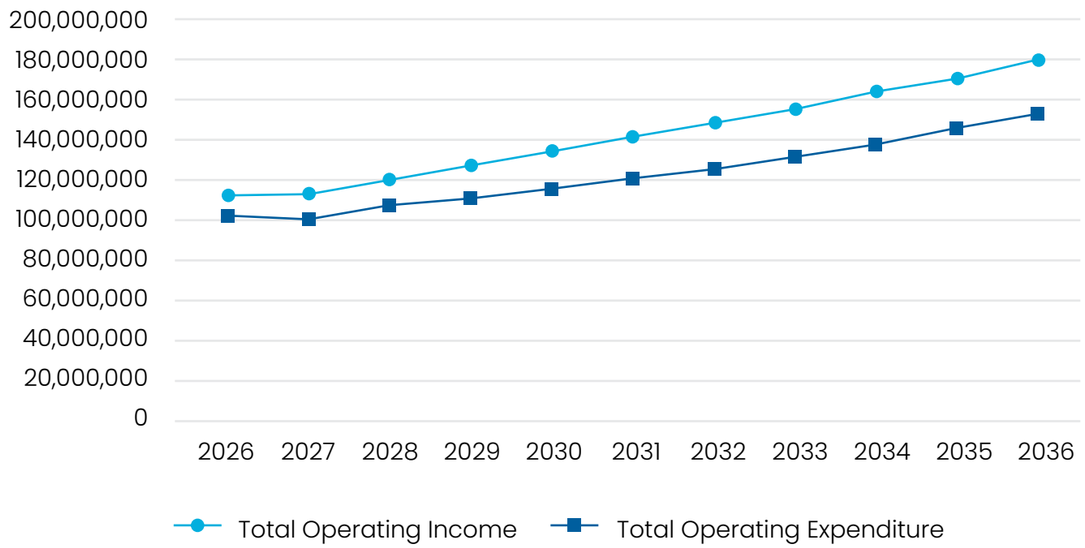
Net Operating Result (per P&L) before Capital Grants and Contributions - General Fund



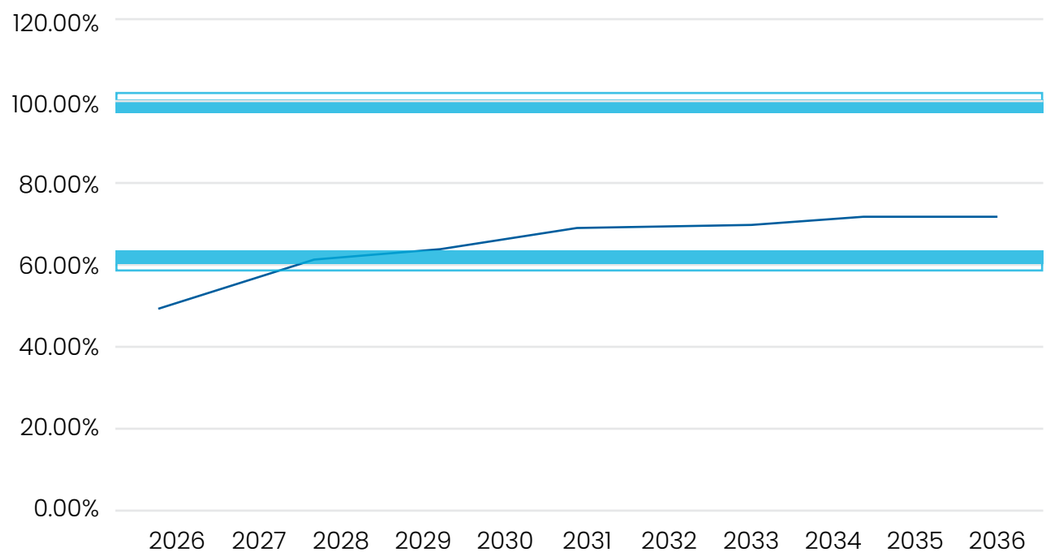
Net Operating Result (per P&L) after Capital Grants and Contributions - General Fund



Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund



Own Source Operating Revenue Ratio - General Fund



Operating Results year-on-year can be quite volatile as the revenue and expenses are both significant and the margin between these two for the first metric (Net Operating Result before Capital Grants and Contributions) are usually quite narrow. The Net Operating Result for Cessnock however reflects a persistent (and worsening deficit).

Background on the Graphs & the Operating Performance Ratio

- **Net Operating Result graphs:** As operating results can be volatile and can reflect the impact of one-time items in a particular year the trend. This trend needs to be viewed to assess whether Council is on a path to eliminating operating deficits. There needs to be a trend of improvement to demonstrate this.
- **Income v Expenditure Graph (excluding depreciation):** This graph assists in understanding the extent to which Council operational results generate funds which can be applied to asset renewal.
- **Own Source Operating Revenue Ratio:** This is within the target band. This is the ratio of own source revenue (excludes all grants) as against total revenue.

There is also a ratio that is often used to measure financial sustainability.

- The **Operating Performance Ratio** is a metric used to enable comparison across the sector and to establish a target for sustainability.
- This ratio divides the Net Operating Result before capital grants and contributions (after also excluding net losses on disposal) by Total Revenue (also excluding capital grants and contributions).
- The target for sustainability is 0%. As the ratio adjusts for losses on disposal it is possible for a council to have an operating deficit and still meet the target.

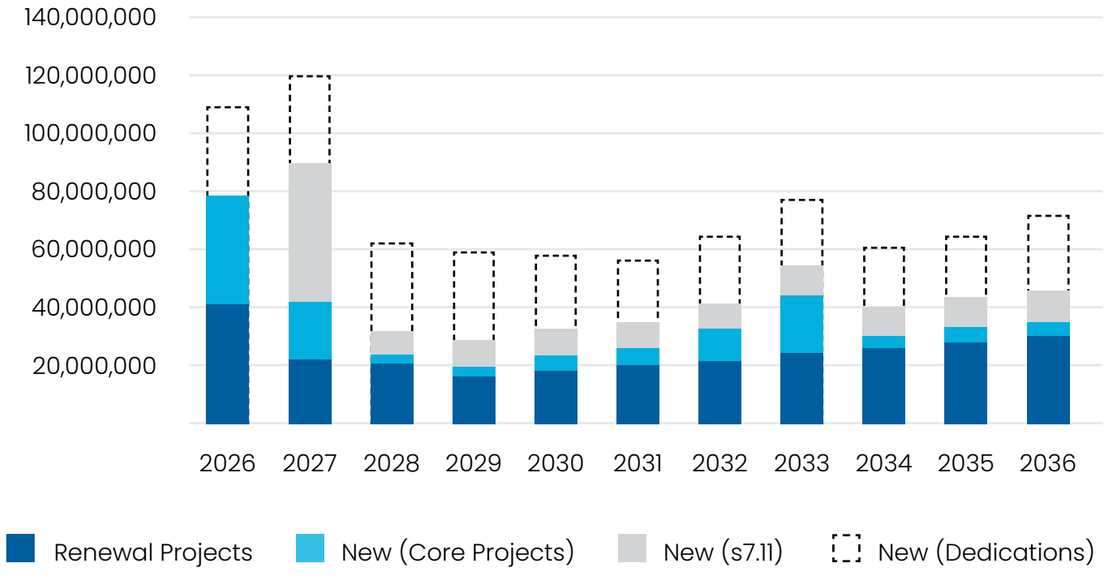
- As can be seen in the first graph the base case reflects consistent deficits. The Operating Performance Ratio for Council is generally in the range of -14% to -19%.

This clearly does not reflect a path to eliminating operating deficits and therefore does not meet the IP&R guidelines.

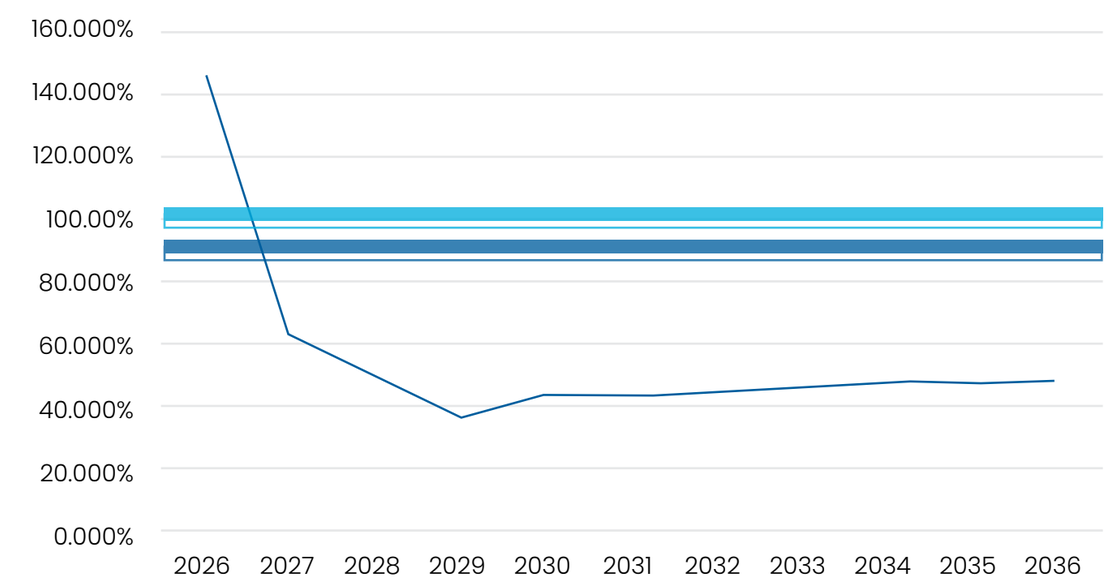
- ***The scale of the operating deficits (which are greater than losses on disposal) means Council also does not meet the Operating Performance Ratio.***
- As already covered above there is no capacity to change this path whilst also maintaining reasonable council operations. Own Source Operating Revenue is within the target band (but only just) and as noted grant income cannot be relied upon.
- The consequence of this is that funds excluding depreciation are insufficient for Council to adequately maintain Council infrastructure. The graph above (bottom left) reflects approximately $30m is available in 2035/36. This is approximately half of the funding needed to support a sustainable infrastructure renewal program.

c. Infrastructure Works Program

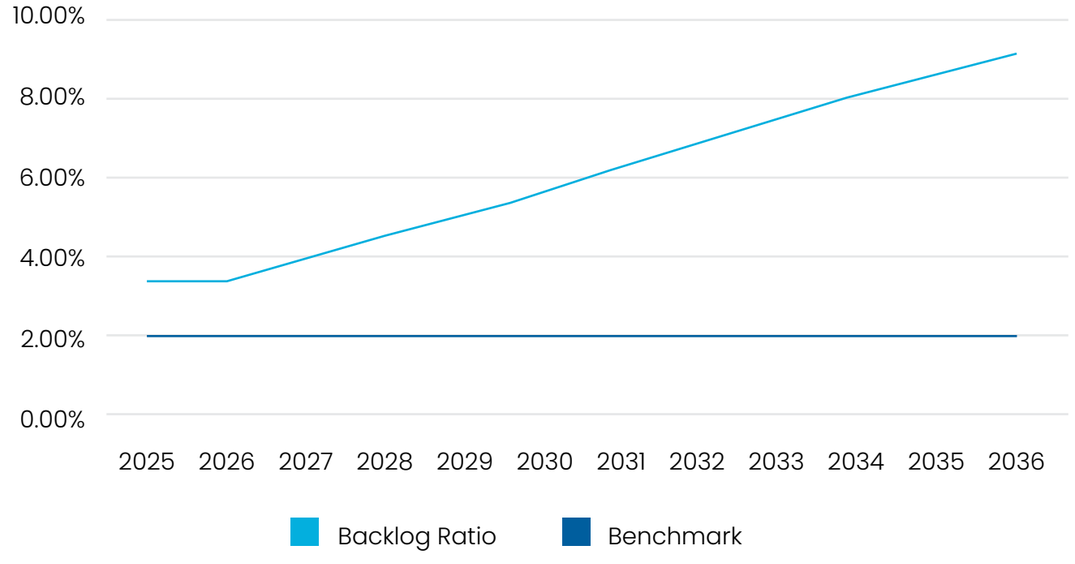
New Infrastructure, Asset Renewal & P&E Additions



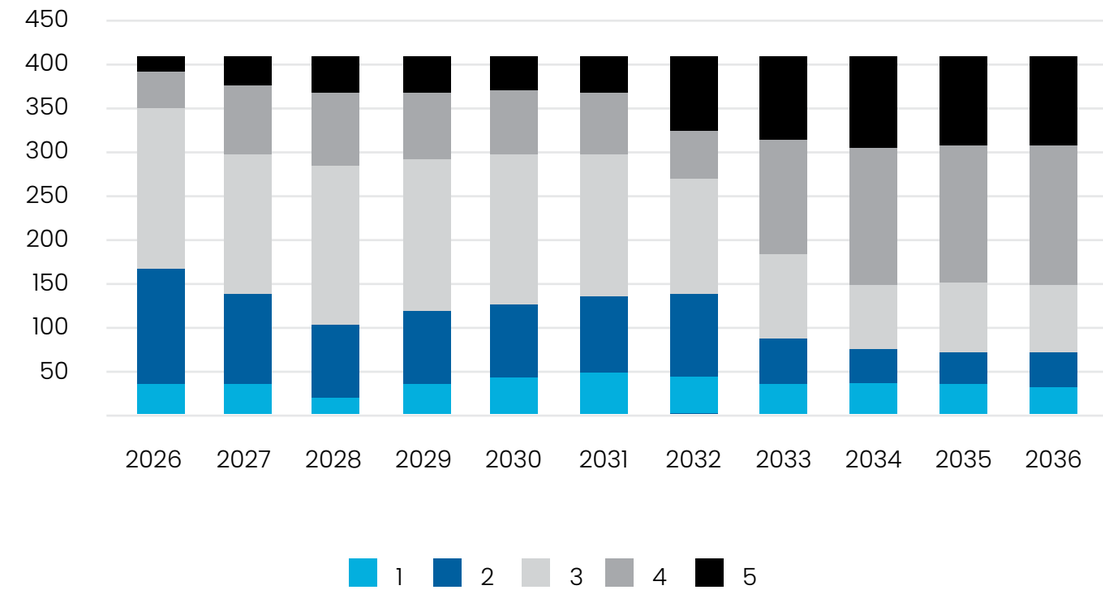
Building & Infrastructure Renewals Ratio - General Fund



Infrastructure Backlog Ratio



Roads: Surface & Pavement Base Condition ($m)



The consequences of the funding constraints described above can be seen clearly in the graphs provided above.

New Infrastructure, Asset Renewal & P&E Additions shows how the works program has decreased substantially (coloured bars only). The capital works program decreases from $78m (or $82m after Q1 adjustments) and $89m in 2025/26 and 2026/27 respectively down to $32m in 2027/28.

Background on The New Infrastructure, Asset Renewal & P&E Additions Graph

The graph reflects the following:

- **New (Dedications): dotted rectangle** reflects assets dedicated to council (not part of the capital works program) and has been included to show the significance of dedications on the growth of Council infrastructure assets. These assets contribute to future Council costs (result in increased depreciation, require ongoing maintenance and ultimately will become part of a replacement cycle).
- **New (Core Projects): light blue rectangle** reflects core projects which involve upgrade or completely new projects. As noted throughout the document these projects are being scoped down to address funding constraints and ensure renewal projects receive priority. Some upgrade projects do assist with renewal (as in some cases assets are in such poor condition that they require more is possible via renewal).
- **Renewal Projects: dark blue rectangle.** Renewal projects are projects where existing assets identified as requiring upgrade are either fully or partially replaced. For example, a road segment might need renewal as the road surface has deteriorated. The lower layers of the road might be sound and so only the top layers and possibly only part of the road segment might need replacing
- **New (s7.11): grey rectangle** reflects projects within the s7.11 contributions Plan.
    - These are projects which will provide infrastructure needed as part of the sub-division development across the Cessnock LGA.
    - This includes infrastructure that is both local. i.e. within the particular sub-division all the way through to regional investments.
    - Regional investments are for infrastructure that needs to be upgraded for a broader area due to the sub-division.
    - An example would be arterial roads that need widened or raised in standard to support more intensive usage to a growing population.
    - Over 9,000 lots are forecast to be developed over the next decade (which explains the population projections averaging 2.6% per annum).

- **Renewal Projects:** This is being discussed first as it is the most important part of the works program. As can be seen renewal projects (blue bars) have been prioritised however there is not the capacity to maintain current the scale of renewal works at 2025/26 levels.
    - Upgrade projects also involve a component of asset renewal. This renewal amount from these projects is included in the renewal number to ensure all renewal costs are captured for the assessment of key ratios.
    - Over time as some funding becomes available the funding is applied to renewal. This increase in very moderate and not sufficient.
    - **New (Core Projects):** The beige bars reflect projects to create new assets or upgrade existing assets. This expenditure has been minimised across all years except 2026/27 and 2032/33. Both these projects are essential for Council.
        - The expenditure in 2026/27 is largely associated with the Wollombi Road upgrade. This has been a high priority project without available funding (due to its scale). The receipt of grant funding has enabled this to now proceed.
        - The primary project in 2032/33 is the building of a next stage of the waste cell at the Waste Management Facility. This is also an essential project to ensure Council can continue to provide an effective waste management service.
- **New (s7.11):** The s7.11 Contribution plan has been significant scoped down but is still a substantial investment. There is over $370m of projects within the 7.11 plan of which Council's contribution is just over $130m.
    - Each project has an apportionment rate reflecting the percentage contribution by the developer (with the residual being Council's responsibility). There are risks that this apportionment might vary in reality.
    - Within this context Council has taken the prudent approach in this scenario to prioritise projects with 100% developer apportionment first. This approach will align with the phasing of projects as developer contributions towards the s7.11 plan will continue well beyond the 10-year horizon of the LTFP.
    - In addition, road projects with high developer apportionment have also been included in the works program. This again is in recognition of the importance of roads for the community.
    - This approach will enable Council to develop infrastructure for these new sub-divisions without diverting scarce Council funds away from other priorities.
    - The progression of these s7.11 projects will be contingent on Council not needing to divert funds in the next 10-years. If there is funding gap (either because the project cost creates a Council funding exposure or because council cannot obtain grant funding) the projects will not proceed.
    - Based on this approach it is likely some candidate s7.11 projects for the works program will not proceed in the next 10 years. Council will attempt to reprioritise projects within these constraints to provide the infrastructure to these sub-divisions and other areas impacted by the developments.

- The Special Variation scenarios follows a similar philosophy however some Council funds (albeit limited) are allocated to the s7.11 contributions plan projects. This provides greater likelihood of projects being able to proceed whilst still having the projects predominantly funded with developer contributions.

The Building & Infrastructure Renewals Ratio reflects the impact on the reduction in expenditure on renewal projects.

Background on The Building & Infrastructure Renewals Ratio

- The Infrastructure Renewal Ratio reflects the extent to which asset renewal projects compares to the depreciation of those assets (as reflected in the income statement).

- The ratio indicates (as expected based on earlier analysis) that Council is investing less than half the required imputed amount asset renewal.
- **This is clearly not sustainable. A ratio tracking at just over 40% when the benchmark is 100% is a significant gap. Council does not meet the IP&R guidelines that there is adequate funding of asset renewal and maintenance.**

The impact of this is reflected in the bottom two graphs, both of which show a significant deterioration in the condition of Council assets.

The Infrastructure Backlog Ratio reflects Council's backlog

Background on Infrastructure Backlog Ratio

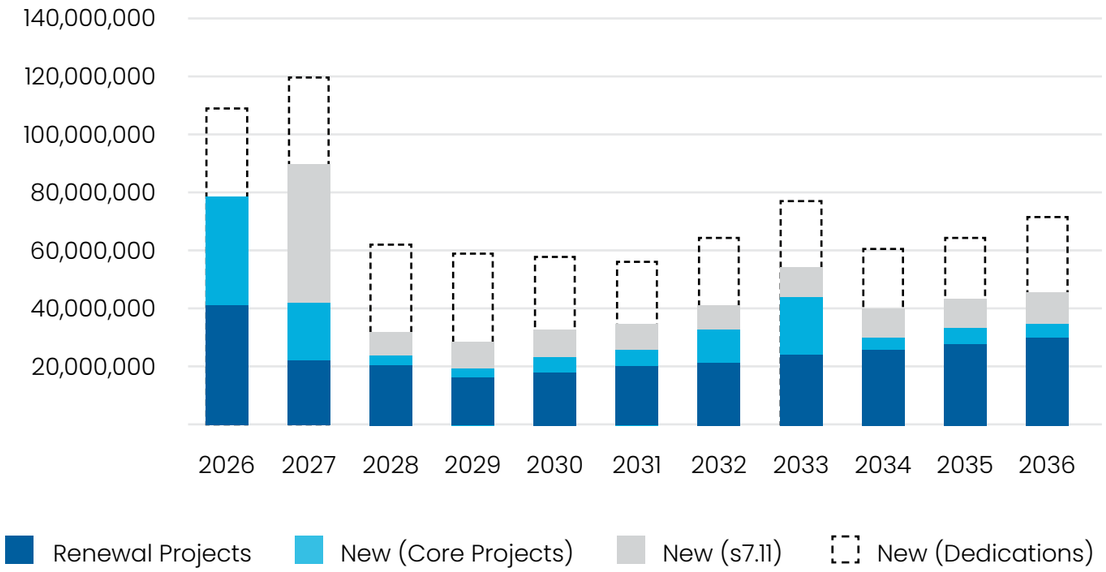
The first graph shows the impact on the Infrastructure Backlog ratio.

- The Infrastructure Backlog is the cost of returning infrastructure back to a satisfactory condition (or condition 3).
- The ratio standardises this across councils by dividing this amount by the Net Book Value (with some adjustments) of the underlying assets.
- The target for sustainability is 2%. It should be noted that many other councils also do not meet this target.

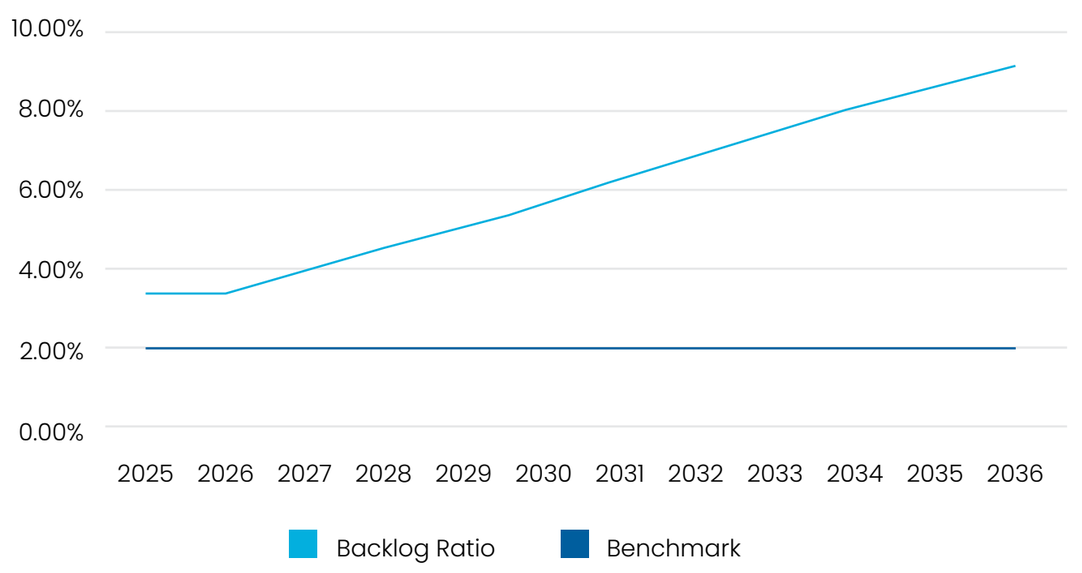
Only the depreciation for the infrastructure assets is included in the ratio. For example, the depreciation amount in 2035/36 is $50m (not the full $57m in the financial statements that also includes depreciation for plant and equipment and other non-infrastructure items)

- A review of the graph shows a sustained increase in the ratio with Cessnock reaching 9% by 2035/36. This would be definitely higher than most councils and is definitely not sustainable.

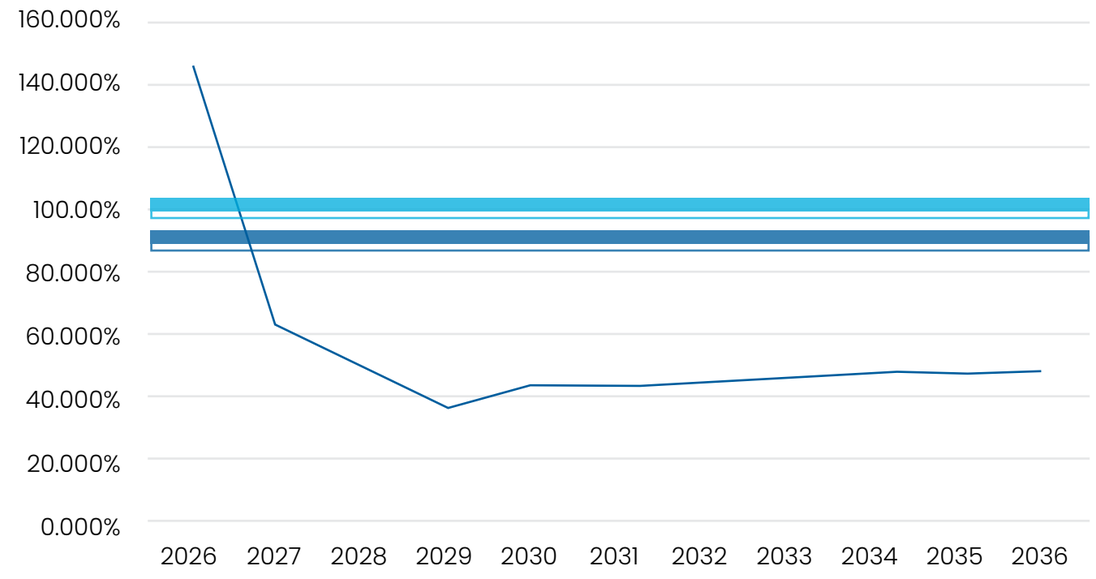
New Infrastructure, Asset Renewal & P&E Additions



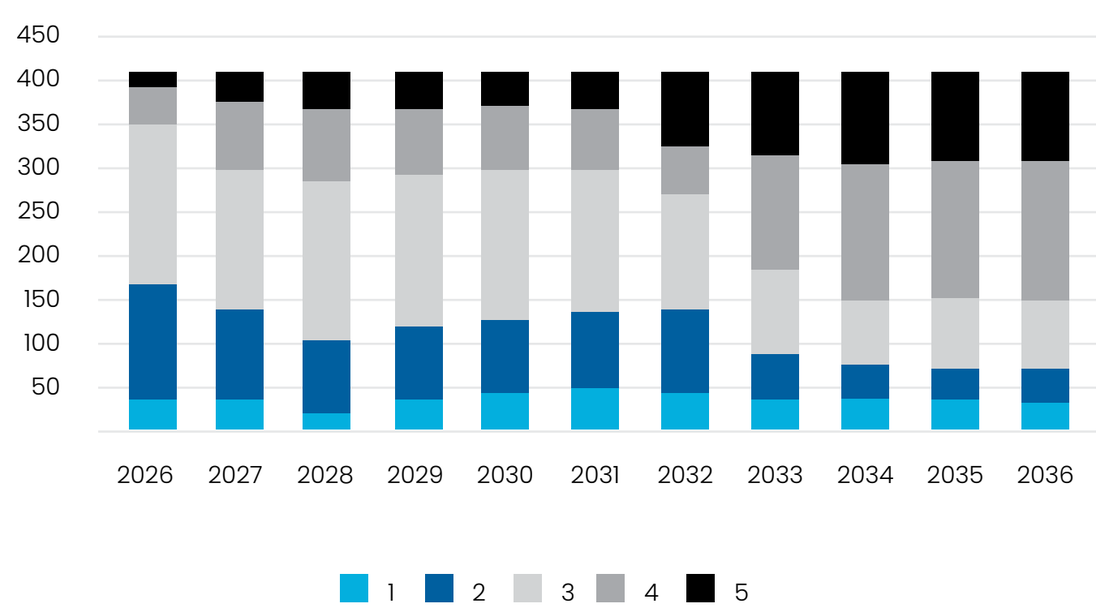
Infrastructure Backlog Ratio



Building & Infrastructure Renewals Ratio - General Fund



Roads: Surface & Pavement Base Condition ($m)



Roads: Surface and Base Condition (bottom left) focuses specifically on the roads. The analysis of road condition below is detailed because this is one of the fundamental issues. The community has provided ongoing and consistent feedback that the road infrastructure is very important and that the community is also very dissatisfied with the service level.

Background on Roads: Surface and Base Condition

The analysis of road condition below is detailed because this is one of the fundamental issues.

- The rationale for this and the explanation of the graph is provided in an earlier section on road condition. The Special Schedules section of the Financial Statements (at the end of report) provides a percentage breakdown by condition for the year being reported.
- The graph is focussed on what is happening top existing assets and so only includes existing assets and is current dollar terms. This enables easy comparison year to year. If new assets were included (i.e. dedicated assets and newly constructed assets) the percentage of poor and very poor assets would reduce (with new assets in condition 1 being included).
- This data is extremely helpful as the composition of each asset class (by condition) shows not just the percentage of assets in poor condition but also assets that have the potential to be classed as in poor condition in the near future.

This analysis confirms what the community perceives, that a high percentage of roads are in poor condition. As the road surface (and not all the road layers) are what the community experiences an analysis of the top layers is relevant. The analysis validates that the roads indeed provide a worse service experience for the community than standard metrics on backlog and condition bands in local government reporting would indicate. In effect a higher proportion of road surface is in poor or very poor condition than the percentage for all roads assets (i.e. all layers).

When an analysis in undertaken of just the top two layers of the road it is clear:

- As noted, there is a high percentage of road surface and base in poor or very poor condition
- the issue will become worse and
- Council does not have the resources to address this issue.

- A significant portion (45%) of the surface and pavement base components (the top two layers) are classified as condition 3 or satisfactory (grey bar). Given the road surface has a useful life of 20 years, a significant portion of the road surface & pavement components will degrade over the next 8 years and based on projections be classified as condition 4 (poor condition). This can be seen on the graph in years 2032/33 and 2033/34.
- In reality some of these road assets (all classed as condition 3) might be at slightly different levels of condition, might be degrading faster or slower than useful life projections predict due to local factors such as drainage, greater use, or structural issues in other layers. The useful life of 20 years attributed to road surface however is reasonable and consistent with other councils. So whilst there might be a spread of assets entering condition 4 with some earlier and some later than predicted there will be a significant pipeline of assets which will transition to poor condition.
- The bottom line however, is that a significant percentage of Council's road infrastructure already requires renewal effort and a significant portion of road infrastructure will require significant intervention within the 10 year period of the Long Term Financial Plan.
    - Already 14% of Council's road-surface and base components (the layers replaced in a typical renewal effort) are in condition 4 (poor) and 5 (very poor) and require immediate attention based on service levels.
    - A further 45% of these components will possibly need attention within the 10-year period of this LTFP.
    - This is a level of investment that Council cannot address and helps explain why such a substantial percentage of road surface and pavement base deteriorates. Under this scenario 62% of road surface and base is in either poor or very poor condition.
    - Approximately $75m in new road surface and pavement (in current $) will be added over the 10 years. Even if these assets are considered the percentage of assets for these components in poor/very poor condition is 52%.

As noted in the summary above this scenario cannot adequately support the renewal and maintenance of the asset class most important to the community. This is the case even when road infrastructure is given the highest priority in the allocation of funding.

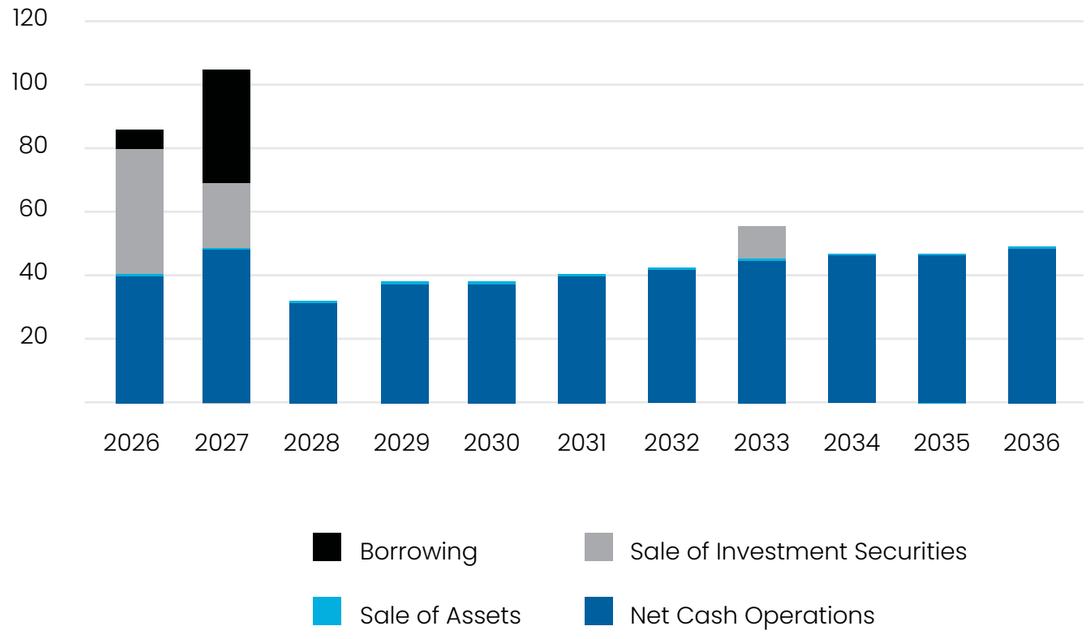
Significant focus has been applied to developing a capital works program that maximises Council's capacity to reach a sustainable outcome within the funding constraints that apply. This has included:

- Almost fully eliminating projects which involve the development of new assets or involve upgrade so funding can be directed almost solely to renewal projects.
- The roads asset class has also within the renewal program received the highest priority.
- Council has sought to maximise the benefit of being able to utilise developer contributions towards projects listed in the s7.11 contributions plan without diverting funds and in addition making any progress contingent on Council not needing to provide funding.

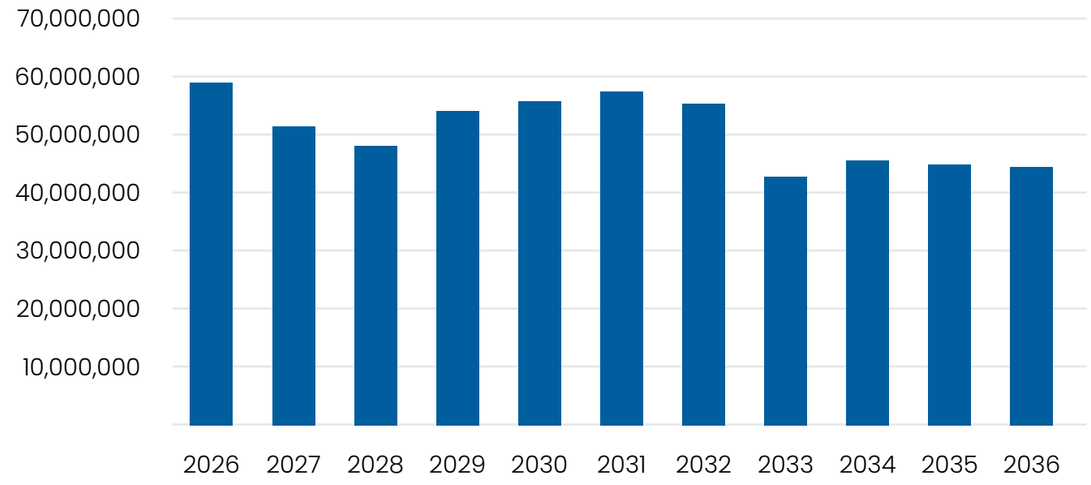
Even with this heavily focussed effort which also means certain much needed upgrades do not proceed Council is unable to develop a works program that sustainably meets the maintenance and renewal requirement to ensure Council assets meet key sustainability me

d. Overall Funding Analysis

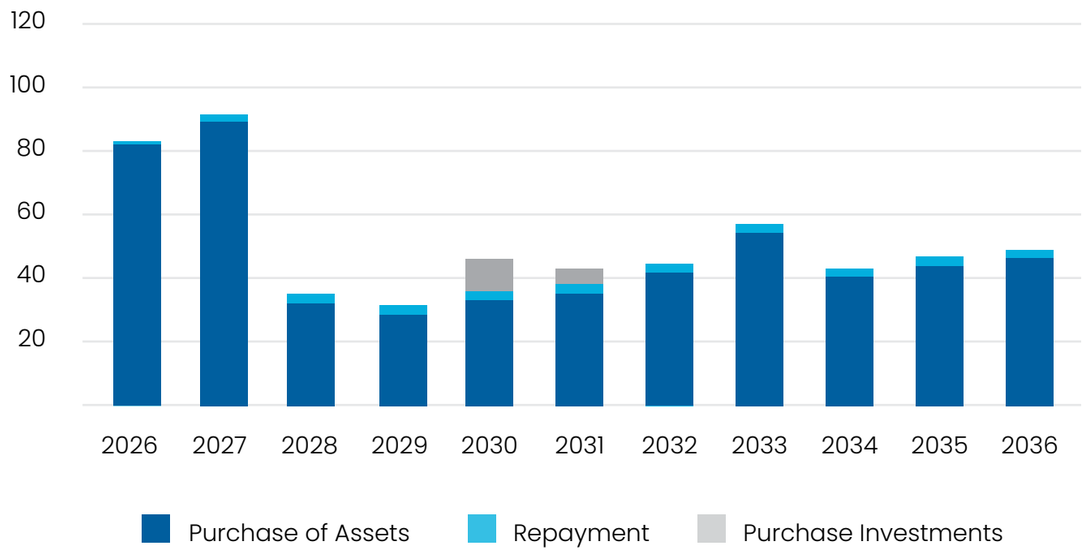
Source of Funds ($m)



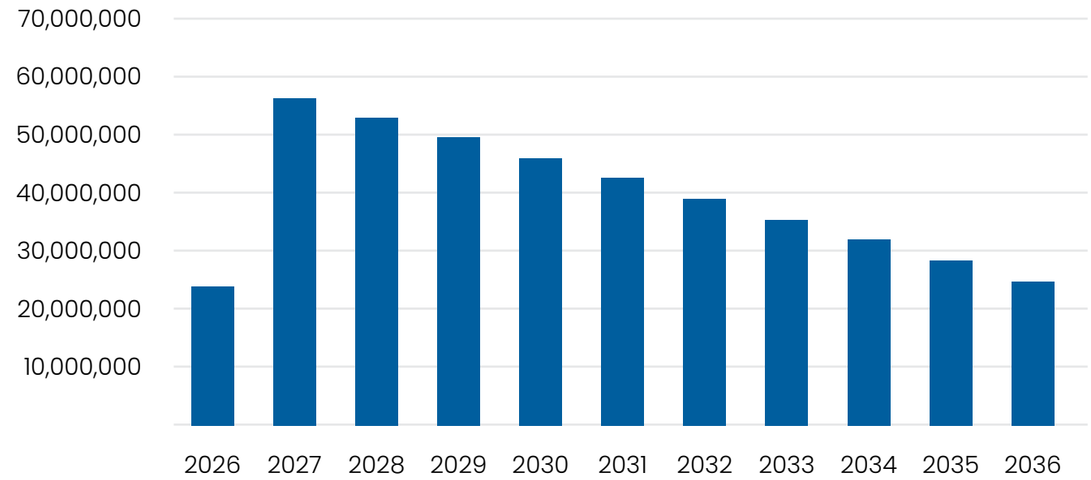
Net Cash and Investments (including Bank Overdraft) - General Fund

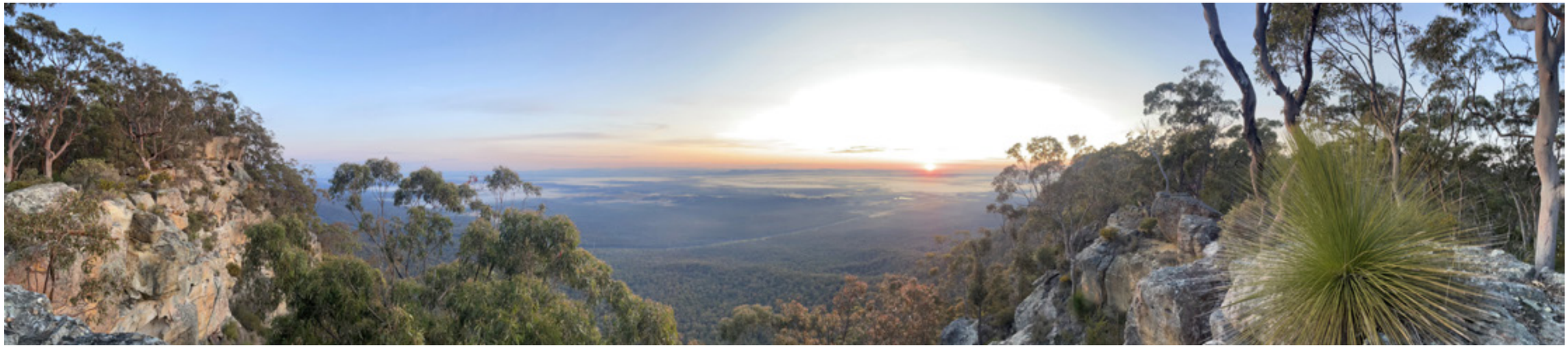


Use of Funds ($m)



External Loans Outstanding - General Fund





This section of the analysis explains how Council has sourced the funds support the works program. It should be noted that a graph showing only the net cash (not investments) will better match the cashflow graphs reflected on the left side above. Any differences can however be explained by taking into account the purchase and sale of investment securities.

The net Cash and Investments view however is useful as Cessnock's "cash" position is really reflected as a combination of cash balances and highly liquid investment securities. Cessnock's weak financial position means the Council only has a very limited level of investment investments and these need to be held in highly liquid investments to ensure they can be accessed as required.

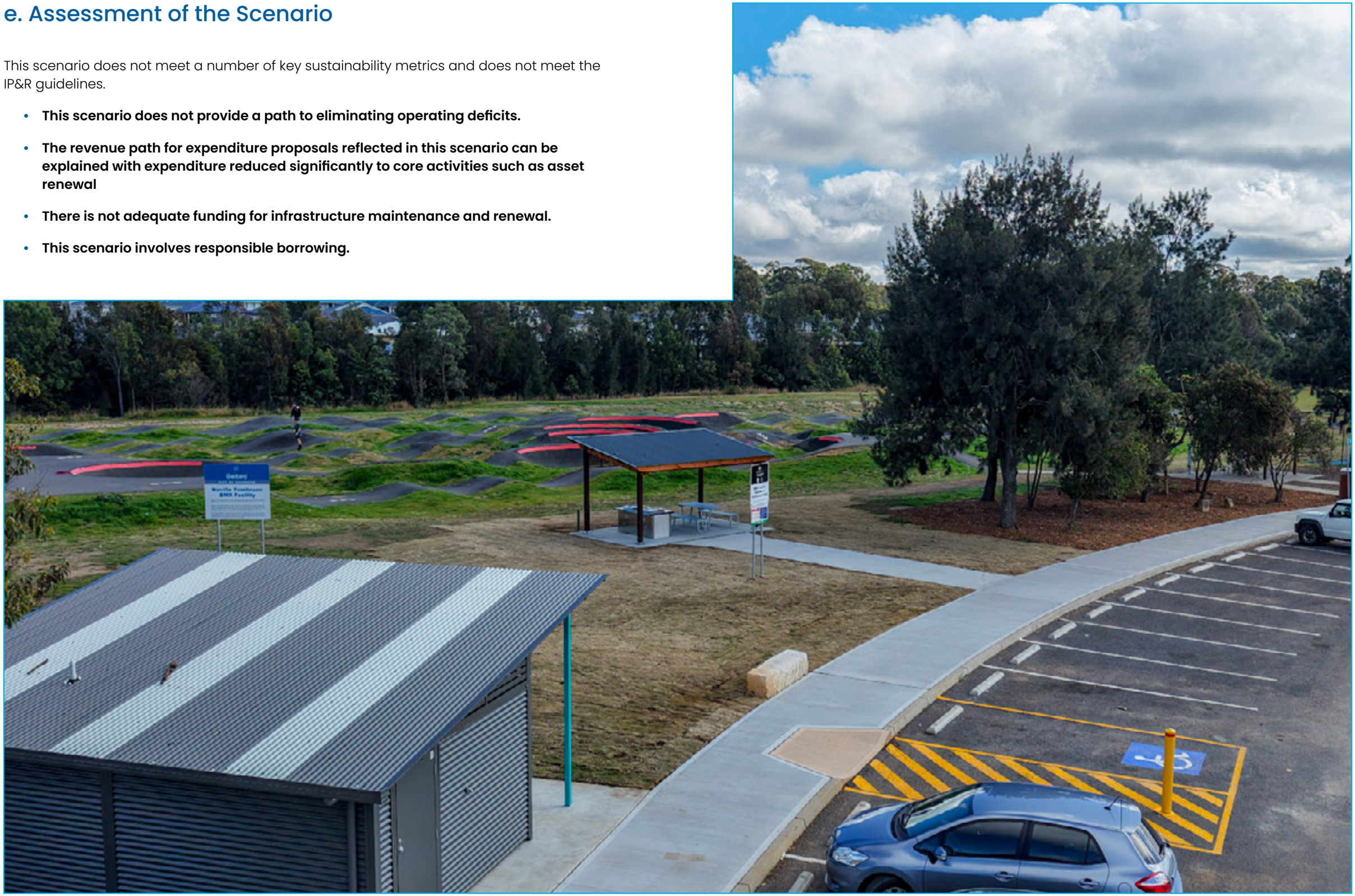
The funding analysis will commence with the use of funds and this helps explain initial funding choices. The following can be concluded from the graphs above and supporting material:

- Council has incurred significant expenditure in 2025/26 and this will repeat in 2026/27. A reason why expenditure will remain elevated in 2026/27 is in large part due to the Wollombi Road project which has already commenced. It is are only held when not needed within cash for immediate needs.
- The extensive expenditure this year and projected for next year far exceeds Councils generation of funds from operations. The cashflow statement also breaks up operations in sources and uses of funds however for the purposes of this analysis the net operations figure is sufficient.
- To address this shortfall a significant sale of investment funds is budgeted for this year with some borrowing. The investment balance consequently reduces significantly.
    - Cash and Investments in the 2024/25 Financial Statements were $96.7m. At the close of 2025/26 this has reduced to $58.9m. This is reflected by the significant sale of investment securities in the graph above.
- Due to investment funds becoming largely depleted a higher level of borrowing is required in 2026/27 to ensure cash and investment balances remain at reasonable levels.
    - After the sale of investment securities during the year there is only $2.5m in investment funds.
    - The amount proposed for borrowing is $35m. This amount will maintain cash and investment balances at approximately $50m at year end.
    - Without this amount being borrowed cash and investments would be a total of $15m. This level of cash and investments would not enable Council to be able to operate efficiently.
- From 2027/28 the capital works program is constrained to align with the net funds generated from operations.
    - Any variation in the capital works program to the generation of these funds requires either the use of cash or funds to be sourced from sale of investments or borrowing.
    - To avoid additional borrowing the capital works program is being significantly constrained.
- Council cannot borrow its way out of this dilemma. Any borrowing will incur interest charges (and principal repayments) which will impact both Councils Operating result further due to borrowing expenses and also cashflow arising from repayments.
    - With limited funds available it is best to maintain cost management discipline in this scenario so the investment in maintaining and renewing assets can be maximised over the longer term.
    - This approach is optimal for this scenario even though Council cannot meet key infrastructure sustainability metrics.

e. Assessment of the Scenario

This scenario does not meet a number of key sustainability metrics and does not meet the IP&R guidelines.

