WILLOUGHBY CITY COUNCIL
City of Diversity

Long Term Financial Plan 2023-2033

Webinar
1 June 2023
7.00pm-8.30pm



WILLOUGHBY CITY COUNCIL
City of Diversity



Welcome and acknowledgement

Willoughby City Council acknowledges the Traditional Owners of the lands on which we meet today, the Gamaragal People, and their connections to land, waters, and community.

We pay our respects to their Elders past and present, and extend that respect to all Aboriginal and Torres Strait Islander people, including those who may be in attendance today

Agenda

7.00-7.10pm	**Welcome and housekeeping**
7.10-7.20pm	**Context** **Overview of the Long Term Financial Plan (LTFP)**
7.20-7.30pm	**How did we get here** **What have we done**
7.30–8.00pm	**Detail of the LTFP** **Possible solutions**
8.00–8.25pm	**Q&A from community**
8.25-8.30pm	**Next steps**

WILLOUGHBY CITY COUNCIL
City of Diversity

Agenda

1. Welcome and housekeeping

WILLOUGHBY CITY COUNCIL
City of Diversity

Housekeeping

WILLOUGHBY CITY COUNCIL
City of Diversity

- Session will be recorded and published
- Ask that comments and questions be respectful
- Post comments and questions via Zoom chat
- After sections we will respond to any comments/questions
- All comments and questions will be captured
- Please keep your microphone on mute
- There will be Q&A at the end, please raise your (virtual) hand



Agenda

2. Context and overview of the LTFP

WILLOUGHBY CITY COUNCIL
City of Diversity

What's on exhibition



Long Term Financial Plan

18 May-15 June 2023

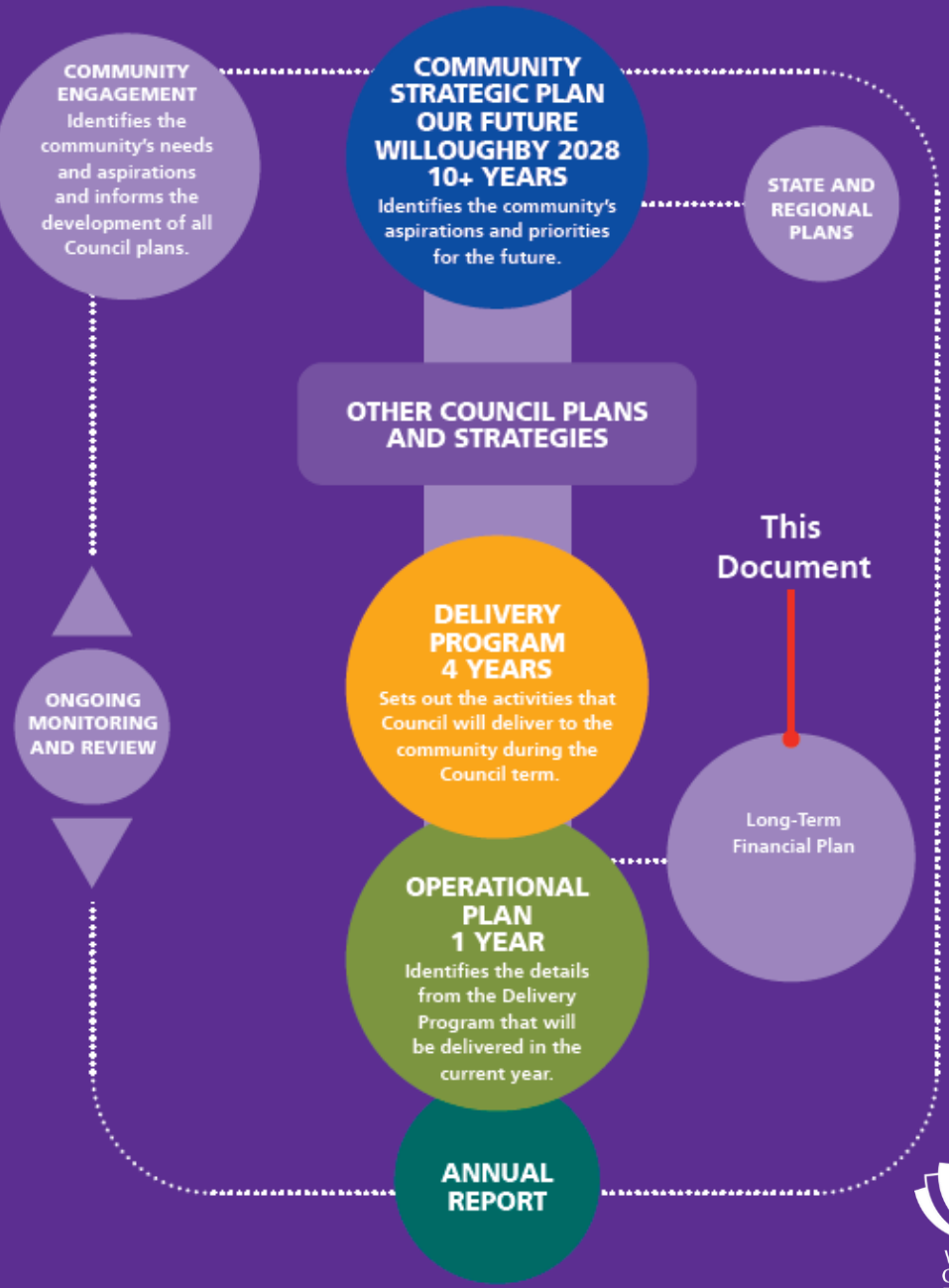
WILLOUGHBY
CITY COUNCIL
City of Diversity

Context

We are required to have a number of planning documents, under the **Integrated Planning and Reporting framework**, the Long Term Financial Plan (LTFP) is one of those documents.

The LTFP provides a **10-year financial plan** that informs decision making and demonstrates how the community's aspirations and **our commitments will be resourced and funded**.

The LTFP is a **requirement under the Local Government Act**, it must be reviewed annually and placed on public exhibition and then provided to the Office of Local Government.



