



# Long Term Financial Plan 2011/12 – 2021/22

Public Notice Version

**VERSION CONTROL**

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## SECTION ONE: EXECUTIVE SUMMARY

### 1.1 THE LONG TERM FINANCIAL PLAN

The Long Term Financial Plan (LTFP) is the key ten year financial planning document of Council that is governed by a series of financial strategies and accompanying performance indicators that Council considers and adopts. It establishes the financial framework upon which sound financial decisions are made.

Council has a legislative requirement to comply with the principles of sound financial management as detailed in section 136 of the Local Government Act 1989, these are:

- Prudently manage financial risks relating to debt, assets and liabilities.
- Provide reasonable stability in the level of rate burden.
- Consider the financial effects of Council decisions on future generations.
- Provide full, accurate and timely disclosure of financial information.

The risks relate to:

- Sustainable revenue streams.
- Adequate funding to replace and maintain Council assets.
- The level of council debt.
- The commercial or entrepreneurial activities of Council.
- The management and maintenance of infrastructure assets.
- The management of current and future liabilities.
- Changes in the structure of rates and charges base.

A key component of sound financial management is the preparation of longer term financial strategies, plans and budgets. Council has prepared forward budgets for the ten years 2011/12 to 2021/22 that includes a detailed ten year capital expenditure program. The development and adherence to longer term business/service plans is critical.