- **This scenario does not provide a path to eliminating operating deficits.**
- **The revenue path for expenditure proposals reflected in this scenario can be explained with expenditure reduced significantly to core activities such as asset renewal**
- **There is not adequate funding for infrastructure maintenance and renewal.**
- **This scenario involves responsible borrowing.**



Scenario 1: No Special Variation achieving Asset Renewal Benchmark

The base case scenario is best read before reading this scenario. The base case analysis provides a more detailed analysis of the current situation, explains the graphs in more detail and provides context for an evaluation of this scenario.

This scenario analyses whether Council has sufficient capacity to fund a sustainable level of infrastructure maintenance and renewal and the core program of new assets.

The capital works program has already been scoped down so only essential capital works is included. The base case not only did not meet the sustainability requirements for renewal but also excluded upgrade projects that are needed by council. Some assets are beyond simple renewal and need to be upgraded to be fit for purpose.

The scoping down of the capital works program for the base case was therefore not sustainable on a number of levels:

- A sustainable level of asset renewal is a requirement under the IP&R guidelines for councils to demonstrate they are sustainable.
- A minimum level of upgrade is also necessary (and is not captured under a renewals ratio) to assets meet the basic needs of the community. The remaining projects in the capital works program are not discretionary.

The questions for this scenario will be:

- What is the funding necessary to fund the level of infrastructure maintenance and renewal required to gap and meet core upgrade projects?
- How will council meet this funding requirement?
- Can council fund this requirement sustainably?

To ensure easy comparison with the base case other assumptions remain the same.

a. Assessment of Operating Revenue and Expenditure

The table below as an abridged version of the Income Statement generated within the LTFP. A full version with all years is included in the appendices.

Abridged income statement

Revenue

		BASE CASE		SCENARIO 1	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Rates & annual charges	71,193,000	133,674,920	5.9%	133,674,920	5.9%
User charges & fees	9,926,000	18,743,733	5.9%	18,743,733	5.9%
Other revenue	3,339,000	4,672,057	3.1%	4,672,057	3.1%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%	22,363,780	3.3%
Grants & contributions (capital)	71,924,000	42,095,937	(4.8%)	42,095,937	(4.8%)
Investment revenue & other income	4,533,000	770,002	(14.9%)	770,002	(14.9%)
Total income	**176,621,000**	**222,320,429**	**2.1%**	**222,320,429**	**2.1%**

Expenses

		BASE CASE		SCENARIO 1	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	49,318,000	70,046,155	3.2%	70,046,155	3.6%
Borrowing costs	922,000	1,644,420	5.4%	19,697,228	35.8%
Materials & contracts	37,269,000	69,307,898	5.8%	69,258,066	6.4%
Depreciation & amortisation	26,202,000	57,510,320	7.4%	57,999,284	8.3%
Other expenses	7,363,000	11,481,946	4.1%	11,481,946	4.5%
Net losses from the disposal of assets	17,405,000	6,097,422	(9.1%)	14,242,120	(2.0%)
Total expenses	**176,621,000**	**138,475,000**	**4.1%**	**242,728,798**	**5.8%**

		BASE CASE		SCENARIO 1	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	6,232,268	(15.2%)	(20,408,369)	
Net operating result before capital grants and contributions	(33,778,000)	(35,863,668)		(62,504,305)	

The final year of the LTFP (2035/36) is being analysed against the recently audited Financial Statements for 2024/25 .

The focus of this analysis will only be on four lines in the abridged income statement as the other lines are similar to the base case and have already been covered under that scenario:

- **Borrowing Costs:** The base case constrained all capital works and sought to undertake as much asset renewal as possible however this was not sustainable with a renewal ratio barely above 40%. To facilitate an infrastructure renewal program that is substantial larger and meets the sustainability metrics will require significant borrowing (covered in more depth later).

This additional borrowing will result in a significant increase in borrowing costs, projected to be $19.7m by 2035/36.

- **Net Losses from the Disposal of Assets:** Due to infrastructure renewal increasing there will be an increase in the net losses from disposal of assets. As previously discussed, this is due to most assets still having some residual value when replaced and value needs to be written-down. The asset renewal program is more than double that reflected in the base case. This is reflected (later graph) in the asset renewal ratio increasing from just over 40% to around 100%. This translates directly to the scale on increase in losses on disposals to the write-down of the residual value of those assets being replaced.

- **Net Operating Result:** As is to be expected (and noted) the Net Operating Result deteriorates further when compared to the base case: from $6.2m surplus to a $20.4m deficit.

Net Operating Result before Capital Grants and Contributions: This line has also deteriorated significantly. An unsustainable position in the base case (a deficit) has become worse and is clearly trending towards larger and larger deficits.

This additional borrowing cost causes further deterioration in the Net Operating Result which then results in less funds being available to fund infrastructure renewal. As a result, even more borrowing is required. This then further increases the borrowing cost and the cycle continues and is clearly unsustainable.

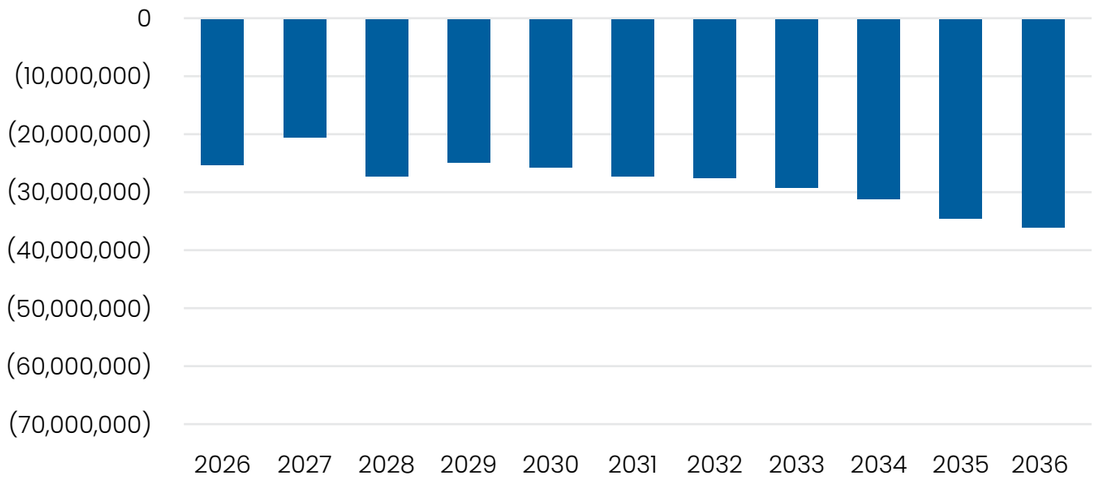
Council is therefore not on a path to eliminating operating deficits and therefore meets the IP&R guidelines.

b. Analysis of Net Funds Generated from Operations

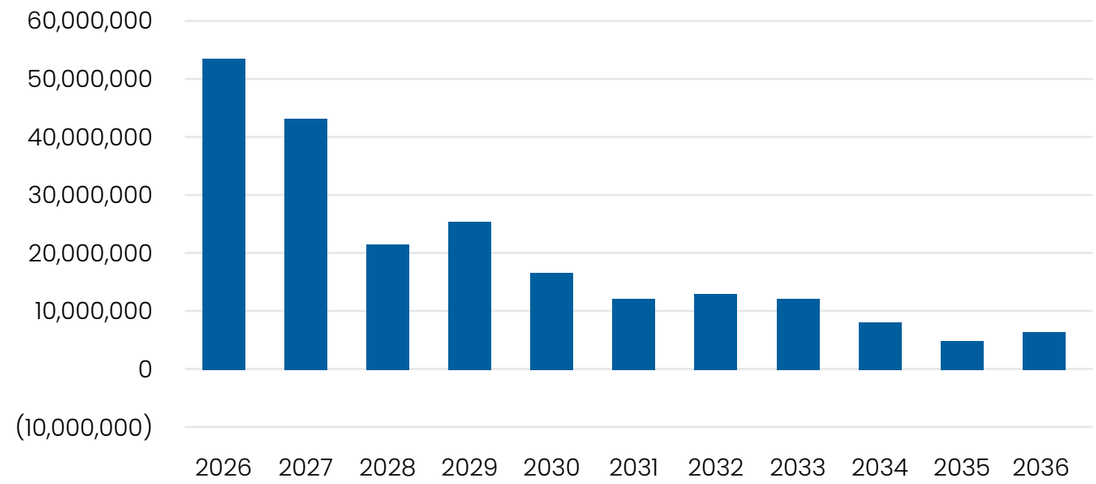
As confirmed in the analysis above, Scenario 1 will result in a very weak Net Operating result becoming even worse due to the substantial borrowing costs. The graphs below show the worsening trend.

Base Case

Net Operating Result (per P&L) before Capital Grants and Contributions - General Fund

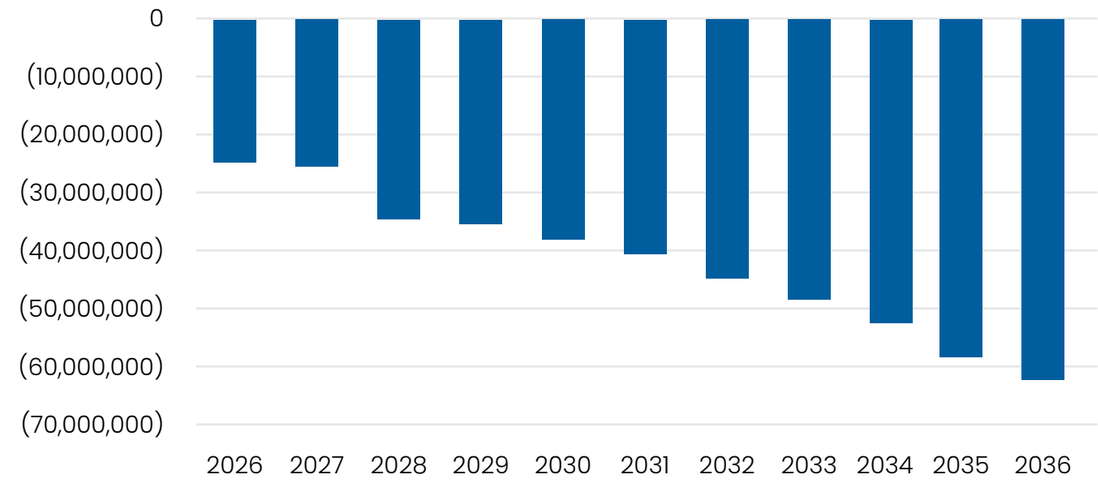


Net Operating Result (per P&L) after Capital Grants and Contributions - General Fund

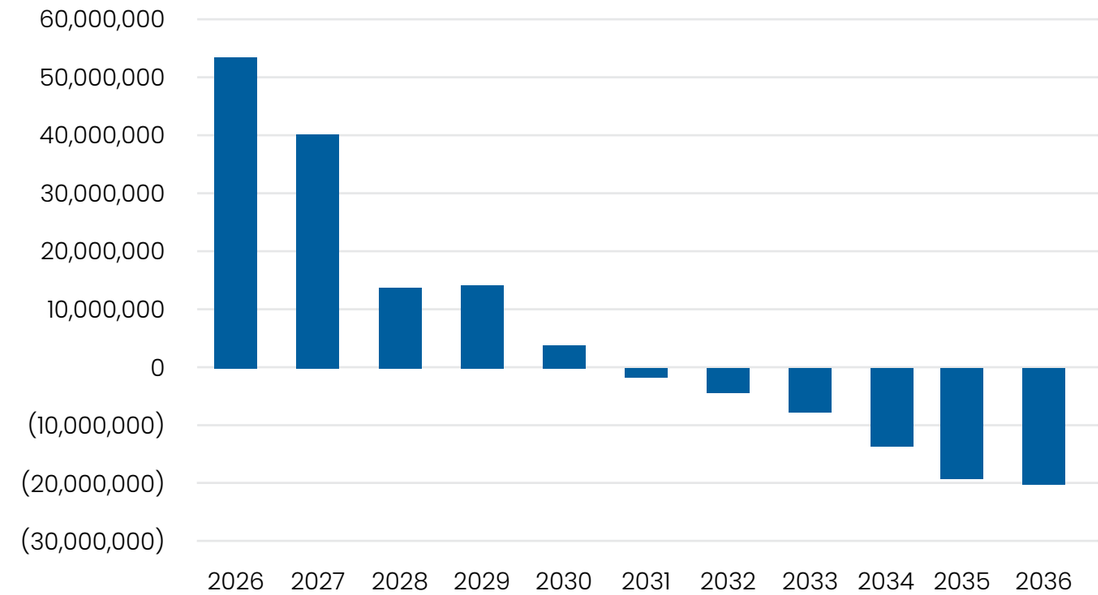


Scenario 1

Net Operating Result (per P&L) before Capital Grants and Contributions - General Fund



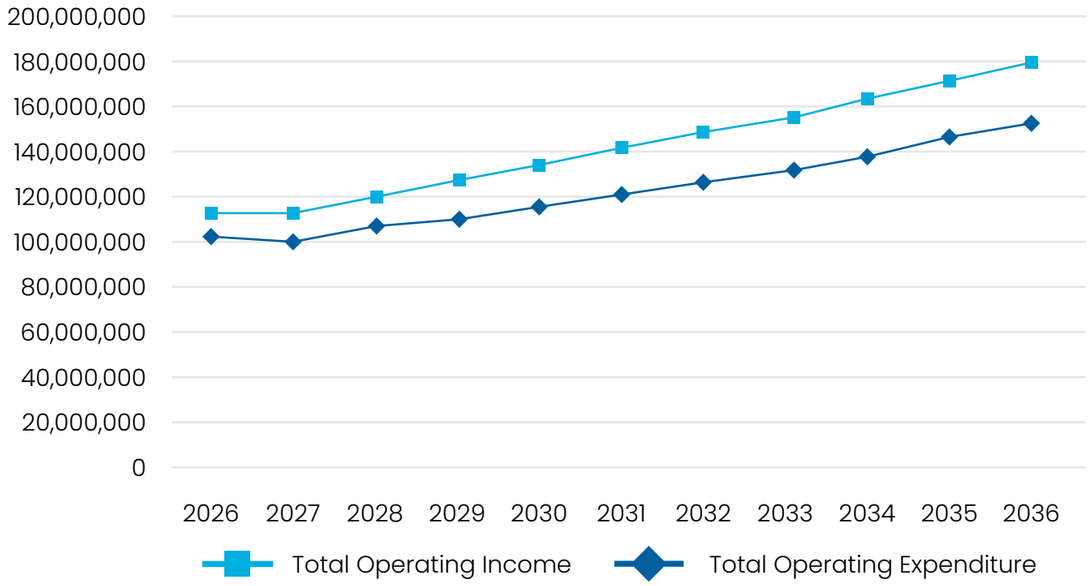
Net Operating Result (per P&L) after Capital Grants and Contributions - General Fund



The top graphs are the most important as are used to determine whether Council is sustainable. Scenario 1 results in a deficit becoming worse each year due to the impact of ever-increasing borrowing.

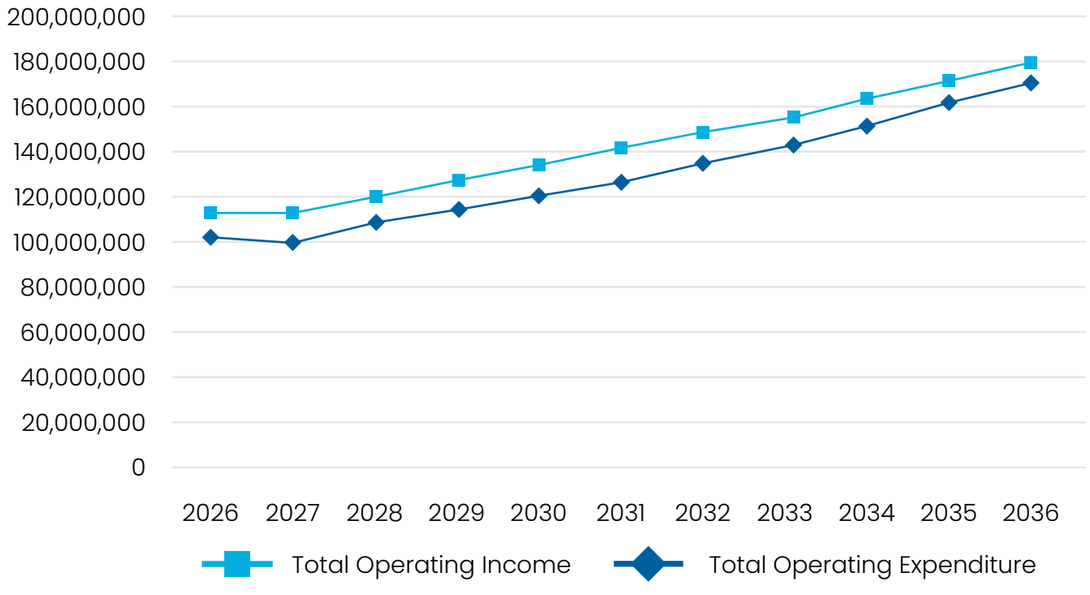
Base Case

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund



Scenario 1

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund

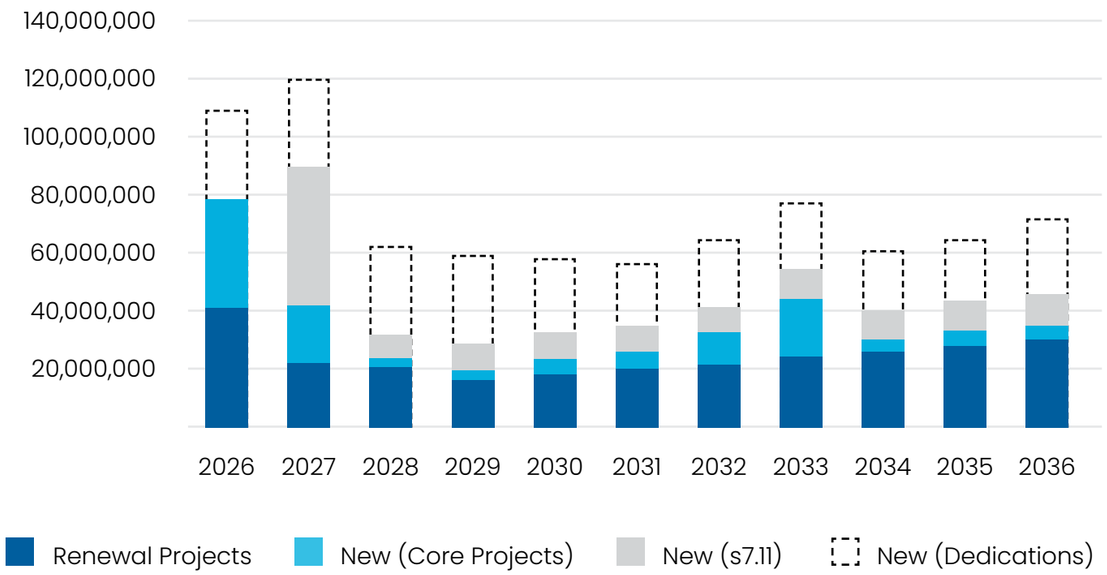


As a result, the funds available for infrastructure renewal and core projects is becoming smaller and smaller (the gap between income and expenditure (excluding depreciation). ***This trend confirms Council will not have an operating surplus and the trend of deficits is worsening. The trend is not just worsening but the trend itself is accelerating.***

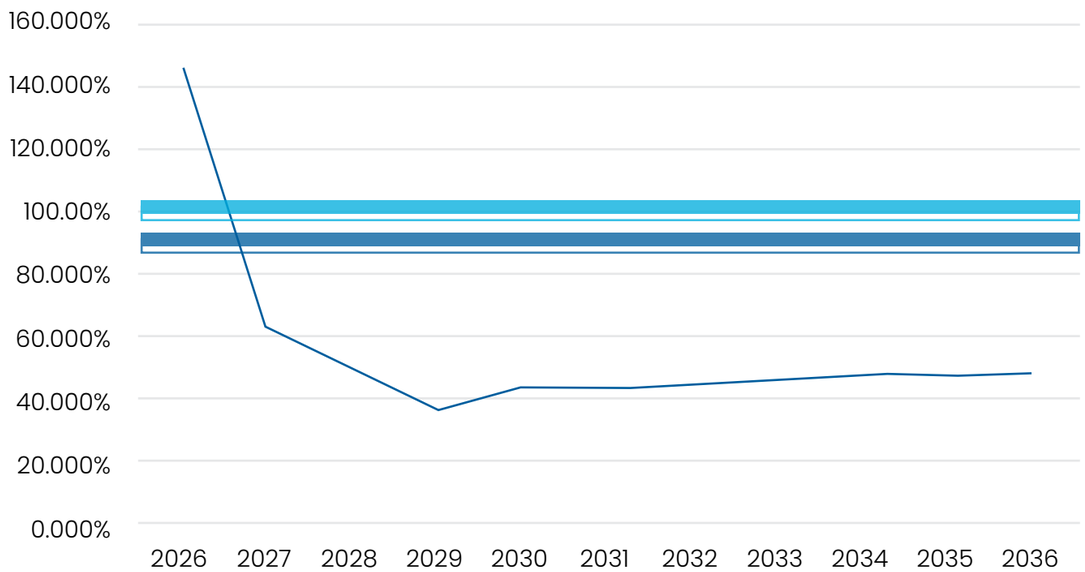
c. Infrastructure Works Program

Base case

New Infrastructure, Asset Renewal & P&E Additions

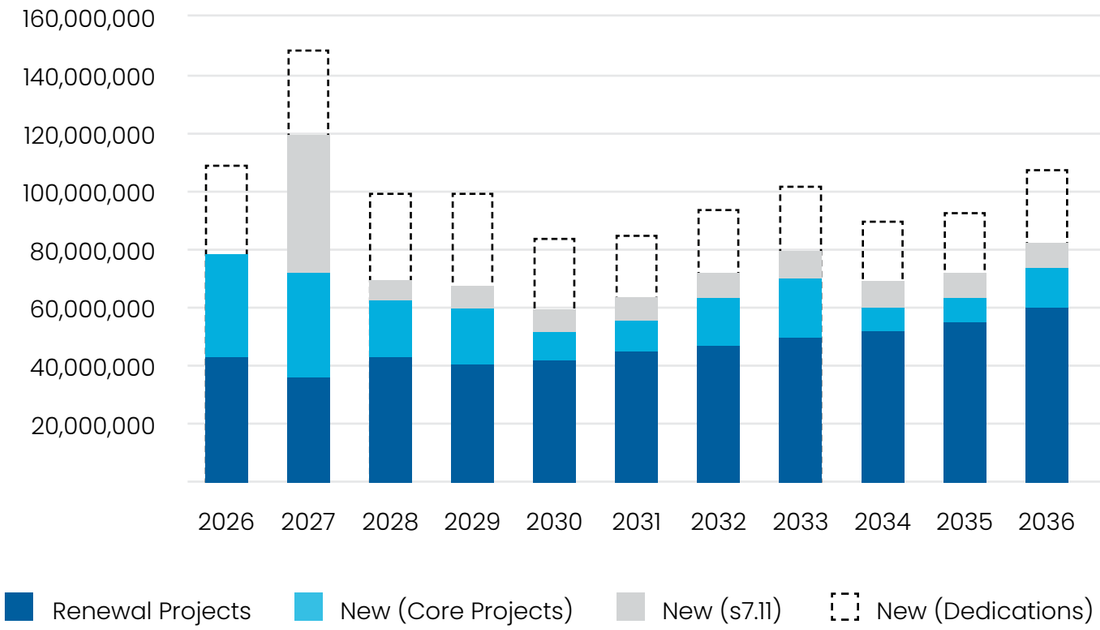


Building & Infrastructure Renewals Ratio - General Fund

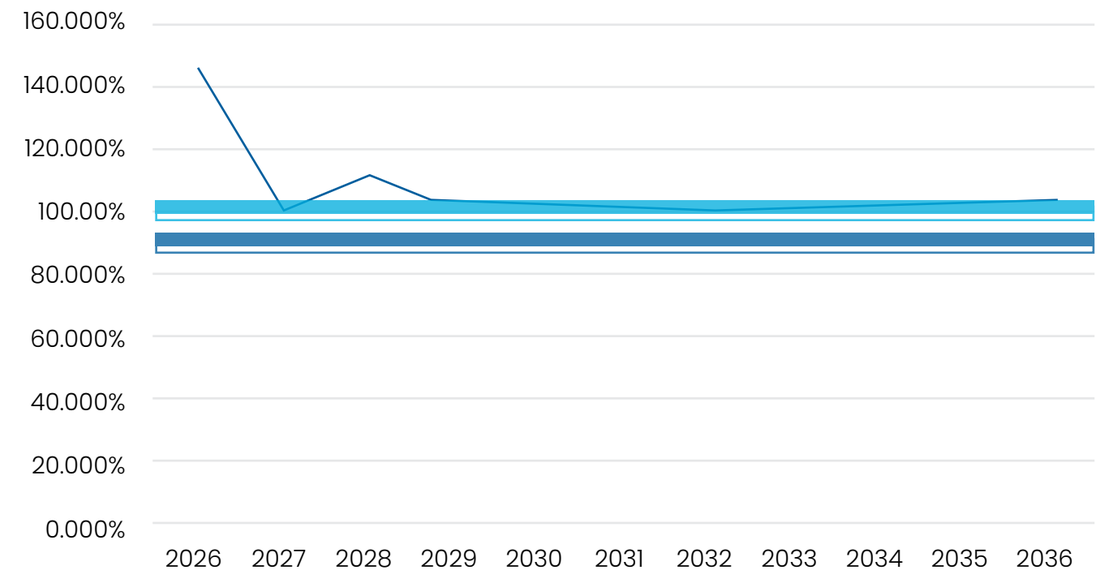


Scenario 1

New Infrastructure, Asset Renewal & P&E Additions



Building & Infrastructure Renewals Ratio - General Fund

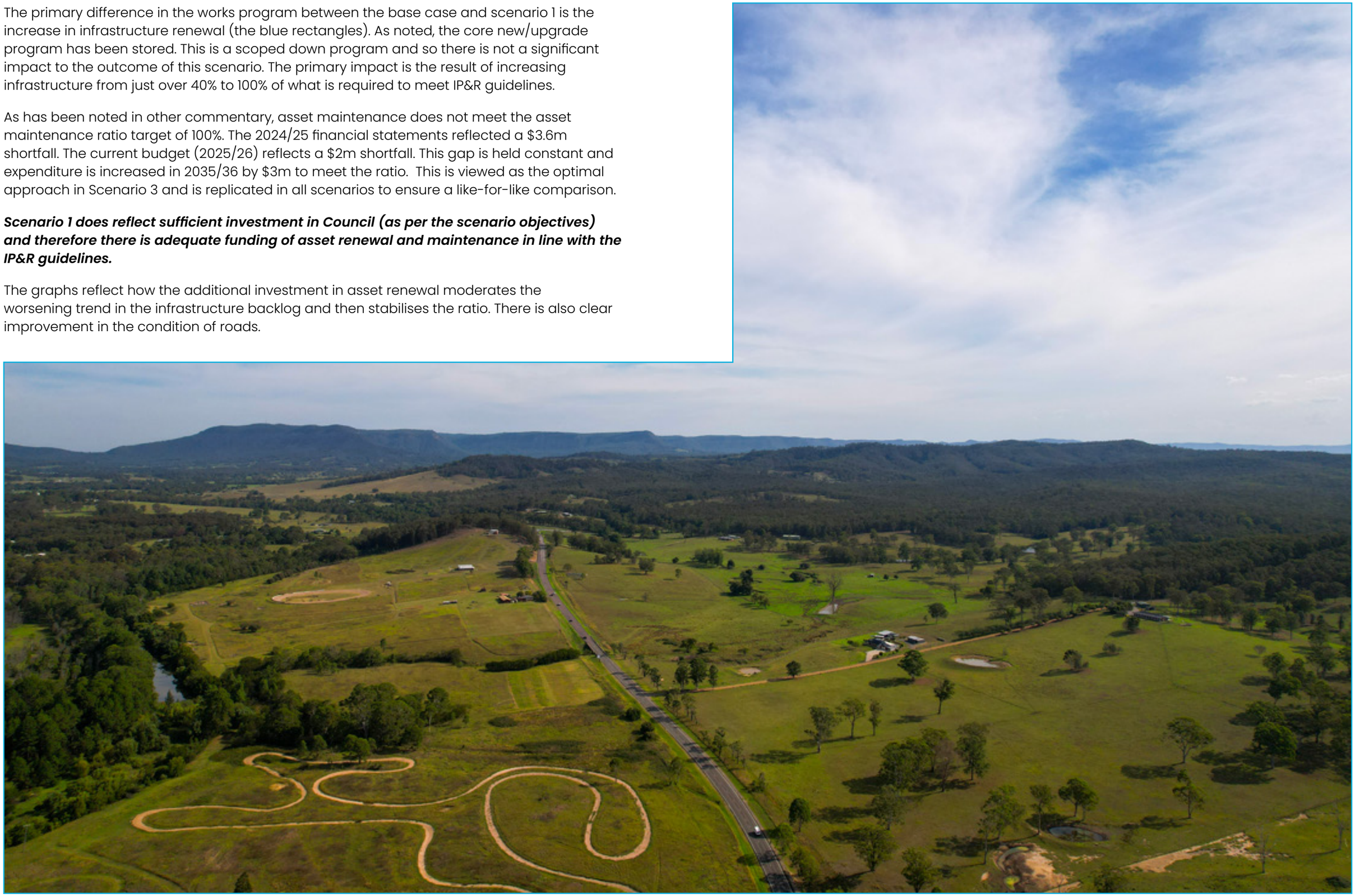


The primary difference in the works program between the base case and scenario 1 is the increase in infrastructure renewal (the blue rectangles). As noted, the core new/upgrade program has been stored. This is a scoped down program and so there is not a significant impact to the outcome of this scenario. The primary impact is the result of increasing infrastructure from just over 40% to 100% of what is required to meet IP&R guidelines.

As has been noted in other commentary, asset maintenance does not meet the asset maintenance ratio target of 100%. The 2024/25 financial statements reflected a $3.6m shortfall. The current budget (2025/26) reflects a $2m shortfall. This gap is held constant and expenditure is increased in 2035/36 by $3m to meet the ratio. This is viewed as the optimal approach in Scenario 3 and is replicated in all scenarios to ensure a like-for-like comparison.

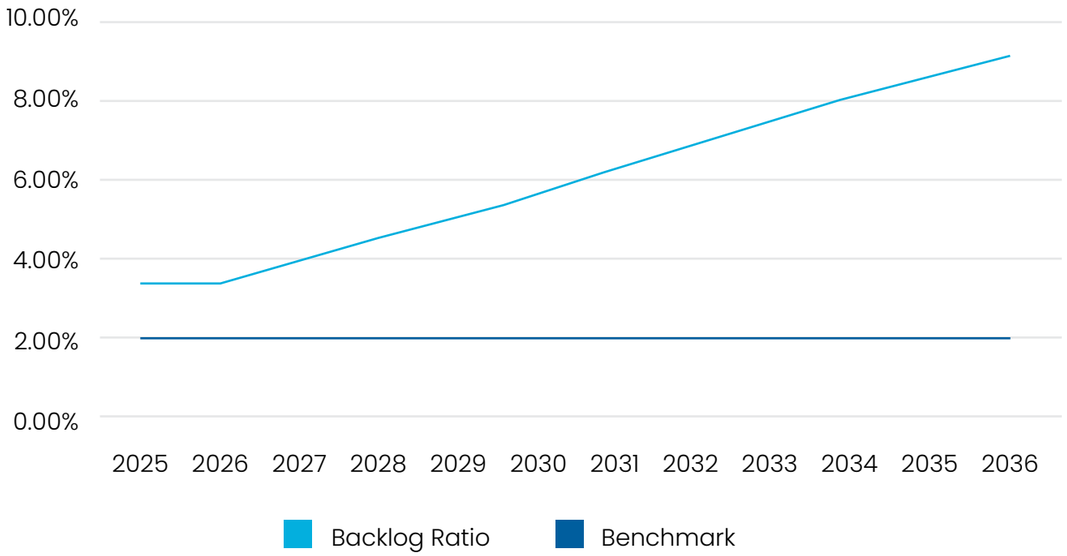
Scenario 1 does reflect sufficient investment in Council (as per the scenario objectives) and therefore there is adequate funding of asset renewal and maintenance in line with the IP&R guidelines.

The graphs reflect how the additional investment in asset renewal moderates the worsening trend in the infrastructure backlog and then stabilises the ratio. There is also clear improvement in the condition of roads.

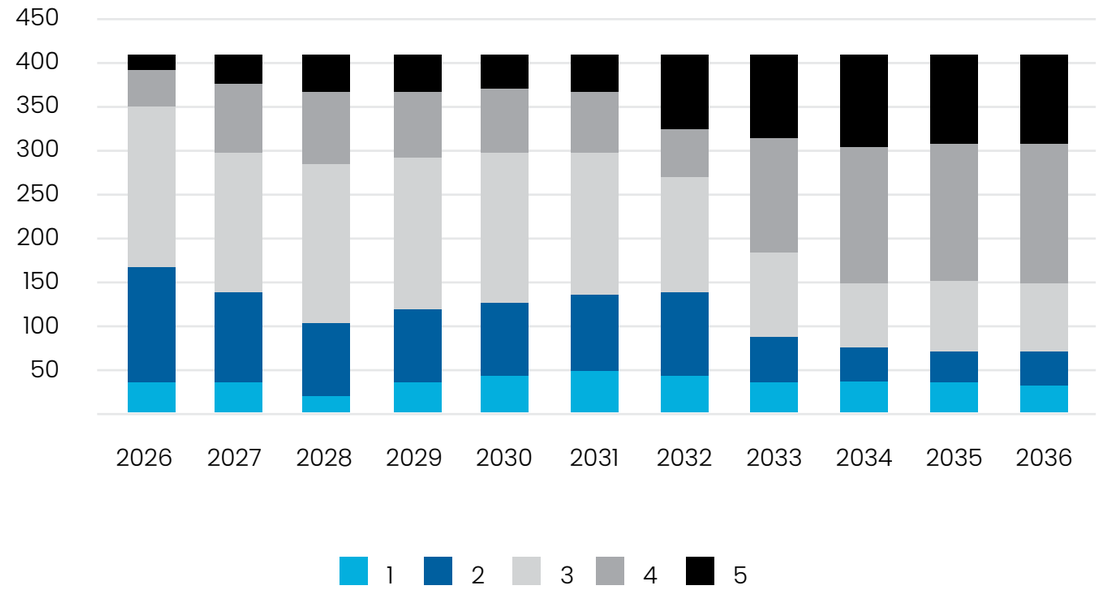


Base case

Infrastructure Backlog Ratio

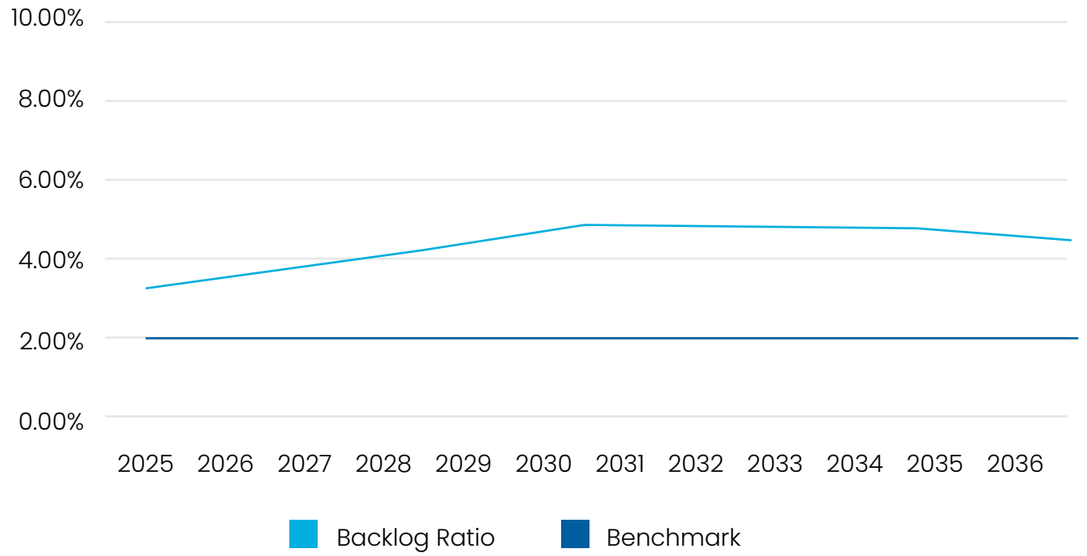


Roads: Surface & Pavement Base Condition ($m)

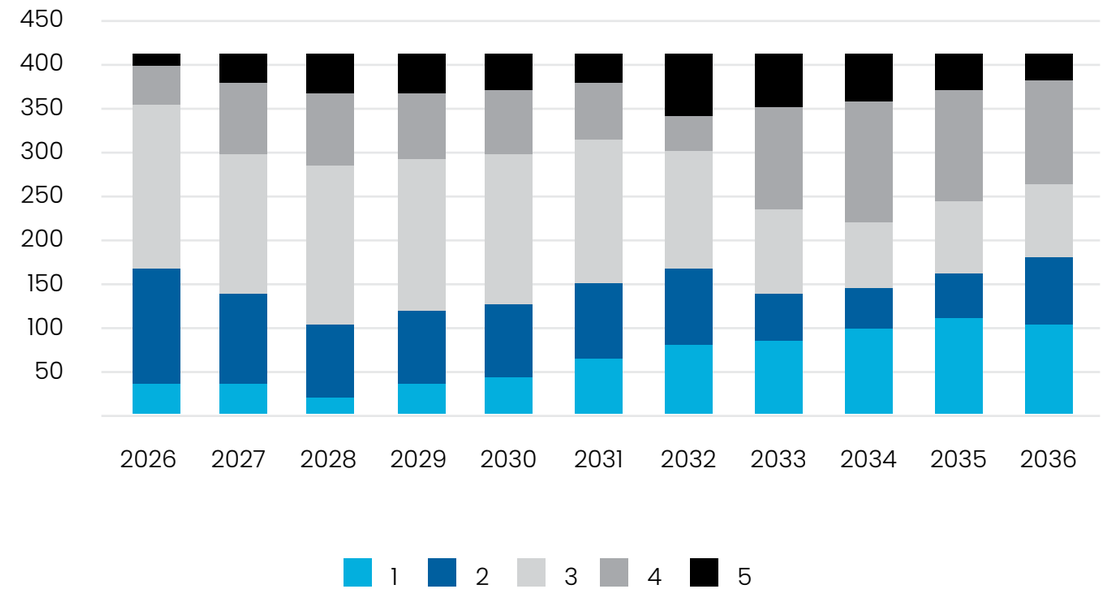


Scenario 1

Infrastructure Backlog Ratio



Roads: Surface & Pavement Base Condition ($m)



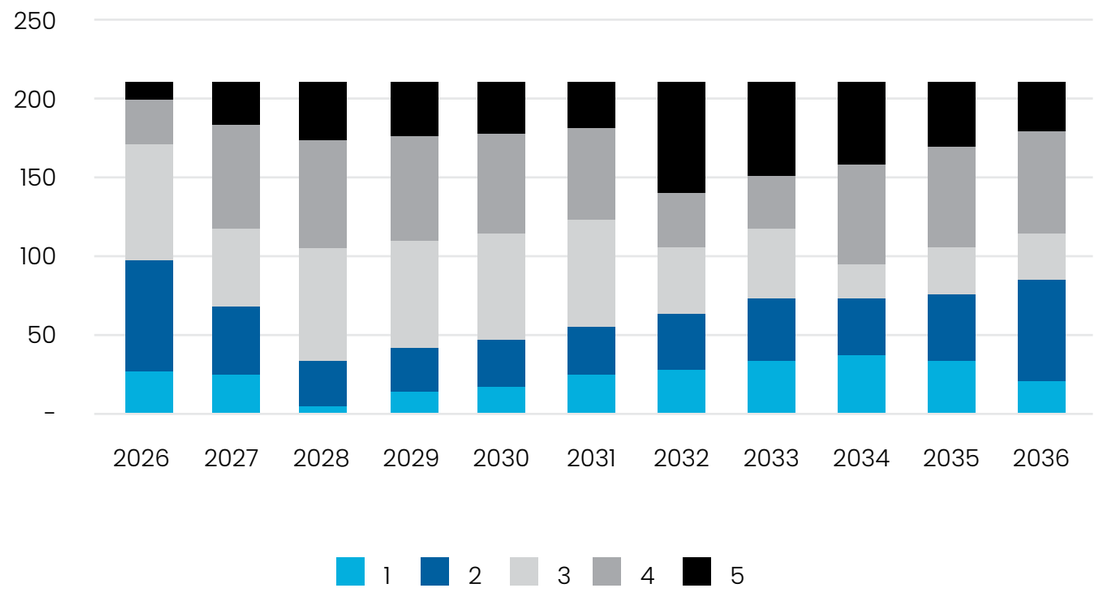
The graphs above provide a good insight into how additional expenditure on renewal translates to changes in both the backlog ratio and road condition.

There is a clear lag in the benefit of increasing infrastructure to both the renewal ratio and also to achieving clear benefits in road condition.

A significant proportion of Council's roads surface and base assets are classed as satisfactory.

The reason for this lag is covered in the base case. In brief, there is a significant proportion of road surface and base in satisfactory condition (3) and this initially degrades faster than the asset renewal addresses the assets in poor condition (4) and very poor (5). As the overall condition improves (green bars) increase and the grey bar decrease the quantum of assets that degrades (moving from 3 to 4) decreases and the level of renewal starts exceeding the rate at which assets need intervention. The factors are a little more complex than this explanation however this explanation is a reasonable representation.

Roads: Surface & Pavement Base Condition ($m)



The reason the focus is on road surface and base is that is the scope of road renewal projects. It is industry practice to replace both as this will ensure the road asset will last longer before intervention is required and also require less maintenance (as the base is in better condition). This is a more cost-efficient approach.

The graph above on road surface alone however helps explain more clearly what is happening and demonstrates more clearly the improvement that will happen over time.

It is possible that Council can improve the road condition more quickly than is being projected. This would be through a more targeted approach replacing only portions of a road segment. More data would be required to undertake such an analysis. Council could also accelerate improvement by spending more than the renewal ratio to reverse the impact of previous underspend on assets.

The purpose of this analysis was to demonstrate a few things:

- A sustainable level of asset renewal will over time result in the improvement of road assets
- There will be a lag in when this improvement happens.
- --The program could be optimised further to achieve a faster outcome.

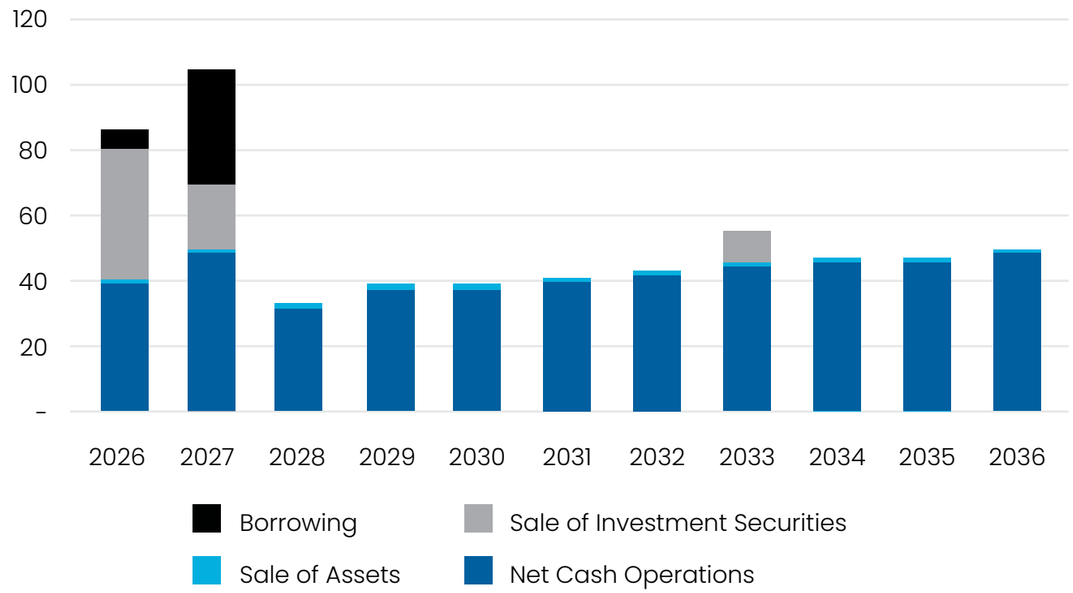
The analysis indicates that if Council can spend sufficient (sustainable) funds on asset renewal then Council can avoid significant deterioration and stabilise asset condition.

D. Overall Funding Analysis

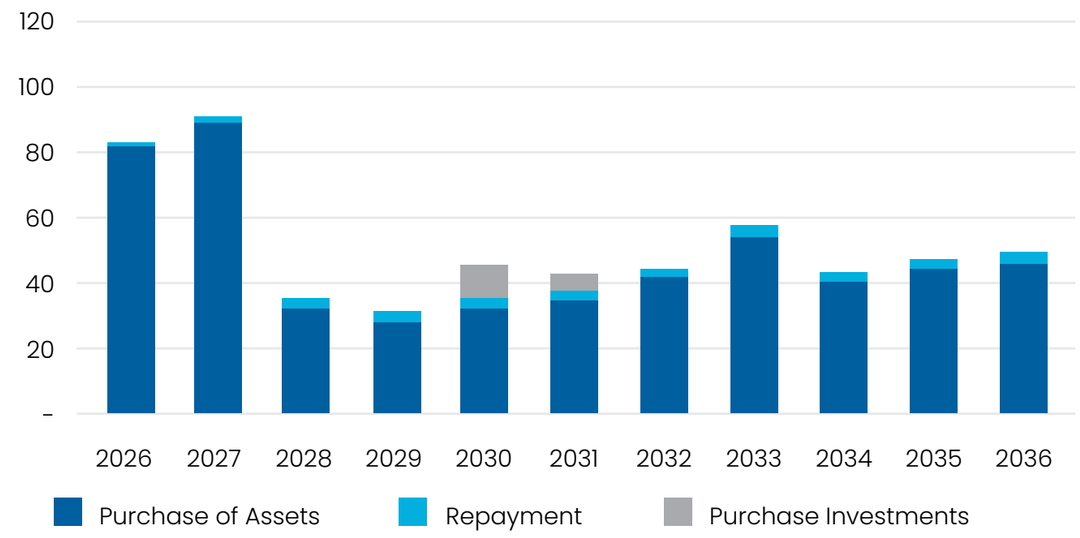
There however is not adequate funding under this scenario to achieve the outcome above. As can be seen below substantial and ongoing borrowing would be required. The borrowing is not sustainable and ever-increasing borrowing would need to be undertaken.