WILLOUGHBY CITY COUNCIL
City of Diversity

Overview of the LTFP

- Forecast for the next 10 years
- Managed our finances well over a number of years
- We are facing external challenges – our costs are more than our income
- We can not continue as we are; we will not be able to pay our bills
- There are only a few options: insolvency; not maintain our assets; reduce service levels; exit services; increase our income
- A Special Rate Variation (SRV) is one proposal to increase our income

Financial principles

- Positive operating performance
- Strong cash flow
- Asset focus
- Manage debt levels
- Maintain and enhance service levels

No decision on SRV has been made

Agenda

3. How did we get here
What have we done

WILLOUGHBY CITY COUNCIL
City of Diversity

How did we get here

- Our costs are more than our income
- There are many external factors which have created this situation
- Expectations on our services and service levels remain the same or more
- Staff and Councillors have proactively been managing these challenges
- We are not alone

WILLOUGHBY CITY COUNCIL
City of Diversity

Challenges: income/services



COVID-19

$20.6M revenue lost during COVID-19 pandemic, due to:

- Rent relief
- Closing facilities
- Waiving fees
- Changes in consumer behaviour

RATE CAP

Rates are determined by the State Government and there is a rate cap on all NSW councils

Rates for 2023/24 were capped at 3.7% for Willoughby

This does not cover the basic increases associated with inflation

FEES AND CHARGES

$3m, or 17%, below pre-COVID-19 levels on a per-annum basis, mainly due to reduced car parking demand

Some fees and charges don't cover the cost of providing the service



COMMUNITY EXPECTATIONS

With a change to working from home and increased environmental responsibility, consumer expectations of local infrastructure have changed adding pressure on services

Challenges: costs

INFLATION

Across 2021/22 and inflation up by 13.1%, compared to rates revenue 4.1%

- Fuel up 8%
- General insurance up
- Construction up 9.6%
- Workers' compensation premiums up 19.2%.

The cost to renew and repair Council's assets has risen from $12.8m in 2017/18 to $20.9m in 2022/23

EXTREME WEATHER

Council is still working to repair damage from storms from 2019-22 particularly in relation to retaining walls and

COST SHIFTING

2024 election costs up Emergency Services Levy up $487K

New State Government imposed processes which require more staff time, with no income

LABOUR MARKET

Tight labour market, making it extremely competitive and difficult to resource

Award negotiations are much higher than previous years (4.5% as compared to 2-2.5% in previous years)

What have we done

Stretch targets on staff to reduce expenditure	Delivering, since 2018/19, annual average savings of $591,000 in consultancy costs and $963,000 in other miscellaneous expenses.
Closed under utilised services	Loop Bus services (closed), Bales Park Out of School Hours centre (closed) and exploring other more efficient operating models to deliver child care and food services.
Sourced grants	Sourced $21.2m in external grants in the 18 months to December 2022, including a $5m NSW Government grant to upgrade the Willoughby Leisure Centre.
Created more efficient processes to reduce cost and time	Implementation of the CONNECT information technology enterprise-wide platform which allows staff to more easily access information, and deliver community outcomes.

WILLOUGHBY CITY COUNCIL
City of Diversity

What have we done

Energy efficiency to reduce costs	Rolling out the replacement of nearly 1,800 street lights with more cost efficient and environmentally friendly lights, which will save ratepayers $1m over 5 years.
Containing employee costs	Containing employee cost increases to just 1.4% in the four years to 2021/22.
Reduced rates	Ending Infrastructure Levy at the end of 2021/22, cutting average residential rates by $38 in 2022/23. Rates second lowest average residential rate amount among all Northern Sydney councils. The Council's average rate of $1,087 (in 2020/21) also sits well below the North Shore council average rate of $1,300 in the same year.
Continue to advocate	We regularly advocate to other levels of government on legislation or policy changes that have an increasing cost burden to Council or ratepayers.

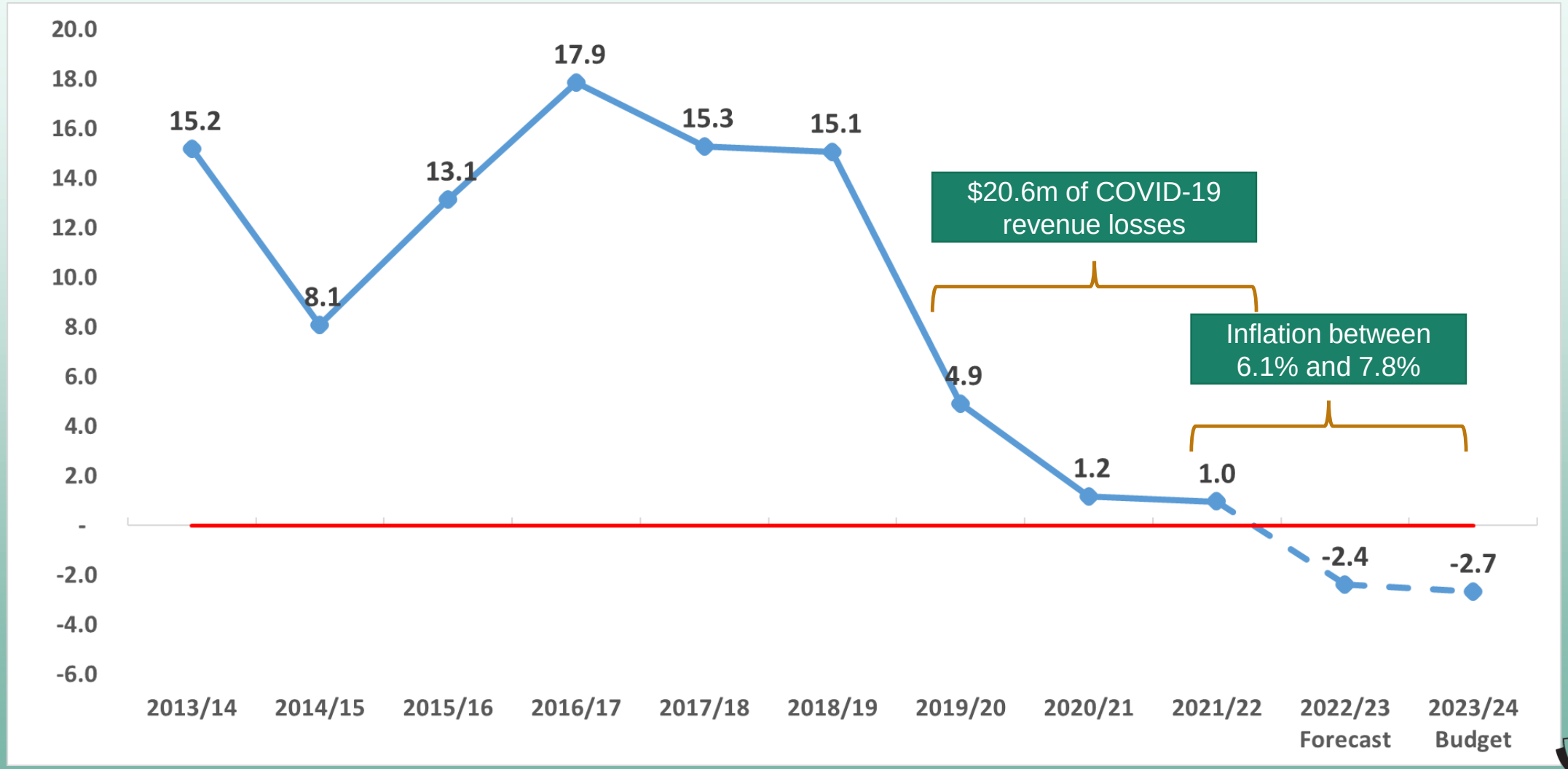
WILLOUGHBY CITY COUNCIL
City of Diversity