The Plan is constantly under review and is modified on an as needs basis usually during quarterly budget reviews and during the annual budget preparation process.

Financial data that is contained in the Plan has been provided to Council at briefing sessions and workshops as part of the Council Plan / Annual Business Plan / Budget preparation process.

The Long Term Financial Plan, and indeed the accompanying Financial Strategies do not have to be re-created each year, but rather they should be regularly reviewed and modified. The Plan as such will become the detailed business working papers that support the financial costings that appear in both the Strategic Resource Plan (SRP) and the Annual Budget.

The key reasons for the development of a long term financial framework are:

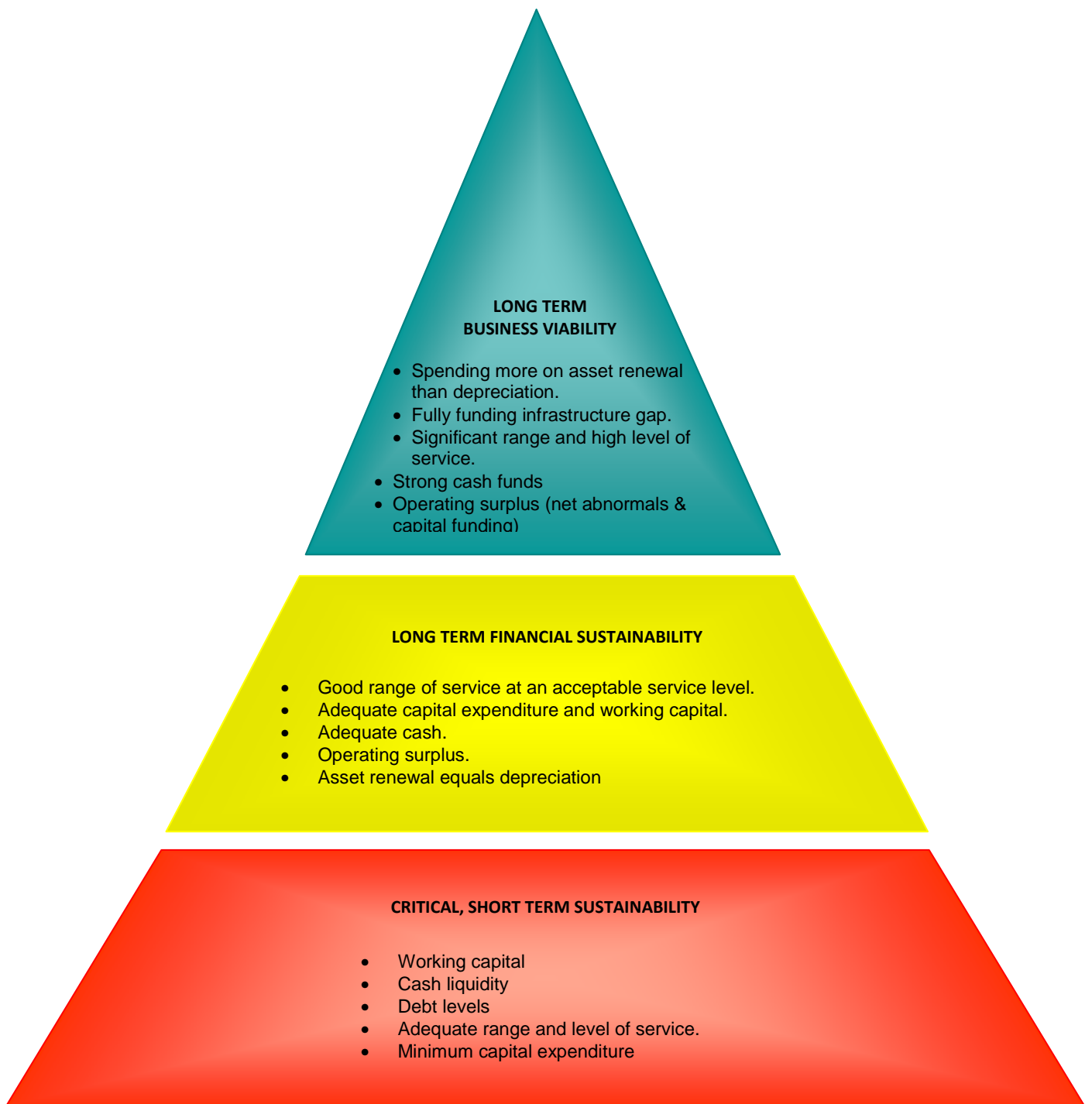
- To establish a financial framework over the next ten years to ensure Council's strategic objectives, as expressed in its Council Plan, are achieved;
- To provide an assessment of the resources (financial and non-financial) required to accomplish the objectives and strategies included in the Council Plan (non-financial resources are assumed to include human resources and Council's asset base, which are all referred to in various parts of the SRP);
- To establish a basis to measure Council's adherence to its policies and strategies; and
- To assist Council to comply with sound financial management principles, in accordance with the *Local Government Act (1989)* and to plan for the long term financial sustainability of the municipality.