Base Case

Source of Funds ($m)

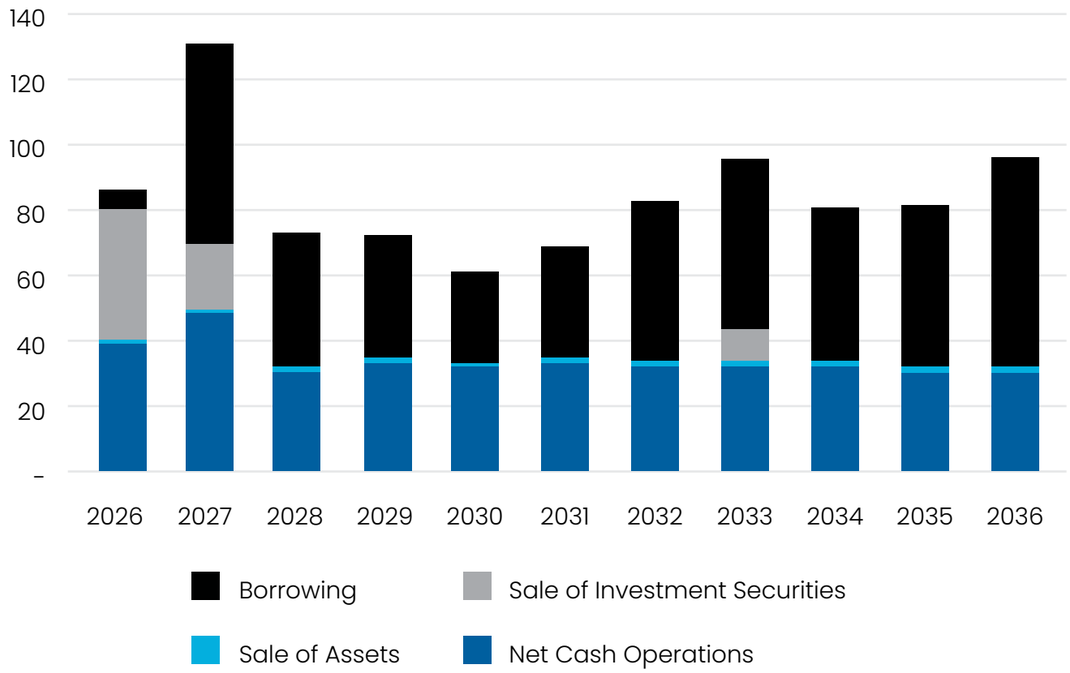


Use of Funds ($m)

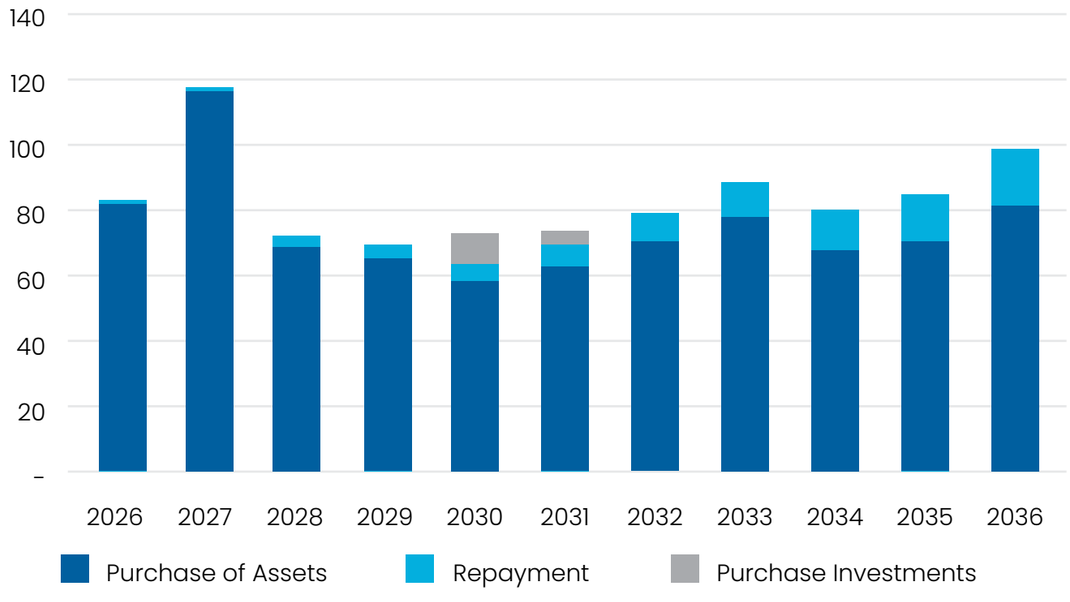


Scenario 1

Source of Funds ($m)



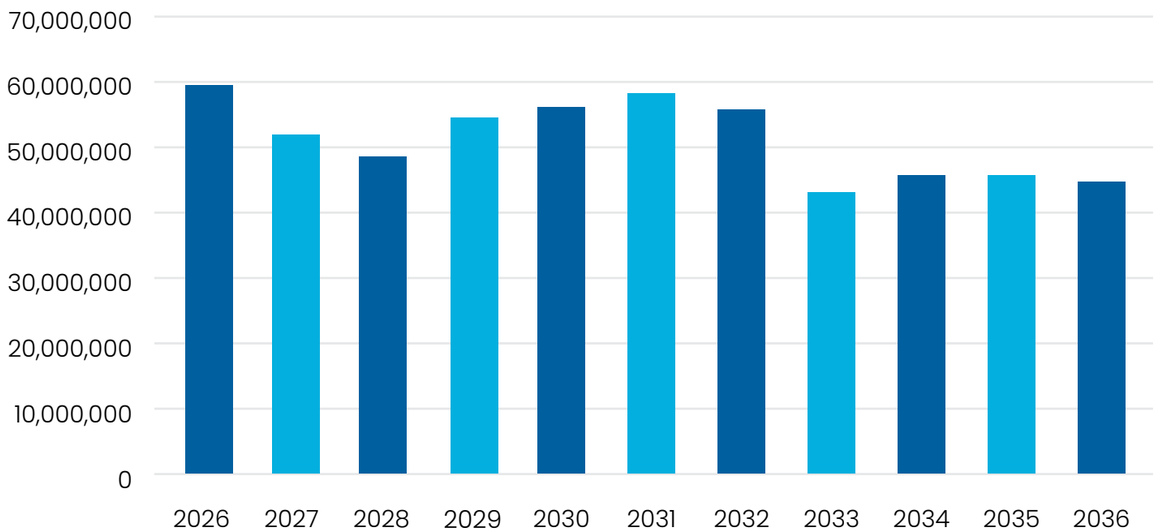
Use of Funds ($m)



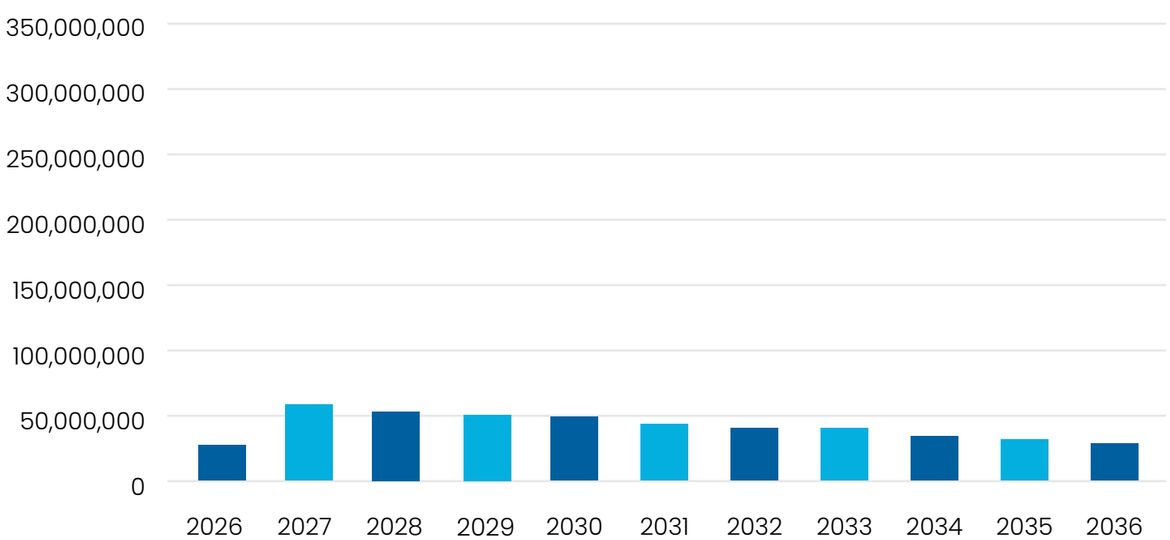
The impact of this borrowing is reflected below. The borrowing by 2035/36 is projected to total $400m.

Base case

Net Cash & Investments (incl. Bank Overdraft) - General Fund

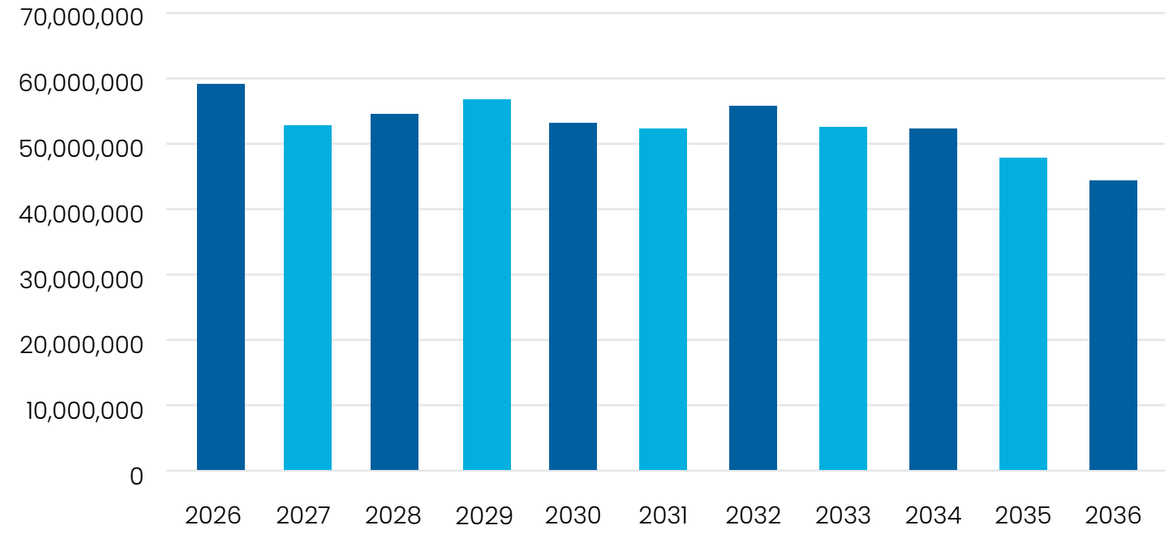


External Loans Outstanding - General Fund

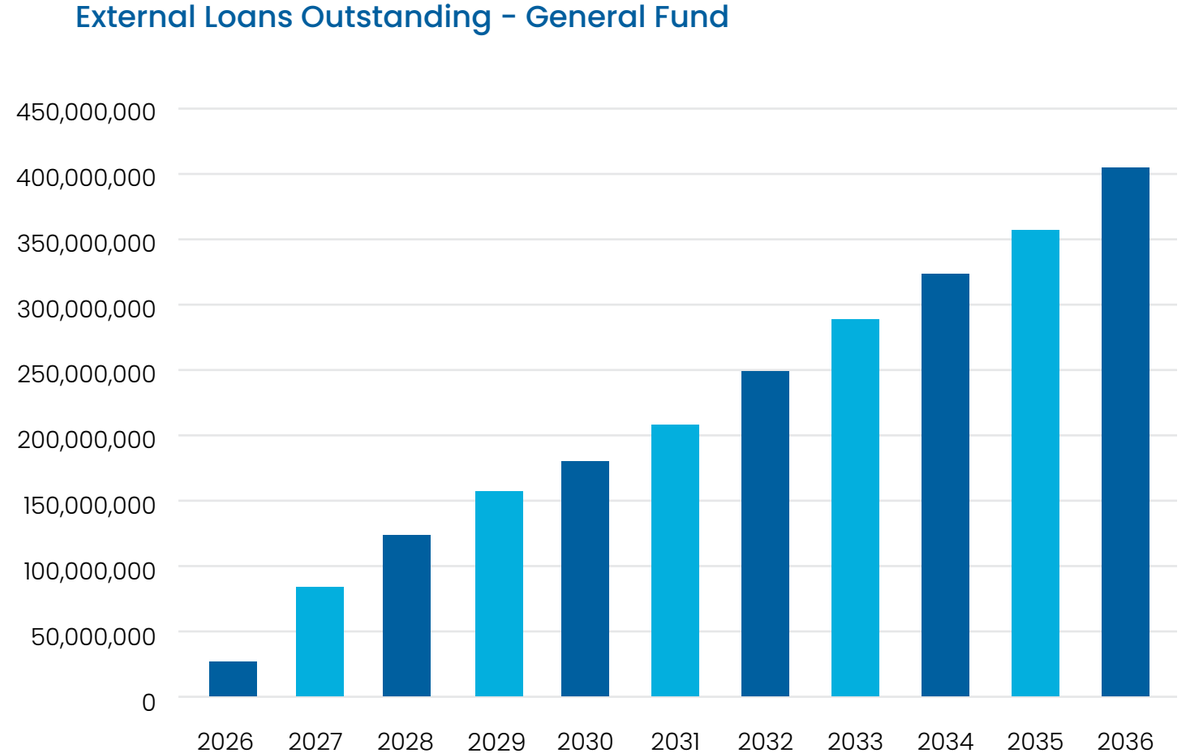


Scenario 1

Net Cash & Investments (incl. Bank Overdraft) - General Fund



External Loans Outstanding - General Fund



e. Assessment of the Scenario

Based on this analysis an assessment against IP&R guidelines and community expectations reflects the following:

- **This scenario does not provide a clear path to eliminating operating deficits. There is a marked deterioration**
- **The revenue path for expenditure proposals reflected in this scenario can be explained with expenditure reduced significantly to core activities such as asset renewal**
- **There is not adequate funding for infrastructure maintenance and renewal. Whilst meeting the infrastructure renewal ratio stabilises the condition of infrastructure asserts there is not sustainable funding available.**
- **This scenario does not involve responsible borrowing.**
- **This scenario does stabilise and ultimately will improve the condition of road infrastructure.**

The base case and scenario 1 reflect two very different approaches to trying to seek a sustainable outcome. Both are unsuccessful because there simply not enough funds generated to adequately fund the level of infrastructure renewal required. A mix of these two scenarios likewise would not be sustainable.

Scenario 2: Special Variation achieving Asset Renewal Benchmark

The base case scenario is best read before reading this scenario. The base case analysis provides a more detailed analysis of the current situation, explains the graphs in more detail and provides context for an evaluation of this scenario.

Scenario 1 should also be read before this scenario as it provides the context for this scenario. Scenario 1 covered the situation where Council attempted to undertake an infrastructure renewal program that met the target of the Infrastructure Renewal Ratio (i.e. undertook a scale of infrastructure renewal that matched the amount of depreciation of Infrastructure assets). That scenario also sought to undertake essential upgrade projects. This was attempted within the current funding constraints and it was demonstrated that this scenario could only take place with unsustainable levels of borrowing.

This scenario takes that context and includes a special variation being applied in 2026/27 for 39.9%, This would provide Council with approximately $20m in additional rates taking the total Rates and Annual Charges from $78m to $98m.

The 39.9% increase for total rates includes the current rate peg communicated by IPART of 3.8% and also includes the increase rates associated with an increase in the number of rateable parcels of land (generally properties), estimated to be 2.4% in 2027/28.

The actual change in rateable parcels might differ from the estimate and the average increase per property might be lower or higher as a result. Based on this estimate, the average increase per ratepayer in rates would be approximately 37.5% (or a 33.7% over and above the 3.8% already planned).

When ratepayers seek to assess the impact of the special variation based on their individual rates notice they should only apply this increase to the rates component listed on their notice. Ratepayers should be aware this is an average and an approximation. The actual amount will differ depending on whether their rates are lower or higher than the average and also any changes in the valuation of their property.

Scenario 2 v Scenario 3

All scenarios are being compared to the current situation or base case. The question being addressed is: Is there an alternative path that is superior to the current state?

The analysis has indicated that Scenario 3 is a superior scenario to Scenario 2. Scenarios 2 and 3 are very similar. Both scenarios involve a special variation in 2026/27 of 39.9%.

The differences between the two scenarios are as follows:

- **Scenario 2** reflects the full requirement for asset renewal (the same as Scenario 1). This has the following impact:
  - Borrowing is still required at different stages of the program when there are not sufficient funds being generated to support this program. ($103m by 2035/36)
- **Scenario 3** looks to match the capital works expenditure to the funding generated from operations and reduce the level of borrowing. This has the following impact:
  - Only required borrowing initially to shore up cash position
  - Less investment initially on asset renewal impacting ratios moderately
  - Still preserves roads as a priority
  - More capacity in 2035/36 to continue expanding the works program (as not burdened by loan repayments)

Comparison in Outcomes for Scenarios 2 & 3

CRITERIA	SCENARIO 2	SCENARIO 3
Net Operating Result	Net Operating Deficit (before capital grants and contributions) reflects a substantial deficit ($17.67m) Operations ratio is negative at -1.6% in 2035/36.	Net Operating Deficit (before capital grants and contributions) reflects a deficit ($11.5m). This is substantially less than the base case. Operations ratio is just negative (in effect meets ratio is effectively zero (0.04%) as almost 0%. This ratio was positive prior to the one-time asset maintenance adjustment and is likely to become positive again post 2035/36. Based on this metric scored amber.
Trend in Operating Result	Trend is worsening with no possibility of reversing the trend. The Operating Performance ratio is either stable or worsening. Trend is difficult to determine.	Trend is stable if the one-time adjustment in asset maintenance is excluded to see a true trend. The trend in the Operating Performance Ratio was positive prior to increase asset maintenance and is again appearing to improve moderately.
Own Source Revenue	Meets the ratio.	Meets the ratio
Asset Maintenance	Approximately (90%) for the 1st 8 years of the plan (maintaining current levels of maintenance in percentage terms). An increase of $3m in 2034/35 increases the ratio to (100%) so that meets this benchmark. Decision was to balance prioritization of asset maintenance and renewal.	Approximately 90% for the 1st 8 years of the plan (maintaining current levels of maintenance in percentage terms). An increase of $3m in 2034/35 increases the ratio to 100% so that meets this benchmark. Decision was to balance prioritization of asset maintenance and renewal.
Funding for Infrastructure	Requires additional funding during the 10 years to address aa funding gap between the level of net funds generated from operations that is available and the funding requirements for the capital works program.	Infrastructure can be funded from operations. Initially constraints exist which results in infrastructure renewals being below the benchmark however the works program can be increased and delivered over the 10 years with the renewal ratio eventually exceeding the benchmark whilst not requiring additional borrowing and keep cash position stable.
Infrastructure Renewal	Achieves infrastructure renewal ratio for duration of 10 years (100%).	Initially expenditure on infrastructure renewal is below the ratio (just above 60%) however as funds become available ratio is met (around 2031/32) and subsequently exceeded (over 100%).
Infrastructure Backlog	Ratio initially increases (at a lower rate than the base case) and peaks at 4.9% and then starts to moderately decrease reaching 4.6% in 2035/36.	Ratio initially increases (at a lower rate than the base case) and then stabilizes (at 5.5%) and starts trending down moderately reaching 5.2% in 2035/36. The model has demonstrated funding capacity to increase the works program over time which indicates this ratio can be improved in the long run.
Road Condition	Condition 4 & 5 (poor and very poor) continue to deteriorate initially then stabilise and then start to reduce gradually. Very good and good condition increasing consistently.	Condition 4 & 5 (poor and very poor) continue to deteriorate initially then stabilise and then start to reduce gradually. Very good and good condition increasing consistently. Road programs similar for Scenarios 2 & 3.

CRITERIA	SCENARIO 2	SCENARIO 3
Responsible Borrowing	Borrow initially to shore up cash position and then undertake further borrowing to support infrastructure renewal when funding from operations is not sufficient. Total borrowing is $103m by 2035/36 with $5.9m in annual repayments. The strategy of borrowing to fund projects begins to cramp out future projects due to repayments increasing. Or there is an ongoing cycle of borrowing – for example $5m was borrowed in 2035/36 to ensure project funding is maintained. Such significant levels of borrowing might require more expensive funding sources.	Borrow initially to shore up cash position and then gradual reduction in borrowing as loans are paid down. There is a reasonable chance Council will be able to obtain lower cost from TCorp and based on the LTFP would certainly be able to obtain funding. Council can demonstrate that it can sustainably support is works program with its operating position likely to be sustainable along this path in the future.
Cashflow Position	Cash position appears stable and sustainable however repayment burden from extensive borrowing might put pressure on Council's capacity to meet maintenance and renewal sustainability ratios.	Cash position appears stable and sustainable. Council is able to both pay down borrowing as planned and also undertake a sustainable capital works program which meets maintenance and renewals rations and fully deliver the scoped down program building new and upgraded infrastructure.

Scenario 3 is seen as the preferred scenario of the two and as a consequence the recommended path for Council to pursue for a special variation.

a. Assessment of Operating Revenue and Expenditure

The table below as an abridged version of the Income Statement generated within the LTFP. A full version with all years is included in the appendices.

Abridged income statement

Revenue

		BASE CASE		SCENARIO 2	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Rates & annual charges	71,193,000	133,674,920	5.9%	164,313,362	7.9%
User charges & fees	9,926,000	18,743,733	5.9%	18,743,733	5.9%
Other revenue	3,339,000	4,672,057	3.1%	4,672,057	3.1%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%	22,363,780	3.3%
Grants & contributions (capital)	71,924,000	42,095,937	(4.8%)	42,095,937	(4.8%)
Investment revenue & other income	4,533,000	770,002	(14.9%)	751,954	(15.1%)
Total income	**176,621,000**	**222,320,429**	**2.1%**	**252,940,823**	**3.3%**

Expenses

		BASE CASE		SCENARIO 2	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	49,318,000	70,046,155	3.2%	70,046,155	3.2%
Borrowing costs	922,000	1,644,420	5.4%	5,541,435	17.5%
Materials & contracts	37,269,000	69,307,898	5.8%	69,258,066	5.8%
Depreciation & amortisation	26,202,000	57,510,320	7.4%	57,999,284	7.5%
Other expenses	7,363,000	11,481,946	4.1%	11,481,946	4.1%
Net losses from the disposal of assets	17,405,000	6,097,422	(9.1%)	14,242,120	(1.8%)
Total expenses	**138,475,000**	**216,088,161**	**4.1%**	**228,483,004**	**4.7%**

		BASE CASE		SCENARIO 2	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	6,232,268	(15.2%)	24,457,819	
Net operating result before capital grants and contributions	(33,778,000)	(35,863,668)		(17,638,118)	

The final year of the LTFP (2035/36) is being analysed against the recently audited Financial Statements for 2024/25.

The analysis will focus on the lines which change significantly compared to the base case.

- **Rates and Annual Charges:** The 39.9% special variation will result in total Rates and Annual Charges increasing by an average of 7.9% over the 11 years from the 2024/25 financial year. This increase includes increased revenue associated with an increase in number of properties and other rateable parcels (as a result of projected population growth).

  The population is forecast to grow by approximately 2.6%. Over 9,000 properties or other rateable parcels of land are forecast over the next 10 years. The increase in rateable parcels is largely in line with population growth. The average yearly increase for this revenue line (the Combined Rates and Annual Charges) per ratepayer is approximated to average 5.3% per annum over the 10 years. This has assumed the Annual Waste Charge increases by an average of 3% per annum.

- **Net Losses from the Disposal of Assets:** Due to infrastructure renewal increasing there will be an increase in the net losses from disposal of assets. As previously discussed, this is due to most assets still having some residual value when replaced and value needs to be written-down.

  The asset renewal program is more than double that reflected in the base case. This is reflected (later graph) in the asset renewal ratio increasing from just over 40% to around 100%. This translates directly to the scale on increase in losses on disposals due to the write-down of the residual value of those assets being replaced.

- **Net Operating Result:** As is to be expected there is a significant improvement in the Net Operating Result. As with scenario 3 by containing operating expenses Council will generate funds which can be applied to the capital works program.

  Net Operating Result before Capital Grants and Contributions: This line has also improved significantly (in tandem). Council is now projected to achieve an operating surplus before capital grants and contributions.

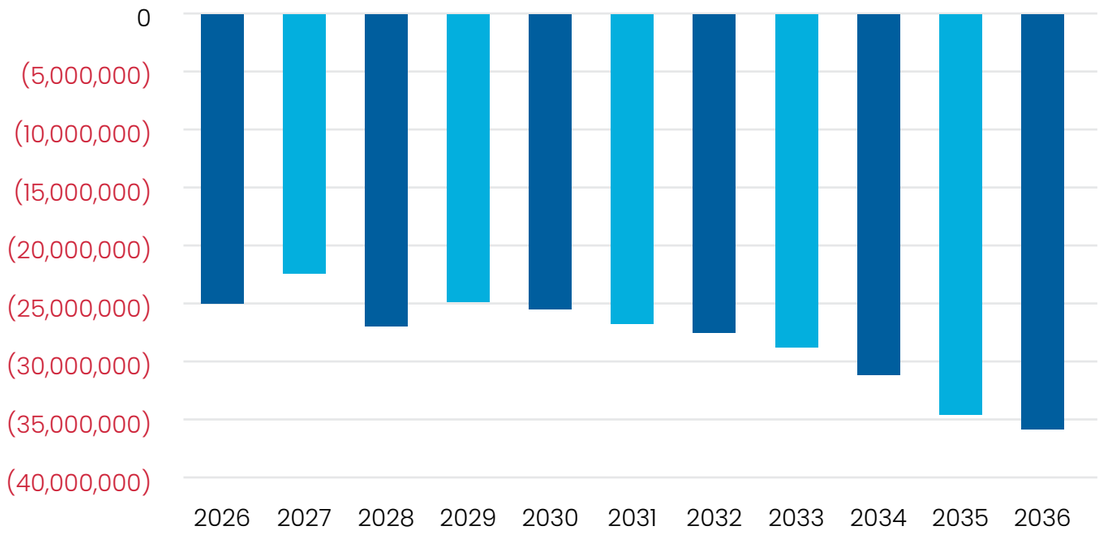
Due to persistent operating deficits and a trend that appears to be worsening ***Council would not be on a path to eliminating operating deficits as per IP&R guidelines***.

b. Analysis of Net Funds Generated from Operations

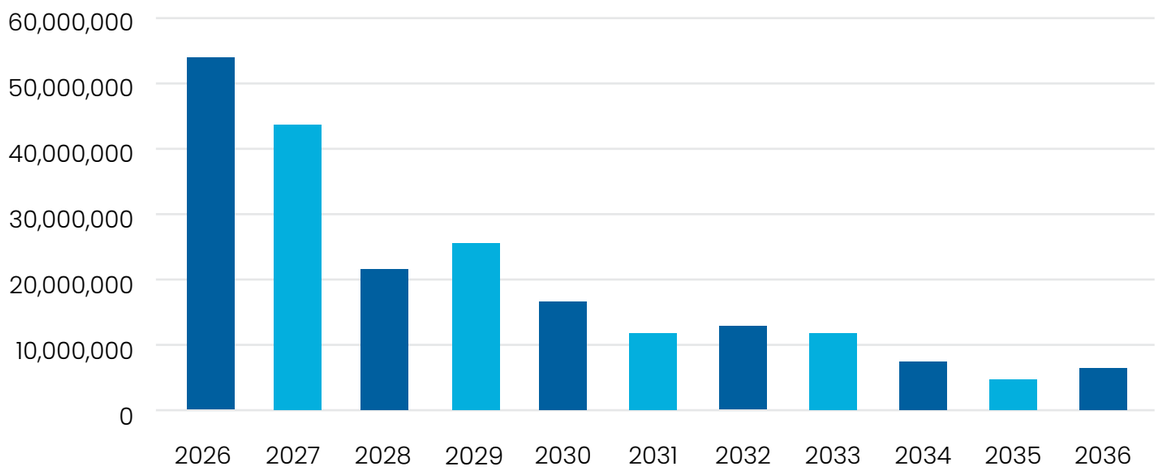
As confirmed in the analysis above Council has a achieved a significant improvement in the Net Operating Result. The graphs below are helpful in determining the trend.

Base case

Net Operating Result (per P&L) before Capital Grants and Contributions - General Fund

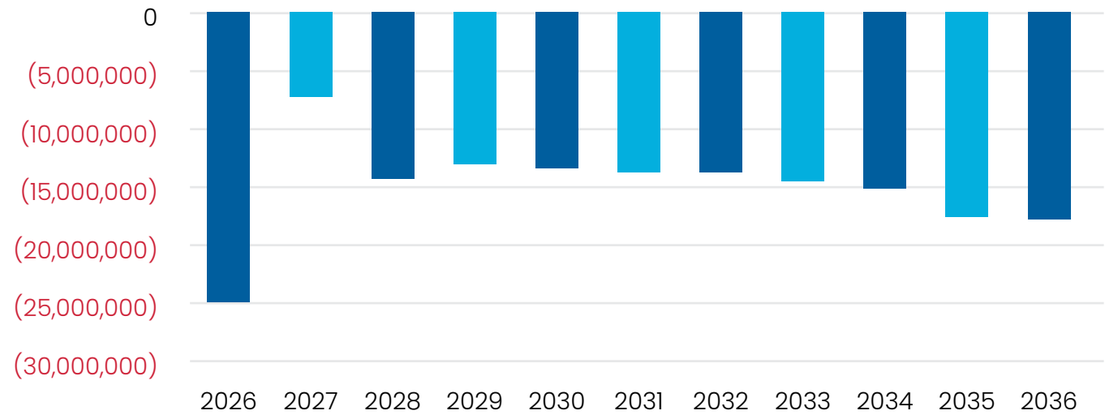


Net Operating Result (per P&L) after Capital Grants & Contributions - General Fund

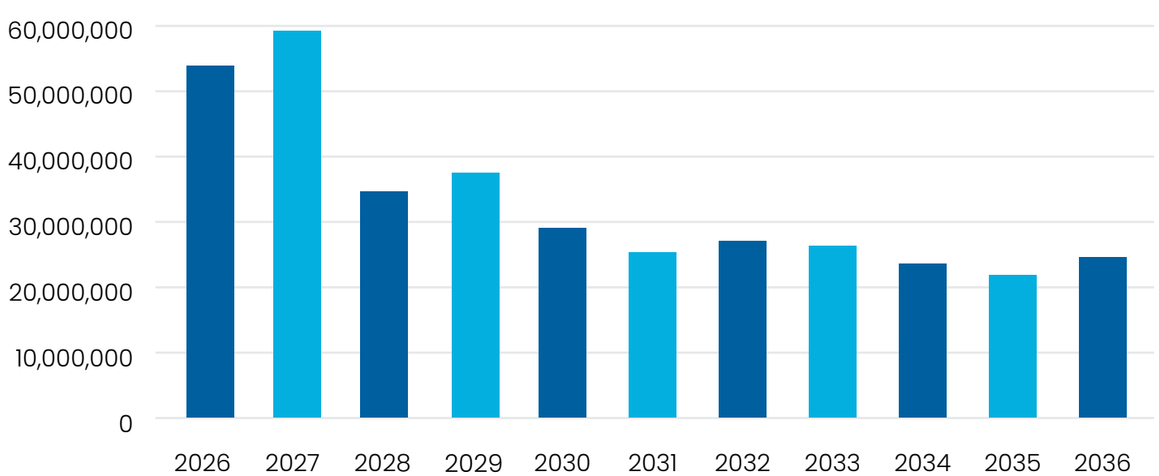


Scenario 2

Net Operating Result (per P&L) before Capital Grants and Contributions - General Fund



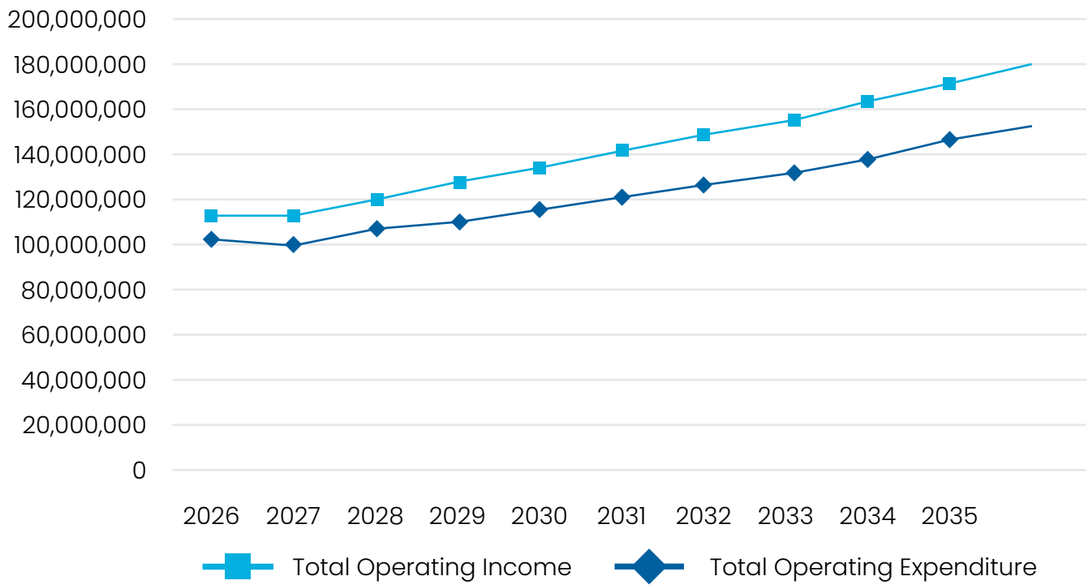
Net Operating Result (per P&L) after Capital Grants & Contributions - General Fund



As expected, the Net Operating Result improves significantly with the special variation, however the additional borrowing to support a full infrastructure renewal program and also the core works program results in further borrowing to maintain or increase loan balances. Scenario 3 involves paying down this debt which enables Scenario 3 to have a lower deficit and in effect meet the Operating Performance Ratio.

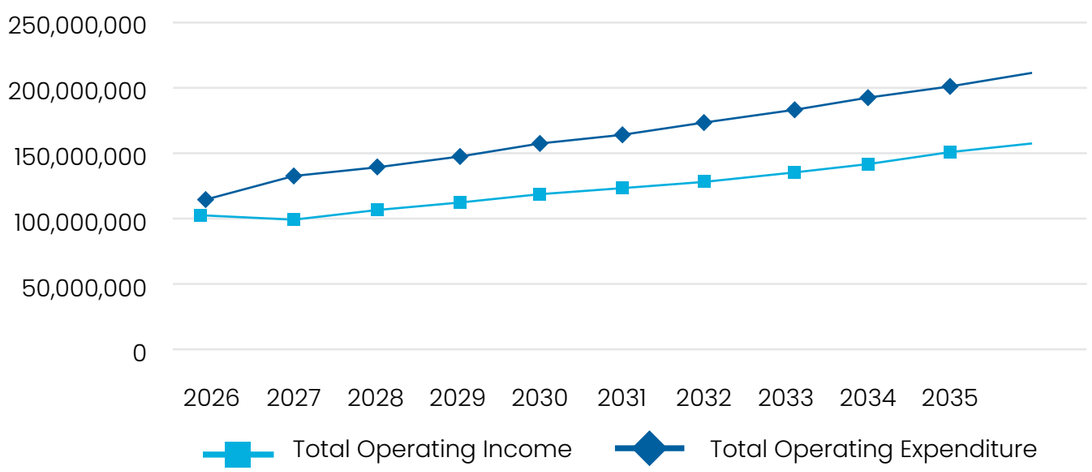
Base Case

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund



Scenario 2

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund



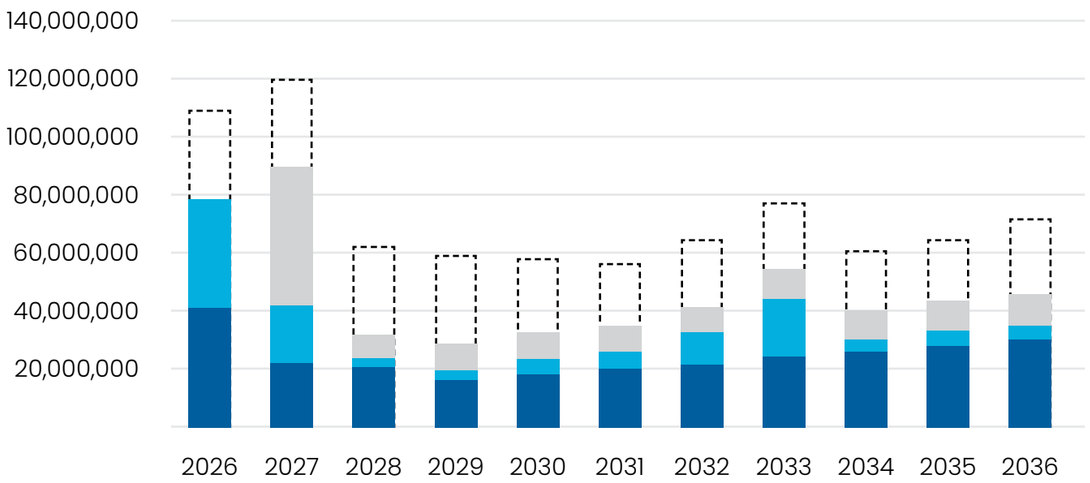
As can be seen from the above graphs there is significantly more funds being generated for the possible funding of projects.

Council will still have a Net Operating Deficit after the special variation. The Operating Performance ratio benchmark is not met; however, it does not deteriorate. Council is not on a path to eliminating operating deficits with Scenario 2 and therefore does not meet the IP&R guidelines under this scenario.

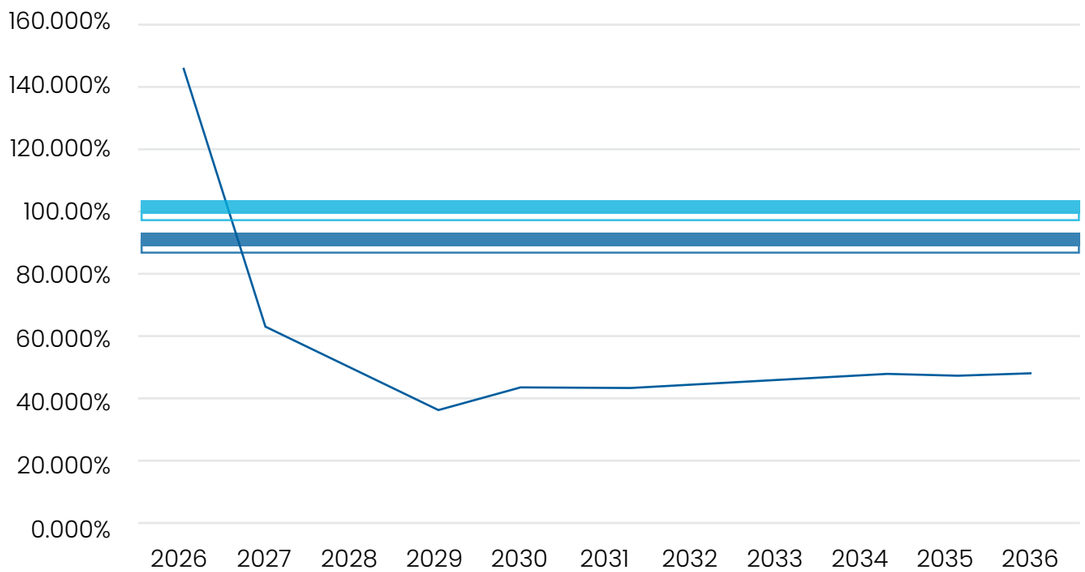
c. Infrastructure Works Program

Base case

New Infrastructure, Asset Renewal & P&E Additions

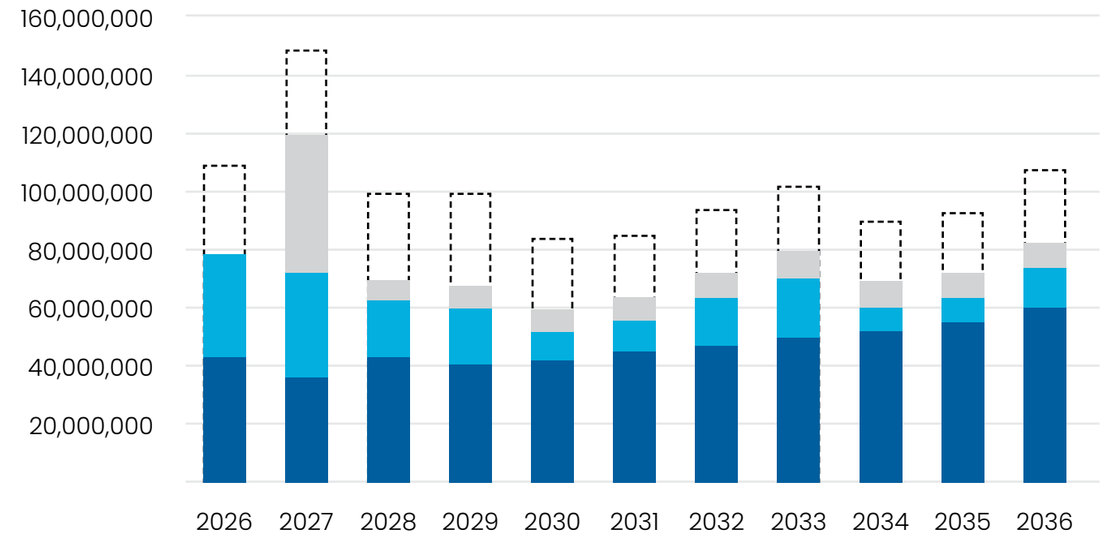


Building & Infrastructure Renewals Ratio - General Fund

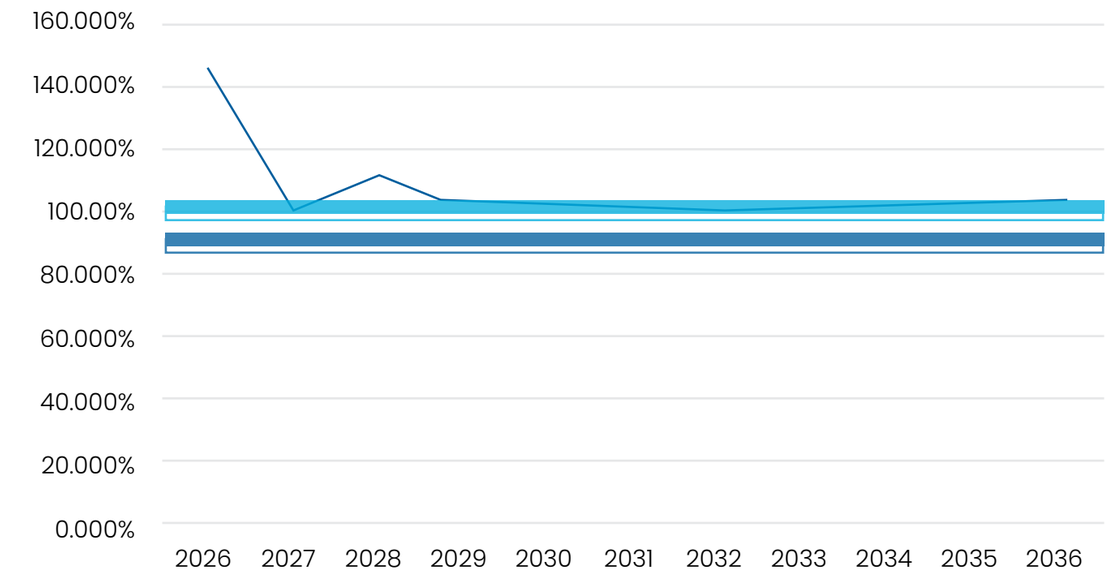


Scenario 2

New Infrastructure, Asset Renewal & P&E Additions



Building & Infrastructure Renewals Ratio - General Fund



The works program is the same as for Scenario 1. The primary difference in the works program with the base case is the increase in infrastructure renewal (the blue rectangles). As noted, the core new/upgrade program has been restored. The primary impact (same as Scenario 1) is that the infrastructure renewal ratio improves from just over 40% to 100% of what is required to meet IP&R guidelines.

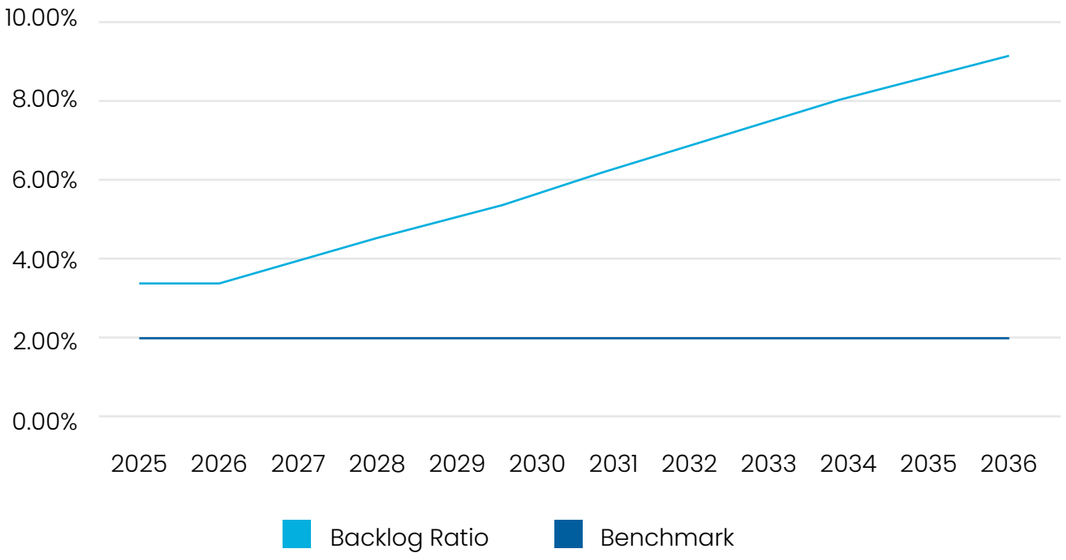
As has been noted in other commentary, asset maintenance does not meet the asset maintenance ratio target of 100%. The 2024/25 financial statements reflected a $3.6m shortfall. The current budget (2025/26) reflects a $2m shortfall. This gap is held constant and expenditure is increased in 2035/36 by $3m to meet the ratio. This is viewed as the optimal approach in Scenario 3 and is replicated in all scenarios to ensure a like-for-like comparison.