What have we done

Based our plans on research data/ RBA advice	CPI forecasts based on Reserve Bank of Australia, he Australian Bureau of Statistics, BIS Oxford Economics, The Big Four banks and latest information from Local Government Award negotiations.
Monitoring and adjusting and planning as things change	Through quarterly budget reviews we are continually evaluating our income, our costs and economic factors to provide the most up to date forecast as we can.
Built up reserves to cover costs/ pay for projects	Over time Council has been financially prudent to put money in reserves to fund major projects, to cover the impact of COVID-19, extreme weather events etc without significant impact on services.
We haven't gone into more debt	Council has not entered into any additional debt since 2012/13.

WILLOUGHBY CITY COUNCIL
City of Diversity

Current forecast 2023/24



WILLOUGHBY CITY COUNCIL
City of Diversity

Agenda

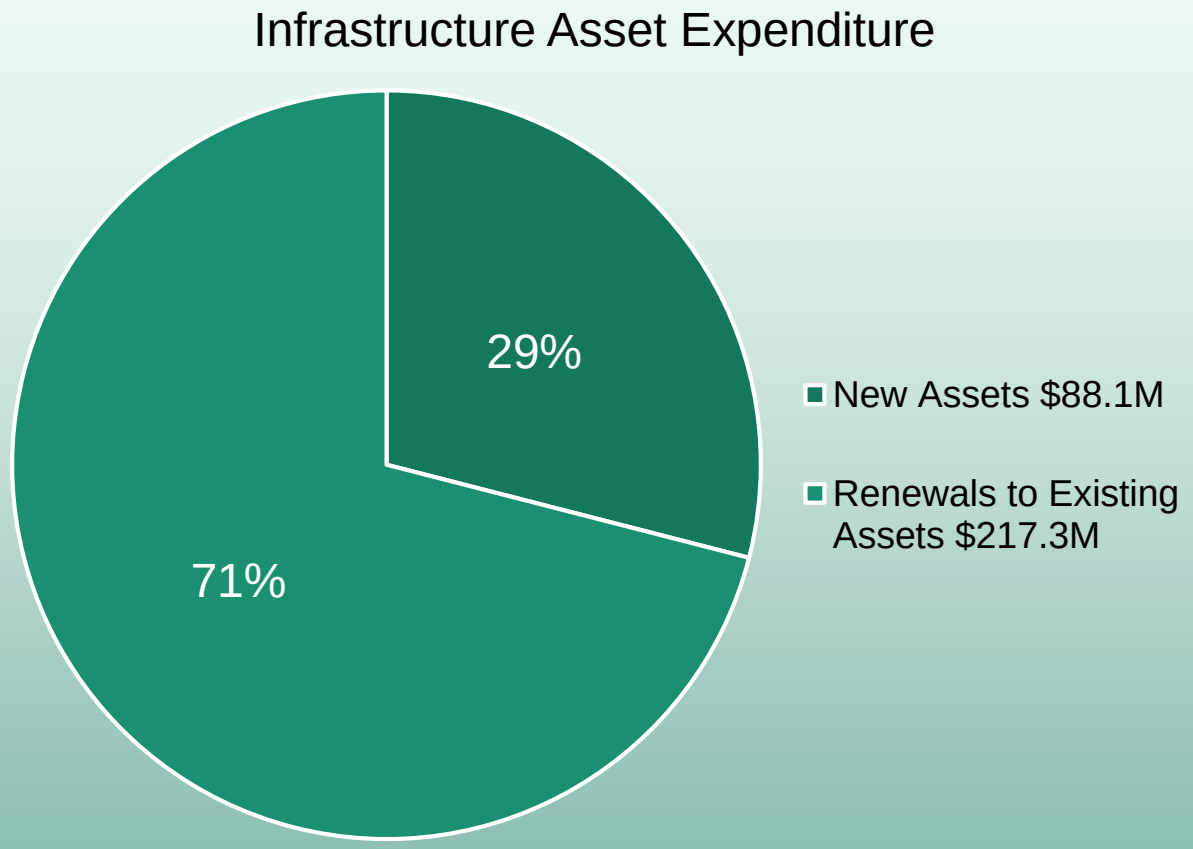
4. Detail of the LTFP
Possible solutions