## 1.2 LONG TERM FINANCIAL PLAN OBJECTIVES

The 2011/12-2021/22 LTFP is intended to achieve the following objectives in the ten year time frame:

- Maintain the existing range and level of service provision and develop the capacity to grow and add new services;
- Maintain a strong cash position, ensuring Council remains financially sustainable in the long term;
- Achieve operating statement surpluses with the exclusion of all non-operational items such as granted assets and capital income;
- Maintain debt levels below prudential guidelines;
- Continue to pursue recurrent grant funding for strategic capital funds from the state and federal government; and
- Provide for rate increases that establish a funding level for a sustainability index of 100 percent, including increasing funding for capital works (asset renewal, new/expansion, upgrade) and asset maintenance.

Financial sustainability is explained in the following diagram.



Council is presently in the medium range of the sustainability pyramid. It may be difficult to reach all the long term sustainability goals however Bayside continues to improve its sustainability. This improved sustainability is demonstrated by an adequate cash position, improving capital expenditure and a continued closure of the infrastructure funding gap.

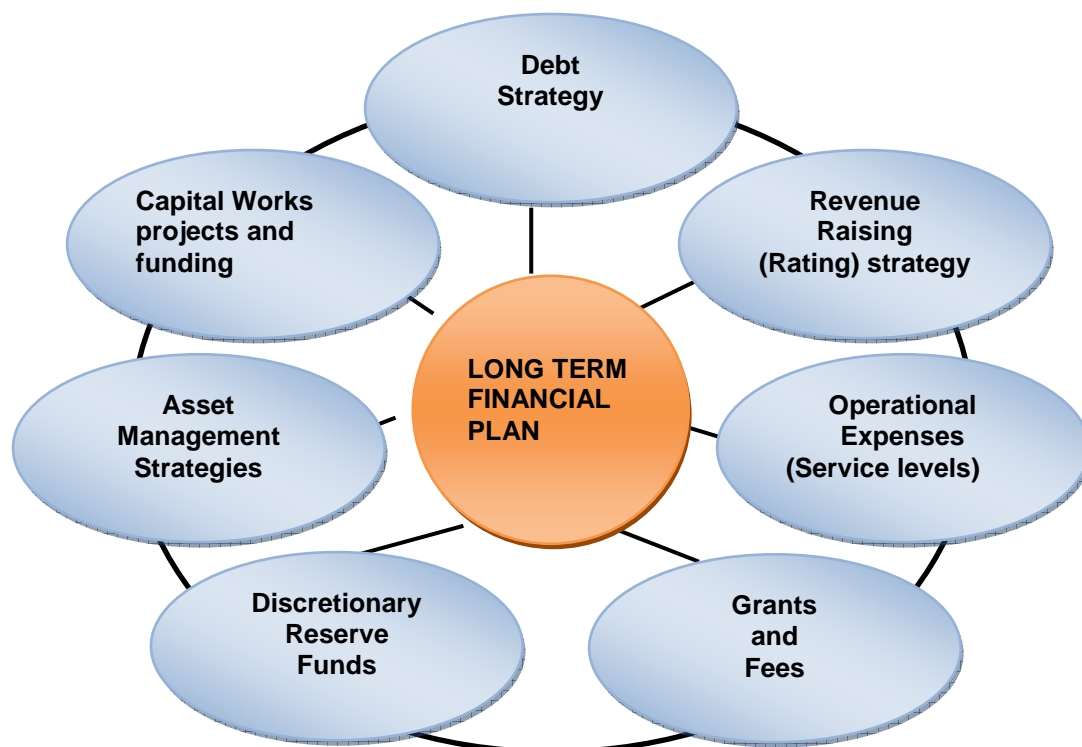
### 1.3 THE STRATEGIC RESOURCE PLAN

Council is required under Section 126 of the Local Government Act (1989), to prepare a Strategic Resource Plan (SRP). The SRP outlines the resources required to achieve Council's strategic objectives expressed in the Council Plan. The SRP must include:

- a) details of financial resources (standard statements); and
- b) details of non-financial resources, including human resources.

Council must adopt its SRP by 30 June each year. While compliance with the legislation can be achieved with the development of long term (four year) financial statements, the ten year approach adopted by Council is more comprehensive. A ten year timeframe more fully supports strategic asset management as many of Council's assets have long lives. The SRP therefore is the four year view of the ten year Long Term Financial Plan.

The diagram below details the key strategic areas covered by the LTFP/SRP and the integration required between Council's financial strategies.



Changes to the Strategic Resource Plan 2011/12 are:

- Council will increase rates, service charges and municipal charges by 5.9 percent in the 2011/12 financial year. This level allows our Council to maintain existing service levels, fund a number of new initiatives and continue to allocate additional funds to renew the municipality's infrastructure.
- Borrowings will reduce to \$16.5 million in 2011/12, and further decrease by \$0.5 million per annum to \$11.5 million over the ten year time frame of this Long Term Financial Plan.
- Human resources are planned to notionally increase by 5 EFT per year to accommodate expected population growth and service level expectations being maintained.

#### **1.4 STRATEGIC FINANCIAL DIRECTION**

Council, as part of reviewing its LTFP, revises its borrowing strategy, asset management, capital investment, discretionary and statutory reserves, capital works program, the range and level of services provided and the revenue raising strategy.

A number of strategic challenges remain ahead including renewing existing assets, continuing to provide an appropriate range and level of services to a growing and changing community, maintaining a sound financial position and addressing the need for capital expansion. The other key related issue is the risk and liability that Council and the community faces if Council does not invest in asset renewal at an adequate rate.

The LTFP establishes the strategic financial direction for Council to meet the funding and investment challenges that lie ahead in the next ten years. The LTFP is prepared in conjunction with the Council Plan to ensure the affordability of activities included in the Council Plan.

A *Glossary of Terms* is attached in *Appendix A*. *Appendix B* details Council's Standard Financial Statements, which are an outcome of this LTFP.

**1.5 KEY STRATEGIC OUTCOMES**

The following table highlights the outcomes, strategies and key actions of this LTFP. Each section includes detailed analysis to support the strategies. The key strategies provide direction for the preparation of the 2011/12 Budget.