Scenario 2 does reflect sufficient investment in Council (as per the scenario objectives) and therefore there is adequate funding of asset renewal and maintenance in line with the IP&R guidelines.

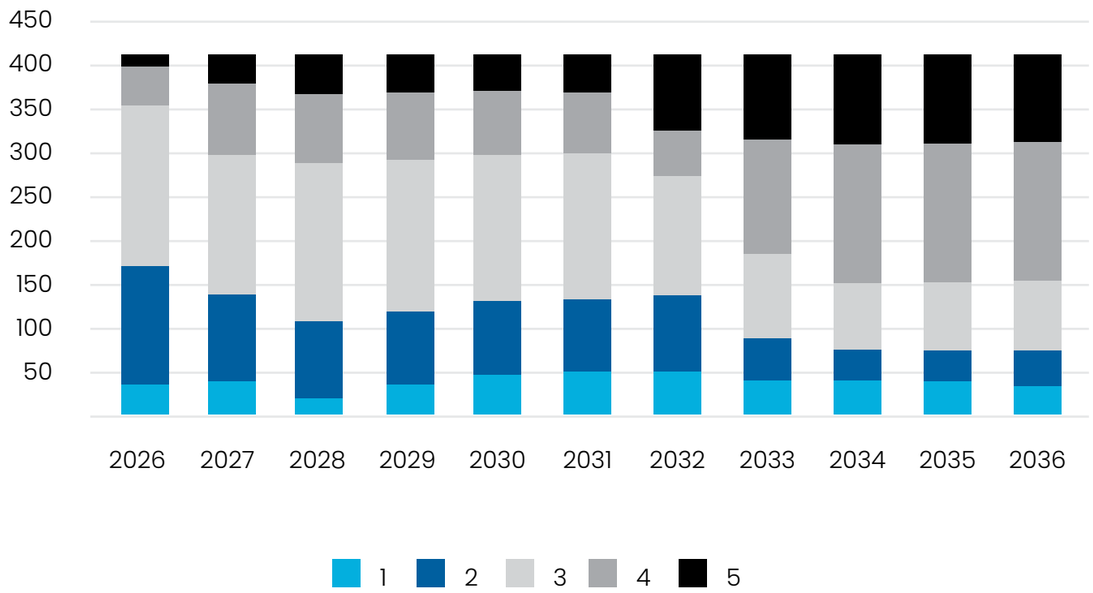
The graphs below reflect how the additional investment in asset renewal moderates the worsening trend in the infrastructure backlog and then stabilises the ratio. There is also clear improvement in the condition of roads. Scenario 1 has already described this these graphs as the program is the same for both scenarios.

Base case

Infrastructure Backlog Ratio

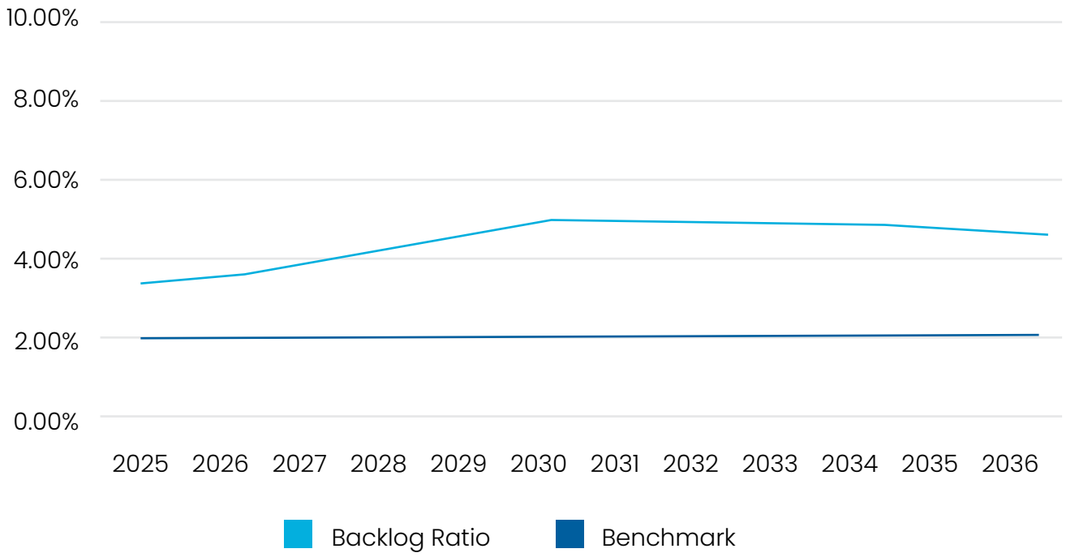


Roads: Surface & Pavement Base Condition ($m)

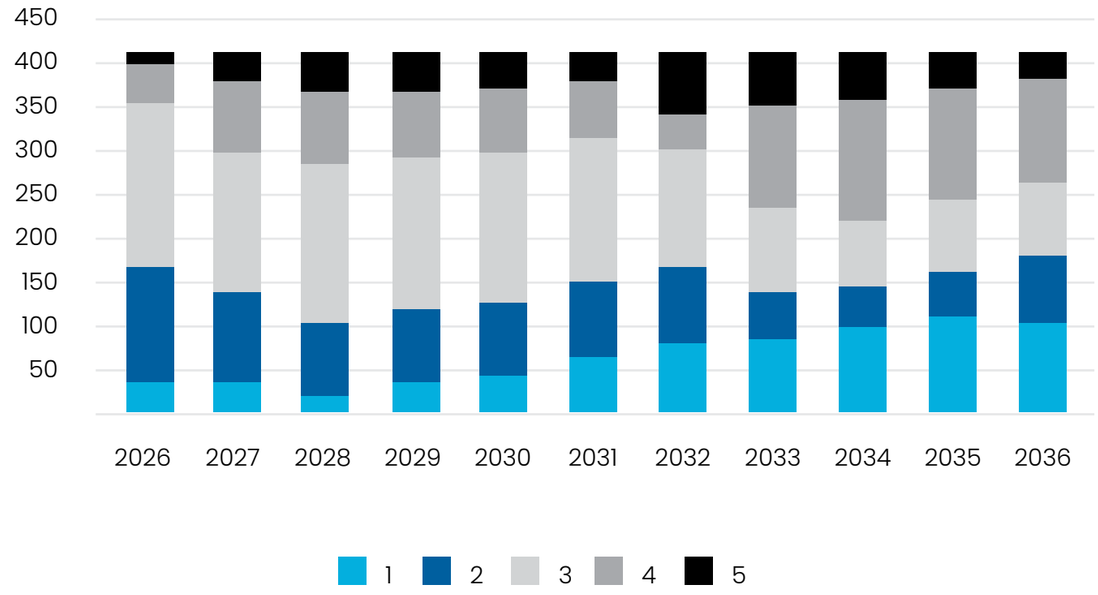


Scenario 1

Infrastructure Backlog Ratio



Roads: Surface & Pavement Base Condition ($m)

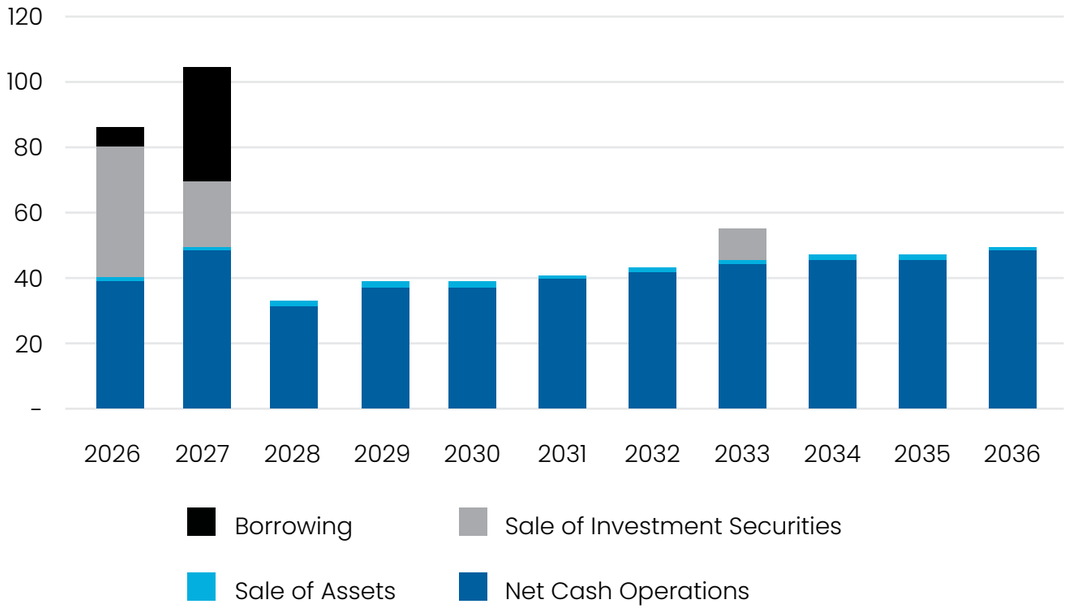


The analysis indicates that if Council can spend sufficient (sustainable) funds on asset renewal then Council can avoid significant deterioration and stabilise asset condition.

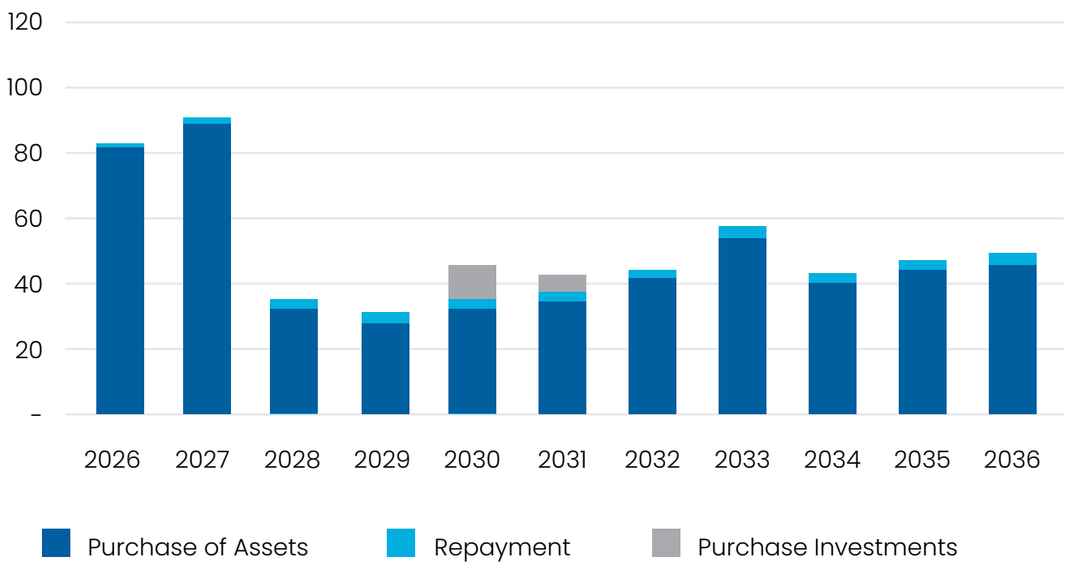
d. Overall Funding Analysis

Base Case

Source of Funds ($m)

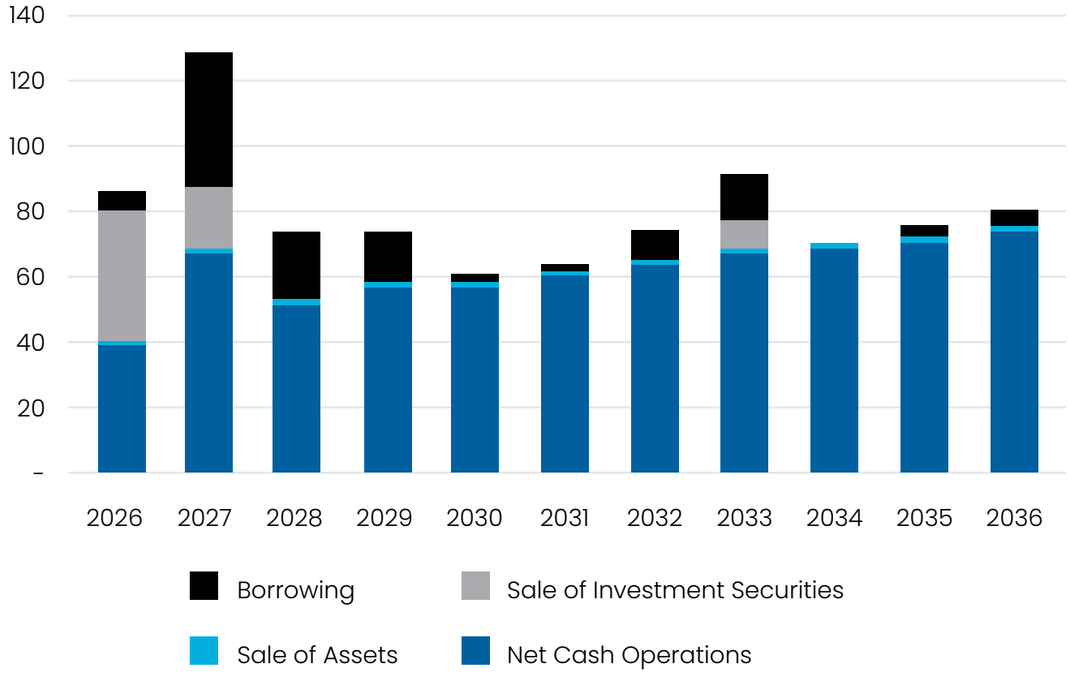


Use of Funds ($m)

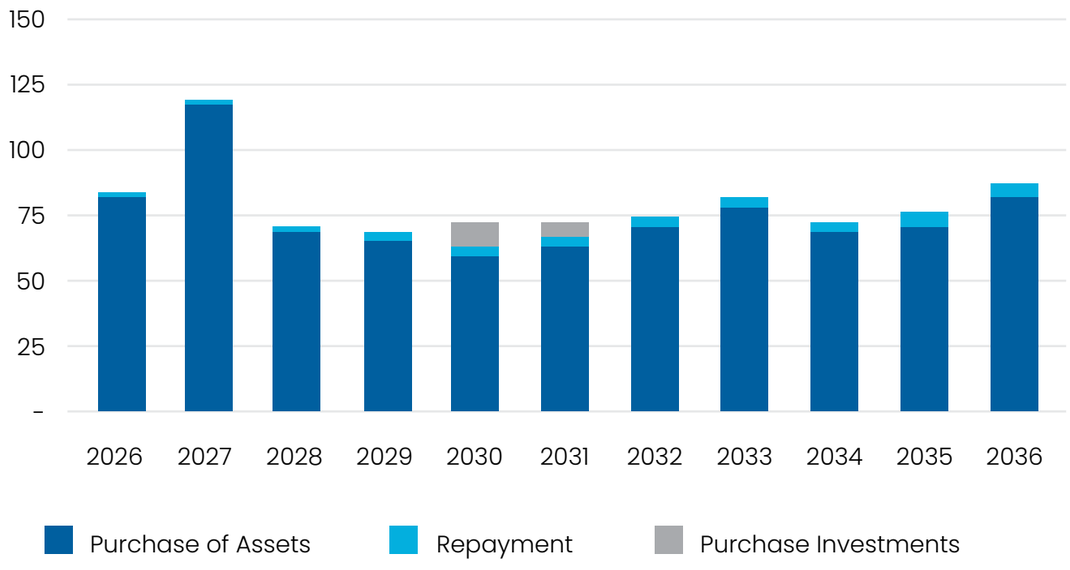


Scenario 2

Source of Funds ($m)



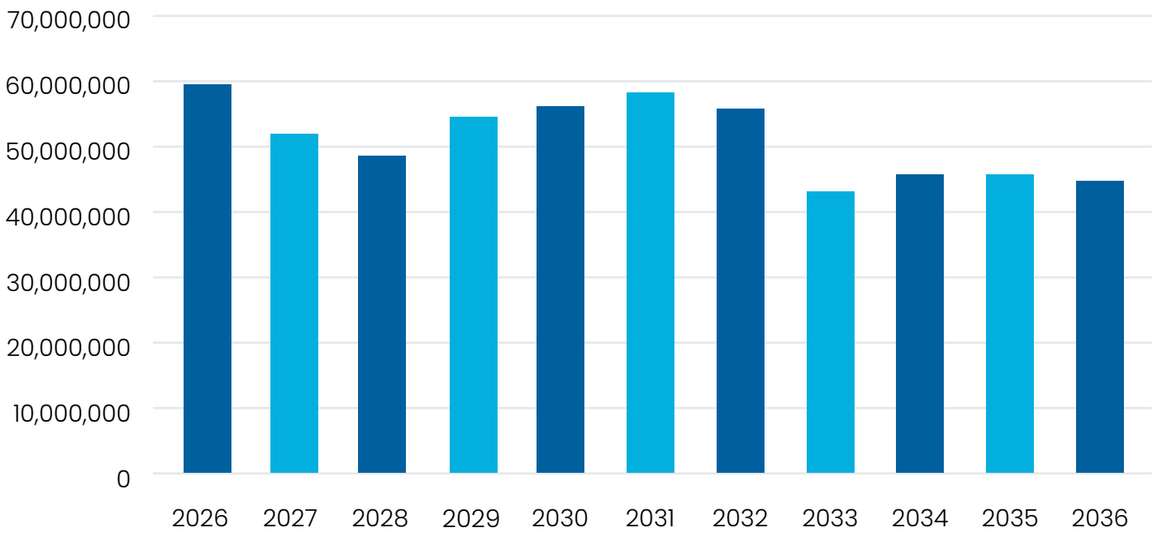
Use of Funds ($m)



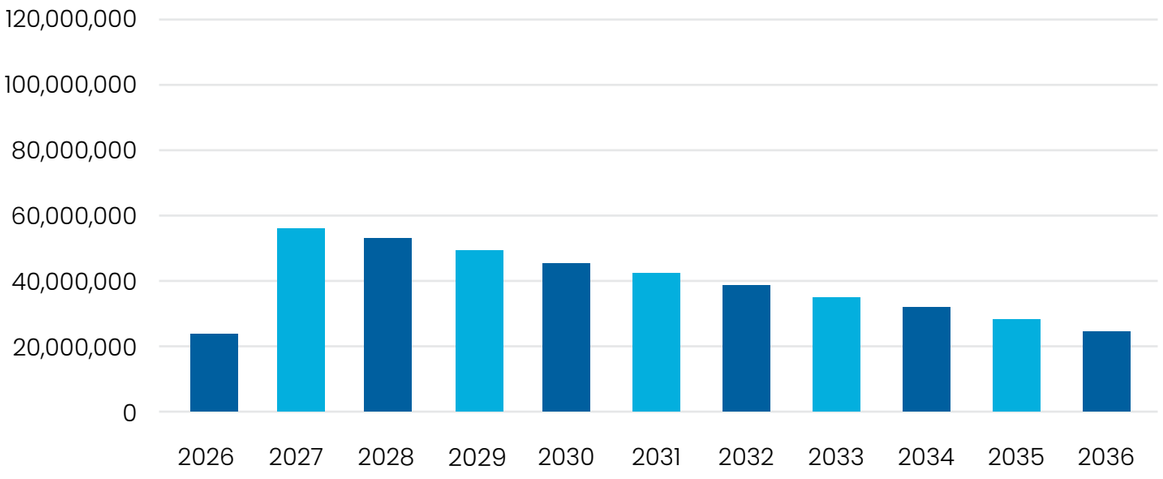
The graphs above show clear improvement in cash generation from operations due to the special variation. The use of funds graph for Scenario 2 reflects a significant increase in expenditure on assets. Borrowing however is required (red bars) due to there still being a funding gap. Outstanding Loans by 2035/36 are projected to total $103m (below). This significant outstanding loan amount might start to impact Council's capacity to continue meeting key infrastructure ratios without further borrowing as principal and interest repayments are beginning to become significant.

Base case

Net Cash & Investments (incl. Bank Overdraft) - General Fund

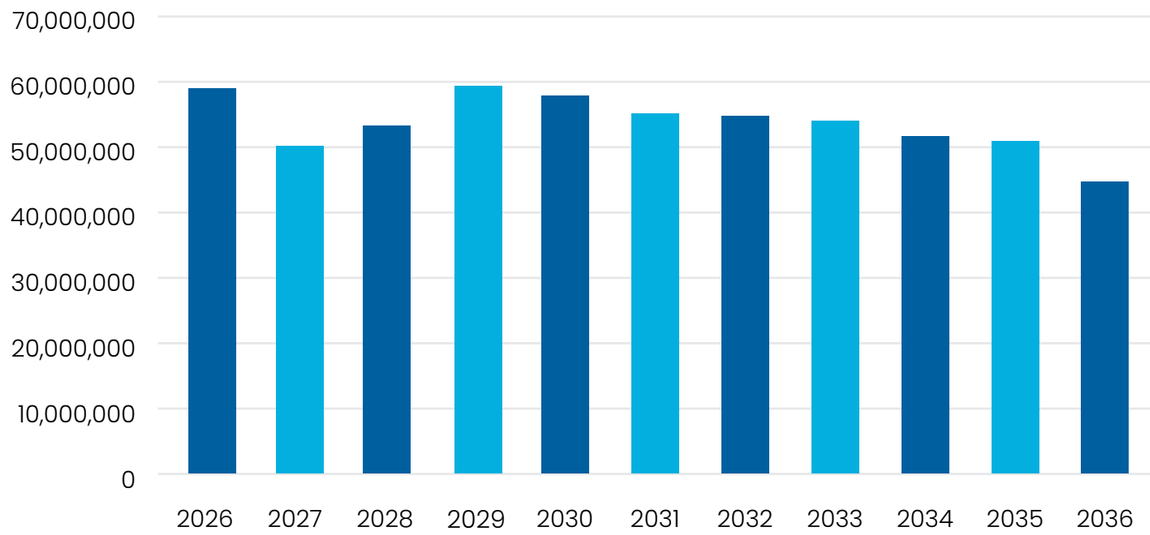


External Loans Outstanding - General Fund

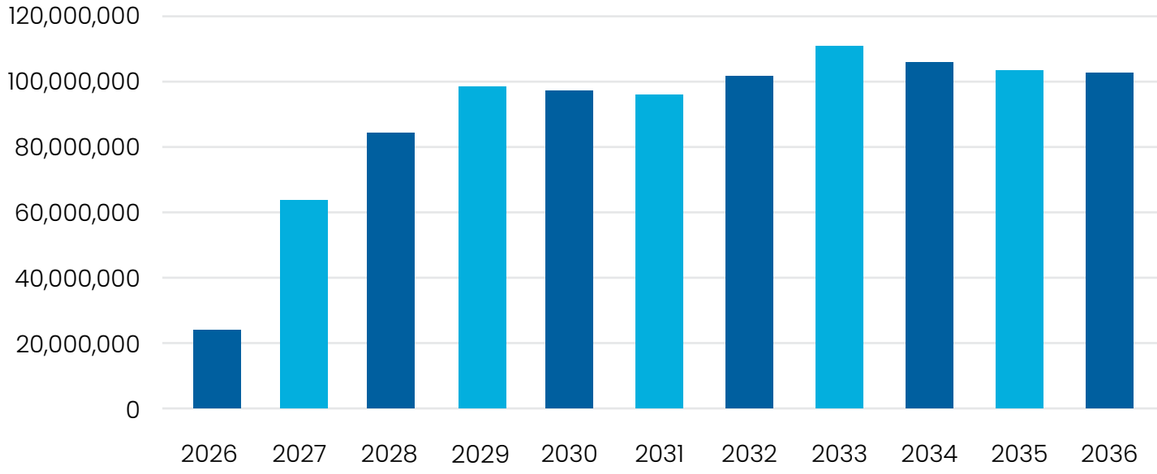


Scenario 2

Net Cash & Investments (incl. Bank Overdraft) - General Fund



External Loans Outstanding - General Fund



e. Assessment of the Scenario

Based on this analysis an assessment against IP&R guidelines and community expectations reflects the following:

- This scenario does not provide a path to eliminating operating deficits.
- The revenue path for expenditure proposals reflected in this scenario can be funded but does require some ongoing borrowing to supplement funds generated from operations
- There is therefore adequate funding for infrastructure maintenance and renewal.
- This scenario involves borrowing within Council's capacity to repay the debt however the loans will impact the scale of future expenditure on projects. In addition, loan balances are becoming significant and Council might find it harder to borrow (at least from TCorp) and as a result the loans undertaken might be on more expensive and restrictive terms.

This scenario can direct sufficient funds towards achieving a material improvement in the condition of Councils roads. This will, however, take time and there will initially be some deterioration in overall asset condition.

Scenario 3: Special Variation targeting benchmarks within funding capacity

The base case scenario is best read before reading this scenario. The base case analysis provides a more detailed analysis of the current situation, explains the graphs in more detail and provides context for an evaluation of this scenario.

This scenario analyses the impact of a 39.9% special variation for 2026/27. This would provide Council with approximately $20m in 2026/27 in additional rate income. The $20m results in Rates and Annual Charges increasing from $78m to $98m. As rates are adjusted each year (rate peg and population growth) the benefit of the SV also increases in line with rates generally from $134m to $164m in 2035/36.

This scenario will look to constrain operational expenditure to ensure these funds are applied to the maintenance and renewal of infrastructure, in particular roads. Borrowing will still be necessary to shore up Council's cash position and to ensure the capital works program is not disrupted in the early years of this plan. Cash and investments will remain modest as all additional funds will be applied to achieving key sustainability objectives.

a. Assessment of Operating Revenue and Expenditure

The table below as an abridged version of the Income Statement generated within the LTFP. A full version with all years is included in the appendices.

Abridged income statement

Revenue

		BASE CASE		SCENARIO 3	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Rates & annual charges	71,193,000	133,674,920	5.9%	164,313,362	7.9%
User charges & fees	9,926,000	18,743,733	5.9%	18,743,733	5.9%
Other revenue	3,339,000	4,672,057	3.1%	4,672,057	3.1%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%	22,363,780	3.3%
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Investment revenue & other income	4,533,000	770,002	(14.9%)	751,954	(15.1%)
Total income	**176,621,000**	**222,320,429**	**2.1%**	**252,940,823**	**3.3%**

Expenses

		BASE CASE		SCENARIO 3	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	49,318,000	70,046,155	3.2%	70,046,155	3.2%
Borrowing costs	922,000	1,644,420	5.4%	2,139,935	8.0%
Materials & contracts	37,269,000	69,307,898	5.8%	69,258,066	5.8%
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Other expenses	7,363,000	11,481,946	4.1%	11,481,946	4.1%
Net losses from the disposal of assets	17,405,000	6,097,422	(9.1%)	14,535,891	(1.6%)
Total expenses	**138,475,000**	**216,088,161**	**4.1%**	**225,461,276**	**4.5%**

		BASE CASE		SCENARIO 3	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	6,232,268	(15.2%)	27,479,547	(2.9%)
Net operating result before capital grants and contributions	(33,778,000)	(35,863,668)		(14,616,389)	

The final year of the LTFP (2035/36) is being analysed against the recently audited Financial Statements for 2024/25.

As can be seen in the table above the only significant difference in Revenue is associated with the 39.9% special variation.

- **Rates and Annual Charges:** As discussed in the bases case the 5.9% growth can be fully explained by the combination of population growth and the estimation of the designated increase per year as determined by IPART on behalf of the NSW government. The special variation whilst significant will add only an average of 2% per annum over the next 10 years to the rates and annual charges.

- **User Charges & Fees:** Council will not change its approach to Fees and Charges under this scenario. Council will seek to obtain a fair and reasonable coverage for fee-based services. Sometimes this is a regulated fee. Other fees are a mix of cost recovery or where appropriate market based. It should be noted that if fees and charges are not adequately recovered this shortfall is in effect borne by ratepayers.

- **Other Revenue:** No change planned.

- **Grants and Contributions (Operating) and Grants and Contributions (Capital):** Council will seek appropriate grants irrespective of whether a special variation application is successful or not. In addition, dedications and developer contributions are likely to remain unchanged. The following reasons apply for why grant funding approach will not change:

  - Council is still funding constrained under Scenario 3 and therefore will seek wherever possible to obtain grants for projects that are part of Councils plans. It will remain important for Council not to adjust programs to absorb grants that are not aligned with key objectives.

  - A grant is merely a contribution to the initial cost of construction. The ongoing costs (often into perpetuity) are substantially greater than the value of the initial grant. This issue is often not appreciated by councils and results in councils often maintaining (and replacing these assets) when these funds could have been better applied to assets and services of greater value to the community. Therefore, council having less funding constraints should not result in a less disciplined approach to grant funding.

- **Investment Revenue & Other Income:** Effectively no change as funds will be directed towards essential projects. As a consequence, Council's cash and investment balances will remain in a target range to ensure Council and operate effectively but will not increase beyond this requirement.

As will be noted below operational costs will remain constrained under this scenario. The rationale for this is that the special variation is being sought to shore up Councils operational position and maximise the funds that can be assigned to the renewal of essential infrastructure, particularly roads.

- **Employee Benefits:** No change from the base case. Operational staff costs will be tightly contained to meet the objective. The efficiency initiatives continue to apply,

staff numbers will be contained in the first five years, and there will be limited growth in staff numbers (below what would be anticipated given population growth) for the subsequent five years.

- **Borrowing Costs:** In this scenario the same borrowing will occur as for the base case. The reason for the higher interest charges is that funds will be borrowed over a longer period. All funds borrowed in 2026/27, a total of $35m, will be borrowed for 20 years. It is believed this approach is prudent as there is greater capacity under this scenario to support responsible borrowing.

- **Materials & Contracts:** The same approach will apply as the base case. There will be a moderate increase in the value of infrastructure due to a limited amount of additional construction for new and upgraded assets. Materials and Contracts will however remain largely similar as the scale of assets remains largely the same. As noted in the base case the shortfall in asset maintenance (as against what is required will be addressed in 2035/36). Until that time the shortfall will be approximately 10% (i.e. An asset maintenance ratio of 90%). This amount to approximately $2m in 2026/27.

- **Depreciation & Amortisation:** Depreciation is moderately higher however this is not significant as the Gross Asset Value between both scenarios is effectively similar.

- **Other Expenses:** This category is almost totally associated with various levies so there is no change.

- **Net Losses from the Disposal of Assets:** There is a significant increase in the level of disposals under Scenario 3. This is due to the significant increase in infrastructure renewal. As discussed in the base case when assets are renewed the residual value is typically written-off. Even assets in poor condition have some residual value. The increase in this line item is therefore the natural result of Council focusing on one of its key objectives of increasing infrastructure renewal to sustainable levels.

- **Net Operating Result:** As is to be expected there is a significant improvement in the Net Operating Result. By containing operating expenses in scenario Council will generate funds which can be applied to the capital works program. As will be seen below this results in significant benefit.

- **Net Operating Result before Capital Grants and Contributions:** This line has also improved significantly (in tandem). Council is still however not achieving a breakeven or surplus position and so is not achieving the benchmark.

As will be covered later, the special variation will provide clear benefit with substantially more infrastructure renewal being possible. The remaining deficit will however moderate the funds available and as will be seen Council will need to work within those constraints but gradually increase the capital works program. As will be seen council is able to achieve the Infrastructure Renewal ratio and stabilise the condition of assets

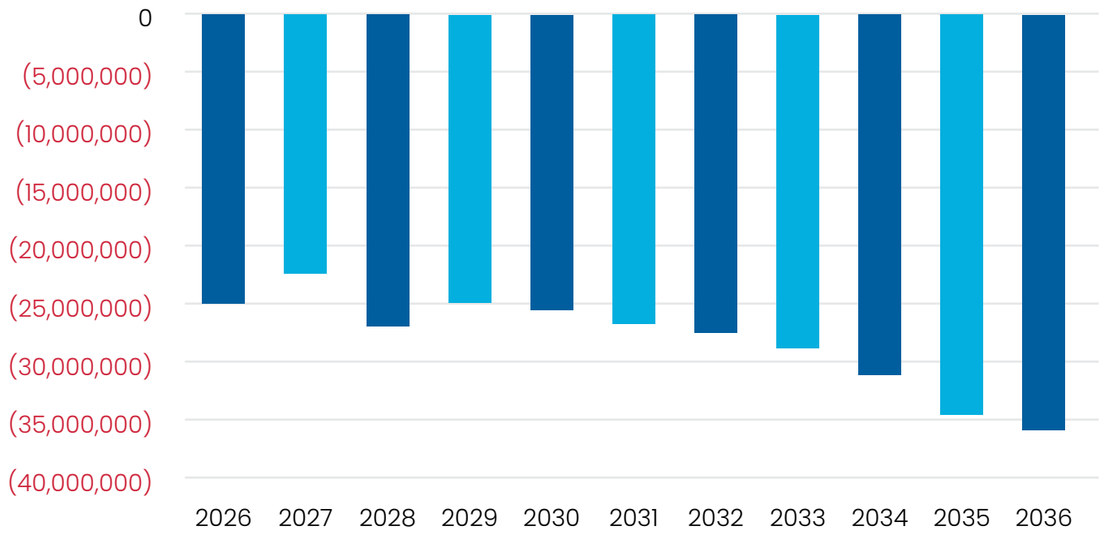
It can be seen that if scenario 3 had the same level of Net Losses on Disposal as the base case the Net Operating Result before Capital Grants and Contributions would be almost breakeven and meet the benchmark. This however would require Council to not undertake the asset renewal programs that are so critical. This does however show the marked improvement achieved from the special variation.

b. Analysis of Net Funds Generated from Operations

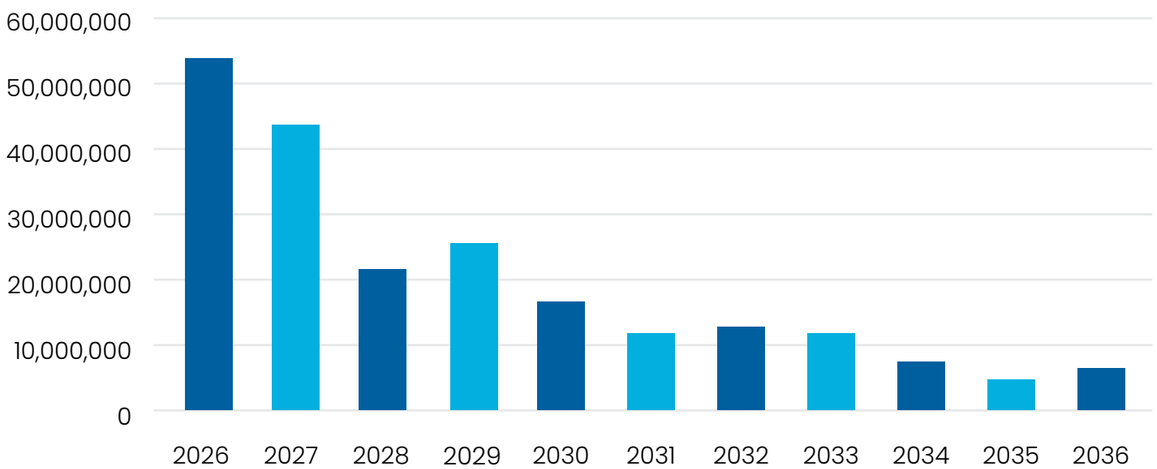
As confirmed in the analysis above Council has a achieved a significant improvement in the Net Operating Result. The graphs below are helpful in determining the trend.

Base case

Net operating result (per P&L) before capital grants and contributions - general fund

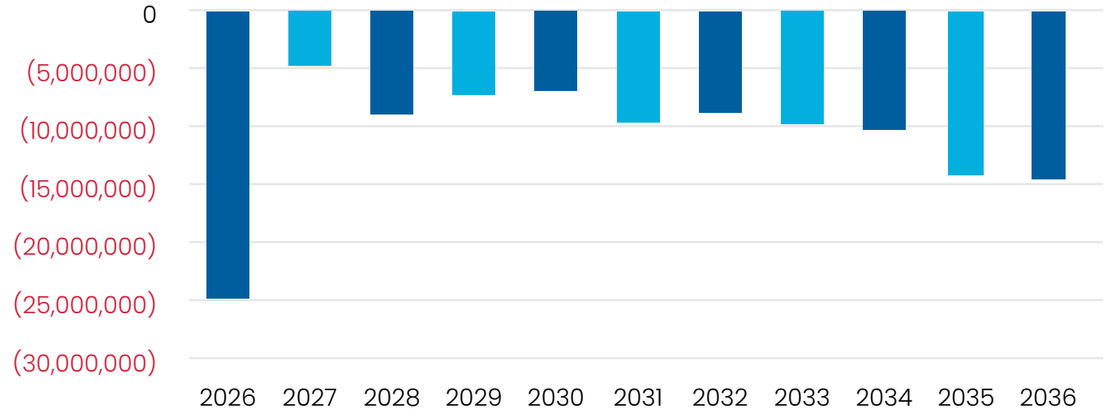


Net Operating Result (per P&L) after capital grants and contributions - general fund

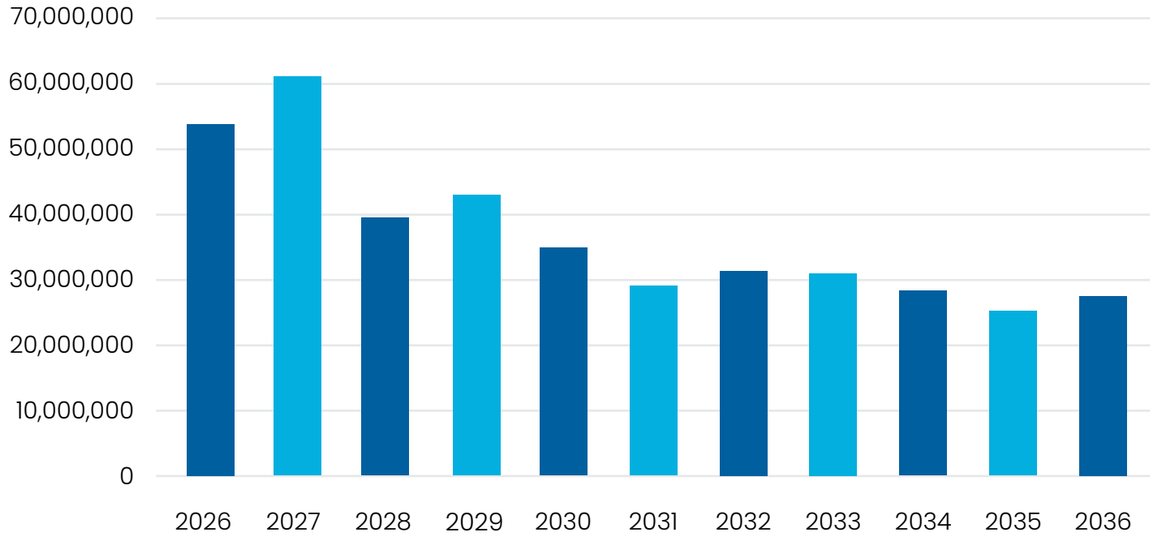


Scenario 3

Net operating result (per P&L) before capital grants and contributions - general fund

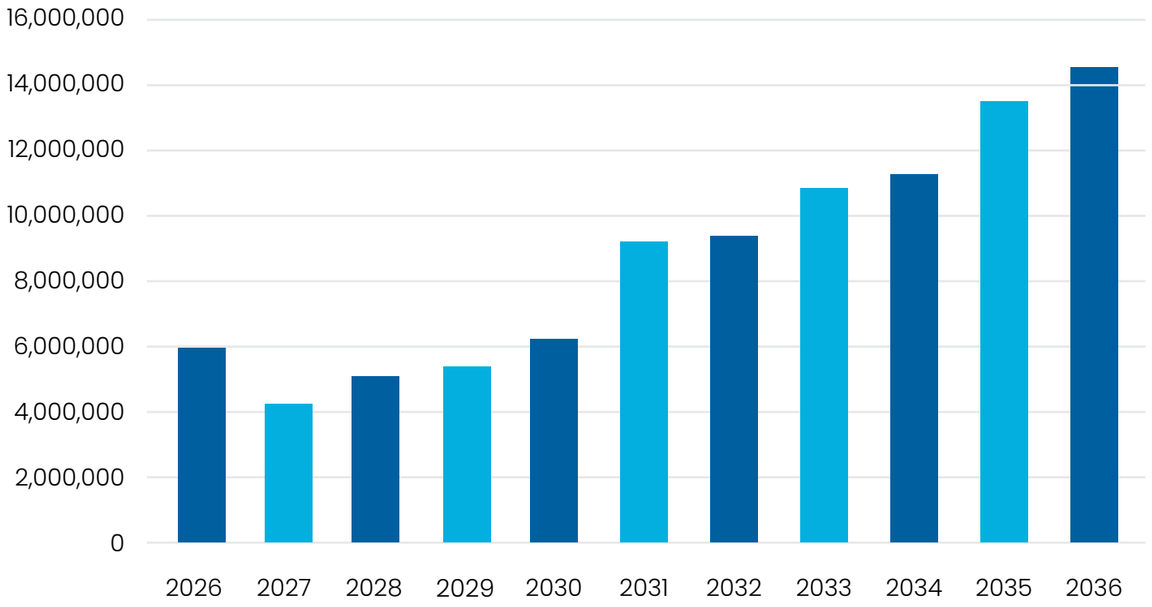


Net Operating Result (per P&L) after capital grants and contributions - general fund



As can be seen in the graphs the trend is one of modest deterioration in the Net Operating Result under Scenario 3. If the Net Losses on Disposal were kept constant there would be a modest improvement in the trend. This indicates that Council has the potential to stabilise and possibly gradually improve its operating position. This however is in the balance and forecasting over a 10-year period with many assumptions about the future would not be certain.

Net losses on disposal of assets

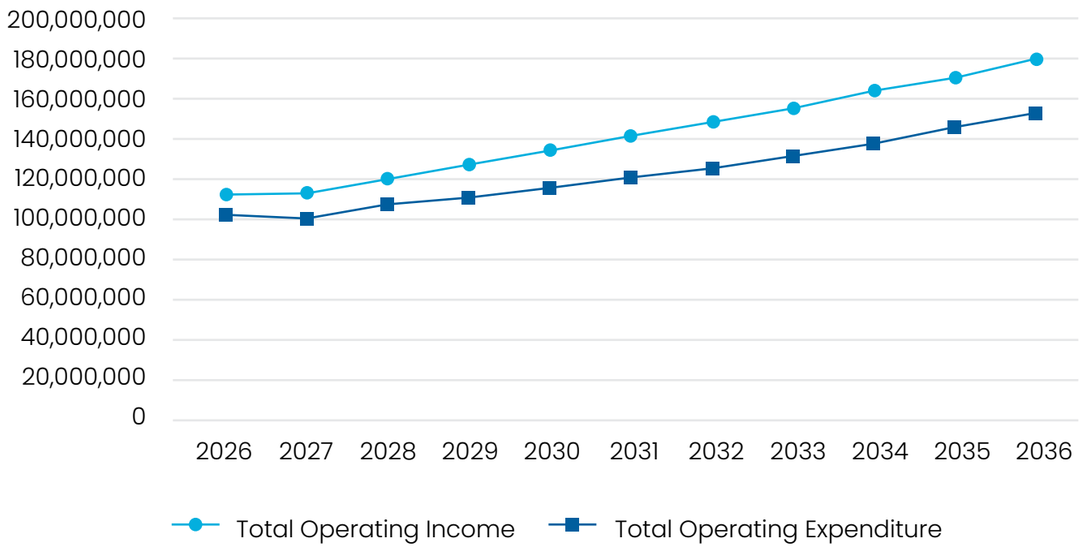


With infrastructure renewal reaching the benchmark in the latter years the annual increases in the net losses on disposal should moderate.

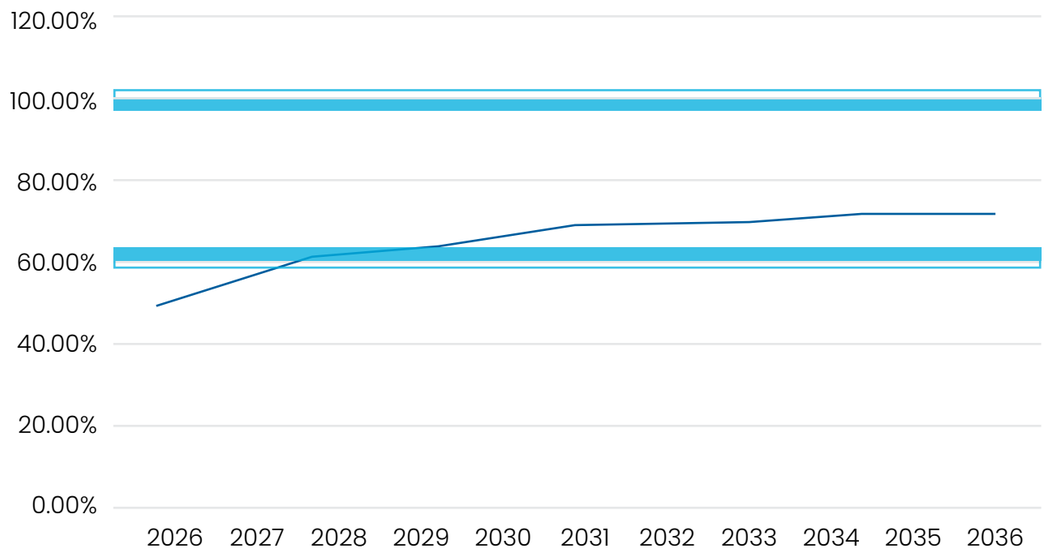
The graphs below again show clear improvement from the special variation. There is clear improvement in the level of funds available to apply to capital works (top graph). Council's own source operating revenue ratio is also improving reducing the reliance on other funding sources.