WILLOUGHBY CITY COUNCIL
City of Diversity

Council's strategic financial objectives

Sustainability principle	Objectives	Key Performance Indicators
Positive operating performance	• Surplus each year • Balanced Budget • Fully funded operating position including debt and depreciation	• Operating Performance Ratio >0% (OLG) • Operating Performance Ratio of 2%-4% (Council) to withstand financial shocks • Own Source Operating Revenue Ratio >60%
Strong cash flow	• Cash surplus each year • Restricted Cash and liabilities fully funded • Adequate working capital	• Unrestricted Current ratio >1.5 • Rates and charges outstanding <5% • Cash Expense cover ratio >3 months
Asset focus	• Alignment to Asset Management Strategy • Fully funded capital works program • Reduce and eliminate the asset backlog • Optimise returns from assets	• Asset Renewal Ratio >100% • Asset Maintenance Ratio >1 • Infrastructure Backlog Ratio <2% • Declining backlog • Improved return on investment
Manage debt levels	• Reduce debt levels over the medium term • Focus on intergenerational equity • Debt used only for assets with life over 20 years or projects with a payback under 7 years	• Debt Service Cover Ratio >2% • Debt Service Ratio <20%
Maintain and enhance service levels	• Delivery aligned to Community Strategic Plan and Delivery Program • Prioritised spend to optimise outcomes • Measurable productivity improvements	• Operating expenditure per capita trends down (unless conscious service level improvements) • Service levels maintained or improved • Individual business cases with positive outcomes

Asset expenditure



Infrastructure Asset Category	10 Year Total ($'M)
Buildings	131.1
Roads	45.5
Recreational parks and playgrounds	35.5
Stormwater and drainage	33.6
Footpaths and active transport	22.1
Open space sporting fields	15.5
Traffic management	5.9
Kerb and gutter	5.2
Retaining walls	5.0
Bushland walking tracks	4.9
Bridges	1.3
Total	**305.4**

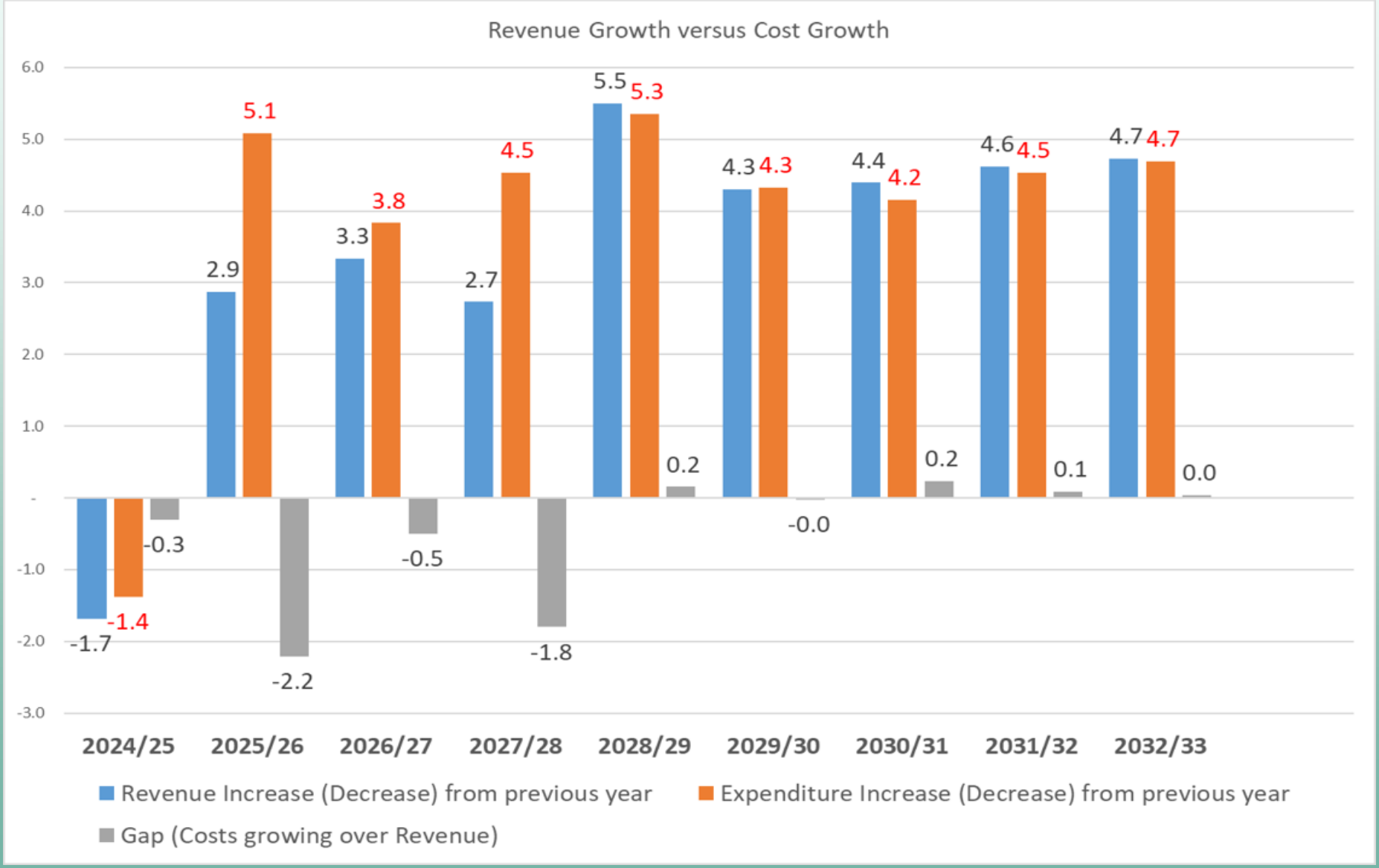
$305M total expenditure on Infrastructure Assets
Focus on renewals aligned to Asset Management Strategy

Major projects

Infrastructure Asset Category	Total Project Expenditure ($‘M) (includes expenditure to date)
Gore Hill Indoor Sports Complex	44.9
Willoughby Leisure Centre Redevelopment	38.9
Victor Street Asset Replacement and Refurbishment	10.4
Abbott Road Essential Housing	8.7
Artarmon Streetscapes – Hampden Road	8.5
Artarmon Parklands Pavilion	1.7