Section	Outcomes	Strategy	Key Actions
<b>Section 3: Bayside Financial Indicators</b>	That Bayside City Council has enough cash to fund daily cash requirements and to enable flexibility to respond to opportunities as they arise.	<p>That Bayside City Council targets to achieve a consistent and gradually strengthening underlying surplus results in the income statement in order to ensure the ongoing delivery of services and capital works programs.</p> <p>That the working capital ratio of Bayside City Council in the Long Term Financial Plan be targeted to show a strengthening trend of at least, a 1:1.5 ratio in the later years of the Plan.</p> <p>That the budgeted cash position be sufficient to fund daily cash requirements as well as provide opportunities for funding of new acquisitions and short term contingencies.</p> <p>That Council invests in high security, low risk financial products (mainly term deposits and bank bills) to safeguard Council's financial position.</p>	<p>That Bayside City Council continues to benchmark with other Victorian councils and those within the inner metropolitan category.</p> <p>That Bayside Council applies the outcomes of the adopted Long Term Financial Strategy to the 2011/12 Budget.</p>
<b>Section 4: Long-Term Borrowing Strategies</b>	That Bayside City Council undertakes to consider options to reduce overall reliance on borrowings.	Any new loan borrowings are to be used to fund intergenerational capital investments where the community benefits are long term	<p>That Bayside City Council, based on compliance with the State Government Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity.</p> <p>That Bayside City Council retains debt servicing costs at less than 5% of total revenue, during the life of this LTFP.</p>
<b>Section 5: Statutory and Discretionary Reserves</b>	That we generate sufficient surplus from operations to fund daily	That wherever possible any material favourable budget variations realised in a given financial year be specifically	That Bayside City Council maintains discretionary reserves for stand-alone operations or investments.

	<p>operations and replace assets.</p>	<p>quarantined and allocated to an infrastructure reserve. The reserve is to be used to fund either replacement infrastructure or held as a contingency to finance projects deemed as 'unavoidable' or to be allocated against the repayment of interest only loans that are due to be refinanced.</p>	
<p><b>Section 6: Rating and other Revenue Strategies</b></p>	<p>To provide a reasonable degree of consistency and stability in the level of the rates burden</p>	<p>That Council consider the most appropriate rating strategy to provide adequate funds to:</p> <ol style="list-style-type: none"> <li>a. Achieve a gradually strengthening underlying surplus in the income statement.</li> <li>b. Achieve a sustainable cash flow; and</li> <li>c. Fund capital renewal projects.</li> </ol>	<p>That Bayside City Council retains Capital Improved Value (CIV) as its valuation base.</p> <p>That Bayside City Council provides a municipal charge that is approximately 8.0 percent of rates to ensure an equitable contribution towards the "unavoidable" fixed costs of Council.</p> <p>That Bayside City Council, in 2011/12, adopts a 5.9 percent increase in total revenue for rates and charges.</p> <p>That Bayside City Council pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other councils.</p>
<p><b>Section 7: Asset management</b></p>	<p>Assets will be fit for purpose to provide the desired level of service to the community.</p>	<p>Any new capital works (capital extension) proposals must include a lifecycle cost evaluation exercise that identifies and costs the asset construction, maintenance, operating and depreciation costs ie. Whole of lifecycle costs.</p> <p>That Council complete asset management plans for all classes of Council assets with a focus on ensuring the assets are fit for purpose and provide the desired level of service to the community.</p>	<p>That Bayside City Council, having established its critical renewal investment levels, completes detailed Asset Management Plans for all classes of Council assets incorporating level of service assessments.</p> <p>That Bayside City Council, as part of the development of its Asset Management Plans, consults with the community to determine how service levels will be reached including a combination of improved revenue raising, possible review of existing service levels, asset disposal and composition of the asset portfolio.</p>