Base case

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund

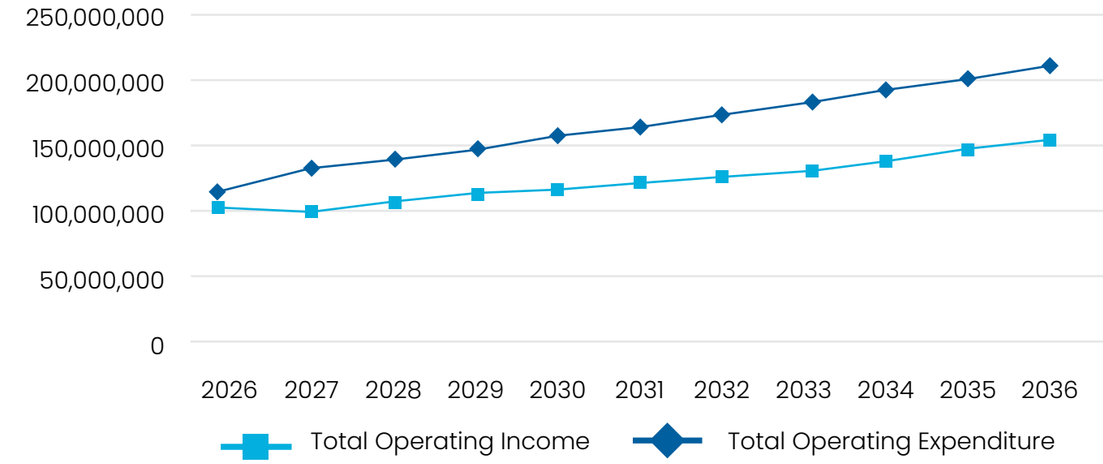


Own Source Operating Revenue Ratio - General Fund

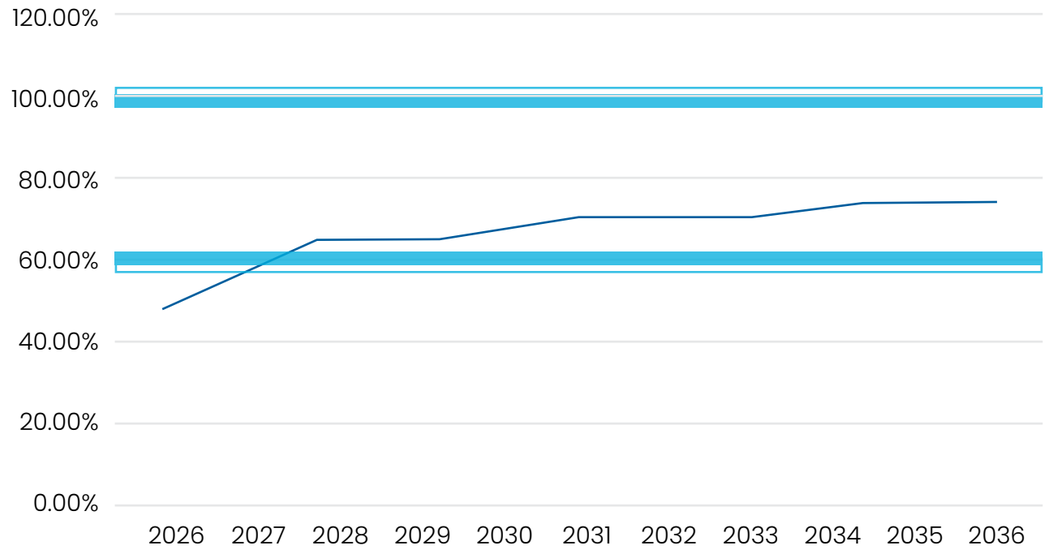


Scenario 3

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund



Own Source Operating Revenue Ratio - General Fund



As Council will still have an operating deficit and the trend is modest at best and not certain there cannot be the confidence required that Council is on a path to eliminating operating deficits and therefore does not meet the IP&R guidelines.

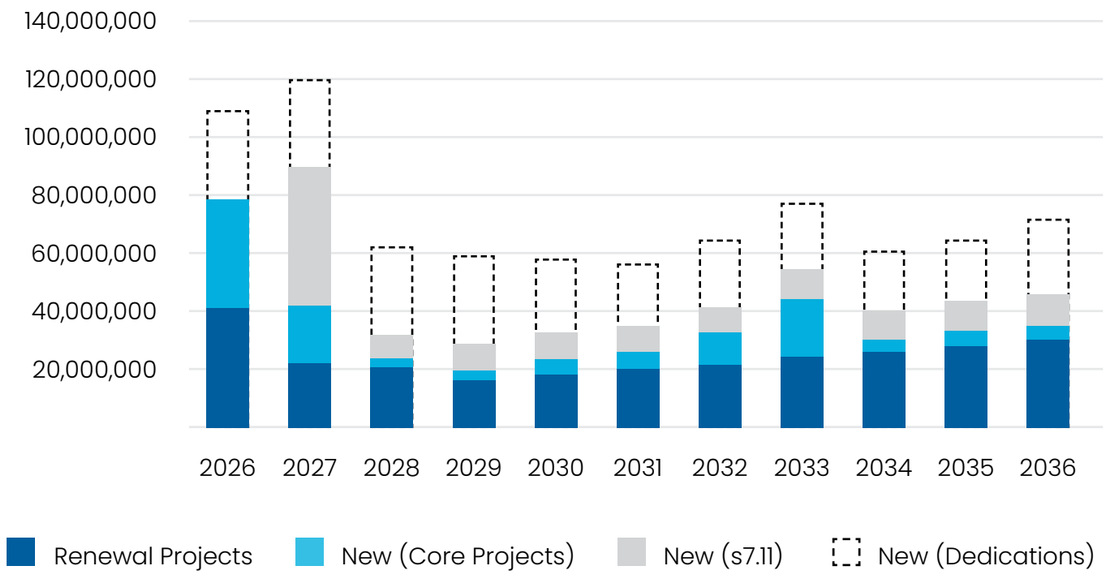
c. Infrastructure Works Program

As will be seen in the graphs below the special variation will be applied to significantly increase the capital works program. It can be clearly seen that:

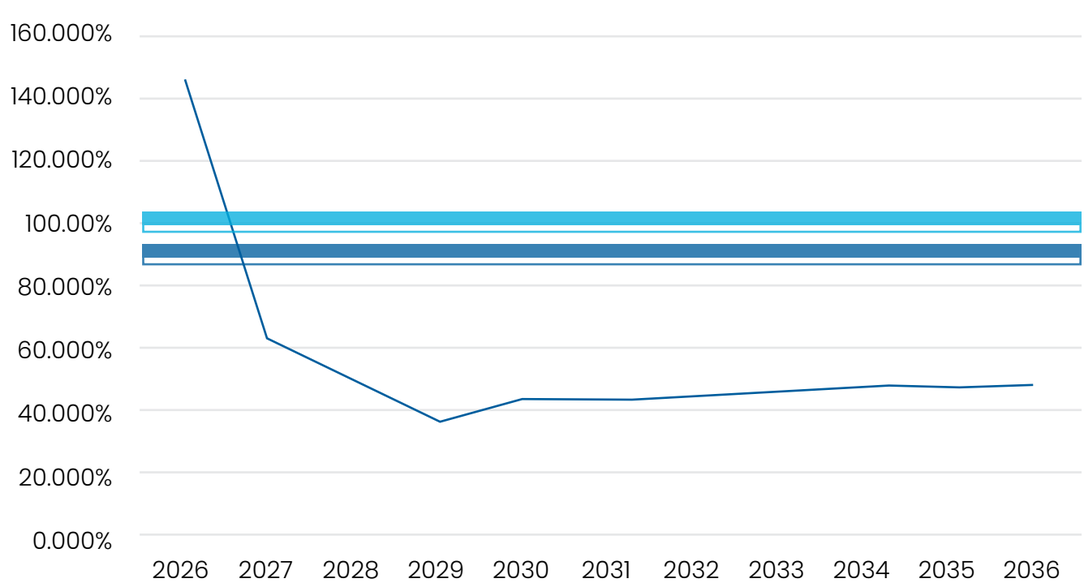
- The base case not only resulted in the scoping down of renewal works but also much needed upgrade and renewal. There are roads that are in such a poor condition they need to be remediated. These projects are classed as upgrades as the investment required is beyond the scope of a typical renewal project.
- In addition, the base case supports the investment in other major asset classes. This is not sustainable and so projects need to be restored to cover the necessary works in these areas.
- Roads will however continue to remain the priority and consequently once essential works in some other areas have been restored to the program all remaining funds are directed towards the road renewal program.
- With this as context the graphs are easier to explain. As can be seen the most dramatic increase is in the Renewal Projects (blue bars). There is immediate impact on the Renewal ratio with the decline in expenditure moderated in 2026/27.
- Rather than undertaking additional borrowing in 2027/28 the programs remain funding constrained. The remaining 7 years of the 10-year forecast see ongoing improvement in the Renewal Ratio with the benchmark being reached in 2032/33.
- There is extensive coverage of some of the other areas in the analysis of the base case. Other programs remain the same or similar. Key points are:
    - Dedications remain unchanged and do not require Council funding. These are assets which developers transfer ownership to Council.
    - S7.11 projects as noted in the base case will receive some limited funding from Council to achieve the greatest possible leverage in the use of developer contributions and achieve key assets in the s7.11 Contributions Plan. Council funds will be capped for this purpose so there is not an adverse impact on core projects, particularly renewal projects.

Base case

New Infrastructure, Asset Renewal & P&E Additions

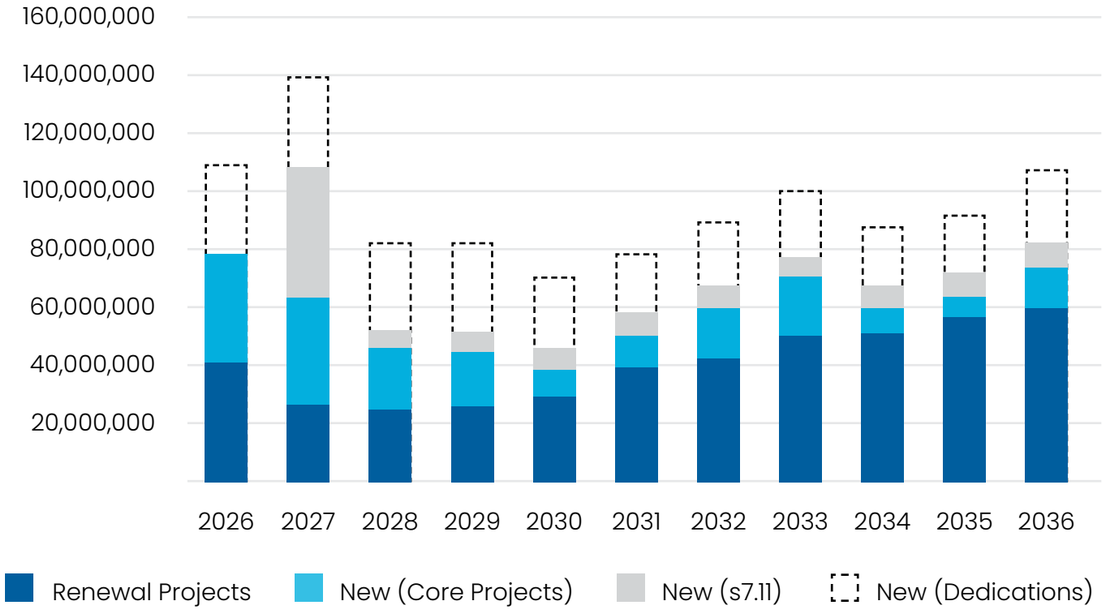


Building & Infrastructure Renewals Ratio - General Fund

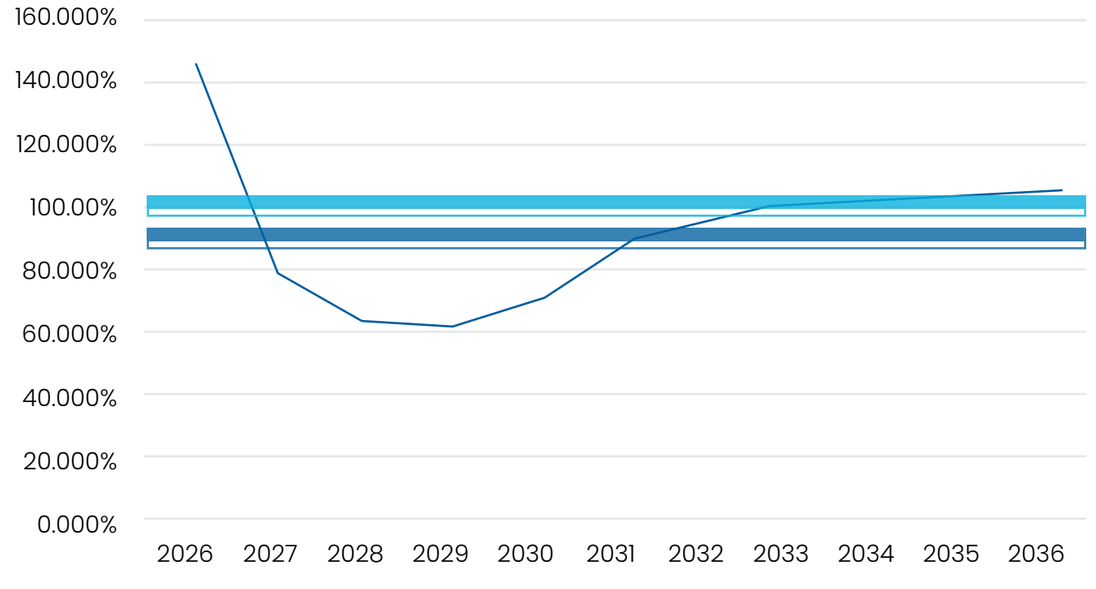


Scenario 3

New Infrastructure, Asset Renewal & P&E Additions



Building & Infrastructure Renewals Ratio - General Fund



Council can therefore demonstrate that can reach a position of having adequate funding of asset renewal and maintenance in line with the IP&R guidelines. This situation is achieved in a sustainable manner from 2032/33.

The graphs below reflect the impact of the gradual increase in the capital works program as council gains greater funding capacity to undertake the program. As can be seen the infrastructure backlog initially continues to increase, then stabilises and has a very slight improvement in the latter years of the LTFP.

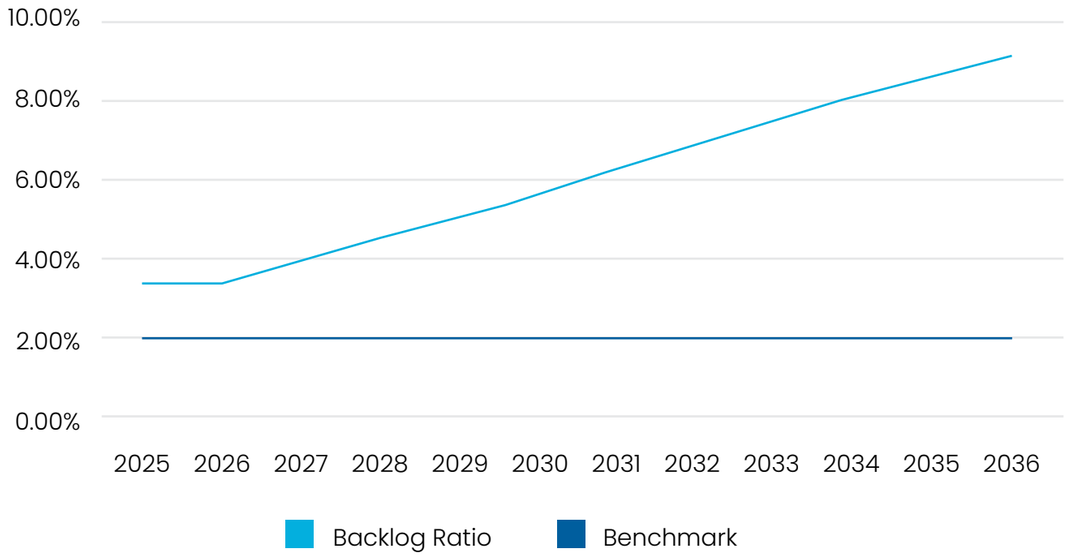
As discussed in the base case a more detailed view of asset conditions is helpful. Using roads as an example, there can be a significant proportion of assets in a particular asset class that are on the cusp of reaching a poor condition (based on typical degradation as assets become older). As can be seen below this is the case with road assets.

The graph on road surface and base (the top two layers of a road segment) below is only covering existing road assets. New road assets will be in very good condition (condition 1). Condition 4 (poor) and condition 5 (very poor) require renewal. A more detailed analysis of the graph for Scenario 3 highlights the following:

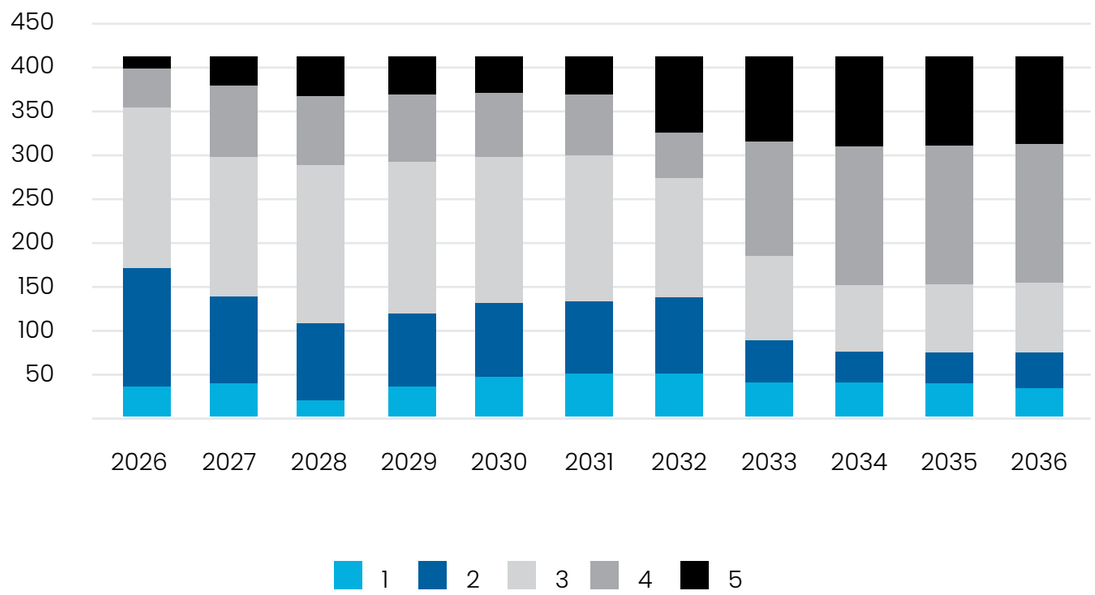
- There is a significant percentage of surface and base in a satisfactory condition (condition 3). These assets will probably undergo ongoing maintenance but probably generally not be renewed at this stage. Council focus will be on assets in poor or very por condition.
- Initially Council will not undertake sufficient renewal (as per the infrastructure renewal ratio). As more expenditure occurs Council will exceed the renewal ratio for roads (as a priority) which will result in ongoing improvement.
- The significant investment in roads will result in an increasing percentage of road assets being classed as very good (condition 1) and good (condition 2). A marked improvement can be seen in this area (green bars).
- This improvement will continue with and with less assets in condition 3 infrastructure renewal should more rapidly reduce the pool of poor condition assets.
- In effect, the process of improvement will take time due to the profile of current assets but should accelerate and be sustainable.

Base case

Infrastructure Backlog Ratio

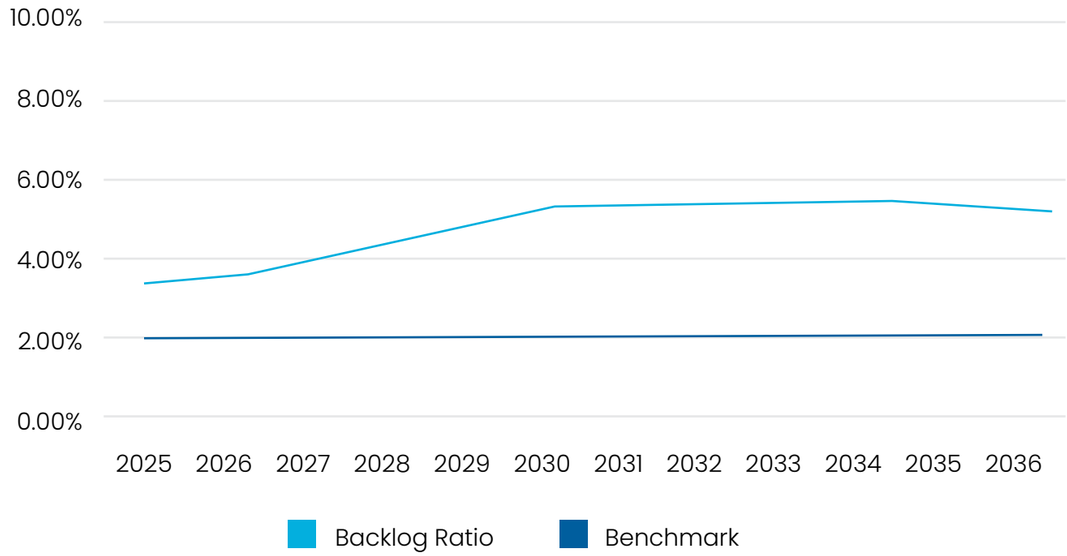


Roads: Surface & Pavement Base Condition ($m)

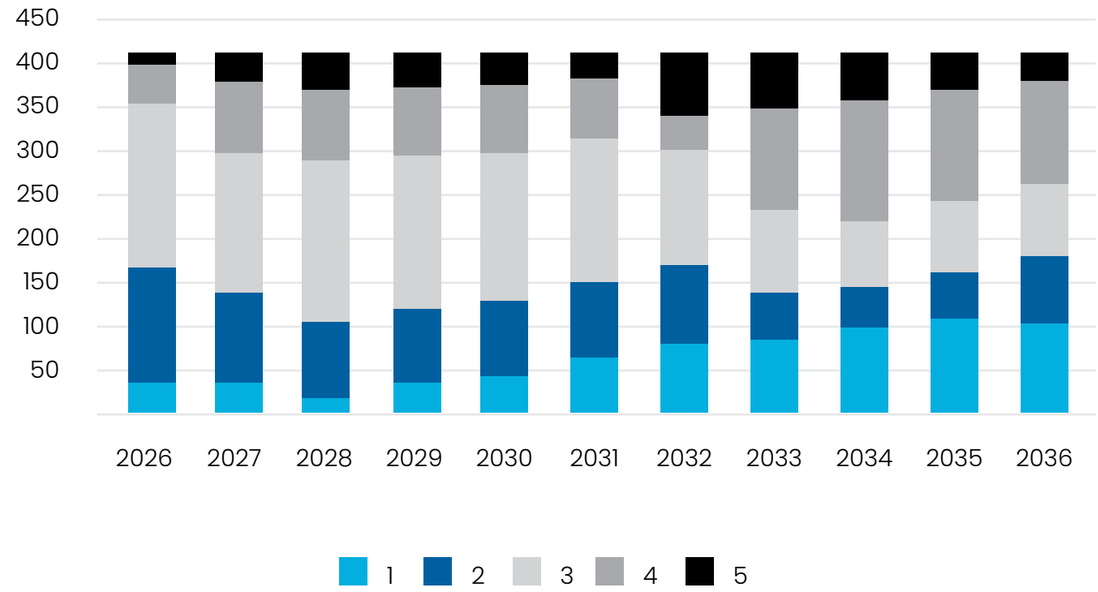


Scenario 3

Infrastructure Backlog Ratio



Roads: Surface & Pavement Base Condition ($m)

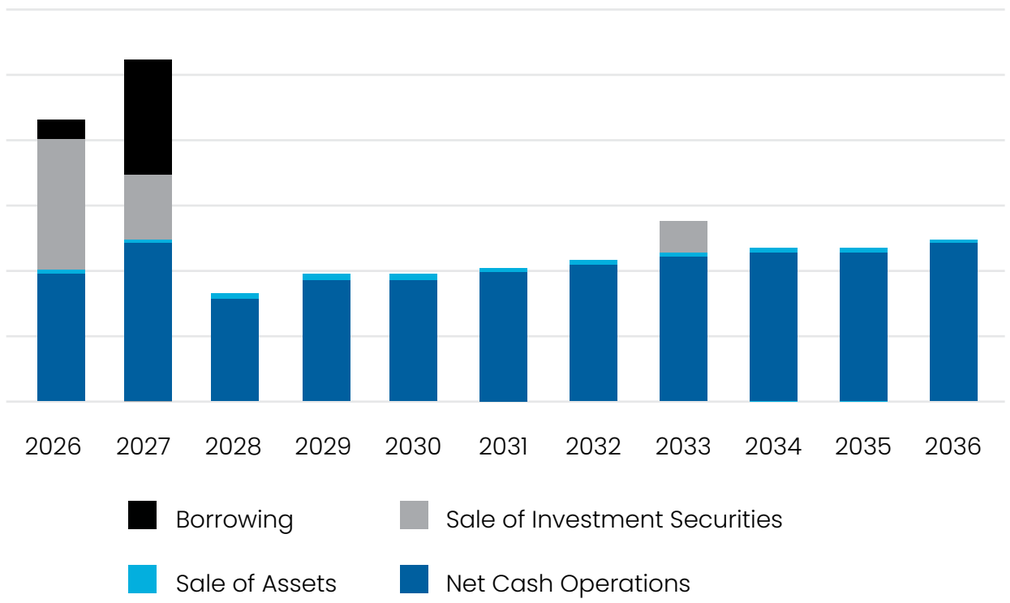


The analysis indicates there will be an initial deterioration in the backlog due primarily to the profile of assets and renewal ratio being below the benchmark. Increasing investment will see clear progress which will take time to reflect as actual improvement. This indicates Council can however meet the maintenance and renewal requirements as per the guidelines.

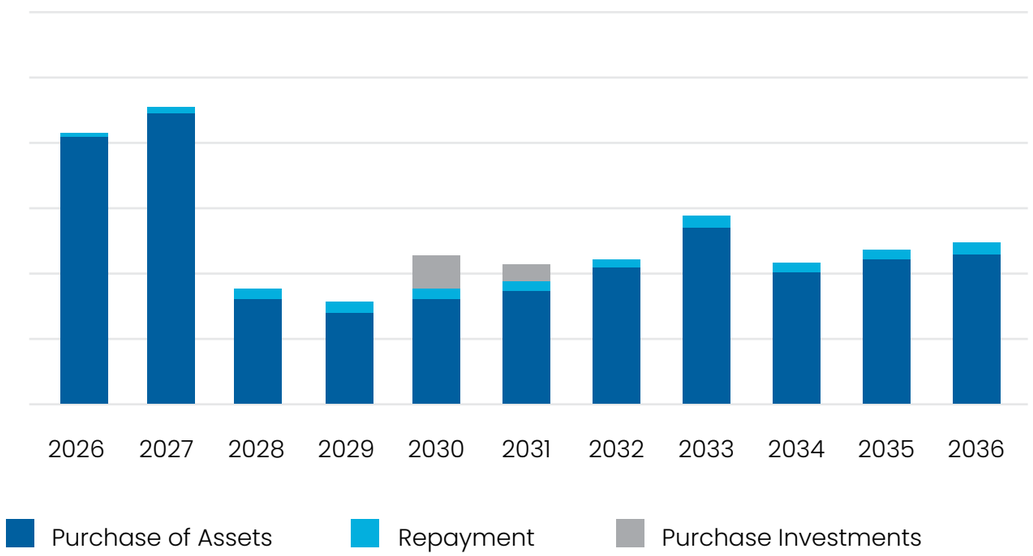
d. Overall Funding Analysis

Base Case

Source of Funds ($m)

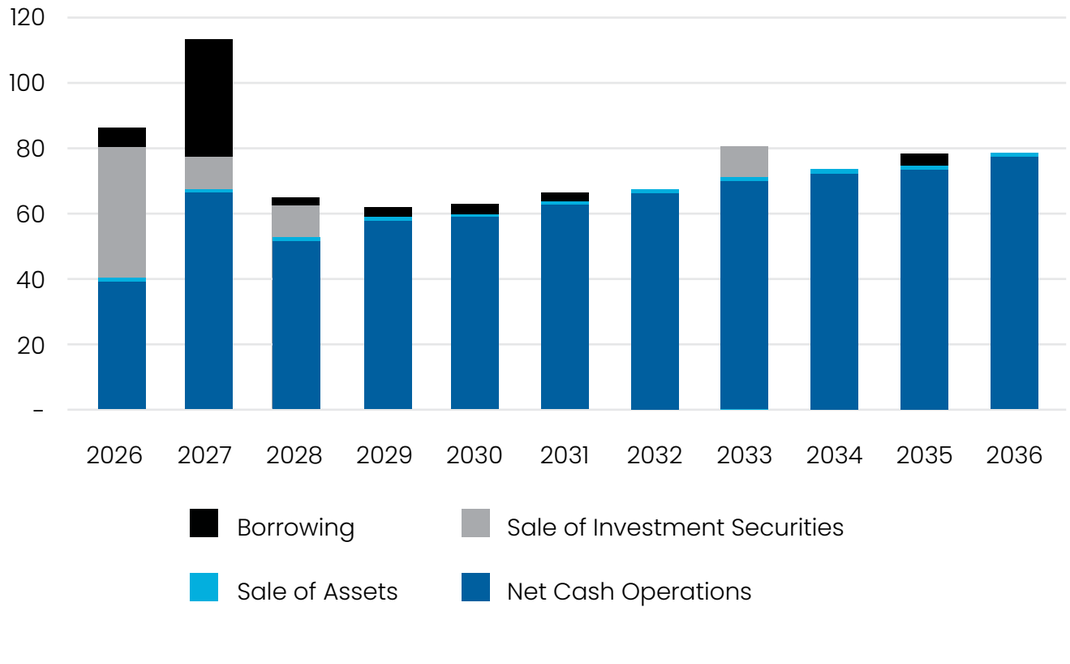


Use of Funds ($m)

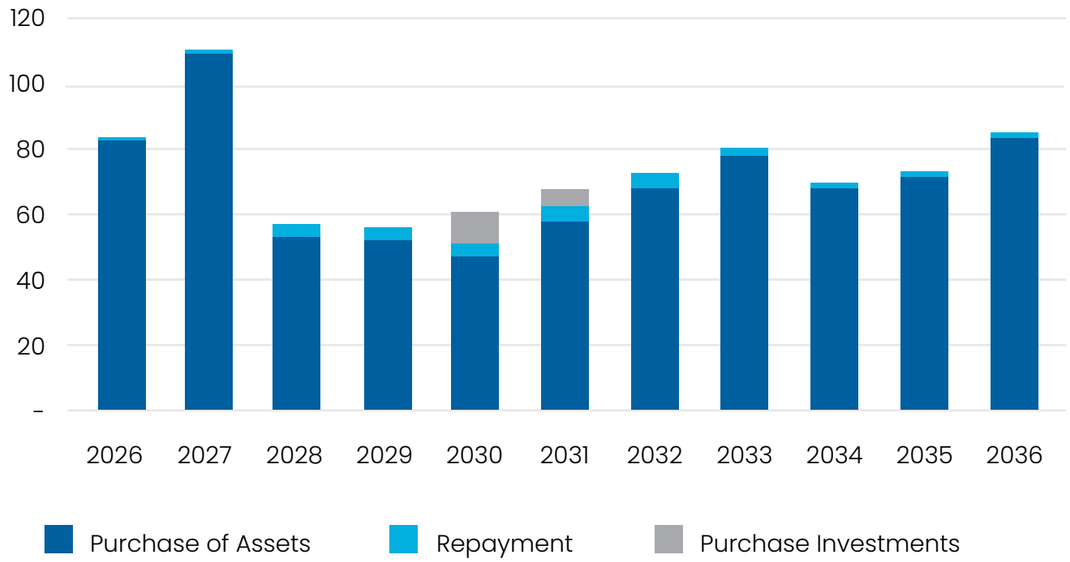


Scenario 3

Source of Funds ($m)



Use of Funds ($m)



This graphs above show a clear improvement in the source of funding, via the special variation, and the containment of operating expenditure. The result is that Net cash from operations is significantly higher for Scenario 3.

The additional cash generated is almost fully applied to increasing the capital work program.

The same level of borrowing has generally been undertaken however to facilitate there being more funds for projects the loans have been on average for longer duration (20 years).

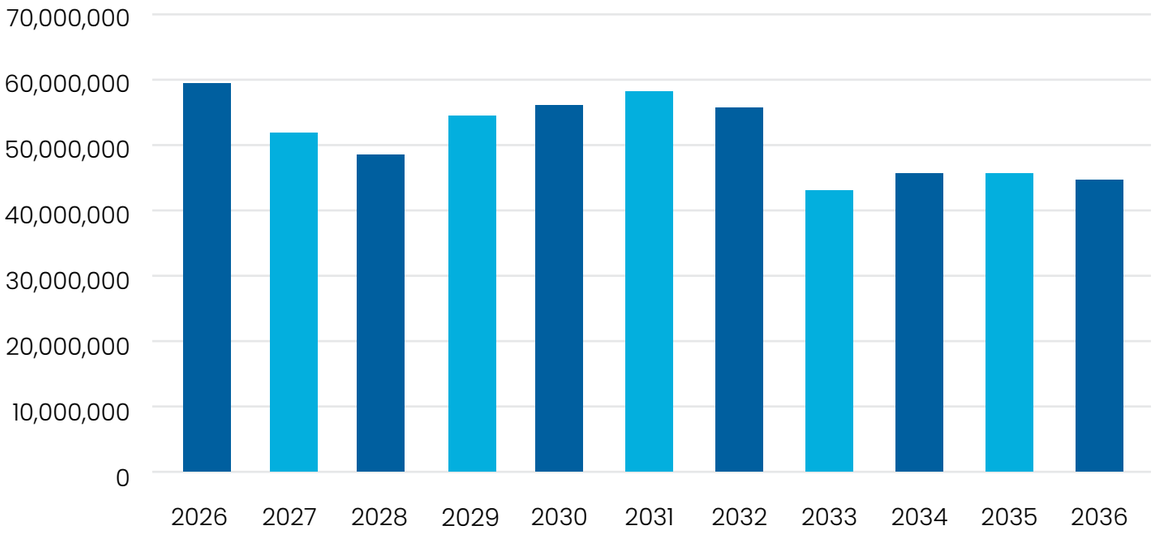
Council has sought to avoid entering a cycle of significant additional borrowing. Whilst more borrowing early would enable more project expenditure and more rapidly improve the overall condition of assets the consequence would be Council will incur higher interest charges and higher principal repayments which would put at risk Council reaching a sustainable outcome for infrastructure maintenance and renewal in the future. It is important to reach a sustainable position that can be maintained in the longer term.

In recent years Council has sought to increase expenditure to meet community expectations and this has proven not to be sustainable. Council does not want to repeat this approach.

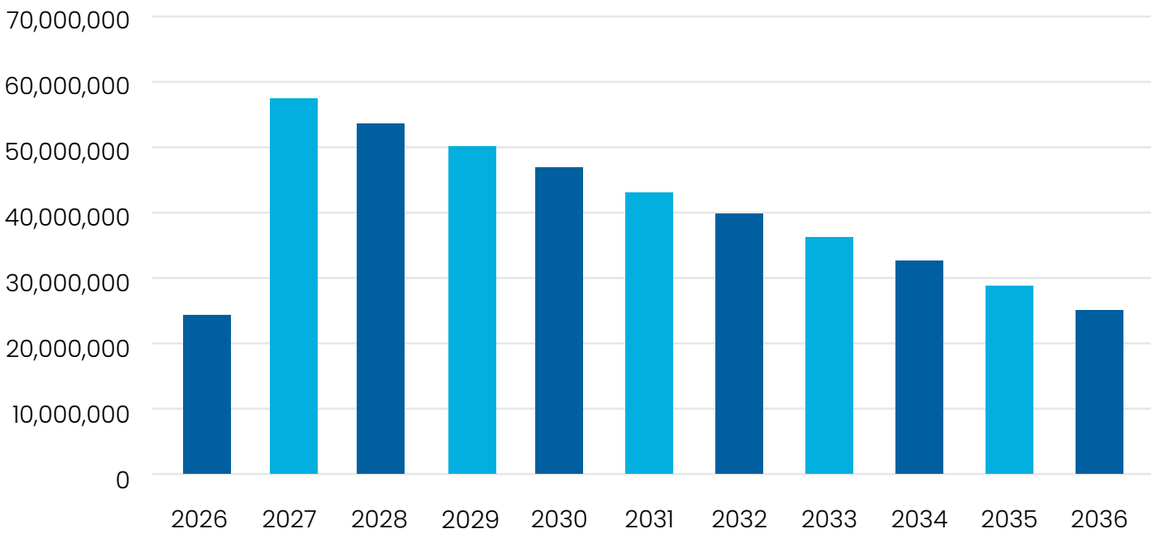
In addition, it is clear that a more immediate and compete receipt of funds via a special variation is important to achieve benefits in the latter years. If a special variation was undertaken more incrementally the delay in ramping up the renewal program will result in the trend in the backlog ratio persisting for longer, with assets generally in poorer condition. This will delay the stabilisation and gradual improvement of assets and make the task bigger. In addition, assets in very poor condition are often more expensive to remediate.

Base case

Net Cash & Investments (incl. Bank Overdraft) - General Fund

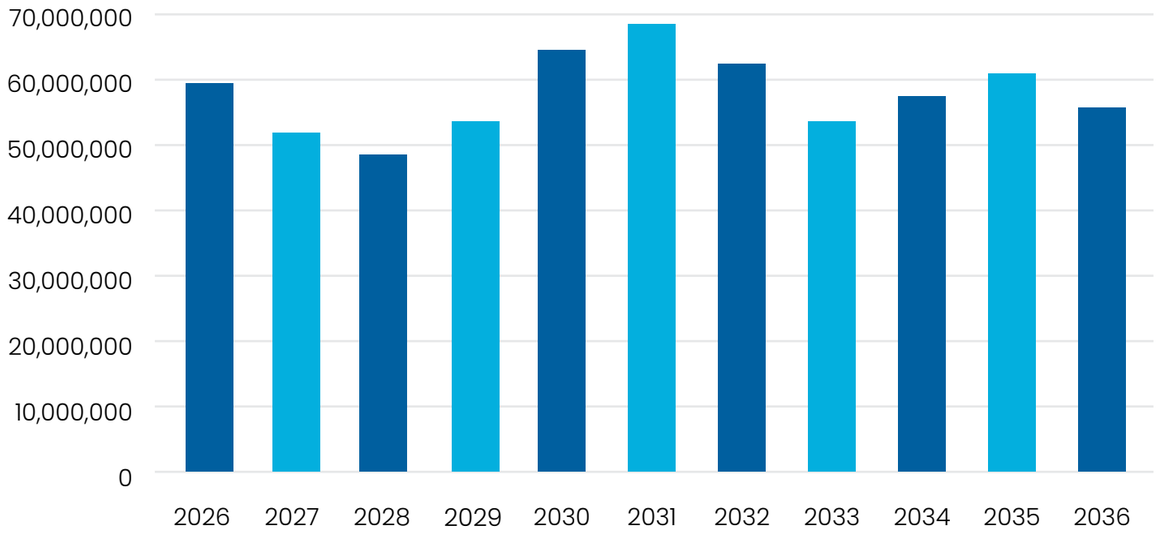


External Loans Outstanding - General Fund

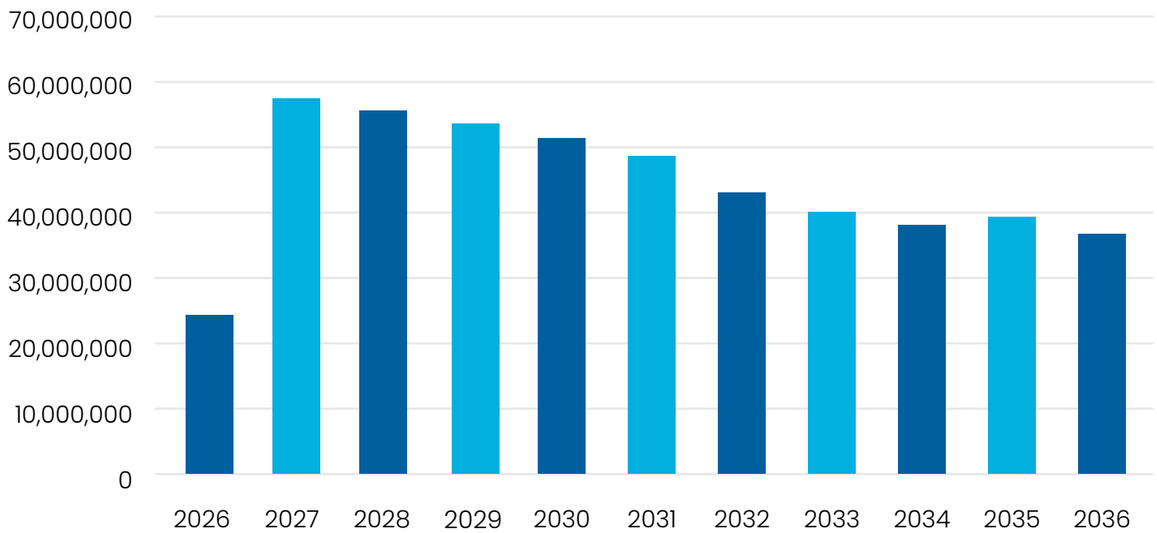


Scenario 3

Net Cash & Investments (incl. Bank Overdraft) - General Fund



External Loans Outstanding - General Fund



The analysis covered in the base case applies. There is very little difference between these two sets of graphs. The goal of both the base case and Scenario 3 is to borrow responsibly to shore up Council's cash position and then direct funds in a sustainable manner to maximise the achievement of other sustainability metrics most notably to try and achieve a sustainable level of maintenance and renewal of infrastructure assets.

The difference is that the base case does not generate sufficient funds to achieve this objective whilst Scenario 3 can reach a sustainable level infrastructure maintenance and renewal. Both scenarios do not meet Operating Performance benchmarks.

e. Assessment of the Scenario

Based on this analysis an assessment against IP&R guidelines and community expectations reflects the following:

- This scenario does not provide a path to eliminating operating deficits.
- The revenue path for expenditure proposals reflected in this scenario can be explained with expenditure reduced significantly to core activities such as asset renewal
- There is adequate funding for infrastructure maintenance and renewal.
- This scenario involves responsible borrowing.
- Importantly this scenario can direct sufficient funds towards achieving a material improvement in the condition of Councils roads. This will, however, take time and there will initially be some deterioration in overall asset condition.

Scenario 4: A 2nd Special Variation after 5 years

The base case scenario is best read before reading this scenario. The base case analysis provides a more detailed analysis of the current situation, explains the graphs in more detail and provides context for an evaluation of this scenario.

This scenario analyses the impact of a second special variation occurring in 2031/32. The special variation would be for 30.0% special variation for 2026/27. This would provide Council with approximately $24m in 2031/32 in additional rate income.

This scenario will have the same objectives as Scenario 3 but with more funds will be able to progress those objectives further. This scenario will establish a clear trend of improvement in all key sustainability metrics and also enable Council to meet community service expectations.

This scenario will be compared to Scenario 3 if this scenario was to proceed it would be built on top of the progress made through Scenario 3

a. Assessment of Operating Revenue and Expenditure

For this analysis an exception is made and Scenario 3 is used as the benchmark so that the additional impact of a 2nd special variation can be assessed on top of the 1st special variation. The table below as an abridged version of the Income Statement generated within the LTFP. A full version with all years is included in the appendices.

Abridged income statement

Revenue

		SCENARIO 3		SCENARIO 4	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Rates & annual charges	71,193,000	164,313,362	7.9%	193,605,158	9.5%
User charges & fees	9,926,000	18,743,733	5.9%	18,743,733	5.9%
Other revenue	3,339,000	4,672,057	3.1%	4,672,057	3.1%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%	22,363,780	3.3%
Grants & contributions (capital)	71,924,000	42,095,937	(4.8%)	42,095,937	(4.8%)
Investment revenue & other income	4,533,000	751,954	(15.1%)	737,360	(15.2%)
Total income	**176,621,000**	**252,940,823**	**3.3%**	**282,218,026**	**4.4%**

Expenses

		SCENARIO 3		SCENARIO 4	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	49,318,000	70,046,155	3.2%	70,046,155	3.2%
Borrowing costs	922,000	2,139,935	8.0%	2,141,091	8.0%
Materials & contracts	37,269,000	69,258,066	5.8%	69,859,819	5.8%
Depreciation & amortisation	26,202,000	57,999,284	7.5%	58,694,379	7.5%
Other expenses	7,363,000	11,481,946	4.1%	11,481,946	4.1%
Net losses from the disposal of assets	17,405,000	14,535,891	(1.6%)	19,035,891	0.8%
Total expenses	**138,475,000**	**225,461,276**	**4.5%**	**225,461,276**	**4.8%**

		SCENARIO 3		SCENARIO 4	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	27,479,547	(2.9%)	50,858,745	2.6%
Net operating result before capital grants and contributions	(33,778,000)	(14,616,389)		8,762,809	

The final year of the LTFP (2035/36) is being analysed against the recently audited Financial Statements for 2024/25.

The focus of this analysis will only be on four lines in the abridged income statement as the other lines are similar to Scenario 3 and have already been covered under that scenario

- **Rates and Annual Charges:** The additional special variation will result in Rates and Annual Charges increasing by an average of 9.5% over the 11 years from the 2024/25 financial year. This increase includes increased revenue associated with population growth. The population is forecast to grow by approximately 2.6%. The average yearly increase for this revenue line per ratepayer is therefore approximately 6.9%..

- **Net Losses from the Disposal of Assets:** There is a further increase in this line item as significant increase in the level of disposals under Scenario 3. This is due to the additional significant increase in infrastructure renewal that is possible with the additional funding from the 2nd special variation. As discussed even assets in poor condition have some residual value which will be written off. With more assets being replaced there will be more write-offs

- **Net Operating Result:** As is to be expected there is a significant improvement in the Net Operating Result. As with scenario 3 by containing operating expenses Council will generate funds which can be applied to the capital works program.

  Net Operating Result before Capital Grants and Contributions: This line has also improved significantly (in tandem). ***Council is now projected to achieve an operating surplus before capital grants and contributions***.