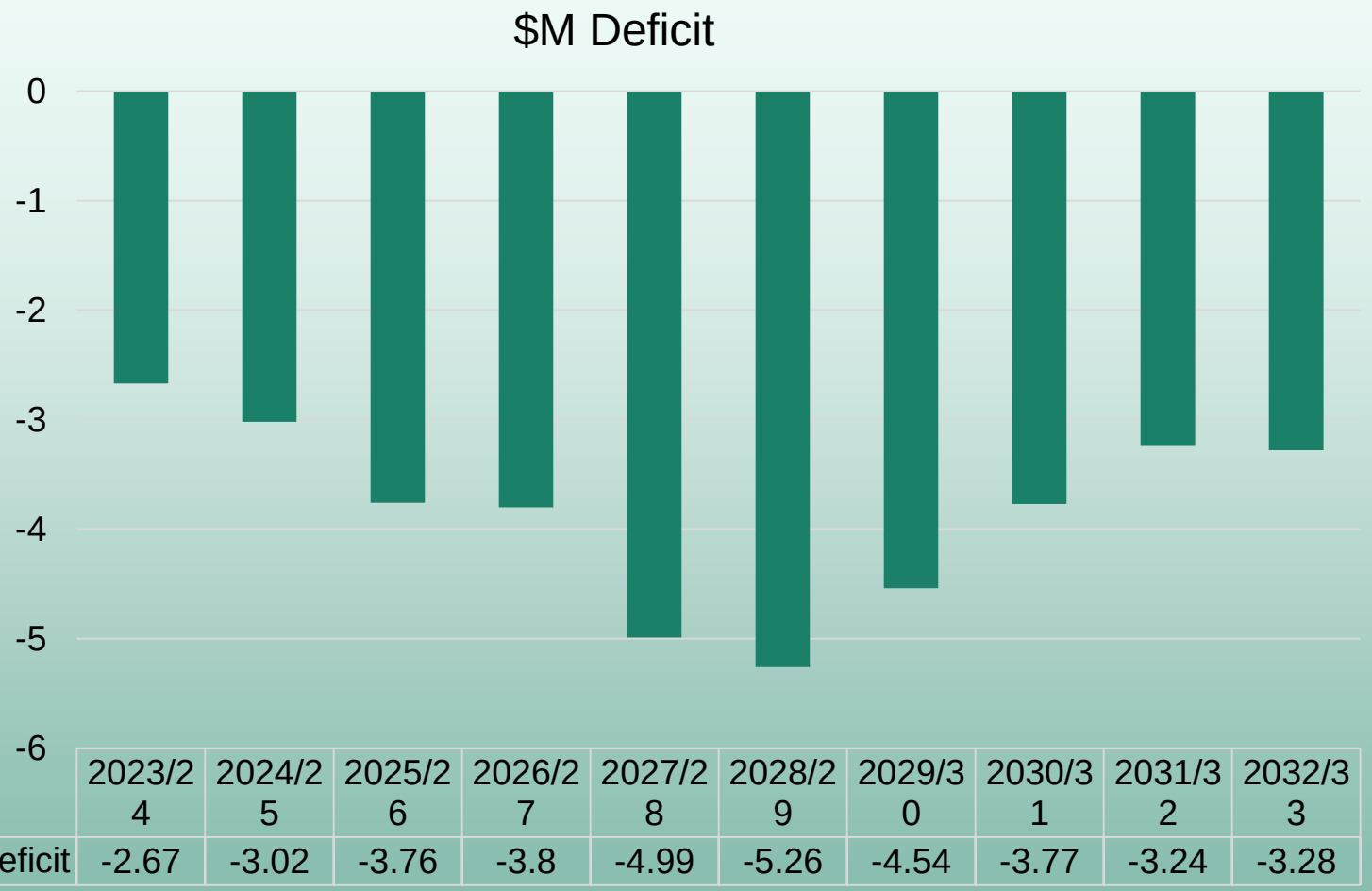
These are Reserve Funded Projects and as such do not impact working capital (ability to pay bills)

Future forecast of revenue/cost growth



WILLOUGHBY CITY COUNCIL
City of Diversity

Surplus (deficit) before capital revenue



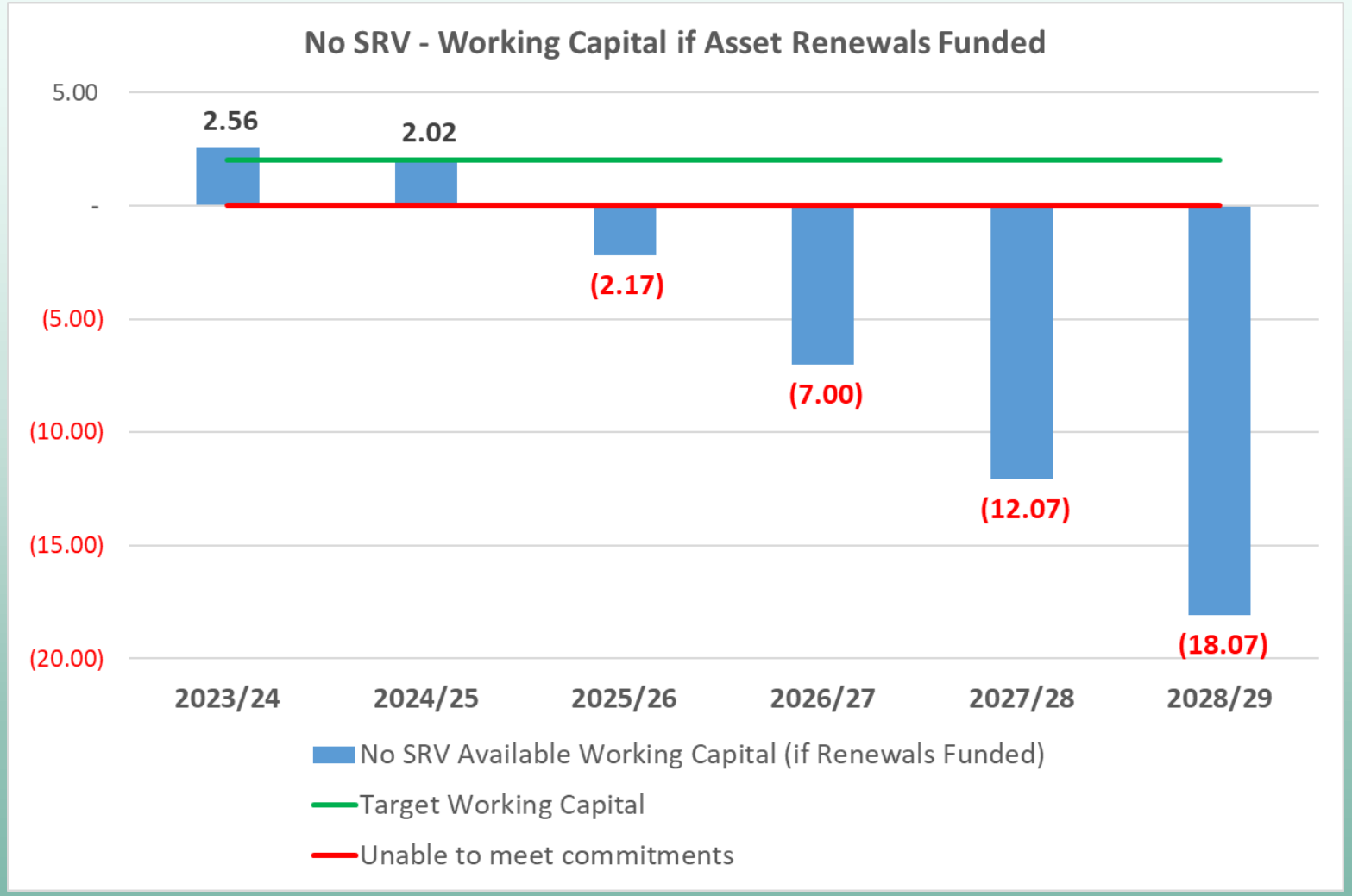
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
$m deficit	-2.67	-3.02	-3.76	-3.8	-4.99	-5.26	-4.54	-3.77	-3.24	-3.28