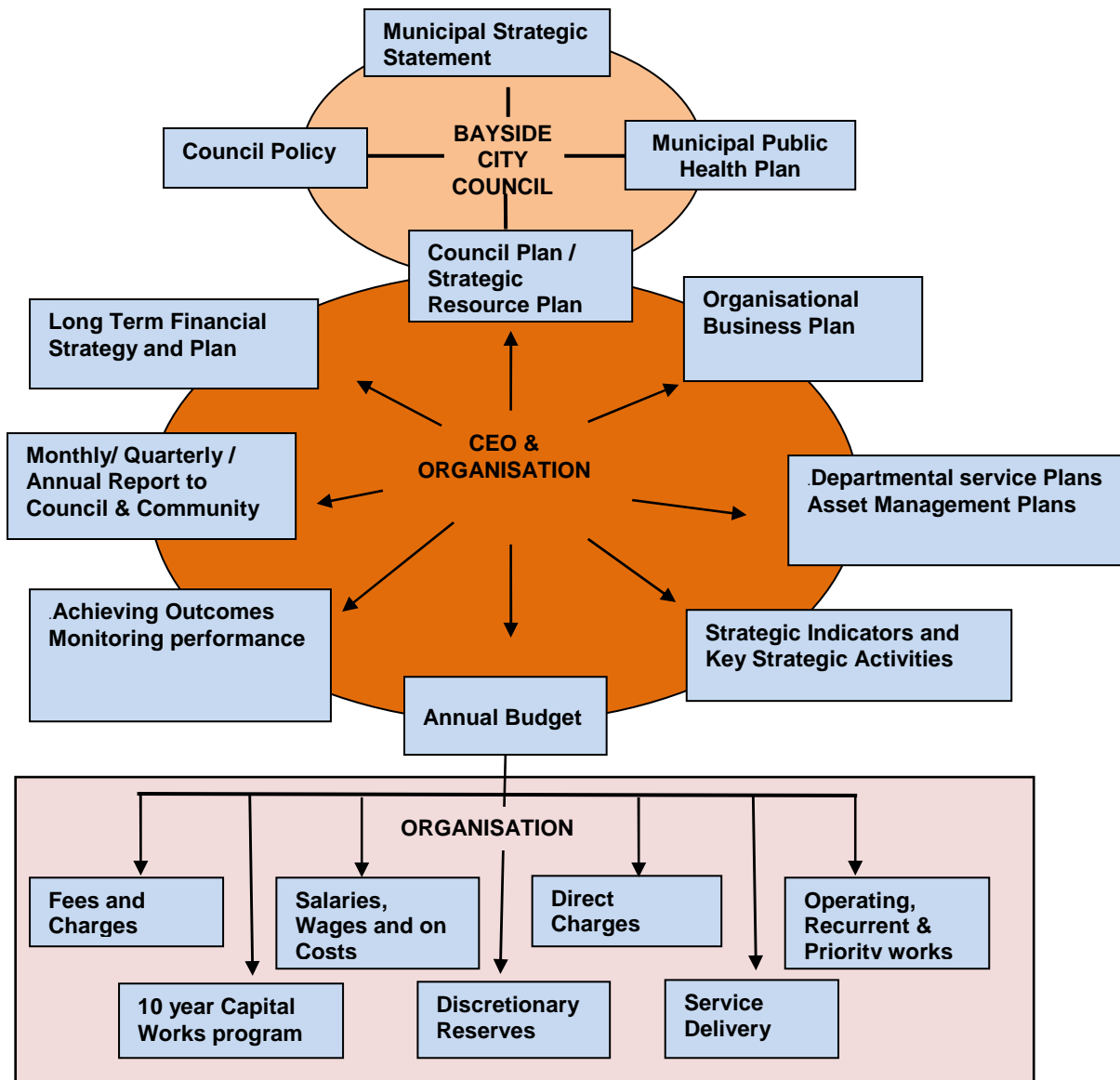
			<p>That Bayside City Council allocates funds to renewal of existing assets rather than constructing new assets where possible, noting that as the municipality's population expands, it will be necessary to provide the appropriate infrastructure.</p> <p>That Bayside City Council allocates additional funding to capital works (renewal) as its debt and revenue-raising strategies are completed.</p>
<p><b>Section 8: Capital Works Program</b></p>	<p>That we generate sufficient surplus from operations to fund daily operations and replace assets.</p>	<p>That capital expenditure on asset renewal projects be given priority over capital expenditure on new assets (upgrades and extensions).</p>	<p>That Bayside City Council increases its capital works commitment at levels that meet or exceed the targets established in this LTFP and complete the development of a ten year capital works program.</p> <p>That Bayside City Council initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at defined renewal intervention levels with the next priority on upgrade and new.</p>
<p><b>Section 9: Service Provision and Planning</b></p>	<p>That Bayside City Council generates sufficient surpluses from operations to continue to provide the existing level of services to our community.</p>	<p>That Council continues to consult with the community to determine how desired service levels will be reached including a combination of improved revenue raising, rationalization and review of existing service levels.</p>	<p>That Bayside City Council annually determines the range and level of service provision through the annual budget process incorporating an analysis of organisational and financial capability.</p>
<p><b>Section 10: Strategic Financial Plan</b></p>	<p>To provide a reasonable degree of consistency and stability in the level of the rates burden.</p>	<p>That Council, as part of the statutory process for the Council Plan / Strategic Resource Plan / Budget consultation, places the Long Term Financial Plan on exhibition for community comment.</p>	<p>That Bayside City Council finalises its preferred rating option for its strategic financial model to fund the Council Plan, capital expenditure and service delivery as part of the Rating Strategy through the annual budget process.</p>