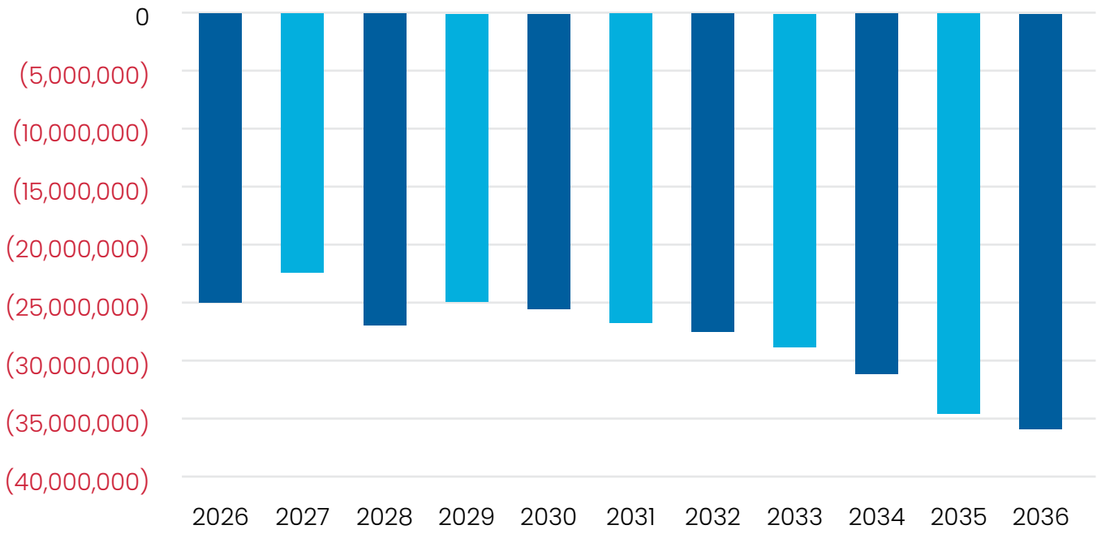
Council is now projected to achieve an operating surplus before capital grants and contributions. Council is therefore on a clear path to eliminating operating deficits and therefore meets the IP&R guidelines.

b. Analysis of Net Funds Generated from Operations

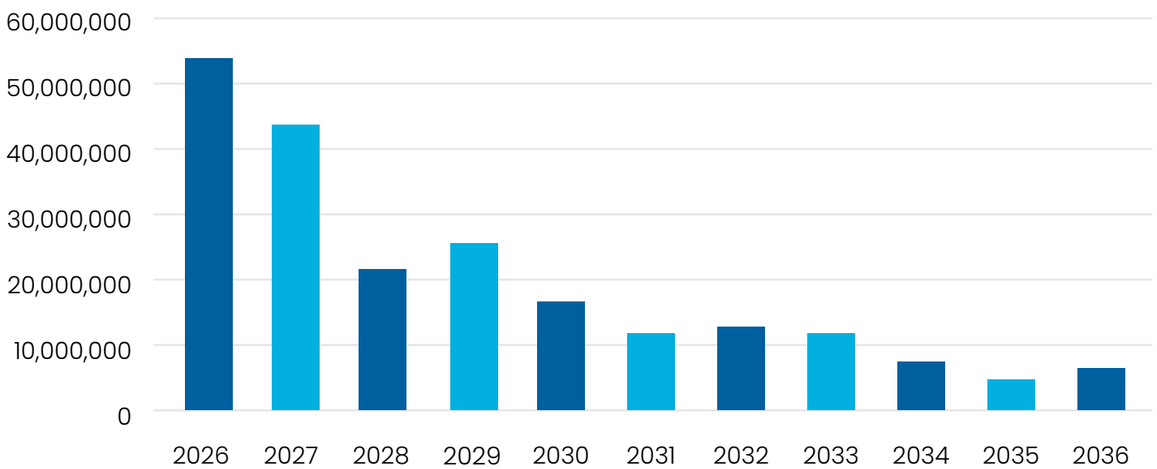
As confirmed in the analysis above Council has a achieved a significant improvement in the Net Operating Result. The graphs below are helpful in determining the trend.

Base case

Net operating result (per P&L) before capital grants and contributions - general fund

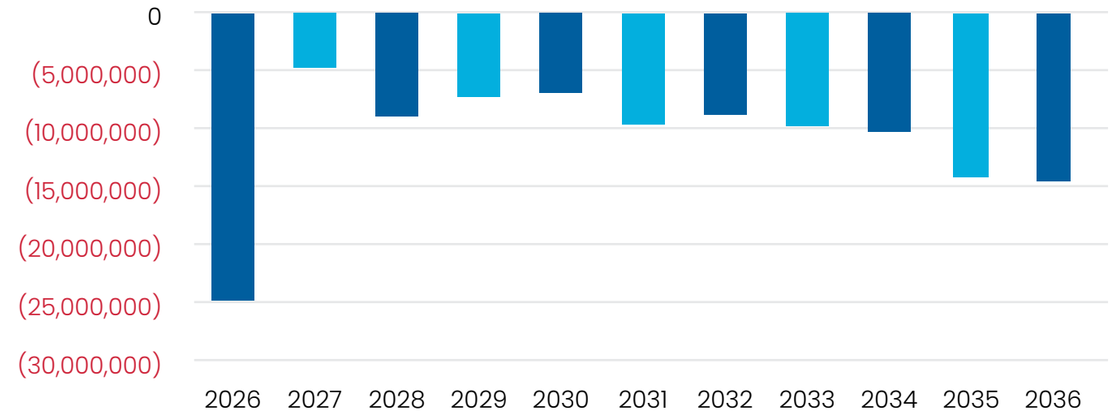


Net Operating Result (per P&L) after capital grants and contributions - general fund

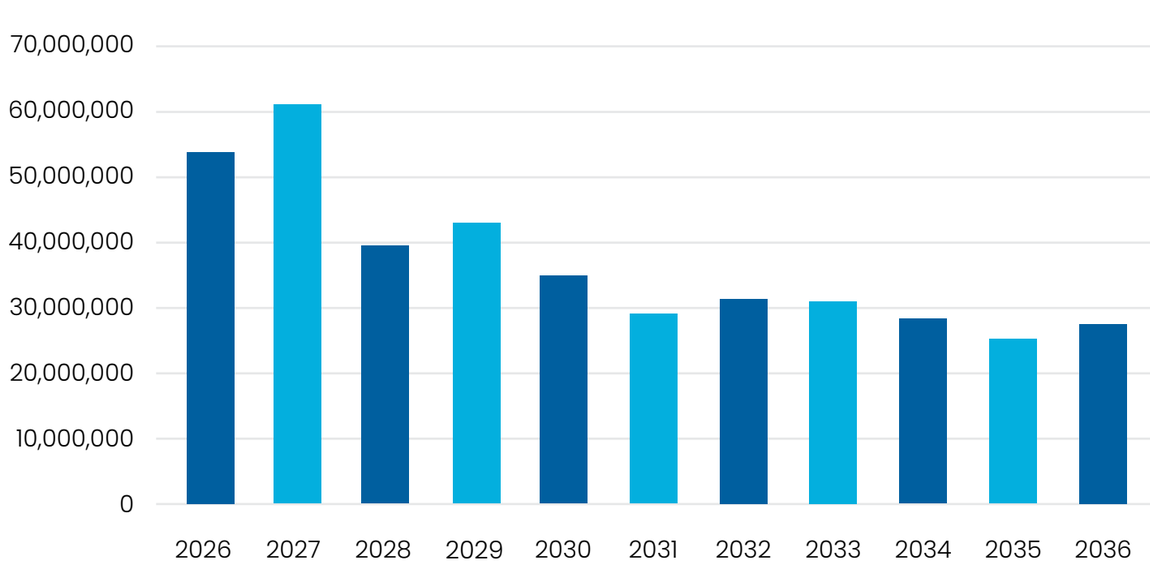


Scenario 3

Net operating result (per P&L) before capital grants and contributions - general fund



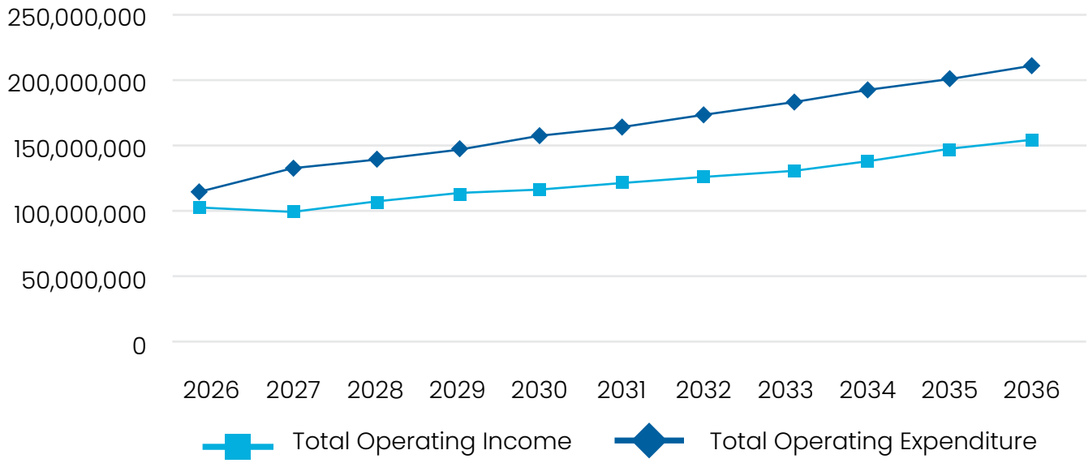
Net Operating Result (per P&L) after capital grants and contributions - general fund



As can be seen the 2nd special variation provides an outcome which is unambiguous. Scenario 4 achieves and maintains an operating surplus before capital grants and contributions. The benefit of this can be seen below. Excluding depreciation, the income is significantly higher than expenses and the gap continues to expand.

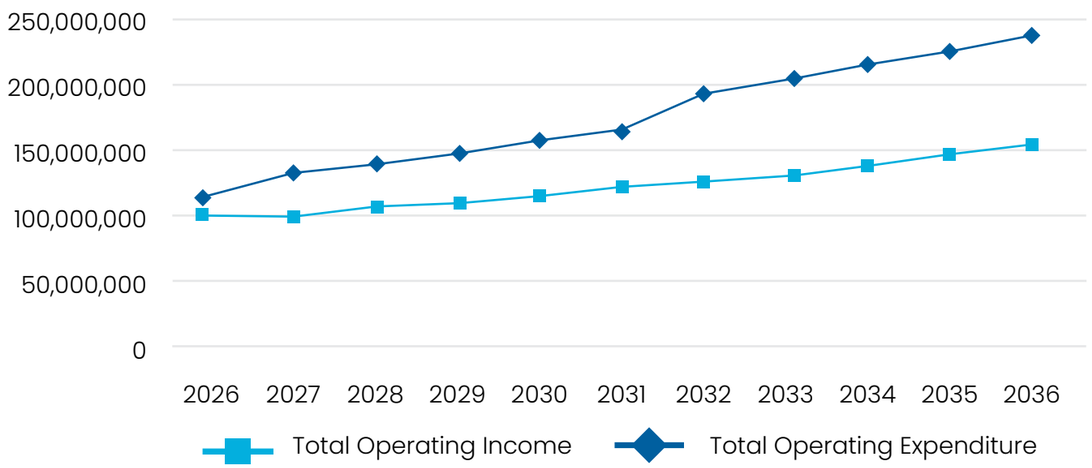
Scenario 3

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund



Scenario 4

Total Operating Income (excl. Capital Income) vs Total Operating Expenditure (excl. Depreciation) (per P&L) - General Fund

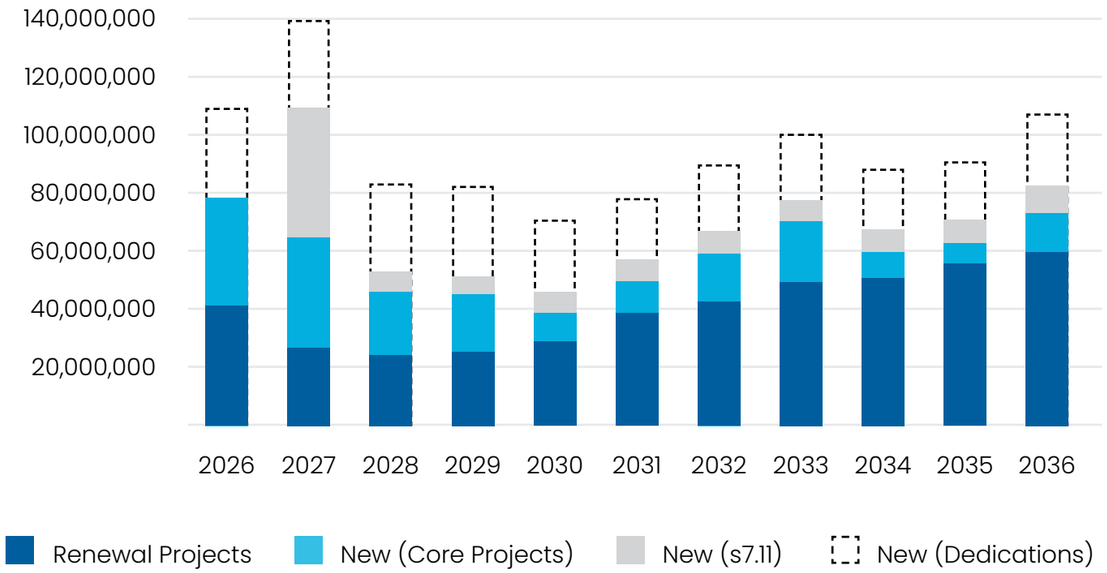


This trend confirms Council will have an operating surplus and will maintain that operating surplus before grants and contributions. This is despite significantly higher losses being booked for disposals. Council is on a path to eliminating operating deficits and therefore meets the IP&R guidelines under this scenario

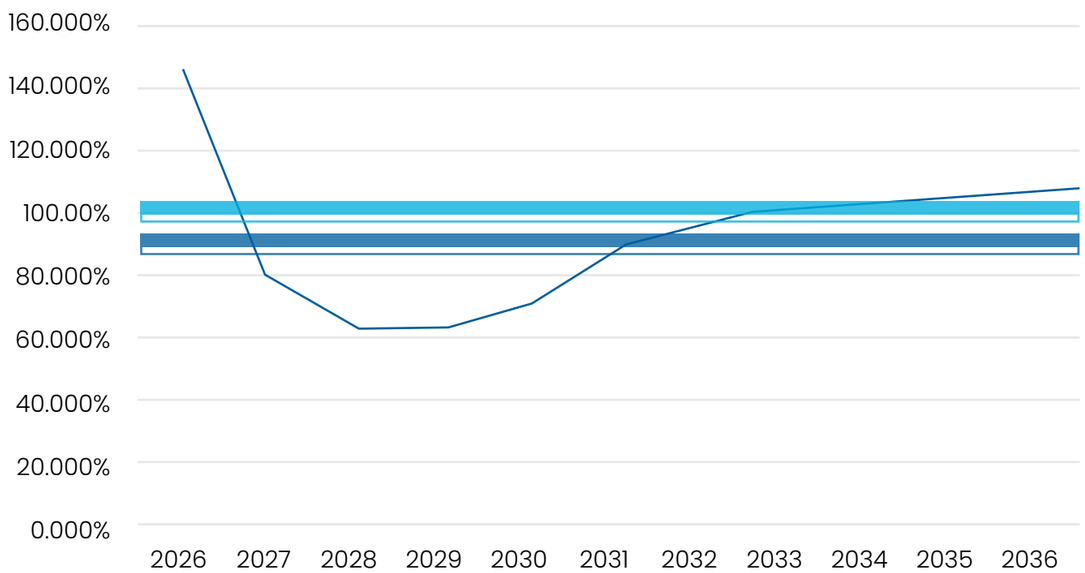
c. Infrastructure Works Program

Scenario 3

New Infrastructure, Asset Renewal & P&E Additions

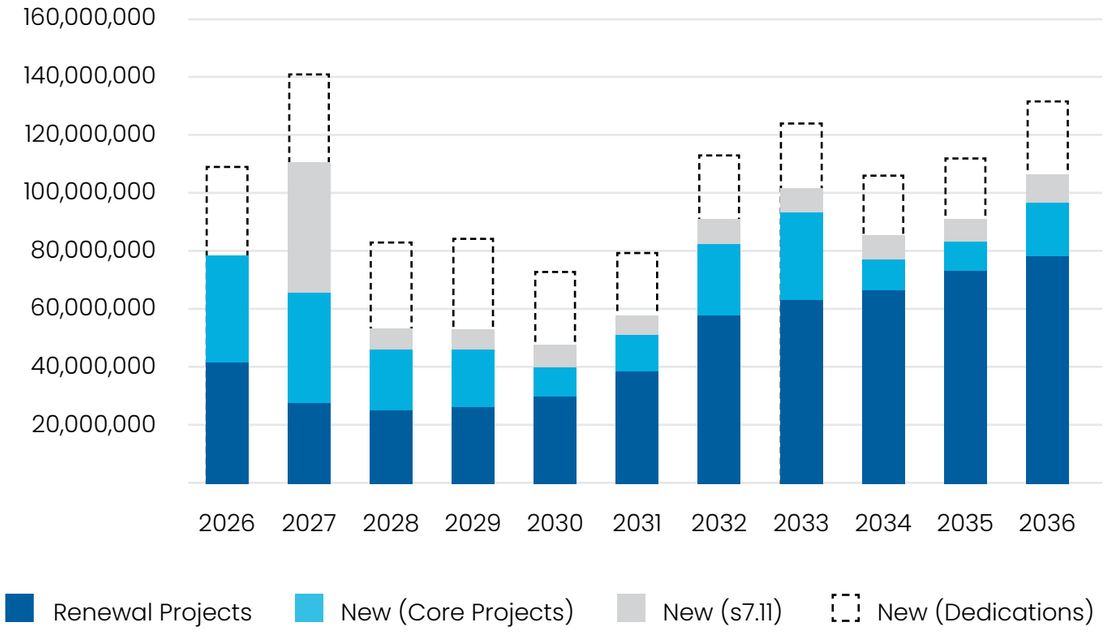


Building & Infrastructure Renewals Ratio - General Fund

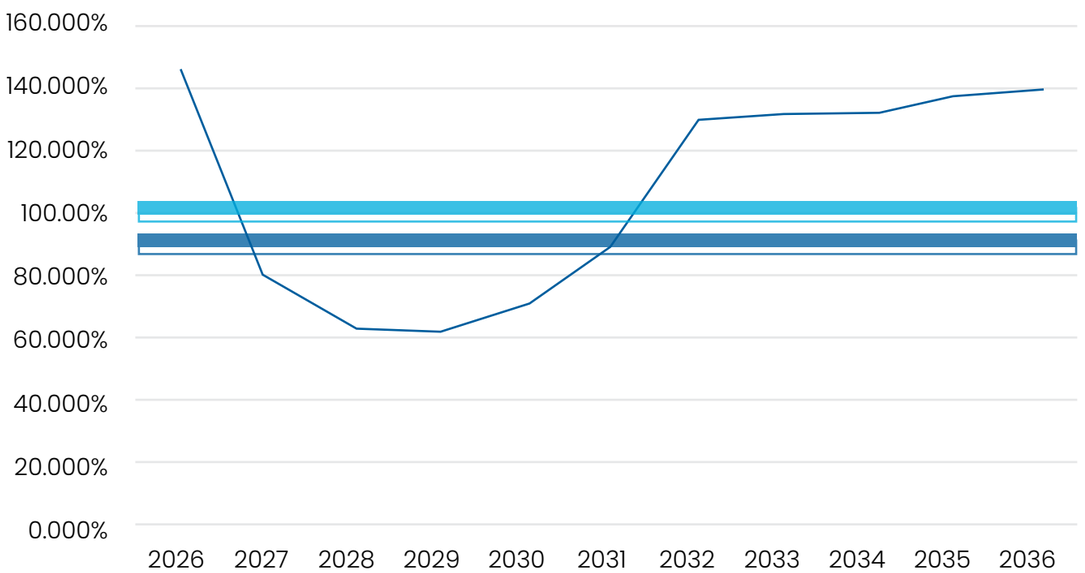


Scenario 4

New Infrastructure, Asset Renewal & P&E Additions



Building & Infrastructure Renewals Ratio - General Fund



As will be seen in the graphs above the Scenario 4 with the 2nd special variation is a LTFP in two halves

- The 1st half is the same as Scenario 3. The necessary steps for obtaining a 2nd special variation have not been undertaken; the community hasn't been consulted, as this would need to happen again, a separate application would be required and of course IPART might or might not approve a 2nd special variation.
- Consequently, the first half of this scenario is the same as scenario 3 with the same funding constraints and objectives.
- The 2nd half of the LTFP is a significantly different outcome. If Council applied and was successful funds are immediately available to substantially increase the capital works program. As with all scenarios infrastructure renewal, with roads in particular will be the highest priority.
- The infrastructure renewal ratio will exceed the benchmark which would indicate that Council will be able to address the infrastructure backlog and improve the condition if Council infrastructure.

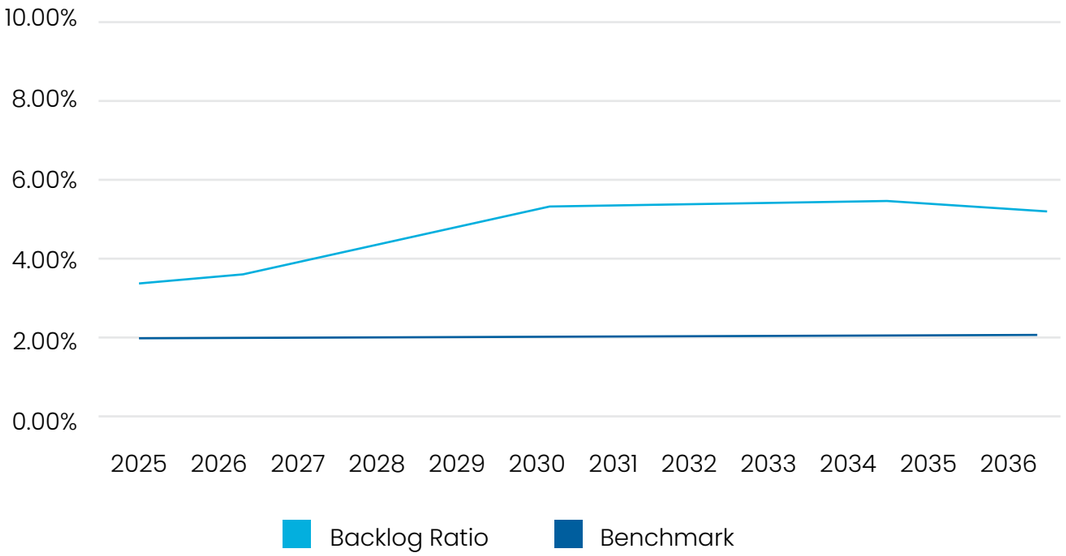
Council can therefore demonstrate that can reach a position of having adequate funding of asset renewal and maintenance in line with the IP&R guidelines. This scenario should also be able to meet community expectations and also ultimately achieve the benchmark of 2% for the Infrastructure Backlog Ratio.

The graphs below reflect the impact of the gradual increase in the capital works program as council gains greater funding capacity to undertake the program. As can be seen the infrastructure backlog initially continues to increase. This applies to both scenarios given they are working to the same funding.

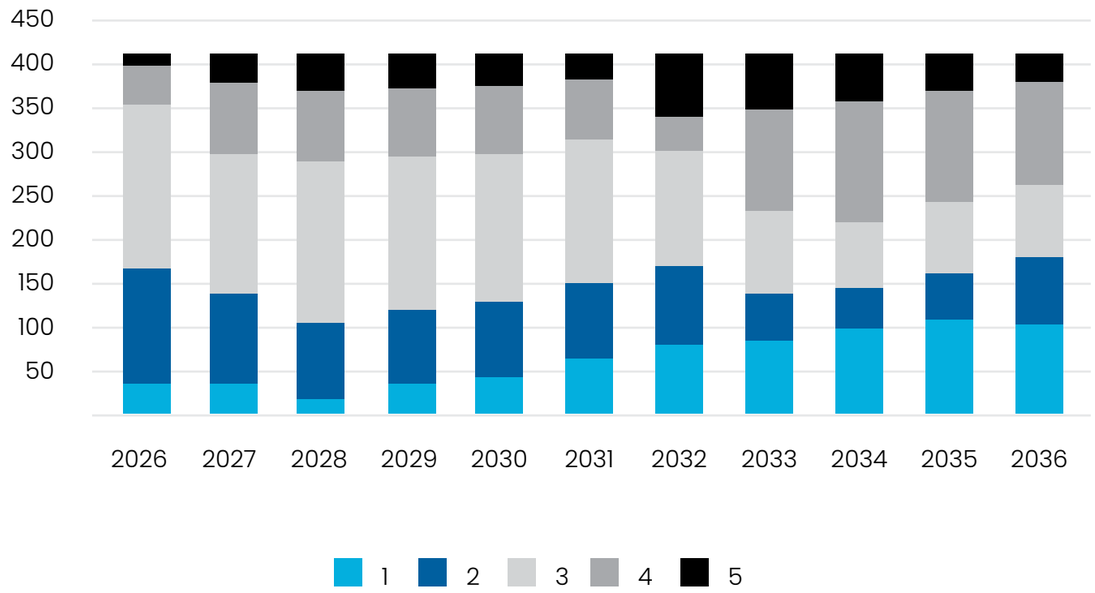
The 2nd half results in a significant divergence in paths. Scenario 3 results in a stabilisation of the backlog with possibly a slight improvement in the latter years of the LTFP. Scenario 4 meanwhile has a clear trajectory towards achieving the Infrastructure Backlog ratio.

Scenario 3

Infrastructure Backlog Ratio

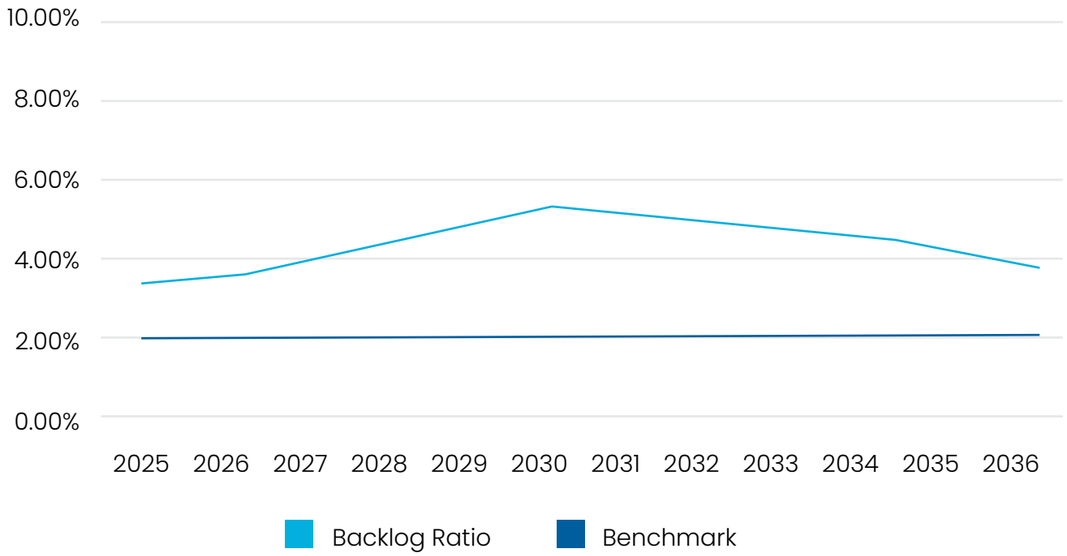


Roads: Surface & Pavement Base Condition ($m)

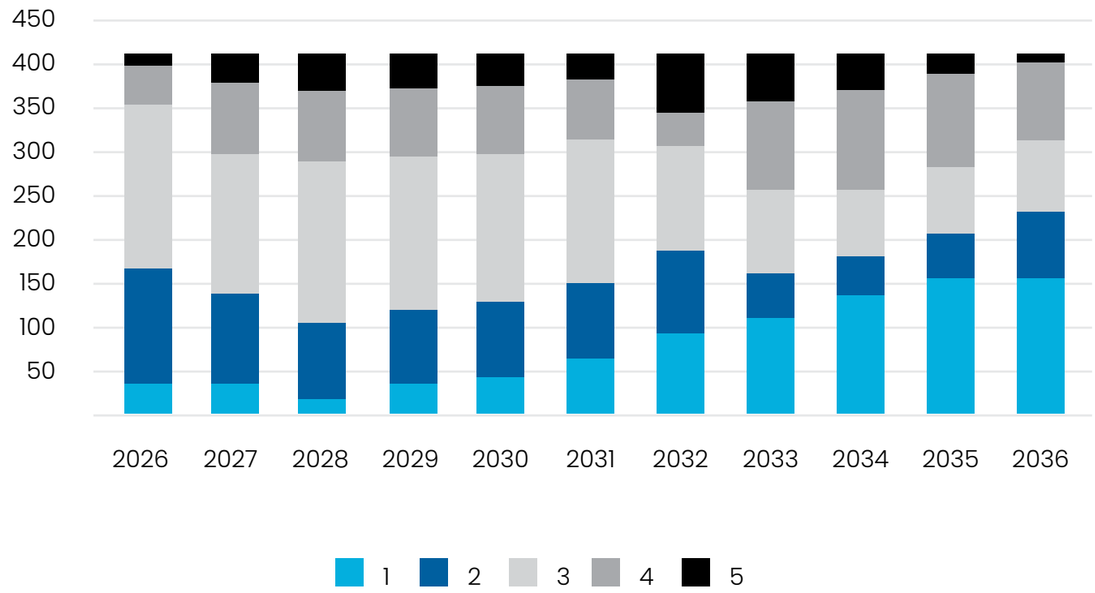


Scenario 4

Infrastructure Backlog Ratio



Roads: Surface & Pavement Base Condition ($m)



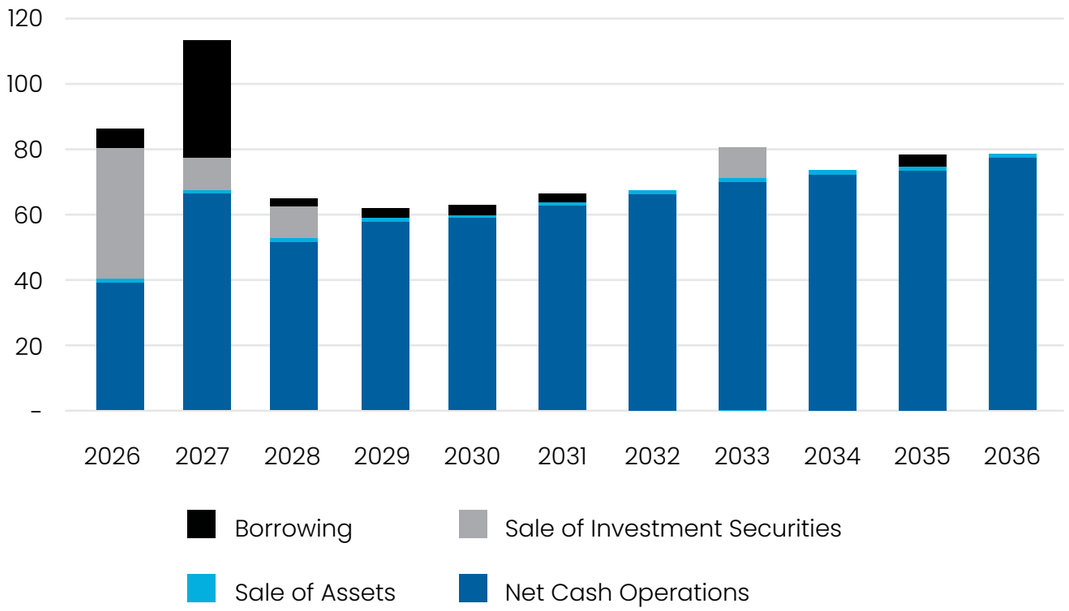
The impact of the additional funding can also be seen for the roads asset class. By 2036, only 5 years after the 2nd special variation over half of road surface and base assets (the top 2 layers) are classed as in very good or good condition. It is likely that Council would be able to progress as follows:

- Continue focusing of renewal of road assets in poor or very poor condition.
- The rate of assets transition to these condition classifications would however slow significantly enabling Council to direct resources towards other asset classes.
- Council would however have the capacity to again reprioritise roads if required and focus on essential upgrades needed to the road network to meet the needs of a fast-growing local government area.
- This scenario reduces the need for Council to only focus on the most urgent renewal but have a more strategic program of renewal which is both tuned to community needs and expectations and also ensure assets as a whole are effectively managed.
- Reactive maintenance should be able to be reduced and assets maintained to a standard so that costly remediation can be minimised

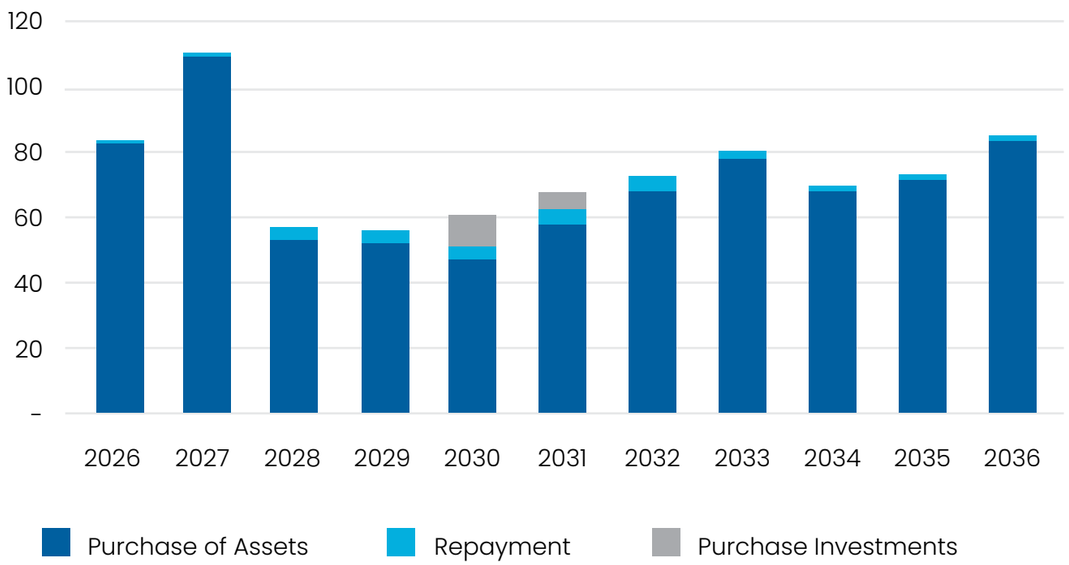
The analysis indicates that the initial deterioration in the backlog which applies due to funding still being constrained is reversed when additional funds become available. This indicates Council can definitely meet the maintenance and renewal requirements as per the guidelines and also achieve other metrics such as the Infrastructure Backlog Ratio (a ratio most councils find difficult to meet).

d. Overall Funding Analysis

Source of Funds ($m)

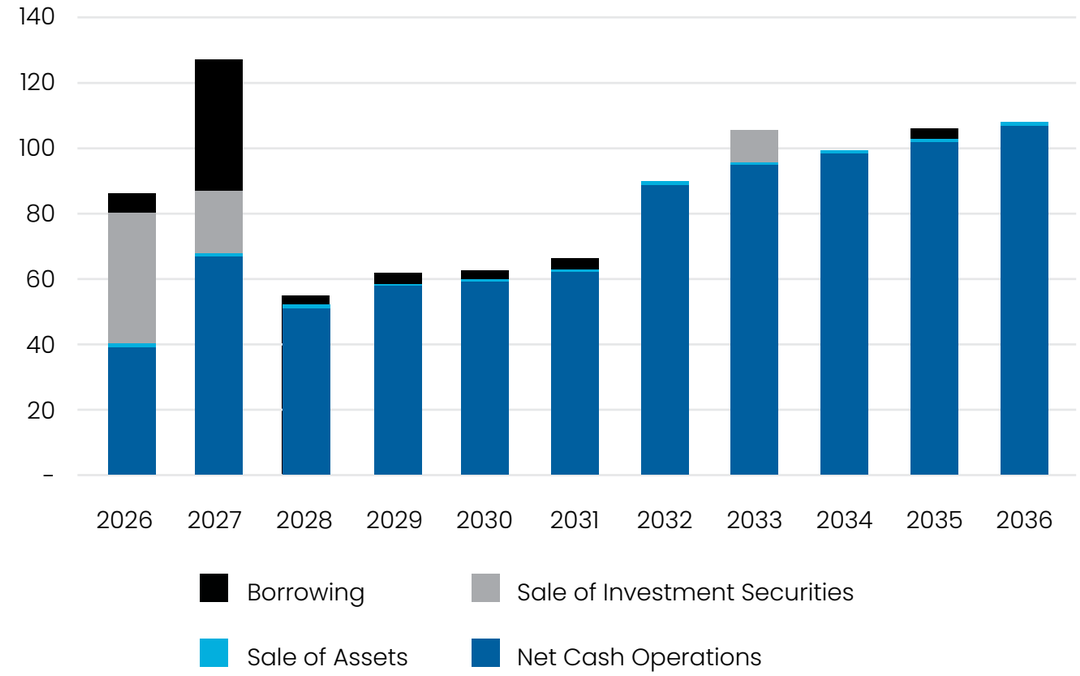


Use of Funds ($m)

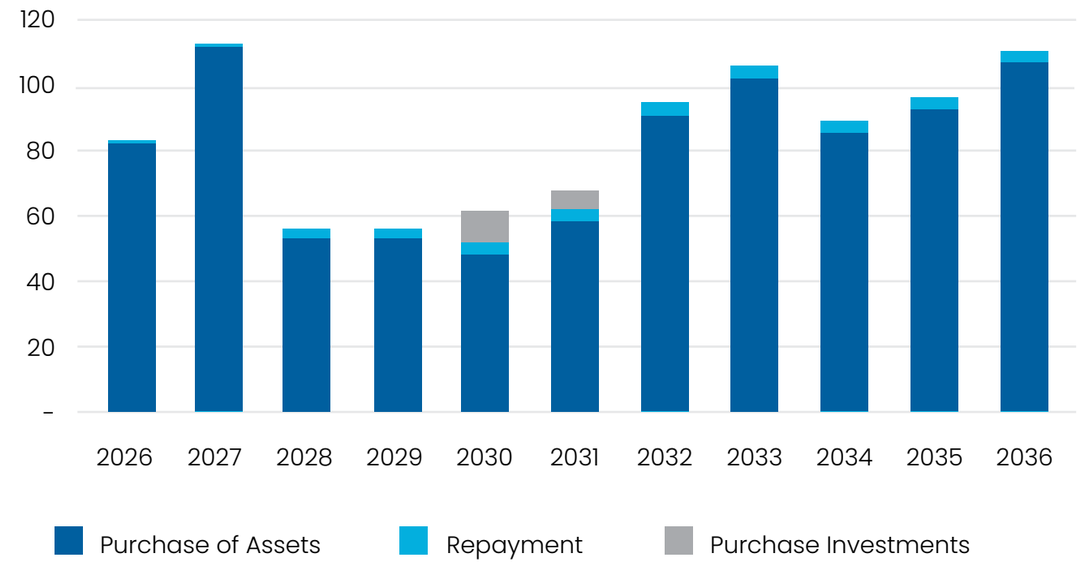


Scenario 4

Source of Funds ($m)



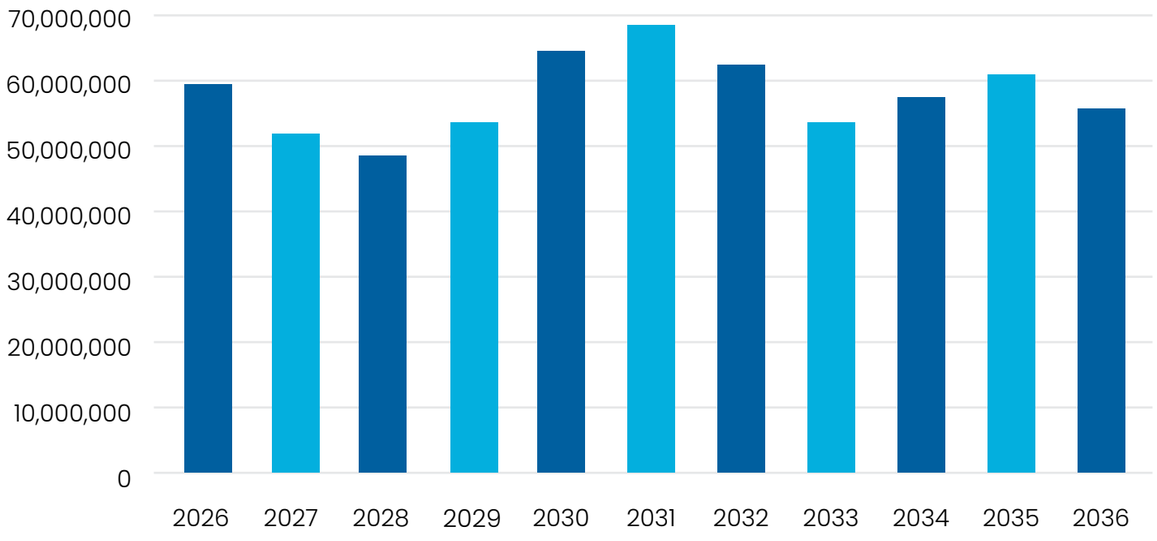
Use of Funds ($m)



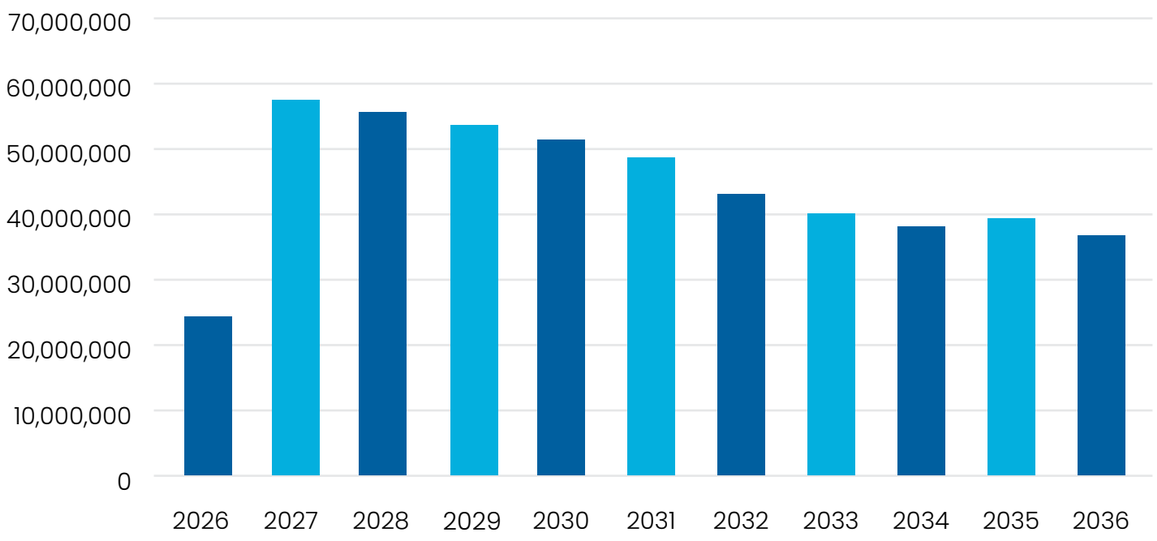
The graphs above show a further improvement in the source of funding, via a 2nd special variation, and the containment of operating expenditure. The result is that Net cash from operations is significantly higher for Scenario 4.

Scenario 3

Net Cash & Investments (incl. Bank Overdraft) - General Fund

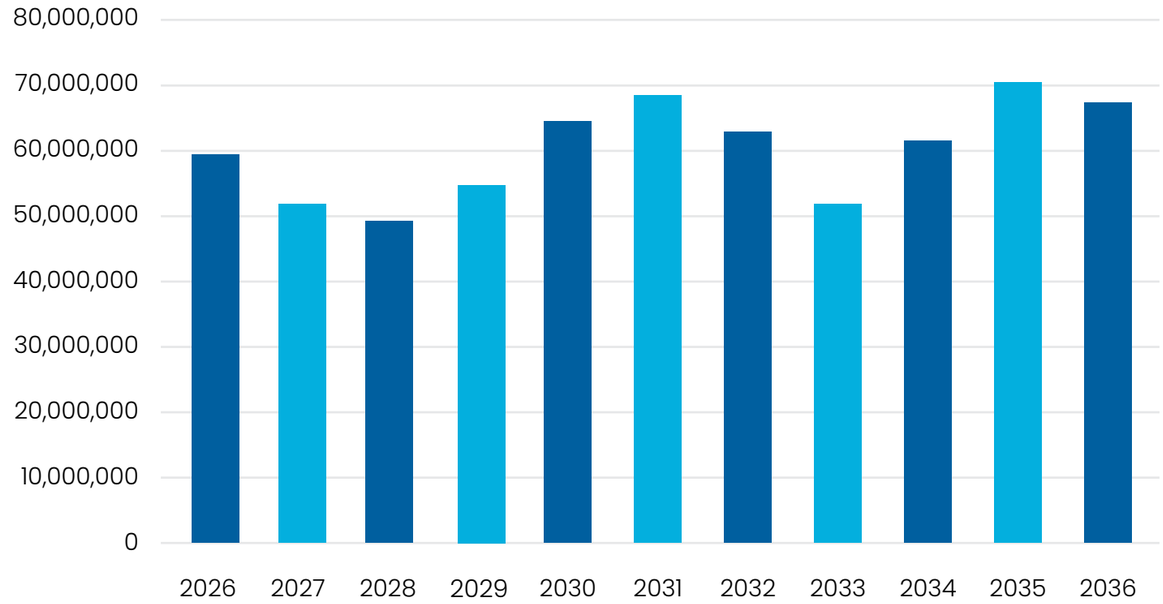


External Loans Outstanding - General Fund

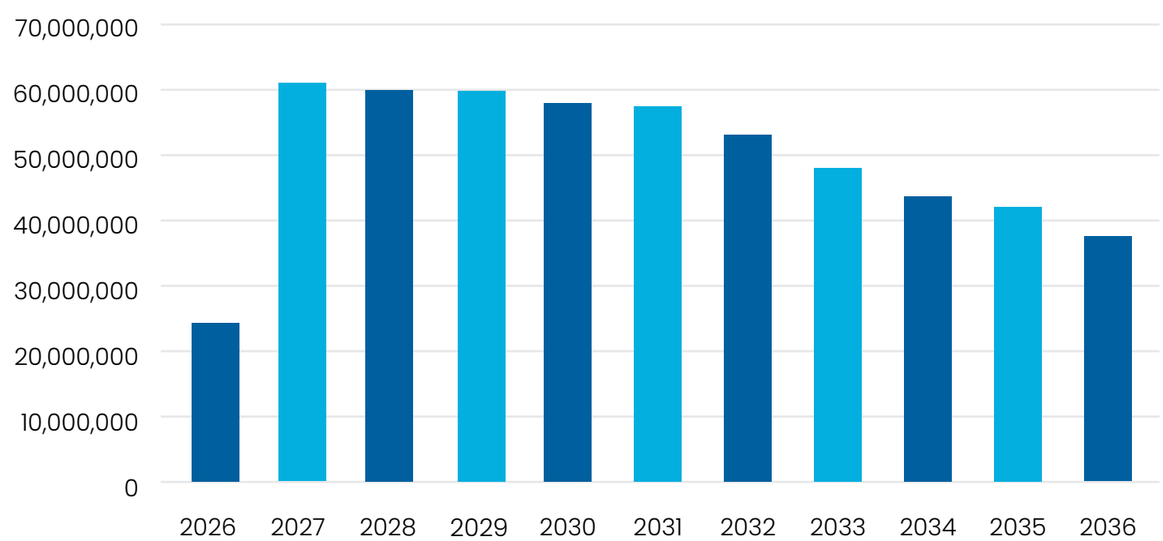


Scenario 4

Net Cash & Investments (incl. Bank Overdraft) - General Fund



External Loans Outstanding - General Fund



There is a clear trend of ongoing increases in funds being generated from operations. As can also be seen in the graphs above Council's cash position is stronger under Scenario 4 despite a bigger works program. The same level of borrowing has been maintained so additional funds can be applied to additional infrastructure renewals. This accounts for the improvements in the infrastructure backlog and road condition.

e. Assessment of the Scenario

Based on this analysis an assessment against IP&R guidelines and community expectations reflects the following:

- This scenario provides a clear path to eliminating operating deficits, actually achieves operating surpluses in the 2nd half of the 10-year financial plan.
- The revenue path for expenditure proposals reflected in this scenario can be explained with expenditure reduced significantly to core activities such as asset renewal.
- There is adequate funding for infrastructure maintenance and renewal. In fact, there is not just sufficient to maintain sustainable levels of maintenance and renewal but also funds to address a legacy backlog and in the process meet community expectations on service levels.
- This scenario also involves responsible borrowing. With strong finances Council does not need to borrow however if Council did for some reason need to borrow Council would have the capacity to repay those funds.
- Importantly this scenario can, like scenario 3, direct sufficient funds towards achieving a material improvement in the condition of Councils roads. The progress under this scenario would be more rapid.