All years in deficit – Average deficit of $3.8 million per year
Not generating sufficient cash flow from operations to fund assets

What this means to our sustainability

Sustainability principle		
Positive operating performance	✗	• Deficit forecast for 2022/23 and 2023/24 • Operating Performance Ratio negative in 2020/21 and 2021/22. Forecast to be negative in 2022/23 and 2023/24
Strong cash flow	✗	• Operating deficits mean inadequate cash-flow from operations
Asset focus	✗	• Lack of cash-flow means asset renewals cannot be funded to required levels
Manage debt levels	✓	• No increase in debt levels forecast
Maintain and enhance service levels	✗	• Asset renewals not adequately funded means assets will deteriorate and so will service levels • No opportunity to enhance service levels • Have achieved good service level outcomes despite existing financial pressures, this is not sustainable

Funding asset renewals results in insolvency



Working Capital (ability to pay bills when due) would be exhausted by mid 2024/25
Insolvent at that point

Possible solutions

Option			Outcome
1	We try to continue to renew our community assets to meet NSW Government benchmarks	✗	We would be insolvent by 2025/26
2	We reduce spending on asset renewal	✗	Asset conditions would deteriorate, can't meet service levels and may become unsafe
3	We reduce service levels or exit services	✓	Reduced service levels and not offering some services
4	We increase our income through a consideration of a special rate variation	✓	We can renew assets and be financially sound

Reduce service levels and exit services

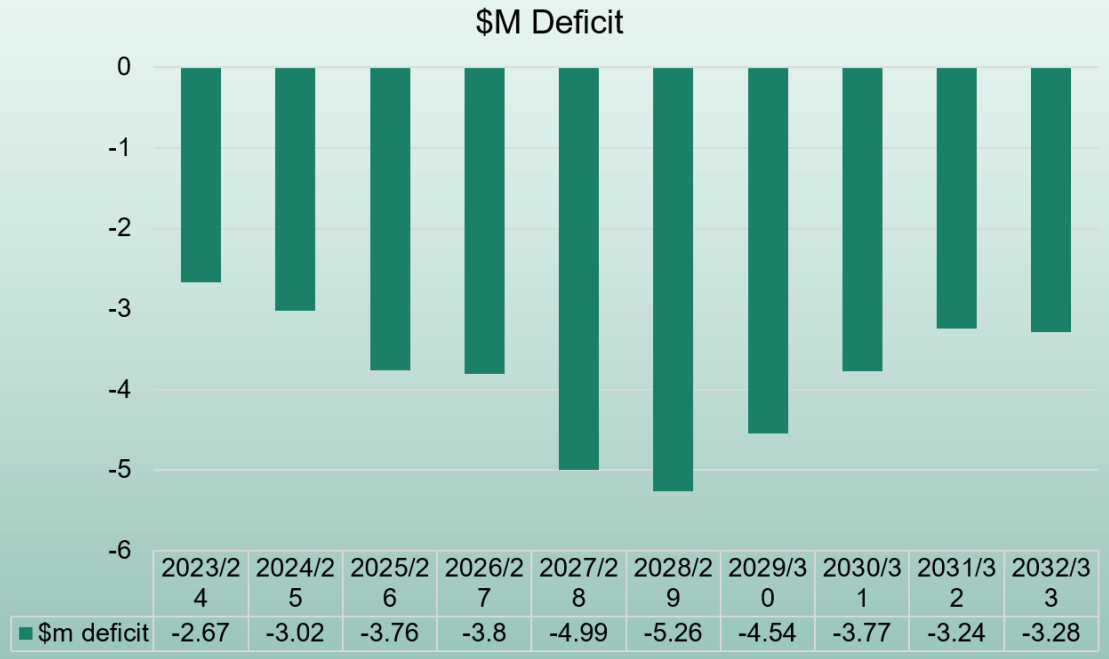
- We will continue to focus on cost reduction
- Service levels already under pressure
- Reviewing operating models/delivering services differently to reduce cost
- Need to look at all services and consider if we should be in them
- Very difficult decisions that take time and need to consider service performance, changing needs, community expectations and operational/ statutory requirements

Increase income through SRV (15-20%)

- Operating Performance Ratio (OPR) positive for every year except 2023/24
- Average OPR of 2-4% provides buffer for future shocks or prevailing high inflation
- Asset renewals funded to required levels, conditions maintained and backlog does not grow
- Buildings and Infrastructure Renewal Ratio achieved
- Potential opportunity to address current backlogs and explore increasing service levels (if no shocks)

Possible SRV (15-20%) provides Council with a sustainable financial future and an adequate buffer for future economic shocks