**SECTION TWO: THE LINK BETWEEN THE LONG TERM FINANCIAL PLAN AND THE COUNCIL PLAN/ STRATEGIC RESOURCE PLAN**

**2.1 STRATEGIC PLANNING FRAMEWORK**

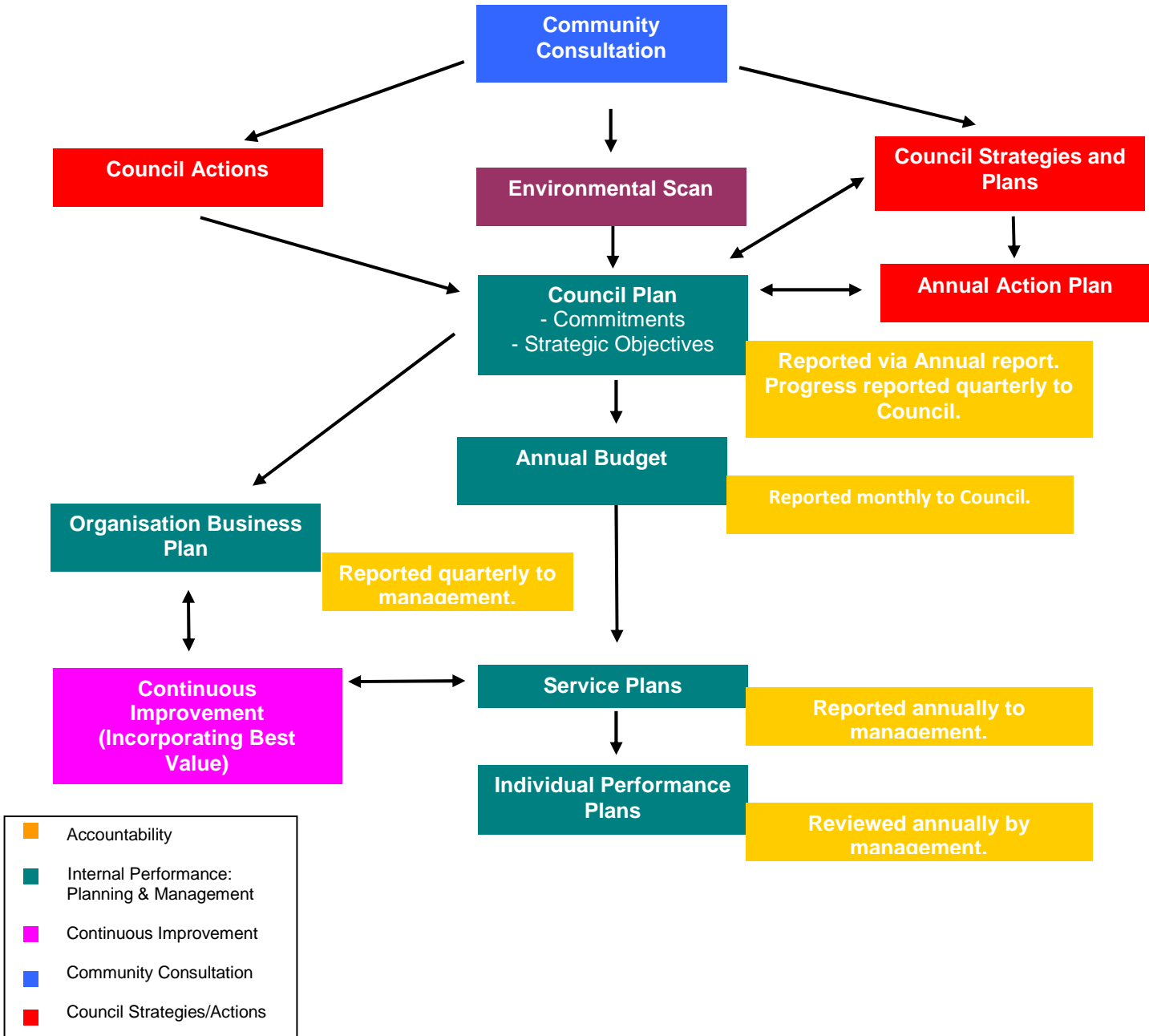
The diagram below shows the links between the LTFP and the balance of the corporate planning framework. As the diagram illustrates, Council sets the strategic direction to provide the Chief Executive Officer with the necessary guidance to develop and implement plans, actions and strategies to achieve these strategic outcomes.