SENSITIVITY ANALYSIS

Sensitivity Analysis

Long-term financial plans are inherently uncertain as they contain a wide range of assumptions that are influenced by market forces beyond Council's control, for example interest rates and inflation.

While some assumptions have a relatively limited impact if they are wrong, others could have a major impact on future financial plans.

Sensitivity analysis looks at "what if" scenarios. For example, what happens to Council's financial position of salary and wages increases are 1% higher than forecast, growth is half that forecast, or investment returns are 1% less than forecast in the plan.

Should the assumptions be inaccurate, Council will need to reconsider the current strategies on expenditure and revenue and realign the LTFP to fund any changes in expenses or revenues.

The sensitivity analysis will focus on two scenarios:

a. Lower Population Scenario

b. Lower Inflation Scenario

Often an interest rate scenario is considered when evaluating the sensitivity analysis to various assumptions. In Cessnock's case however interest rates do not have a significant impact in the most important scenarios, Base case and Scenario 3. The scenarios of greatest relevance to determining the best path for Cessnock both involve almost no investments and only limited borrowing. Borrowing costs vary from approximately $1.5m to $3.0m. A 0.5% change in assumptions would have approximately a $150k to $300k impact per annum. The scenarios are as follows:

a. Lower Population Scenario: Population projections for Cessnock have been assumed to be lower each year by 0.25%.

b. Lower Inflation Scenario: a 0.5% reduction in CPI and other price related indices.

Both scenarios will be evaluated against Scenario 3 the recommended scenario for a special variation.

a. Lower Population Scenario

This scenario will test the sensitivity of the model to a lower population growth across all years of the plan of 0.25%. The model already assumed lower population growth in the latter years to recognise some uncertainty relating to longer term projections.

Lower population growth might arise if economic conditions discouraged internal migration with people hunkering down.

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Population growth forecast	2.40%	2.84%	2.83%	2.86%	2.66%	2.58%	2.50%	2.43%	2.37%	2.30%
Revised population forecast	2.15%	2.59%	2.58%	2.61%	2.41%	2.33%	2.25%	2.18%	2.12%	2.05%

A 0.25% reduction in the annual population growth is projected to result in a $2m to $3m reduction in the Net Operating result.

Abridged income statement

Revenue

		SCENARIO 3		LOWER POPULATION	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Rates & annual charges	71,193,000	164,313,362	7.9%	160,960,594	7.7%
User charges & fees	9,926,000	18,743,733	5.9%	18,601,069	5.9%
Other revenue	3,339,000	4,672,057	3.1%	4,672,057	3.1%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%	22,363,780	3.3%
Grants & contributions (capital)	71,924,000	42,095,937	(4.8%)	42,095,937	(4.8%)
Investment revenue & other income	4,533,000	751,954	(15.1%)	751,954	(15.1%)
Total income	**176,621,000**	**252,940,823**	**3.3%**	**249,445,391**	**3.2%**

Expenses

		SCENARIO 3		LOWER POPULATION	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	49,318,000	70,046,155	3.2%	69,566,442	3.2%
Borrowing costs	922,000	2,139,935	8.0%	2,139,935	8.0%
Materials & contracts	37,269,000	69,258,066	5.8%	69,258,066	5.8%
Depreciation & amortisation	26,202,000	57,999,284	7.5%	57,999,284	7.5%
Other expenses	7,363,000	11,481,946	4.1%	11,481,946	4.1%
Net losses from the disposal of assets	17,405,000	14,535,891	(1.6%)	14,535,891	(1.6%)
Total expenses	**138,475,000**	**225,461,276**	**4.5%**	**224,981,563**	**4.5%**

		SCENARIO 3		LOWER POPULATION	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	27,479,547	(2.9%)	24,463,828	(4.0%)
Net operating result before capital grants and contributions	(33,778,000)	(14,616,389)		(17,632,109)	

Lower population growth primarily impacts revenue as Rates and Charges are impacted.

The model also assumes that the growth in employee numbers in the second half of the 10-year plan are linked partly to population growth. As a consequence, employee costs also reduce in this analysis.

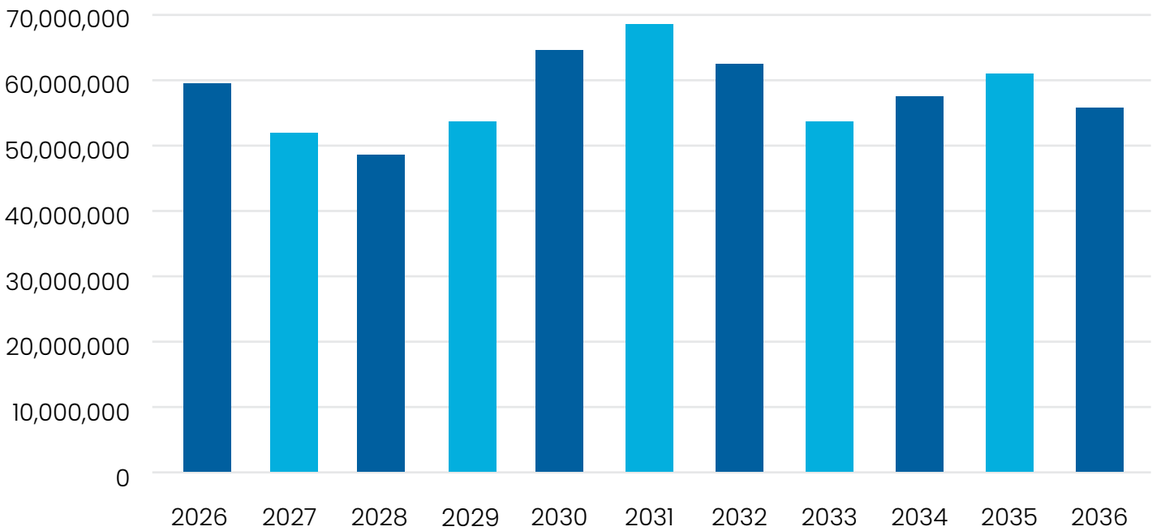
It would be reasonable to assume that dedications and developer contributions might reduce. However, this might only happen if there was a more substantial reduction in population growth. A relatively small reduction has been modelled as the assumption is that whilst population growth slows it is within a benign environment. If events were more substantial, like a COVID event, then of course the impacts would be much greater.

Council's Net Operating position worsens as the revenue impact on Rates, Annual Charges, and User Fees and Charges are greater than impact on expenses including lower Employee costs due to less hiring of staff. It is possible that some growth-related projects could be deferred but this would likely only happen with a more substantial change in population growth.

With lower revenues if the capital works program was maintained at original levels there would be an impact on Council's cash position.

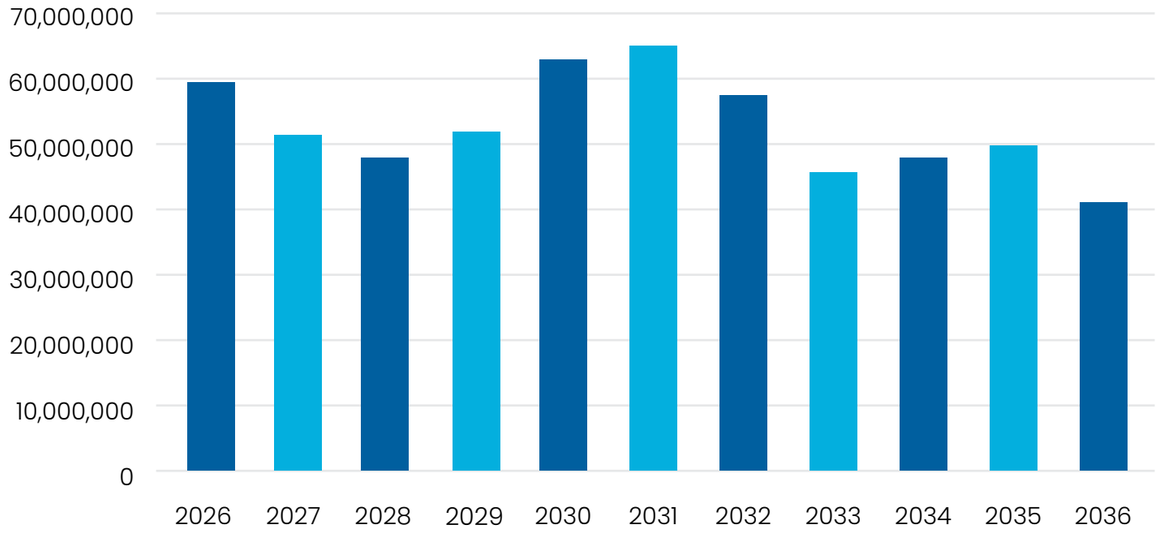
Scenario 3

Net Cash & Investments (incl. Bank Overdraft) - General Fund



Scenario 3 (0.25% lower population)

Net Cash & Investments (incl. Bank Overdraft) - General Fund



The impact would be approximately $15m across the 10-year program and might require some moderation of the capital works program to stabilise council's cash balances.

b. Lower Inflation Scenario

A lower inflation rate is assumed to impact all pricing across the model. If inflation is lower it might be because economic conditions have weakened and pricing pressures have abated. It would be assumed that PPI, the construction index and wage index would all moderate. The impact across the LTFP would therefore be wide-ranging.

The table below reflects the revised assumptions with a 0.5% decrease in CPI and a similar impact across other areas. The assumptions impacted have red font. Some areas are impacted indirectly. For example, rates are calculated using a blend of both employee costs and CPI. These both have been decreased by 0.5%. Fees and charges are CPI indexed etc.

A less obvious impact is that lower inflation would lower the construction index which would result in a lower increment in the revaluation of assets. This would then flow through to depreciation.

Operating Income Indicies

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Ind-Rates	3.8%	3.3%	3.2%	3.0%	2.9%	2.7%	2.9%	2.7%	2.7%	2.7%
CPI (65%)	2.15%	2.59%	2.58%	2.61%	2.41%	2.33%	2.25%	2.18%	2.12%	2.05%
Staff (35%)	2.15%	2.59%	2.58%	2.61%	2.41%	2.33%	2.25%	2.18%	2.12%	2.05%
ESL	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Election year	-	-	0.2%	-	-	-	0.2%	-	-	-
Population factor	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Waste index	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Investment index	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Financial Assistance Grant	3.0%	3.0%	2.9%	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Popn factor to add to CPI	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Oper Grants Index	2.5%	2.5%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%

Capital Income Indicies

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Ind-F&C	8.5%	8.5%	8.4%	8.4%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Addition to CPI	6.0%	6.0%	6.0%	6.0%	-	-	-	-	-	-

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Capital Grants	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Developer contributions	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Infrastructure Constr Index	3.8%	3.8%	3.8%	3.8%	3.7%	3.6%	3.5%	3.5%	3.5%	3.5%

Expense Indicies

	2026 /27	2027 /28	2028 /29	2029 /30	2030 /31	2031 /32	2032 /33	2033 /34	2034 /35	2035 /36
Employee Index	3.5%	3.5%	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
CPI	2.5%	2.5%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
PPI	3.8%	3.8%	3.8%	3.8%	3.7%	3.6%	3.5%	3.5%	3.5%	3.5%
Construction Index	3.8%	3.8%	3.8%	3.8%	3.7%	3.6%	3.5%	3.5%	3.5%	3.5%
Average Interest Rate (Loans)	5.0%	5.0%	5.0%	5.0%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

Possibly because of the impact is so broad based and impacts both revenues and expenses the impact of a change in CPI to the model is very limited overall. There are some significant changes in individual revenue and expense lines but the net effect is small. This can be seen in the income statement comparison for 2035/36 below.

Abridged income statement

Revenue

		SCENARIO 3		LOWER INFLATION	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Rates & annual charges	71,193,000	164,313,362	7.9%	157,237,295	7.5%
User charges & fees	9,926,000	18,743,733	5.9%	17,904,157	5.5%
Other revenue	3,339,000	4,672,057	3.1%	4,449,854	2.6%
Grants & contributions (operating)	15,706,000	22,363,780	3.3%	21,303,736	2.8%
Grants & contributions (capital)	71,924,000	42,095,937	(4.8%)	42,095,937	(4.8%)
Investment revenue & other income	4,533,000	751,954	(15.1%)	731,676	(15.3%)
Total income	**176,621,000**	**252,940,823**	**3.3%**	**243,722,654**	**3.0%**

Expenses

		SCENARIO 3		LOWER INFLATION	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Employee benefits & on-costs	49,318,000	70,046,155	3.2%	66,739,964	2.8%
Borrowing costs	922,000	2,139,935	8.0%	2,139,935	8.0%
Materials & contracts	37,269,000	69,258,066	5.8%	66,248,683	5.4%
Depreciation & amortisation	26,202,000	57,999,284	7.5%	55,682,809	7.1%
Other expenses	7,363,000	11,481,946	4.1%	10,942,480	3.7%
Net losses from the disposal of assets	17,405,000	14,535,891	(1.6%)	14,535,891	(1.6%)
Total expenses	**138,475,000**	**225,461,276**	**4.5%**	**216,289,761**	**4.1%**

		SCENARIO 3		LOWER POPULATION	
	2024/25 $	2035/36 $	AVERAGE ANNUAL INCREASE	2035/36 $	AVERAGE ANNUAL INCREASE
Net operating result	38,146,000	27,479,547	(2.9%)	27,432,893	(3.0%)
Net operating result before capital grants and contributions	(33,778,000)	(14,616,389)		(14,663,044)	

As can be seen Rates & Annual Charges, User Fees and Charges and Other Revenue are all lower with lower inflation. This is because of the following:

- The Rate peg is calculated based on inflationary impact on councils.
- The Waste Management business is focussed on cost recovery and therefore lower costs will probably result in the price increments being calculated for the Annual Waste charge.
- As noted in other sections CPI would be the natural proxy for determining User fees and charges and if inflation was lower the community would expect ant increments to also be lower.
- Grants and Investment Revenue were assumed to not be impacted although the government response to difficult economic conditions might involve a policy response the nature of that response is uncertain.

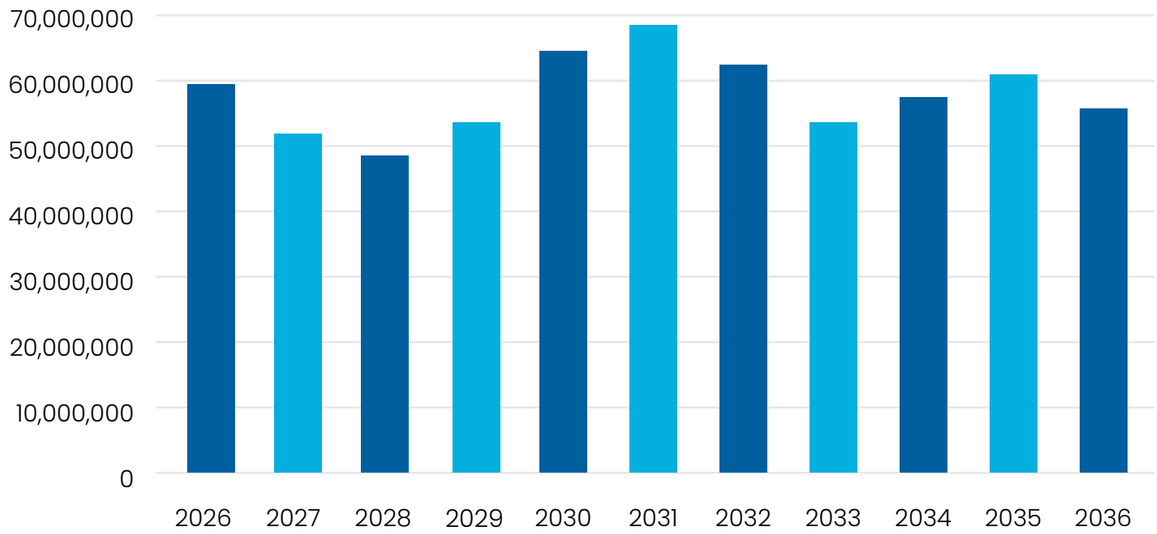
Similar reductions are projected to occur for expenses:

- Employee costs are projected to be lower with negotiations as part of an EA possibly considering inflation as a cost-of-living consideration. This might lag however as this would only happen for a new EA.
- Materials & Contracts and depreciation are dependent upon asset values and the cost of projects via the construction index, assumed to decreased similar to the CPI reduction.
- The waste levy has not been adjusted as the nexus for this item in other expenses with inflation is uncertain.
- Net Losses has also not been adjusted as the impact might depend on Council's response. Projects might cost less but as a consequence council might undertake more projects with greater capacity given an objective is to undertake as much renewal work as possible.
- As will be seen keeping Council's capital works program at the same dollar amount does impact council's cash position. This is because although the Net Operating Position is largely unchanged depreciation is lower. Accordingly, less cash is being generated from Council operations.

The following graphs will show these impacts more clearly.

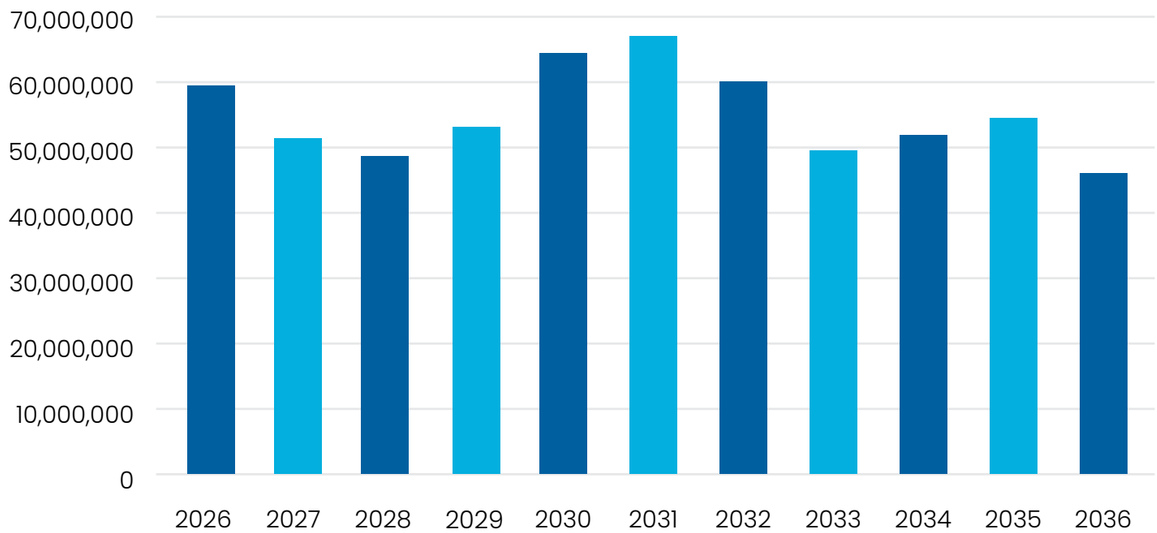
Scenario 3

Net Cash & Investments (incl. Bank Overdraft) - General Fund



Scenario 3 (0.5% lower inflation)

Net Cash & Investments (incl. Bank Overdraft) - General Fund



The cash position has decreased by approximately $10m over the 10 years. This is not a significant change and therefore the capital works program would be largely retained in dollar terms. Lower inflation therefore provides some benefit to Council if the inflationary adjustments do apply more broadly as have been assumed

APPENDIX 1
RATIOS

Base case

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
Operating Performance Ratio	-16.41%	-17.04%	-19.15%	-17.14%	-16.13%	-16.15%	-15.58%	-15.36%	-15.72%	-16.77%	-16.52%
Own Source Operating Revenue Ratio	48.01%	54.27%	61.21%	61.82%	65.90%	68.08%	68.32%	69.04%	70.58%	71.21%	71.01%
Debt Service Cover Ratio	5.60	3.83	2.73	3.34	3.71	4.01	4.44	4.71	5.36	5.23	5.54
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	6.90%	6.92%	6.92%	6.92%	6.92%	6.92%	6.91%	6.91%	6.91%	6.91%	6.91%
Cash Expense Cover Ratio	4.06	5.72	4.97	5.45	5.66	5.60	5.17	3.82	3.89	3.62	3.42

Scenario 1

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
Operating Performance Ratio	-16.41%	-16.56%	-20.53%	-20.36%	-20.71%	-21.34%	-22.69%	-23.52%	-24.55%	-26.27%	-26.78%
Own Source Operating Revenue Ratio	48.01%	54.27%	61.21%	61.82%	65.90%	68.08%	68.32%	69.04%	70.58%	71.21%	71.01%
Debt Service Cover Ratio	5.60	5.64	2.22	1.86	1.61	1.48	1.20	1.07	0.98	0.85	0.78
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	6.90%	6.92%	6.92%	6.92%	6.92%	6.92%	6.91%	6.91%	6.91%	6.91%	6.91%
Cash Expense Cover Ratio	4.06	5.92	5.57	5.46	5.03	4.67	4.60	4.06	3.81	3.24	2.83

Scenario 2

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
Operating Performance Ratio	-16.41%	-0.41%	-3.03%	-2.20%	-1.90%	-1.71%	-1.29%	-1.23%	-1.30%	-1.97%	-1.61%
Own Source Operating Revenue Ratio	48.01%	58.51%	65.24%	65.82%	69.69%	71.75%	71.98%	72.67%	74.10%	74.69%	74.52%
Debt Service Cover Ratio	5.60	11.76	5.97	5.27	4.83	5.07	5.07	4.85	5.18	5.26	5.31
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	6.90%	7.00%	6.92%	6.92%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%
Cash Expense Cover Ratio	4.06	5.66	5.55	5.93	5.71	5.21	4.96	4.66	4.26	3.99	3.33

Scenario 3

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
Operating Performance Ratio	-16.41%	-0.41%	-2.76%	-1.20%	-0.43%	-0.29%	0.30%	0.63%	0.50%	-0.33%	-0.04%
Own Source Operating Revenue Ratio	48.01%	58.51%	65.24%	65.82%	69.69%	71.75%	71.98%	72.67%	74.10%	74.69%	74.52%
Debt Service Cover Ratio	5.60	11.76	4.71	5.23	5.50	5.76	6.10	10.97	12.92	13.11	13.20
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	6.90%	7.00%	6.92%	6.92%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%
Cash Expense Cover Ratio	4.06	4.51	4.88	5.23	6.40	6.43	5.64	4.67	4.81	4.91	4.23

Scenario 4

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
Operating Performance Ratio	-16.41%	-0.97%	-2.94%	-1.41%	-0.73%	-0.64%	11.93%	12.14%	11.92%	11.26%	11.58%
Own Source Operating Revenue Ratio	48.01%	58.51%	65.24%	65.82%	69.69%	71.75%	74.78%	75.42%	76.76%	77.32%	77.16%
Debt Service Cover Ratio	5.60	7.20	5.28	5.85	6.13	6.42	9.98	10.55	11.90	12.22	12.50
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	6.90%	7.00%	6.92%	6.92%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%
Cash Expense Cover Ratio	4.06	5.77	5.18	5.46	6.52	6.56	5.81	4.60	5.21	5.63	5.12

APPENDIX 2
INCOME STATEMENTS

Base case

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
INCOME FROM CONTINUING OPERATIONS												
Rates & Annual Charges	71,193,000	76,566,034	81,028,588	86,048,717	91,350,809	96,879,005	102,517,949	108,209,633	114,294,539	120,485,714	126,947,396	133,674,920
User Charges & Fees	9,926,000	9,949,737	11,533,644	12,643,114	13,850,144	15,177,309	15,724,470	16,289,753	16,873,511	17,476,622	18,100,062	18,743,733
Other Revenues	3,339,000	3,524,068	3,629,790	3,738,684	3,847,106	3,958,672	4,069,514	4,183,461	4,300,598	4,421,015	4,544,803	4,672,057
Grants & Contributions provided for Operating Purposes	15,706,000	22,079,848	16,846,911	17,411,472	17,977,628	18,562,285	19,147,487	19,751,234	20,374,118	21,016,748	21,679,752	22,363,780
Grants & Contributions provided for Capital Purposes	71,924,000	78,785,856	65,830,321	48,462,834	50,124,405	41,897,515	38,519,953	40,252,951	40,696,775	38,651,695	39,117,987	42,095,937
Interest & Investment Revenue	3,891,000	3,102,000	1,631,528	1,251,778	945,258	543,163	420,960	434,304	448,940	463,172	477,854	493,002
Other income	642,000	-	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000
Total income from continuing operations	**176,621,000**	**194,007,543**	**180,777,783**	**169,833,598**	**178,372,350**	**177,294,948**	**180,677,333**	**189,398,337**	**197,265,482**	**202,791,964**	**211,144,853**	**222,320,429**
EXPENSES FROM CONTINUING OPERATIONS												
Employee Benefits & On-Costs	49,318,000	48,194,991	49,236,197	51,467,156	52,729,792	54,575,335	56,485,471	59,016,151	61,633,045	64,341,151	67,146,031	70,046,155
Borrowing Costs	922,000	1,179,647	1,920,838	2,978,218	2,827,529	2,671,556	2,507,928	2,339,167	2,162,977	1,984,853	1,818,790	1,644,420
Materials & Contracts	37,269,000	44,790,425	40,670,779	44,209,172	46,170,957	48,816,636	52,115,490	54,238,121	57,095,636	60,752,846	66,088,833	69,307,898
Depreciation & Amortisation	26,202,000	32,323,021	34,733,230	37,646,052	39,825,224	42,126,249	44,584,347	46,966,766	49,521,731	52,240,932	54,781,443	57,510,320
Impairment of receivables	(4,000)	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	7,363,000	7,645,862	7,974,634	8,317,543	8,675,198	9,048,231	9,428,257	9,814,815	10,207,408	10,615,704	11,040,333	11,481,946
Net Losses from the Disposal of Assets	17,405,000	6,000,000	2,620,406	3,650,165	2,764,628	3,580,237	3,787,512	4,175,048	4,866,734	5,218,380	5,646,022	6,097,422
Total expenses from continuing operations	**138,475,000**	**140,133,946**	**137,156,084**	**48,268,305**	**152,993,327**	**160,818,245**	**168,909,005**	**176,550,068**	**185,487,532**	**195,153,867**	**206,521,451**	**216,088,161**
Operating Result from continuing operations	**38,146,000**	**53,873,597**	**43,621,699**	**21,565,292**	**25,379,022**	**16,476,703**	**11,768,328**	**12,848,269**	**11,777,950**	**7,638,097**	**4,623,402**	**6,232,268**
Net Operating Result for the year	**38,146,000**	**53,873,597**	**43,621,699**	**21,565,292**	**25,379,022**	**16,476,703**	**11,768,328**	**12,848,269**	**11,777,950**	**7,638,097**	**4,623,402**	**6,232,268**
Net Operating Result before Grants and Contributions provided for capital purposes	**(33,778,000)**	**(24,912,259)**	**(22,208,622)**	**(26,897,541)**	**(24,745,382)**	**(25,420,812)**	**(26,751,625)**	**(27,404,683)**	**(28,918,826)**	**(31,013,597)**	**(34,494,585)**	**(35,863,668)**

Scenario 1

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
INCOME FROM CONTINUING OPERATIONS												
Rates & Annual Charges	71,193,000	76,566,034	81,028,588	86,048,717	91,350,809	96,879,005	102,517,949	108,209,633	114,294,539	120,485,714	126,947,396	133,674,920
User Charges & Fees	9,926,000	9,949,737	11,533,644	12,643,114	13,850,144	15,177,309	15,724,470	16,289,753	16,873,511	17,476,622	18,100,062	18,743,733
Other Revenues	3,339,000	3,524,068	3,629,790	3,738,684	3,847,106	3,958,672	4,069,514	4,183,461	4,300,598	4,421,015	4,544,803	4,672,057
Grants & Contributions provided for Operating Purposes	15,706,000	22,079,848	16,846,911	17,411,472	17,977,628	18,562,285	19,147,487	19,751,234	20,374,118	21,016,748	21,679,752	22,363,780
Grants & Contributions provided for Capital Purposes	71,924,000	78,785,856	65,830,321	48,462,834	50,124,405	41,897,515	38,519,953	40,252,951	40,696,775	38,651,695	39,117,987	42,095,937
Interest & Investment Revenue	3,891,000	3,102,000	1,631,528	1,251,778	945,258	543,163	420,960	434,304	448,940	463,172	477,854	493,002
Other income	642,000	-	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000
Total income from continuing operations	**176,621,000**	**194,007,543**	**180,777,783**	**169,833,598**	**178,372,350**	**177,294,948**	**180,677,333**	**189,398,337**	**197,265,482**	**202,791,964**	**211,144,853**	**222,320,429**
EXPENSES FROM CONTINUING OPERATIONS												
Employee Benefits & On-Costs	49,318,000	48,194,991	49,236,197	51,467,156	52,729,792	54,575,335	56,485,471	59,016,151	61,633,045	64,341,151	67,146,031	70,046,155
Borrowing Costs	922,000	1,179,647	1,369,308	4,371,998	6,346,137	8,002,113	9,094,615	12,159,531	14,143,115	15,890,365	17,569,857	19,697,228
Materials & Contracts	37,269,000	44,790,425	40,670,779	44,312,209	46,407,283	49,143,404	52,361,127	54,454,818	57,282,538	60,824,246	66,135,950	69,258,066
Depreciation & Amortisation	26,202,000	32,323,021	34,733,230	37,825,332	40,204,539	42,663,747	45,129,434	47,534,791	50,120,470	52,768,589	55,321,473	57,999,284
Impairment of receivables	(4,000)	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	7,363,000	7,645,862	7,974,634	8,317,543	8,675,198	9,048,231	9,428,257	9,814,815	10,207,408	10,615,704	11,040,333	11,481,946
Net Losses from the Disposal of Assets	17,405,000	6,000,000	6,389,492	9,726,779	9,458,904	10,016,380	10,459,548	11,092,517	11,859,765	12,455,309	13,195,338	14,246,120
Total expenses from continuing operations	**138,475,000**	**140,133,946**	**140,373,641**	**156,021,018**	**163,821,853**	**173,449,210**	**182,958,451**	**194,072,624**	**205,246,341**	**216,895,364**	**230,408,982**	**242,728,798**
Operating Result from continuing operations	**38,146,000**	**53,873,597**	**40,404,142**	**13,812,580**	**14,550,497**	**3,845,738**	**(2,281,119)**	**(4,674,287)**	**(7,980,860)**	**(14,103,400)**	**(19,264,129)**	**(20,408,369)**
Net Operating Result for the year	**38,146,000**	**53,873,597**	**40,404,142**	**13,812,580**	**14,550,497**	**3,845,738**	**(2,281,119)**	**(4,674,287)**	**(7,980,860)**	**(14,103,400)**	**(19,264,129)**	**(20,408,369)**
Net Operating Result before Grants and Contributions provided for capital purposes	**(33,778,000)**	**(24,912,259)**	**(25,426,179)**	**(34,650,254)**	**(35,573,908)**	**(38,051,777)**	**(40,801,071)**	**(44,927,238)**	**(48,677,635)**	**(52,755,094)**	**(58,382,116)**	**(62,504,305)**

Scenario 2

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
INCOME FROM CONTINUING OPERATIONS												
Rates & Annual Charges	71,193,000	76,566,034	99,526,379	105,718,172	112,257,705	119,066,374	126,010,474	133,003,431	140,494,199	148,102,785	156,044,374	164,313,362
User Charges & Fees	9,926,000	9,949,737	11,533,644	12,643,114	13,850,144	15,177,309	15,724,470	16,289,753	16,873,511	17,476,622	18,100,062	18,743,733
Other Revenues	3,339,000	3,524,068	3,629,790	3,738,684	3,847,106	3,958,672	4,069,514	4,183,461	4,300,598	4,421,015	4,544,803	4,672,057
Grants & Contributions provided for Operating Purposes	15,706,000	22,079,848	16,846,911	17,411,472	17,977,628	18,562,285	19,147,487	19,751,234	20,374,118	21,016,748	21,679,752	22,363,780
Grants & Contributions provided for Capital Purposes	71,924,000	78,785,856	65,830,321	48,462,834	50,124,405	41,897,515	38,519,953	40,252,951	40,696,775	38,651,695	39,117,987	42,095,937
Interest & Investment Revenue	3,891,000	3,102,000	1,618,152	1,237,900	930,866	528,265	405,549	418,405	432,505	446,215	460,360	474,954
Other income	642,000	-	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000
Total income from continuing operations	**176,621,000**	**194,007,543**	**199,262,197**	**189,489,175**	**199,264,853**	**199,467,420**	**204,154,447**	**214,176,235**	**223,448,706**	**230,392,079**	**240,224,338**	**252,940,823**
EXPENSES FROM CONTINUING OPERATIONS												
Employee Benefits & On-Costs	49,318,000	48,194,991	49,236,197	51,467,156	52,729,792	54,575,335	56,485,471	59,016,151	61,633,045	64,341,151	67,146,031	70,046,155
Borrowing Costs	922,000	1,179,647	1,369,308	3,383,110	4,398,868	5,128,527	5,066,264	5,346,442	5,761,227	5,678,596	5,424,439	5,451,435
Materials & Contracts	37,269,000	44,790,425	40,670,779	44,312,209	46,407,283	49,143,404	52,361,127	54,454,818	57,282,538	60,824,246	66,135,950	69,258,066
Depreciation & Amortisation	26,202,000	32,323,021	34,733,230	37,825,332	40,204,539	42,663,747	45,129,434	47,534,791	50,120,470	52,768,589	55,321,473	57,999,284
Impairment of receivables	(4,000)	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	7,363,000	7,645,862	7,974,634	8,317,543	8,675,198	9,048,231	9,428,257	9,814,815	10,207,408	10,615,704	11,040,333	11,481,946
Net Losses from the Disposal of Assets	17,405,000	6,000,000	6,389,492	9,726,779	9,458,904	10,016,380	10,459,548	11,092,517	11,859,765	12,455,309	13,195,338	14,246,120
Total expenses from continuing operations	**138,475,000**	**140,133,946**	**140,373,641**	**155,032,130**	**161,874,584**	**170,575,624**	**178,930,101**	**187,259,534**	**196,864,453**	**206,683,594**	**218,263,563**	**228,483,004**
Operating Result from continuing operations	**38,146,000**	**53,873,597**	**58,888,556**	**34,457,046**	**37,390,269**	**28,891,796**	**25,224,346**	**26,916,701**	**26,584,253**	**23,708,485**	**21,960,774**	**24,457,819**
Net Operating Result for the year	**38,146,000**	**53,873,597**	**58,888,556**	**34,457,046**	**37,390,269**	**28,891,796**	**25,224,346**	**26,916,701**	**26,584,253**	**23,708,485**	**21,960,774**	**24,457,819**
Net Operating Result before Grants and Contributions provided for capital purposes	**(33,778,000)**	**(24,912,259)**	**(6,941,765)**	**(14,005,788)**	**(12,734,136)**	**(13,005,719)**	**(13,295,606)**	**(13,336,251)**	**(14,112,522)**	**(14,943,210)**	**(17,157,213)**	**(17,638,118)**

Scenario 3

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
INCOME FROM CONTINUING OPERATIONS												
Rates & Annual Charges	71,193,000	76,566,034	99,526,379	105,718,172	112,257,705	119,066,374	126,010,474	133,003,431	140,494,199	148,102,785	156,044,374	164,313,362
User Charges & Fees	9,926,000	9,949,737	11,533,644	12,643,114	13,850,144	15,177,309	15,724,470	16,289,753	16,873,511	17,476,622	18,100,062	18,743,733
Other Revenues	3,339,000	3,524,068	3,629,790	3,738,684	3,847,106	3,958,672	4,069,514	4,183,461	4,300,598	4,421,015	4,544,803	4,672,057
Grants & Contributions provided for Operating Purposes	15,706,000	22,079,848	16,846,911	17,411,472	17,977,628	18,562,285	19,147,487	19,751,234	20,374,118	21,016,748	21,679,752	22,363,780
Grants & Contributions provided for Capital Purposes	71,924,000	78,785,856	65,830,321	48,462,834	50,124,405	41,897,515	38,519,953	40,252,951	40,696,775	38,651,695	39,117,987	42,095,937
Interest & Investment Revenue	3,891,000	3,102,000	1,618,152	1,237,900	930,866	528,265	405,549	418,405	432,505	446,215	460,360	474,954
Other income	642,000	-	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000
Total income from continuing operations	**176,621,000**	**194,007,543**	**199,262,197**	**189,489,175**	**199,264,853**	**199,467,420**	**204,154,447**	**214,176,235**	**223,448,706**	**230,392,079**	**240,224,338**	**252,940,823**
EXPENSES FROM CONTINUING OPERATIONS												
Employee Benefits & On-Costs	49,318,000	48,194,991	49,236,197	51,467,156	52,729,792	54,575,335	56,485,471	59,016,151	61,633,045	64,341,151	67,146,031	70,046,155
Borrowing Costs	922,000	1,179,647	1,369,308	2,995,056	2,909,987	2,818,798	2,703,672	2,574,255	2,351,384	2,233,462	2,130,708	2,139,935
Materials & Contracts	37,269,000	44,790,425	40,670,779	44,312,209	46,407,283	49,143,404	52,361,127	54,454,818	57,282,538	60,824,246	66,135,950	69,258,066
Depreciation & Amortisation	26,202,000	32,323,021	34,733,230	37,825,332	40,204,539	42,663,747	45,129,434	47,534,791	50,120,470	52,768,589	55,321,473	57,999,284
Impairment of receivables	(4,000)	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	7,363,000	7,645,862	7,974,634	8,317,543	8,675,198	9,048,231	9,428,257	9,814,815	10,207,408	10,615,704	11,040,333	11,481,946
Net Losses from the Disposal of Assets	17,405,000	6,000,000	4,301,179	5,082,726	5,450,620	6,280,334	9,214,627	9,416,685	10,863,026	11,300,786	13,511,973	14,535,891
Total expenses from continuing operations	**138,475,000**	**140,133,946**	**138,285,328**	**150,000,022**	**156,377,418**	**164,529,849**	**175,322,588**	**182,811,516**	**192,457,871**	**202,083,938**	**215,286,468**	**225,461,276**
Operating Result from continuing operations	**38,146,000**	**53,873,597**	**60,976,869**	**39,489,153**	**42,887,435**	**34,937,571**	**28,831,859**	**31,364,719**	**30,990,836**	**28,308,142**	**24,937,870**	**27,479,547**
Net Operating Result for the year	**38,146,000**	**53,873,597**	**60,976,869**	**39,489,153**	**42,887,435**	**34,937,571**	**28,831,859**	**31,364,719**	**30,990,836**	**28,308,142**	**24,937,870**	**27,479,547**
Net Operating Result before Grants and Contributions provided for capital purposes	**(33,778,000)**	**(24,912,259)**	**(4,853,452)**	**(8,973,680)**	**(7,236,970)**	**(6,959,944)**	**(9,688,093)**	**(8,888,232)**	**(9,705,940)**	**(10,343,553)**	**(14,180,117)**	**(14,616,389)**

Scenario 4

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
INCOME FROM CONTINUING OPERATIONS												
Rates & Annual Charges	71,193,000	76,566,034	99,526,379	105,718,172	112,257,705	119,066,374	126,010,474	156,716,447	165,549,257	174,510,779	183,864,909	193,605,158
User Charges & Fees	9,926,000	9,949,737	11,533,644	12,643,114	13,850,144	15,177,309	15,724,470	16,289,753	16,873,511	17,476,622	18,100,062	18,743,733
Other Revenues	3,339,000	3,524,068	3,629,790	3,738,684	3,847,106	3,958,672	4,069,514	4,183,461	4,300,598	4,421,015	4,544,803	4,672,057
Grants & Contributions provided for Operating Purposes	15,706,000	22,079,848	16,846,911	17,411,472	17,977,628	18,562,285	19,147,487	19,751,234	20,374,118	21,016,748	21,679,752	22,363,780
Grants & Contributions provided for Capital Purposes	71,924,000	78,785,856	65,830,321	48,462,834	50,124,405	41,897,515	38,519,953	40,252,951	40,696,775	38,651,695	39,117,987	42,095,937
Interest & Investment Revenue	3,891,000	3,102,000	1,618,152	1,237,900	930,866	528,265	405,549	405,549	419,216	432,505	446,215	460,360
Other income	642,000	-	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000	277,000
Total income from continuing operations	**176,621,000**	**194,007,543**	**199,262,197**	**189,489,175**	**199,264,853**	**199,467,420**	**204,154,447**	**237,876,395**	**248,490,476**	**256,786,362**	**268,030,728**	**282,218,026**
EXPENSES FROM CONTINUING OPERATIONS												
Employee Benefits & On-Costs	49,318,000	48,194,991	49,236,197	51,467,156	52,729,792	54,575,335	56,485,471	59,016,151	61,633,045	64,341,151	67,146,031	70,046,155
Borrowing Costs	922,000	1,179,647	2,104,682	3,205,846	3,182,562	3,148,352	3,085,637	3,011,793	2,790,825	2,565,687	2,350,264	2,241,091
Materials & Contracts	37,269,000	44,790,425	40,670,779	44,338,144	46,434,334	49,220,239	52,441,190	54,544,329	57,518,813	61,304,347	66,668,345	69,859,819
Depreciation & Amortisation	26,202,000	32,323,021	34,733,230	37,847,785	40,228,589	42,731,557	45,250,549	47,666,948	50,422,163	53,315,712	55,934,080	58,694,379
Impairment of receivables	(4,000)	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	7,363,000	7,645,862	7,974,634	8,317,543	8,675,198	9,048,231	9,428,257	9,814,815	10,207,408	10,615,704	11,040,333	11,481,946
Net Losses from the Disposal of Assets	17,405,000	6,000,000	4,301,179	5,082,726	5,450,620	6,280,334	9,214,627	12,959,317	14,185,069	15,000,510	17,761,973	19,035,891
Total expenses from continuing operations	**138,475,000**	**140,133,946**	**139,020,701**	**150,259,200**	**156,701,094**	**165,004,047**	**175,905,731**	**187,013,352**	**196,757,324**	**207,143,112**	**220,901,025**	**231,359,280**
Operating Result from continuing operations	**38,146,000**	**53,873,597**	**60,241,496**	**39,229,976**	**42,563,759**	**34,463,372**	**28,248,716**	**50,863,042**	**51,733,152**	**49,643,251**	**47,129,703**	**50,858,745**
Net Operating Result for the year	**38,146,000**	**53,873,597**	**60,241,496**	**39,229,976**	**42,563,759**	**34,463,372**	**28,248,716**	**50,863,042**	**51,733,152**	**49,643,251**	**47,129,703**	**50,858,745**
Net Operating Result before Grants and Contributions provided for capital purposes	**(33,778,000)**	**(24,912,259)**	**(5,588,825)**	**(9,232,858)**	**(7,560,645)**	**(7,434,142)**	**(10,271,237)**	**10,610,091**	**11,036,377**	**10,991,556**	**8,011,716**	**8,762,809**

APPENDIX 3
STATEMENT OF FINANCIAL POSITION

Base case

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
ASSETS												
Current Assets												
Cash & Cash Equivalents	34,226,000	36,472,788	48,946,099	45,495,279	51,499,459	43,294,436	40,133,796	37,950,268	35,251,968	38,027,904	37,448,732	36,886,999
Investments	62,474,000	22,474,000	2,474,000	2,474,000	2,474,000	12,474,000	17,474,000	17,474,000	7,474,000	7,474,000	7,474,000	7,474,000
Receivables	14,617,000	14,347,290	13,298,123	12,392,889	13,074,576	13,517,442	14,117,942	14,681,577	15,165,494	15,831,597	16,484,625	17,163,149
Inventories	481,000	593,757	540,855	587,328	613,372	648,314	691,757	719,967	757,740	805,919	875,908	918,467
Contract assets and contract cost assets	-	-	-	-	-	-	-	-	-	-	-	-
Other	867,000	2,185,756	2,032,291	2,192,927	2,289,711	2,415,196	2,567,786	2,672,587	2,807,804	2,976,491	3,214,658	3,366,976
Non-current assets classified as "held for sale"	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000
Total Current Assets	**115,758,000**	**79,166,591**	**70,384,367**	**66,235,422**	**73,044,119**	**75,442,388**	**78,078,281**	**76,591,399**	**64,550,006**	**68,208,910**	**68,590,924**	**68,902,591**
Non-Current Assets												
Infrastructure, Property, Plant & Equipment	1,567,624,000	1,702,770,029	1,850,973,324	1,943,839,334	2,036,693,884	2,128,527,844	2,218,057,300	2,314,398,367	2,421,934,718	2,513,891,419	2,610,003,880	2,713,620,890
Total Non-Current Assets	**1,567,624,000**	**1,702,770,029**	**1,850,973,324**	**1,943,839,334**	**2,036,693,884**	**2,128,527,844**	**2,218,057,300**	**2,314,398,367**	**2,421,934,718**	**2,513,891,419**	**2,610,003,880**	**2,713,620,890**
Total Assets	**1,683,382,000**	**1,781,936,620**	**1,921,357,691**	**2,010,074,757**	**2,109,738,003**	**2,203,970,233**	**2,296,135,581**	**2,390,989,765**	**2,486,484,725**	**2,582,100,329**	**2,678,594,804**	**2,782,523,481**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
LIABILITIES												
Current Liabilities												
Bank Overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Payables	19,236,000	15,300,117	14,838,182	15,779,196	16,453,924	17,262,113	18,192,309	18,936,908	19,829,285	20,871,542	22,224,156	23,223,118
Income recieved in advance	-	-	-	-	-	-	-	-	-	-	-	-
Contract liabilities	32,744,000	14,380,533	10,934,923	7,662,314	7,920,817	7,696,334	7,920,360	8,150,962	8,388,327	8,632,669	8,884,211	9,143,133
Lease liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	6,720,000	1,654,565	3,375,732	3,353,490	3,509,464	3,516,012	3,527,694	3,703,768	3,324,103	3,490,166	3,664,536	2,393,134
Employee benefit provisions	10,109,000	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701
Other provisions	42,000	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334
Liabilities associated with assets classified as 'held for sale'	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	**68,851,000**	**41,712,249**	**39,525,872**	**37,172,035**	**38,261,240**	**38,851,494**	**40,017,397**	**41,168,673**	**41,918,750**	**43,371,412**	**45,149,937**	**45,136,420**
Non-Current Liabilities												
Payables	3,208,000	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407
Borrowings	13,026,000	22,190,825	52,930,160	49,576,670	46,067,206	42,551,194	39,023,501	35,319,732	31,995,629	28,505,463	24,840,928	22,447,794
Employee benefit provisions	803,000	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299
Other provisions	25,301,000	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666
Income accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities associated with assets classified as 'held for sale'	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Current Liabilities	**42,338,000**	**52,161,198**	**82,900,533**	**79,547,043**	**76,037,579**	**72,521,567**	**68,993,874**	**65,290,105**	**61,966,002**	**58,475,836**	**54,811,301**	**52,418,167**
Total Liabilities	**111,189,000**	**93,873,447**	**122,426,404**	**116,719,078**	**114,298,818**	**111,373,061**	**109,011,271**	**106,458,778**	**103,884,752**	**101,847,247**	**99,961,238**	**97,554,586**
Net Assets	**1,572,193,000**	**1,688,063,173**	**1,798,931,287**	**,893,355,679**	**1,995,439,184**	**2,092,597,172**	**2,187,124,311**	**2,284,530,987**	**2,382,599,972**	**2,480,253,081**	**2,578,633,566**	**2,684,968,894**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
EQIUITY												
Retained Earnings	759,881,000	813,754,597	857,376,295	878,941,588	904,320,610	920,797,313	932,565,640	945,413,909	957,191,859	964,829,956	969,453,358	975,685,627
Revaluation Reserves	812,312,000	874,308,576		1,014,414,092	1,091,118,574	1,171,799,859	1,254,558,671	1,339,117,078	1,425,408,113	1,515,423,125	1,609,180,208	1,706,783,268
Other reserves	-	-	-	-	-	-	-	-	-	-	-	-
Council Equity Interest	**1,572,193,000**	**1,688,063,173**	**1,798,931,287**	**1,893,355,679**	**1,995,439,184**	**2,092,597,172**	**2,187,124,311**	**2,284,530,987**	**2,382,599,972**	**2,480,253,081**	**2,578,633,566**	**2,682,468,895**
Non-controlling equity interests	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,572,193,000**	**1,688,063,173**	**1,798,931,287**	**1,893,355,679**	**1,995,439,184**	**2,092,597,172**	**2,187,124,311**	**2,284,530,987**	**2,382,599,972**	**2,480,253,081**	**2,578,633,566**	**2,682,468,895**