Surplus (deficit) before capital revenue

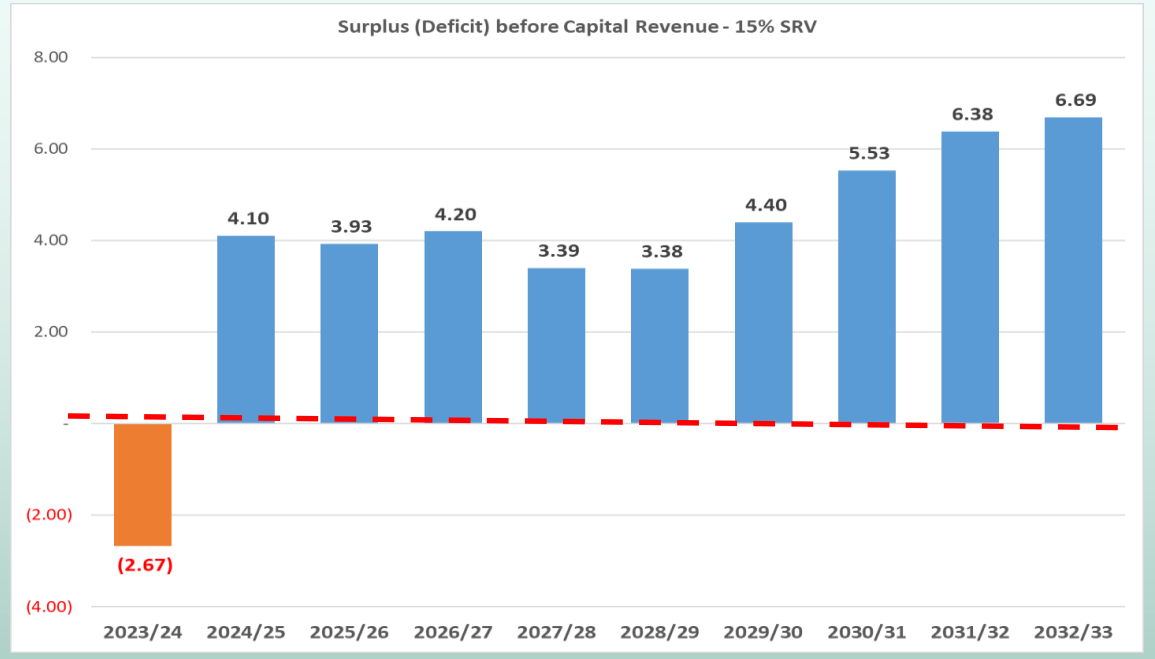


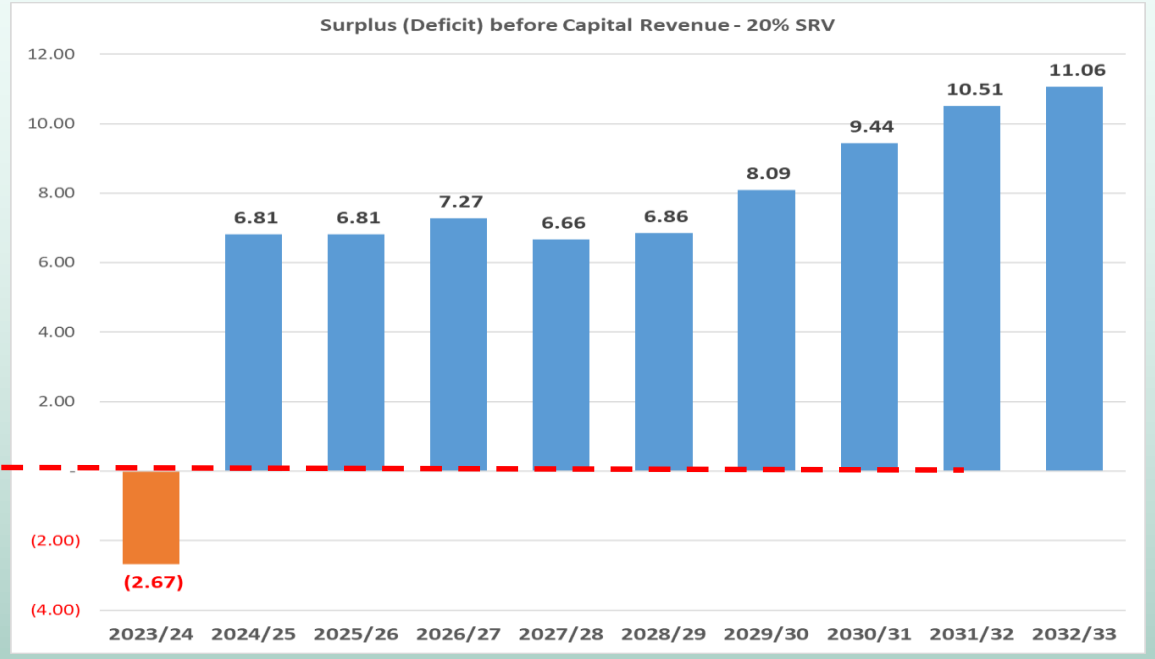
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
$m deficit	-2.67	-3.02	-3.76	-3.8	-4.99	-5.26	-4.54	-3.77	-3.24	-3.28

Surplus (deficit) before capital revenue

- Deficit forecast for 2022/23 and 2023/24
- Operating Performance Ratio negative in 2020/21 and 2021/22. Forecast to be negative in 2022/23 and 2023/24
- Operating deficits mean inadequate cash-flow from operations
- Lack of cash-flow means asset renewals cannot be funded to required levels
- No increase in debt levels forecast
- Asset renewals not adequately funded means assets will deteriorate and so will service levels
- No opportunity to enhance service levels
- Have achieved good service level outcomes despite existing financial pressures, this is not sustainable

SRV financial result





15% Special Rate Variation

- Healthy surplus each year after SRV, average surplus of $4.4 million
- Increased maintenance $1m per year from 2024/25
- Assets renewals funded to required levels, conditions maintained and asset backlog does not grow
- Creates 2.2% buffer to cater for future shocks or continued high inflation

20% Special Rate Variation

- Healthy surplus each year after SRV, average surplus of $7.1 million
- Includes increased maintenance $1m per year from 2024/25
- Assets renewals funded to required levels, conditions maintained and asset backlog does not grow
- Creates 4.3% buffer to cater for future shocks, continued high inflation or potential service level improvements

Key assumptions

1. **Employee Costs**

- LTFP assumes 7.7% vacancy rate ($3.9M per year assumed savings)
- Prospect that vacancies may reduce if labour market eases or different focus areas need resource