Scenario 1

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
ASSETS												
Current Assets												
Cash & Cash Equivalents	34,226,000	36,472,788	49,961,482	51,654,715	53,903,755	40,482,433	34,637,941	37,949,534	44,687,330	44,582,275	40,066,957	36,740,479
Investments	62,474,000	22,474,000	2,474,000	2,474,000	2,474,000	12,474,000	17,474,000	17,474,000	7,474,000	7,474,000	7,474,000	7,474,000
Receivables	14,617,000	14,347,290	13,309,172	12,459,795	13,100,012	13,486,565	14,058,473	14,682,216	15,268,162	15,901,803	16,512,352	17,161,253
Inventories	481,000	593,757	540,855	588,665	616,438	652,553	694,943	722,778	760,165	806,845	876,520	917,820
Contract assets and contract cost assets	-	-	-	-	-	-	-	-	-	-	-	-
Other	867,000	2,185,756	2,032,291	2,197,144	2,299,384	2,428,571	2,577,840	2,681,456	2,815,454	2,979,413	3,216,587	3,364,936
Non-current assets classified as "held for sale"	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000
Total Current Assets	**115,758,000**	**79,166,591**	**71,410,800**	**72,467,319**	**75,486,589**	**72,617,123**	**72,536,197**	**76,602,985**	**74,098,111**	**74,837,337**	**71,239,415**	**68,751,488**
Non-Current Assets												
Infrastructure, Property, Plant & Equipment	1,567,624,000	1,702,770,029	1,874,614,269	1,998,524,732	2,123,379,092	2,237,034,783	2,351,232,407	2,473,991,177	2,603,730,622	2,722,312,426	2,845,014,607	2,984,850,693
Total Non-Current Assets	**1,567,624,000**	**1,702,770,029**	**1,874,614,269**	**1,998,524,732**	**2,123,379,092**	**2,237,034,783**	**2,351,232,407**	**2,473,991,177**	**2,603,730,622**	**2,722,312,426**	**2,845,014,607**	**2,984,850,693**
Total Assets	**1,683,382,000**	**1,781,936,620**	**1,946,025,068**	**2,070,992,051**	**2,198,865,680**	**2,309,651,906**	**2,423,768,604**	**2,550,594,161**	**2,677,828,733**	**2,797,149,763**	**2,916,254,023**	**3,053,602,181**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
LIABILITIES												
Current Liabilities												
Bank Overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Payables	19,236,000	15,300,117	14,838,182	15,797,219	16,495,262	17,319,270	18,235,275	18,974,812	19,861,978	20,884,031	22,232,397	23,214,402
Income recieved in advance	-	-	-	-	-	-	-	-	-	-	-	-
Contract liabilities	32,744,000	14,380,533	10,934,923	7,662,314	7,920,817	7,696,334	7,920,360	8,150,962	8,388,327	8,632,669	8,884,211	9,143,133
Lease liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	6,720,000	1,654,565	3,400,883	4,667,415	6,028,111	7,001,341	8,267,635	10,276,507	11,914,391	14,036,655	16,326,112	19,205,357
Employee benefit provisions	10,109,000	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701
Other provisions	42,000	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334
Liabilities associated with assets classified as 'held for sale'	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	**68,851,000**	**41,712,249**	**39,551,023**	**38,503,983**	**40,821,225**	**42,393,980**	**44,800,304**	**47,779,316**	**50,541,731**	**53,930,389**	**57,819,755**	**61,939,926**
Non-Current Liabilities												
Payables	3,208,000	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407
Borrowings	13,026,000	22,190,825	80,789,943	119,122,527	151,094,416	172,093,075	198,825,440	237,401,788	277,271,422	310,133,508	342,660,251	386,963,604
Employee benefit provisions	803,000	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299
Other provisions	25,301,000	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666
Income accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities associated with assets classified as 'held for sale'	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Current Liabilities	**42,338,000**	**52,161,198**	**110,760,316**	**149,092,900**	**181,064,789**	**202,063,448**	**228,795,813**	**267,372,161**	**307,241,795**	**340,103,881**	**72,630,624**	**416,933,977**
Total Liabilities	**111,189,000**	**93,873,447**	**150,311,338**	**187,596,883**	**221,886,014**	**244,457,427**	**273,596,117**	**315,151,477**	**357,783,526**	**394,034,270**	**430,450,379**	**478,873,903**
Net Assets	**1,572,193,000**	**1,688,063,173**	**1,795,713,730**	**1,883,395,168**	**1,976,979,667**	**2,065,194,479**	**2,150,172,487**	**2,235,442,685**	**2,320,045,207**	**2,403,115,493**	**2,485,803,644**	**2,574,728,278**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
EQIUITY												
Retained Earnings	759,881,000	813,754,597	854,158,739	867,971,319	882,521,816	886,367,553	884,086,435	879,412,148	871,431,288	857,327,889	838,063,760	817,655,391
Revaluation Reserves	812,312,000	874,308,576	941,554,991	1,015,423,849	1,094,457,851	1,178,826,926	1,266,086,052	1,356,030,537	1,448,613,919	1,545,787,604	1,647,739,884	1,754,572,887
Other reserves	-	-	-	-	-	-	-	-	-	-	-	-
Council Equity Interest	**1,572,193,000**	**1,688,063,173**	**1,795,713,730**	**1,883,395,168**	**1,976,979,667**	**2,065,194,479**	**2,150,172,487**	**2,235,442,685**	**2,320,045,207**	**2,403,115,493**	**2,485,803,644**	**2,572,228,278**
Non-controlling equity interests	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,572,193,000**	**1,688,063,173**	**1,795,713,730**	**1,883,395,168**	**1,976,979,667**	**2,065,194,479**	**2,150,172,487**	**2,235,442,685**	**2,320,045,207**	**2,403,115,493**	**2,485,803,644**	**2,572,228,278**

Scenario 2

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
ASSETS												
Current Assets												
Cash & Cash Equivalents	34,226,000	36,472,788	47,805,415	50,701,648	56,931,835	45,381,304	37,745,521	37,410,703	46,827,224	44,409,245	43,837,103	37,322,709
Investments	62,474,000	22,474,000	2,474,000	2,474,000	2,474,000	12,474,000	17,474,000	17,474,000	7,474,000	7,474,000	7,474,000	7,474,000
Receivables	14,617,000	14,347,290	14,673,567	13,910,341	14,685,786	15,187,298	15,836,385	16,517,241	17,237,194	17,950,555	18,714,180	19,442,378
Inventories	481,000	593,757	540,855	588,665	616,438	652,553	694,943	722,778	760,165	806,845	876,520	917,820
Contract assets and contract cost assets	-	-	-	-	-	-	-	-	-	-	-	-
Other	867,000	2,185,756	2,032,291	2,197,144	2,299,384	2,428,571	2,577,840	2,681,456	2,815,454	2,979,413	3,216,587	3,364,936
Non-current assets classified as "held for sale"	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000
Total Current Assets	**115,758,000**	**79,166,591**	**70,619,127**	**72,964,799**	**80,100,443**	**79,216,726**	**77,421,690**	**77,899,179**	**78,207,038**	**76,713,058**	**77,211,390**	**71,614,843**
Non-Current Assets												
Infrastructure, Property, Plant & Equipment	1,567,624,000	1,702,770,029	1,874,614,269	1,998,524,732	2,123,379,092	2,237,034,783	2,351,232,407	2,473,991,177	2,603,730,622	2,722,312,426	2,845,014,607	2,984,850,693
Total Non-Current Assets	**1,567,624,000**	**1,702,770,029**	**1,874,614,269**	**1,998,524,732**	**2,123,379,092**	**2,237,034,783**	**2,351,232,407**	**2,473,991,177**	**2,603,730,622**	**2,722,312,426**	**2,845,014,607**	**2,984,850,693**
Total Assets	**1,683,382,000**	**1,781,936,620**	**1,945,233,395**	**2,071,489,531**	**2,203,479,535**	**2,316,251,510**	**2,428,654,096**	**2,551,890,355**	**2,681,937,659**	**2,799,025,484**	**2,922,225,997**	**3,056,465,537**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
LIABILITIES												
Current Liabilities												
Bank Overdraft	–	–	–	–	–	–	–	–	–	–	–	–
Payables	19,236,000	15,300,117	15,562,095	16,566,986	17,313,456	18,187,575	19,154,658	19,945,120	20,887,305	21,964,828	23,371,111	24,413,441
Income recieved in advance	–	–	–	–	–	–	–	–	–	–	–	–
Contract liabilities	32,744,000	14,380,533	10,934,923	7,662,314	7,920,817	7,696,334	7,920,360	8,150,962	8,388,327	8,632,669	8,884,211	9,143,133
Lease liabilities	–	–	–	–	–	–	–	–	–	–	–	–
Borrowings	6,720,000	1,654,565	2,802,049	3,439,240	4,138,532	4,271,994	4,416,562	4,955,738	5,116,210	5,370,367	5,737,818	6,181,336
Employee benefit provisions	10,109,000	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701
Other provisions	42,000	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334
Liabilities associated with assets classified as 'held for sale'	–	–	–	–	–	–	–	–	–	–	–	–
Total Current Liabilities	**68,851,000**	**41,712,249**	**39,676,102**	**38,045,574**	**39,749,840**	**40,532,938**	**41,868,614**	**43,428,855**	**44,768,877**	**46,344,899**	**48,370,175**	**50,114,944**
Non-Current Liabilities												
Payables	3,208,000	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407
Borrowings	13,026,000	22,190,825	61,388,776	80,949,536	94,811,004	93,539,010	92,122,448	96,937,281	106,476,928	101,106,561	98,368,742	97,072,692
Employee benefit provisions	803,000	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299
Other provisions	25,301,000	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666
Income accounted for using the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities associated with assets classified as 'held for sale'	–	–	–	–	–	–	–	–	–	–	–	–
Total Non-Current Liabilities	**42,338,000**	**52,161,198**	**91,359,149**	**110,919,909**	**124,781,377**	**123,509,383**	**122,092,821**	**126,907,654**	**136,447,301**	**131,076,934**	**128,339,115**	**127,043,065**
Total Liabilities	**111,189,000**	**93,873,447**	**131,035,251**	**148,965,483**	**164,531,217**	**164,042,321**	**163,961,435**	**170,336,509**	**181,216,178**	**177,421,833**	**176,709,290**	**177,158,009**
Net Assets	**1,572,193,000**	**1,688,063,173**	**1,814,198,144**	**1,922,524,048**	**2,038,948,318**	**2,152,209,189**	**2,264,692,661**	**2,381,553,846**	**2,500,721,482**	**2,621,603,652**	**2,745,516,707**	**2,879,307,527**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
EQIUITY												
Retained Earnings	759,881,000	813,754,597	872,643,153	907,100,198	944,490,467	973,382,263	998,606,609	1,025,523,310	1,052,107,563	1,075,816,048	1,097,776,822	1,122,234,641
Revaluation Reserves	812,312,000	874,308,576	941,554,991	1,015,423,849	1,094,457,851	1,178,826,926	1,266,086,052	1,356,030,537	1,448,613,919	1,545,787,604	1,647,739,884	1,754,572,887
Other reserves	-	-	-	-	-	-	-	-	-	-	-	-
Council Equity Interest	**1,572,193,000**	**1,688,063,173**	**1,814,198,144**	**1,922,524,048**	**2,038,948,318**	**2,152,209,189**	**2,264,692,661**	**2,381,553,846**	**2,500,721,482**	**2,621,603,652**	**2,745,516,707**	**2,876,807,528**
Non-controlling equity interests	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,572,193,000**	**1,688,063,173**	**1,814,198,144**	**1,922,524,048**	**2,038,948,318**	**2,152,209,189**	**2,264,692,661**	**2,381,553,846**	**2,500,721,482**	**2,621,603,652**	**2,745,516,707**	**2,876,807,528**

Scenario 3

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
ASSETS												
Current Assets												
Cash & Cash Equivalents	34,226,000	36,472,788	8,946,099	45,495,279	51,499,459	43,294,436	40,133,796	37,950,268	35,251,968	38,027,904	37,448,732	36,886,999
Investments	62,474,000	22,474,000	2,474,000	2,474,000	2,474,000	12,474,000	17,474,000	17,474,000	7,474,000	7,474,000	7,474,000	7,474,000
Receivables	14,617,000	14,347,290	13,298,123	12,392,889	13,074,576	13,517,442	14,117,942	14,681,577	15,165,494	15,831,597	16,484,625	17,163,149
Inventories	481,000	593,757	540,855	587,328	613,372	648,314	691,757	719,967	757,740	805,919	875,908	918,467
Contract assets and contract cost assets	-	-	-	-	-	-	-	-	-	-	-	-
Other	867,000	2,185,756	2,032,291	2,192,927	2,289,711	2,415,196	2,567,786	2,672,587	2,807,804	2,976,491	3,214,658	3,366,976
Non-current assets classified as "held for sale"	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000
Total Current Assets	**115,758,000**	**79,166,591**	**70,912,815**	**67,501,967**	**73,349,249**	**85,685,574**	**89,882,134**	**84,718,987**	**75,838,137**	**80,760,072**	**86,455,269**	**81,454,533**
Non-Current Assets												
Infrastructure, Property, Plant & Equipment	1,567,624,000	1,702,770,029	1,869,408,894	1,981,840,174	2,096,225,656	2,200,390,182	2,309,474,873	2,429,606,059	2,559,018,830	2,677,127,340	2,799,113,666	2,938,153,514
Total Non-Current Assets	**1,567,624,000**	**1,702,770,029**	**1,869,408,894**	**1,981,840,174**	**2,096,225,656**	**2,200,390,182**	**2,309,474,873**	**2,429,606,059**	**2,559,018,830**	**2,677,127,340**	**2,799,113,666**	**2,938,153,514**
Total Assets	**1,683,382,000**	**1,781,936,620**	**1,940,321,709**	**2,049,342,140**	**2,169,574,906**	**2,286,075,756**	**2,399,357,007**	**2,514,325,046**	**2,634,856,967**	**2,757,887,412**	**2,885,568,935**	**3,019,608,047**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
LIABILITIES												
Current Liabilities												
Bank Overdraft	–	–	–	–	–	–	–	–	–	–	–	–
Payables	19,236,000	15,300,117	15,562,095	16,566,986	17,313,456	18,187,575	19,154,658	19,945,120	20,887,305	21,964,828	23,371,111	24,413,441
Income recieved in advance	–	–	–	–	–	–	–	–	–	–	–	–
Contract liabilities	32,744,000	14,380,533	10,934,923	7,662,314	7,920,817	7,696,334	7,920,360	8,150,962	8,388,327	8,632,669	8,884,211	9,143,133
Lease liabilities	–	–	–	–	–	–	–	–	–	–	–	–
Borrowings	6,720,000	1,654,565	4,852,832	4,998,161	5,327,508	5,518,746	5,724,273	2,537,807	2,097,938	2,200,692	2,409,139	2,526,257
Employee benefit provisions	10,109,000	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701
Other provisions	42,000	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334
Liabilities associated with assets classified as 'held for sale'	–	–	–	–	–	–	–	–	–	–	–	–
Total Current Liabilities	**68,851,000**	**41,712,249**	**41,726,886**	**39,604,495**	**40,938,816**	**41,779,690**	**43,176,326**	**41,010,924**	**41,750,605**	**43,175,224**	**45,041,496**	**46,459,865**
Non-Current Liabilities												
Payables	3,208,000	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407
Borrowings	13,026,000	22,190,825	52,337,993	50,339,832	48,012,324	45,493,578	42,769,304	40,231,497	38,133,559	35,932,867	36,523,728	33,997,472
Employee benefit provisions	803,000	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299
Other provisions	25,301,000	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666
Income accounted for using the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities associated with assets classified as 'held for sale'	–	–	–	–	–	–	–	–	–	–	–	–
Total Non-Current Liabilities	**42,338,000**	**52,161,198**	**82,308,366**	**80,310,205**	**77,982,697**	**75,463,951**	**72,739,677**	**70,201,870**	**68,103,932**	**65,903,240**	**66,494,101**	**63,967,845**
Total Liabilities	**111,189,000**	**93,873,447**	**124,035,251**	**119,914,700**	**118,921,513**	**117,243,641**	**115,916,002**	**111,212,794**	**109,854,537**	**109,078,464**	**111,535,597**	**110,427,710**
Net Assets	**1,572,193,000**	**1,688,063,173**	**1,816,286,457**	**1,929,427,441**	**2,050,653,393**	**2,168,832,115**	**2,283,441,005**	**2,403,112,252**	**2,525,002,431**	**2,648,808,948**	**2,774,033,338**	**2,909,180,337**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
EQIUITY												
Retained Earnings	759,881,000	813,754,597	874,731,466	914,220,619	957,108,054	992,045,625	1,020,877,484	1,052,242,203	1,083,233,038	1,111,541,180	1,136,479,049	1,163,958,597
Revaluation Reserves	812,312,000	874,308,576	941,554,991	1,015,206,821	1,093,545,340	1,176,786,491	1,262,563,521	1,350,870,049	1,441,769,392	1,537,267,769	1,637,554,289	1,742,721,741
Other reserves	-	-	-	-	-	-	-	-	-	-	-	-
Council Equity Interest	**1,572,193,000**	**1,688,063,173**	**1,816,286,457**	**1,929,427,441**	**2,050,653,393**	**2,168,832,115**	**2,283,441,005**	**2,403,112,252**	**2,525,002,431**	**2,648,808,948**	**2,774,033,338**	**2,906,680,337**
Non-controlling equity interests	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,572,193,000**	**1,688,063,173**	**1,816,286,457**	**1,929,427,441**	**2,050,653,393**	**2,168,832,115**	**2,283,441,005**	**2,403,112,252**	**2,525,002,431**	**2,648,808,948**	**2,774,033,338**	**2,906,680,337**

Scenario 4

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
ASSETS												
Current Assets												
Cash & Cash Equivalents	34,226,000	36,472,788	49,681,403	47,707,054	52,102,683	52,516,129	50,966,357	45,703,964	44,730,000	54,440,303	63,350,818	59,907,684
Investments	62,474,000	22,474,000	2,474,000	2,474,000	2,474,000	12,474,000	17,474,000	17,474,000	7,474,000	7,474,000	7,474,000	7,474,000
Receivables	14,617,000	14,347,290	14,693,982	13,877,532	14,633,593	15,265,506	15,979,402	18,385,078	19,073,884	20,021,071	20,991,322	21,861,079
Inventories	481,000	593,757	540,855	589,002	616,789	653,550	695,982	723,940	763,230	813,074	883,427	925,627
Contract assets and contract cost assets	-	-	-	-	-	-	-	-	-	-	-	-
Other	867,000	2,185,756	2,032,291	2,198,206	2,300,491	2,431,716	2,581,117	2,685,120	2,825,125	2,999,064	3,238,378	3,389,566
Non-current assets classified as "held for sale"	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000	3,093,000
Total Current Assets	**115,758,000**	**79,166,591**	**72,515,530**	**69,938,794**	**75,220,556**	**86,433,902**	**90,789,858**	**88,065,101**	**77,959,240**	**88,840,512**	**99,030,945**	**96,650,956**
Non-Current Assets												
Infrastructure, Property, Plant & Equipment	1,567,624,000	1,702,770,029	1,870,890,894	1,983,363,447	2,099,178,955	2,205,306,794	2,315,091,574	2,454,737,920	2,605,088,712	2,738,290,598	2,878,150,223	3,038,726,242
Total Non-Current Assets	**1,567,624,000**	**1,702,770,029**	**1,870,890,894**	**1,983,363,447**	**2,099,178,955**	**2,205,306,794**	**2,315,091,574**	**2,454,737,920**	**2,605,088,712**	**2,738,290,598**	**2,878,150,223**	**3,038,726,242**
Total Assets	**1,683,382,000**	**1,781,936,620**	**1,943,406,424**	**2,053,302,241**	**2,174,399,512**	**2,291,740,695**	**2,405,881,432**	**2,542,803,021**	**2,683,047,952**	**2,827,131,111**	**2,977,181,168**	**3,135,377,198**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
LIABILITIES												
Current Liabilities												
Bank Overdraft	–	–	–	–	–	–	–	–	–	–	–	–
Payables	19,236,000	15,300,117	15,562,095	16,571,522	17,318,187	18,201,015	19,168,662	20,888,789	21,909,166	23,082,286	24,552,996	25,665,036
Income recieved in advance	–	–	–	–	–	–	–	–	–	–	–	–
Contract liabilities	32,744,000	14,380,533	10,934,923	7,662,314	7,920,817	7,696,334	7,920,360	8,150,962	8,388,327	8,632,669	8,884,211	9,143,133
Lease liabilities	–	–	–	–	–	–	–	–	–	–	–	–
Borrowings	6,720,000	1,654,565	3,786,532	3,875,043	4,147,413	4,281,326	4,426,370	4,647,223	4,314,571	4,529,995	4,856,841	3,159,055
Employee benefit provisions	10,109,000	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701	10,330,701
Other provisions	42,000	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334	46,334
Liabilities associated with assets classified as 'held for sale'	–	–	–	–	–	–	–	–	–	–	–	–
Total Current Liabilities	**68,851,000**	**41,712,249**	**40,660,585**	**38,485,914**	**39,763,452**	**40,555,711**	**41,892,427**	**44,064,009**	**44,989,099**	**46,621,984**	**48,671,083**	**48,344,258**
Non-Current Liabilities												
Payables	3,208,000	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407	4,092,407
Borrowings	13,026,000	22,190,825	57,224,382	56,349,339	55,201,926	53,920,600	52,494,229	47,847,006	43,532,436	39,002,443	37,145,601	33,986,546
Employee benefit provisions	803,000	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299	581,299
Other provisions	25,301,000	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666	25,296,666
Income accounted for using the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities associated with assets classified as 'held for sale'	–	–	–	–	–	–	–	–	–	–	–	–
Total Non-Current Liabilities	**42,338,000**	**52,161,198**	**87,194,755**	**86,319,712**	**85,172,299**	**83,890,973**	**82,464,602**	**77,817,379**	**73,502,809**	**68,972,816**	**67,115,974**	**63,956,919**
Total Liabilities	**111,189,000**	**93,873,447**	**127,855,340**	**124,805,626**	**124,935,750**	**124,446,683**	**124,357,029**	**121,881,388**	**118,491,908**	**115,594,800**	**115,787,056**	**112,301,177**
Net Assets	**1,572,193,000**	**1,688,063,173**	**1,815,551,084**	**1,928,496,615**	**2,049,463,761**	**2,167,294,012**	**2,281,524,403**	**2,420,921,633**	**2,564,556,044**	**2,711,536,311**	**2,861,394,112**	**3,023,076,021**

	ACTUALS 2024/25 $	CURRENT YEAR 2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
EQIUITY												
Retained Earnings	759,881,000	813,754,597	873,996,093	913,226,068	955,789,827	990,253,200	1,018,501,915	1,069,364,958	1,121,098,110	1,170,741,360	1,217,871,063	1,268,729,809
Revaluation Reserves	812,312,000	874,308,576	941,554,991	1,015,270,547	1,093,673,934	1,177,040,813	1,263,022,488	1,351,556,675	1,443,457,934	1,540,794,950	1,643,523,048	1,751,846,212
Other reserves	-	-	-	-	-	-	-	-	-	-	-	-
Council Equity Interest	**1,572,193,000**	**1,688,063,173**	**1,815,551,084**	**1,928,496,615**	**2,049,463,761**	**2,167,294,012**	**2,281,524,403**	**2,420,921,633**	**2,564,556,044**	**2,711,536,311**	**2,861,394,112**	**3,020,576,021**
Non-controlling equity interests	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,572,193,000**	**1,688,063,173**	**1,815,551,084**	**1,928,496,615**	**2,049,463,761**	**2,167,294,012**	**2,281,524,403**	**2,420,921,633**	**2,564,556,044**	**2,711,536,311**	**2,861,394,112**	**3,020,576,021**

APPENDIX 4
CASH FLOW STATEMENTS

Base case

Abridged Cashflow Statement	2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
OPERATIONS											
Source of funds (Cash revenue)	145,594,460	148,545,297	137,651,531	146,945,018	151,831,790	159,308,860	166,774,842	174,743,319	182,598,191	190,981,360	199,648,618
Use of funds (Cash expenditure)	(106,374,588)	(100,221,973)	(106,423,493)	(110,047,427)	(114,668,187)	(120,010,985)	(125,006,203)	(130,604,069)	(137,097,152)	(145,287,521)	(151,924,123)
Net Cash provided	**39,219,872**	**48,323,324**	**31,228,038**	**36,897,590**	**37,163,603**	**39,297,875**	**41,768,639**	**44,139,250**	**45,501,040**	**45,693,838**	**47,724,494**
INVESTMENT											
Sale of Investment Securities	40,000,000	20,000,000	-	-	-	-	-	10,000,000	-	-	-
Sale of Assets	1,000,000	1,000,000	1,040,000	1,081,600	1,124,864	1,169,859	1,216,653	1,265,319	1,315,932	1,368,569	1,423,312
Purchase of Investment Securities	-	-	-	-	(10,000,000)	(5,000,000)	-	-	-	-	-
Purchase of Assets	(82,072,474)	(89,310,515)	(32,343,127)	(28,621,520)	(32,984,026)	(35,112,362)	(41,641,126)	(54,399,101)	(40,716,933)	(44,151,413)	(46,045,003)
Total	**(41,072,474)**	**(68,310,515)**	**(31,303,127)**	**(27,539,920)**	**(41,859,162)**	**(38,942,503)**	**(40,424,473)**	**(43,133,782)**	**(39,401,001)**	**(42,782,844)**	**(44,621,691)**
FINANCING											
Borrowing	5,525,000	35,000,000	-	-	-	-	-	-	-	-	-
Repayment	(1,425,610)	(2,539,498)	(3,375,732)	(3,353,490)	(3,509,464)	(3,516,012)	(3,527,694)	(3,703,768)	(3,324,103)	(3,490,166)	(3,664,536)
Net Cash Flow (Financing)	**4,099,390**	**32,460,502**	**(3,375,732)**	**(3,353,490)**	**(3,509,464)**	**(3,516,012)**	**(3,527,694)**	**(3,703,768)**	**(3,324,103)**	**(3,490,166)**	**(3,664,536)**
Net Increase (Decrease) in Cash	**2,246,788**	**12,473,311**	**(3,450,820)**	**6,004,180**	**(8,205,023)**	**(3,160,640)**	**(2,183,528)**	**(2,698,301)**	**2,775,936**	**(579,172)**	**(561,733)**
Opening Cash	**34,226,000**	**36,472,788**	**48,946,099**	**45,495,279**	**51,499,459**	**43,294,436**	**40,133,796**	**37,950,268**	**35,251,968**	**38,027,904**	**37,448,732**
Closing Cash	**36,472,788**	**48,946,099**	**45,495,279**	**51,499,459**	**43,294,436**	**40,133,796**	**37,950,268**	**35,251,968**	**38,027,904**	**37,448,732**	**36,886,999**
Investments - end of year	**22,474,000**	**2,474,000**	**2,474,000**	**2,474,000**	**12,474,000**	**17,474,000**	**17,474,000**	**7,474,000**	**7,474,000**	**7,474,000**	**7,474,000**

Scenario 1

Abridged Cashflow Statement	2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
OPERATIONS											
Source of funds (Cash revenue)	145,594,460	148,534,248	137,595,674	146,986,489	151,888,102	159,337,453	166,714,733	174,641,290	182,630,652	191,023,839	199,678,241
Use of funds (Cash expenditure)	(106,374,588)	(99,670,443)	(107,907,841)	(113,786,233)	(120,314,567)	(126,853,127)	(135,046,767)	(142,774,715)	(151,088,041)	(161,088,645)	(169,938,831)
Net Cash provided	**39,219,872**	**48,863,805**	**29,687,833**	**33,200,256**	**31,573,535**	**32,484,326**	**31,667,966**	**31,866,575**	**31,542,612**	**29,935,194**	**29,739,410**
INVESTMENT											
Sale of Investment Securities	40,000,000	20,000,000	-	-	-	-	-	10,000,000	-	-	-
Sale of Assets	1,000,000	1,000,000	1,040,000	1,081,600	1,124,864	1,169,859	1,216,653	1,265,319	1,315,932	1,368,569	1,423,312
Purchase of Investment Securities	-	-	-	-	(10,000,000)	(5,000,000)	-	-	-	-	-
Purchase of Assets	(82,072,474)	(116,720,547)	(68,633,717)	(65,365,401)	(58,091,609)	(62,497,337)	(70,158,246)	(77,901,617)	(67,947,948)	(70,635,281)	(81,671,799)
Total	**(41,072,474)**	**(95,720,547)**	**(67,593,717)**	**(64,283,801)**	**(66,966,745)**	**(66,327,478)**	**(68,941,593)**	**(66,636,298)**	**(66,632,016)**	**(69,266,712)**	**(80,248,487)**
FINANCING											
Borrowing	5,525,000	62,000,000	43,000,000	38,000,000	28,000,000	35,000,000	50,000,000	53,000,000	48,000,000	50,000,000	65,000,000
Repayment	(1,425,610)	(1,654,565)	(3,400,883)	(4,667,415)	(6,028,111)	(7,001,341)	(9,414,780)	(11,492,481)	(13,015,651)	(15,183,800)	(17,817,401)
Net Cash Flow (Financing)	**4,099,390**	**60,345,435**	**39,599,117**	**33,332,585**	**21,971,889**	**27,998,659**	**40,585,220**	**41,507,519**	**34,984,349**	**34,816,200**	**47,182,599**
Net Increase (Decrease) in Cash	**2,246,788**	**13,488,694**	**1,693,233**	**2,249,040**	**(13,421,322)**	**(5,844,493)**	**3,311,593**	**6,737,797**	**(105,055)**	**(4,515,318)**	**(3,326,478)**
Opening Cash	**34,226,000**	**36,472,788**	**49,961,482**	**51,654,715**	**53,903,755**	**40,482,433**	**34,637,941**	**37,949,534**	**44,687,330**	**44,582,275**	**40,066,957**
Closing Cash	**36,472,788**	**49,961,482**	**51,654,715**	**53,903,755**	**40,482,433**	**34,637,941**	**37,949,534**	**44,687,330**	**44,582,275**	**40,066,957**	**36,740,479**
Investments - end of year	**22,474,000**	**2,474,000**	**2,474,000**	**2,474,000**	**12,474,000**	**17,474,000**	**17,474,000**	**7,474,000**	**7,474,000**	**7,474,000**	**7,474,000**

Scenario 2

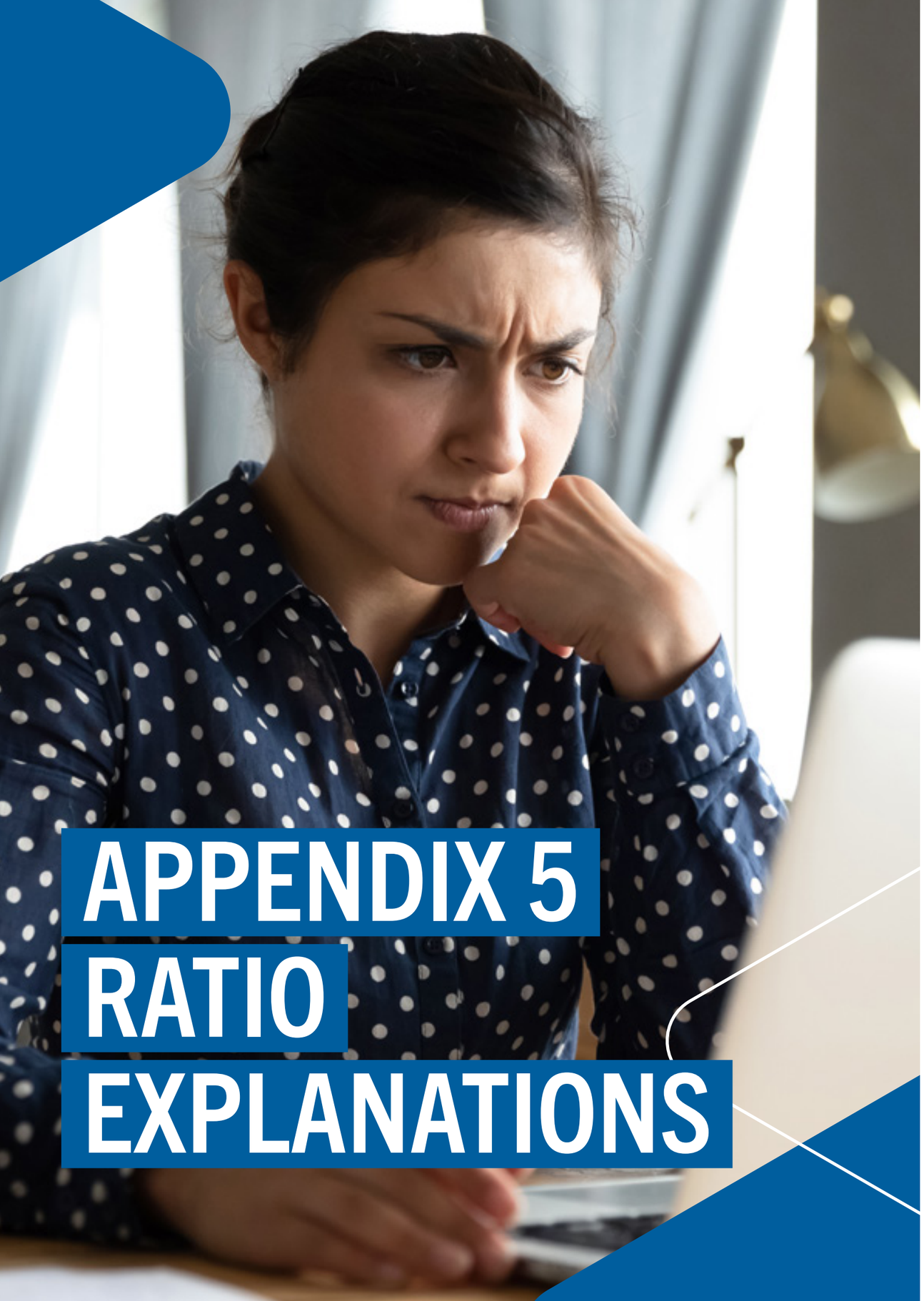
Abridged Cashflow Statement	2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
OPERATIONS											
Source of funds (Cash revenue)	145,594,460	166,378,180	157,210,953	167,792,191	173,995,727	182,788,465	191,486,444	200,745,525	210,206,520	220,008,163	230,279,664
Use of funds (Cash expenditure)	(106,374,588)	(99,670,443)	(106,918,953)	(111,838,964)	(117,440,980)	(122,824,776)	(128,233,678)	(134,392,826)	(140,876,271)	(148,943,227)	(155,693,038)
Net Cash provided	**39,219,872**	**66,707,737**	**50,292,000**	**55,953,227**	**56,554,747**	**59,963,689**	**63,252,767**	**66,352,699**	**69,330,248**	**71,064,937**	**74,586,626**
INVESTMENT											
Sale of Investment Securities	40,000,000	20,000,000	-	-	-	-	-	10,000,000	-	-	-
Sale of Assets	1,000,000	1,000,000	1,040,000	1,081,600	1,124,864	1,169,859	1,216,653	1,265,319	1,315,932	1,368,569	1,423,312
Purchase of Investment Securities	-	-	-	-	(10,000,000)	(5,000,000)	-	-	-	-	-
Purchase of Assets	(82,072,474)	(116,720,547)	(68,633,717)	(65,365,401)	(58,091,609)	(62,497,337)	(70,158,246)	(77,901,617)	(67,947,948)	(70,635,281)	(81,671,799)
Total	**(41,072,474)**	**(95,720,547)**	**(67,593,717)**	**(64,283,801)**	**(66,966,745)**	**(66,327,478)**	**(68,941,593)**	**(66,636,298)**	**(66,632,016)**	**(69,266,712)**	**(80,248,487)**
FINANCING											
Borrowing	5,525,000	42,000,000	23,000,000	18,000,000	3,000,000	3,000,000	10,000,000	15,000,000	-	3,000,000	5,000,000
Repayment	(1,425,610)	(1,654,565)	(2,802,049)	(3,439,240)	(4,138,532)	(4,271,994)	(4,645,991)	(5,299,881)	(5,116,210)	(5,370,367)	(5,852,533)
Net Cash Flow (Financing)	**4,099,390**	**40,345,435**	**20,197,951**	**14,560,760**	**(1,138,532)**	**(1,271,994)**	**5,354,009**	**9,700,119**	**(5,116,210)**	**(2,370,367)**	**(852,533)**
Net Increase (Decrease) in Cash	**2,246,788**	**11,332,626**	**2,896,234**	**6,230,186**	**(11,550,531)**	**(7,635,783)**	**(334,818)**	**9,416,521**	**(2,417,978)**	**(572,142)**	**(6,514,394)**
Opening Cash	**34,226,000**	**36,472,788**	**47,805,415**	**50,701,648**	**56,931,835**	**45,381,304**	**37,745,521**	**37,410,703**	**46,827,224**	**44,409,245**	**43,837,103**
Closing Cash	**36,472,788**	**47,805,415**	**50,701,648**	**56,931,835**	**45,381,304**	**37,745,521**	**37,410,703**	**46,827,224**	**44,409,245**	**43,837,103**	**37,322,709**
Investments - end of year	**22,474,000**	**2,474,000**	**2,474,000**	**2,474,000**	**12,474,000**	**17,474,000**	**17,474,000**	**7,474,000**	**7,474,000**	**7,474,000**	**7,474,000**

Scenario 3

Abridged Cashflow Statement	2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
OPERATIONS											
Source of funds (Cash revenue)	145,594,460	166,375,019	157,272,955	167,805,393	173,853,274	182,725,500	191,547,842	200,843,779	210,136,396	219,952,975	230,273,844
Use of funds (Cash expenditure)	(106,374,588)	(99,670,443)	(106,530,899)	(110,350,083)	(115,131,252)	(120,462,184)	(125,461,491)	(130,982,983)	(137,431,138)	(145,649,496)	(152,381,538)
Net Cash provided	**39,219,872**	**66,704,576**	**50,742,056**	**57,455,310**	**58,722,022**	**62,263,316**	**66,086,351**	**69,860,796**	**72,705,258**	**74,303,479**	**77,892,306**
INVESTMENT											
Sale of Investment Securities	40,000,000	10,000,000	10,000,000	-	-	-	-	10,000,000	-	-	-
Sale of Assets	1,000,000	1,000,000	1,040,000	1,081,600	1,124,864	1,169,859	1,216,653	1,265,319	1,315,932	1,368,569	1,423,312
Purchase of Investment Securities	-	-	-	-	(10,000,000)	(5,000,000)	-	-	-	-	-
Purchase of Assets	(82,072,474)	(109,426,859)	(52,727,508)	(51,583,723)	(45,992,320)	(57,621,580)	(67,492,787)	(78,262,242)	(67,995,440)	(71,901,821)	(82,830,882)
Total	**(41,072,474)**	**(98,426,859)**	**(41,687,508)**	**(50,502,123)**	**(54,867,456)**	**(61,451,721)**	**(66,276,134)**	**(66,996,923)**	**(66,679,508)**	**(70,533,252)**	**(81,407,571)**
FINANCING											
Borrowing	5,525,000	35,000,000	3,000,000	3,000,000	3,000,000	3,000,000	-	-	-	3,000,000	-
Repayment	(1,425,610)	(1,654,565)	(4,852,832)	(4,998,161)	(5,327,508)	(5,518,746)	(5,724,273)	(2,537,807)	(2,097,938)	(2,200,692)	(2,409,139)
Net Cash Flow (Financing)	**4,099,390**	**33,345,435**	**(1,852,832)**	**(1,998,161)**	**(2,327,508)**	**(2,518,746)**	**(5,724,273)**	**(2,537,807)**	**(2,097,938)**	**799,308**	**(2,409,139)**
Net Increase (Decrease) in Cash	**2,246,788**	**1,623,152**	**7,201,715**	**4,955,026**	**1,527,058**	**(1,707,151)**	**(5,914,056)**	**326,066**	**3,927,812**	**4,569,535**	**(5,924,404)**
Opening Cash	**34,226,000**	**36,472,788**	**38,095,941**	**45,297,656**	**50,252,683**	**51,779,740**	**50,072,589**	**44,158,533**	**44,484,599**	**48,412,411**	**52,981,946**
Closing Cash	**36,472,788**	**38,095,941**	**45,297,656**	**50,252,683**	**51,779,740**	**50,072,589**	**44,158,533**	**44,484,599**	**48,412,411**	**52,981,946**	**47,057,543**
Investments - end of year	**22,474,000**	**12,474,000**	**2,474,000**	**2,474,000**	**12,474,000**	**17,474,000**	**17,474,000**	**7,474,000**	**7,474,000**	**7,474,000**	**7,474,000**

Scenario 4

Abridged Cashflow Statement	2025/26 $	2026/27 $	2027/28 $	2028/29 $	2029/30 $	2030/31 $	2031/32 $	2032/33 $	2033/34 $	2034/35 $	2035/36 $
OPERATIONS											
Source of funds (Cash revenue)	145,594,460	166,357,766	157,264,176	167,811,576	173,865,325	182,723,656	214,389,796	225,870,963	236,419,923	247,663,208	259,472,885
Use of funds (Cash expenditure)	(106,374,588)	(100,405,816)	(106,764,486)	(110,649,573)	(115,531,616)	(120,923,821)	(125,987,396)	(131,640,939)	(138,213,958)	(146,395,118)	(153,076,054)
Net Cash provided	**39,219,872**	**65,951,950**	**50,499,690**	**57,162,003**	**58,333,708**	**61,799,835**	**88,402,401**	**94,230,024**	**98,205,966**	**101,268,090**	**106,396,831**
INVESTMENT											
Sale of Investment Securities	40,000,000	20,000,000	-	-	-	-	-	10,000,000	-	-	-
Sale of Assets	1,000,000	1,000,000	1,040,000	1,081,600	1,124,864	1,169,859	1,216,653	1,265,319	1,315,932	1,368,569	1,423,312
Purchase of Investment Securities	-	-	-	-	(10,000,000)	(5,000,000)	-	-	-	-	-
Purchase of Assets	(82,072,474)	(110,908,859)	(52,727,508)	(52,972,930)	(47,897,714)	(58,238,139)	(90,455,076)	(101,822,085)	(85,497,024)	(92,196,150)	(106,406,436)
Total	**(41,072,474)**	**(89,908,859)**	**(51,687,508)**	**(51,891,330)**	**(56,772,850)**	**(62,068,281)**	**(89,238,423)**	**(90,556,766)**	**(84,181,092)**	**(90,827,581)**	**(104,983,124)**
FINANCING											
Borrowing	5,525,000	40,000,000	3,000,000	3,000,000	3,000,000	3,000,000	-	1	1	3,000,000	-
Repayment	(1,425,610)	(2,834,476)	(3,786,532)	(3,875,043)	(4,147,413)	(4,281,326)	(4,426,370)	(4,647,223)	(4,314,571)	(4,529,995)	(4,856,841)
Net Cash Flow (Financing)	**4,099,390**	**37,165,524**	**(786,532)**	**(875,043)**	**(1,147,413)**	**(1,281,326)**	**(4,426,370)**	**(4,647,222)**	**(4,314,570)**	**(1,529,995)**	**(4,856,841)**
Net Increase (Decrease) in Cash	**2,246,788**	**13,208,615**	**(1,974,349)**	**4,395,629**	**413,446**	**(1,549,772)**	**(5,262,393)**	**(973,964)**	**9,710,303**	**8,910,515**	**(3,443,134)**
Opening Cash	**34,226,000**	**36,472,788**	**49,681,403**	**47,707,054**	**52,102,683**	**52,516,129**	**50,966,357**	**45,703,964**	**44,730,000**	**54,440,303**	**63,350,818**
Closing Cash	**36,472,788**	**49,681,403**	**47,707,054**	**52,102,683**	**52,516,129**	**50,966,357**	**45,703,964**	**44,730,000**	**54,440,303**	**63,350,818**	**59,907,684**
Investments - end of year	**22,474,000**	**2,474,000**	**2,474,000**	**2,474,000**	**12,474,000**	**17,474,000**	**17,474,000**	**7,474,000**	**7,474,000**	**7,474,000**	**7,474,000**



APPENDIX 5 RATIO EXPLANATIONS

Ratio explanations

RATIO	DESCRIPTION
Operating Performance	The purpose of this ratio is to measure a council's achievement in containing operating expenditure within operating revenue.
Own Source Revenue	This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A Council's financial flexibility improves the higher the level of its own source revenue.
Unrestricted Current Ratio	This ratio is designed to represent Council's ability to meet short term obligations as they fall due.
Debt Service Cover	This ratio measures the availability of operating cash to service debt including interest principal, and lease payments.
Rates and annual charges outstanding percentage	This ratio assesses the impact of uncollected rates and annual charges on liquidity and the adequacy of recovery efforts.
Cash Expenses Cover	This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash flow.
Buildings and infrastructure renewals ratio	To assess the rate at which assets are being renewed relative to the rate at which they are depreciating.
Infrastructure backlog ratio	This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.
Asset maintenance ratio	Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

CESSNOCK
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