2. CPI

- CPI (Inflation) forecast to return to 3% within 2 years
- RBA got it wrong the last time. Chance high inflation prevails

3. Extra $1m of maintenance to make a difference

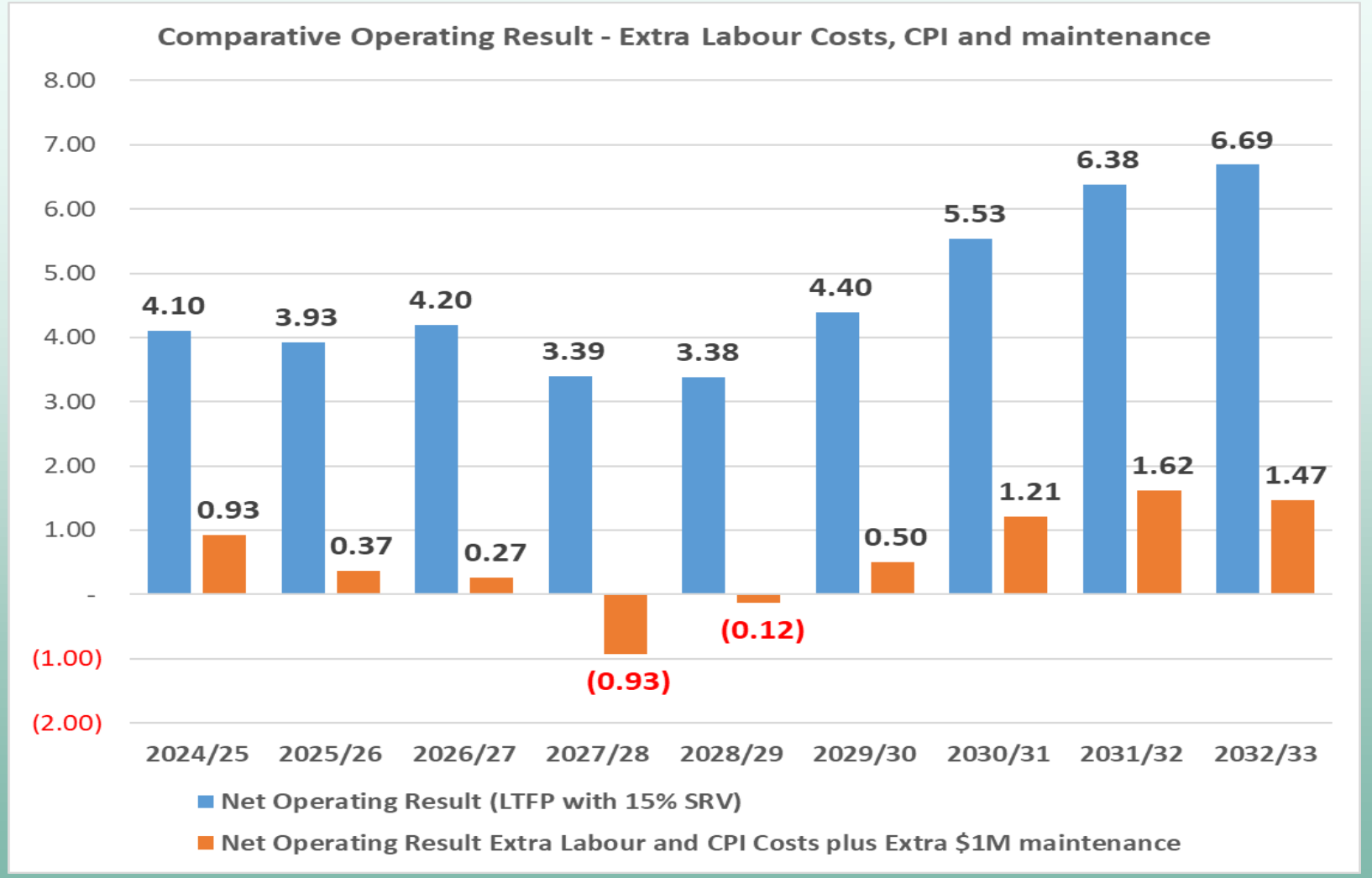
WILLOUGHBY CITY COUNCIL
City of Diversity

Sensitivity analysis

- Test outcome if 50% of assumed labour saving not realised
- Test outcome if CPI is 0.5% higher than RBA forecasts
- $1M extra maintenance per year (in addition to the $1M already catered for)

Helps understand any key variables and if they change what they may mean to the forecast

Sensitivity analysis – impact on surplus



Average surplus drops from $3.9M to $260k (very marginal)

Ratepayers

- Our rates are on the lower scale of councils in northern Sydney, as well as other metropolitan councils our size
- Our business rates are in the top quartile of these comparisons given Chatswood CBD
- 15-20% increase would equate to $174 - $269 annual increase over the rate cap for **average** residential rates
- 15-20% increase would equate to $1700 annual increase over the rate cap for **average** business rates

WILLOUGHBY CITY COUNCIL
City of Diversity

SRV process

If Council decide to proceed with an SRV there will be:

- Extensive engagement with the community
- Decision to apply to the State Government
- We submit an application to the State Government
- The State will undertake a public exhibition process on our application
- The State will determine if we receive an SRV.

Community engagement will include detailed information and scenarios for different types of rate payers

No decision has been made to submit for an SRV

Conclusion

- We are not alone in our experience
- Costs are increasing faster than our income
- We have reduced costs, maximised external income and continued to deliver services
- We will continue to review service levels and services
- We will advocate on increasing cost burden being passed to Council/ratepayers
- We need to consider a Special Rate Variation

Our LTFP forecast tells us we need to do something – **we can’t continue as we are**


Q&A
WILLOUGHBY
CITY COUNCIL
City of Diversity

Next Steps

- Visit www.haveyoursaywilloughby.com.au
  - Share a thought
  - Make a submission
  - Respond to the survey
- More in-person and online engagement sessions next week (details at Have Your Say site)
- Submissions will be made publicly available. If you do not want your personal details to be made public, please state this in your submission

Public exhibition period closes 15 June 2023

Engagement outcomes report and final Plans reported to Council for decision 26 June 2023