The key strategic documents include the Council Plan, Municipal Strategic Statement and the Municipal Public Health Plan. These plans are prepared in accordance with Council policies.



Council sets the strategic direction to provide the Chief Executive Officer with the necessary guidance to develop and implement plans, actions and strategies to achieve these strategic outcomes.

The strategic planning framework incorporates the Council Plan and Business/Service Plans all linked together and importantly resourced by the Annual Budget. The diagram below depicts this framework:



The planning framework provides for the Council Plan strategies to be linked to Business/Service Plan actions that are funded and resourced through the Annual Budget. The organisation then measures and monitors performance and reports to internal and external stakeholders as required. Council receives formal reports on a quarterly basis detailing progress against its Council Plan and Annual Budget.

## SECTION THREE: BAYSIDE COUNCIL FINANCIAL SUSTAINABILITY

### 3.1 INTRODUCTION

Over recent years financial sustainability in local government has been the cause for ongoing concern as requests from communities for expanded services beyond those traditionally provided has not always been matched by expanded revenue streams and improved operational efficiencies. Local Government responsibilities have increased over many years in a number of areas including health, aged care, social services, community safety, accessible transport and environmental management.

Reasons for the increase in local government diversification of functions include:

- Devolution where federal or state governments requiring local government to take responsibility for services,
- Raising the bar, where other tiers of government increase the complexity or standard of a local government service,
- Cost shifting, where the withdrawal of federal/state funding support to local government to provide a service previously provided by another level of government, and
- Increased community expectations and policy choice where councils voluntarily choose to expand their service provision.

Due to the limited revenue base of local government (municipal rates, user charges and grants/subsidies) councils have needed to be proactive in the minimization of costs and the maximisation of efficiencies in order to maintain an increasingly diverse service delivery. Successful initiatives have included, outsourcing, structural reforms, corporatisation of commercial activities and shared services.

As with any organisation councils can experience sustainability challenges if they do not have robust financial planning, management, and governance. This should include a strong ten year plan, consistent annual budgets and detailed quarterly financial position reviews. The management quality and financial discipline needs support via effective governance from a Council who can clearly establish what outcomes a community expects and then monitors and guides the Chief Executive Officer to deliver on those outcomes.

Developing financial strategies for councils is often a difficult process. Key questions to consider are:

- Is council achieving a sufficient amount of revenue to provide services to the community and what alternative revenue streams are there?
- What should the target be in respect to resourcing expenditure on new assets (capital expenditure)?
- What is Council's targeted renewal investment and is this maintaining an acceptable level of service for the community?
- What is an acceptable rate and charge increase?
- What is an acceptable level of debt?

Some of these answers to these question come from the use of financial indicators that assess the comparative financial position of each council in Victoria and provides a valuable source of information in establishing financial strategies. The indicators are used to identify trends in financial sustainability.

This section considers:

- Benchmarking;
- Analysis of Council's financial sustainability from the perspective of the Municipal Association of Victoria (MAV) and the Victorian Auditor General (VAGO); and
- Operating surplus exclusive of capital income and abnormal items.

### 3.2 BENCHMARKING

The State Government measures councils' performance by benchmarking between councils and establishes a number of Key Performance Indicators (KPIs) for each council to use. The KPI benchmarking program in this LTFP is derived from financial data contained in annual reports from other councils. This benchmarking ensures data is comparable under the current regulations. The number of councils in each category is shown in the table below.

Category Description	Councils within Category
<b>Inner Melbourne (Metro)</b>	18
<b>Outer Melbourne</b>	13
<b>Regional Cities</b>	8
<b>Large Shires</b>	19
<b>Small Shires</b>	21
<b>Total</b>	79

In each KPI, the following information is shown:

- The position at 30 June 2010 (2009/10 actual);
- The State average;
- The average for Victorian Councils categorised as inner metropolitan Councils (Bayside City Council's group); and
- The projected position at 30 June 2011.

These key performance indicators are detailed within the relevant sections of the LTFP, and assist Council to compare its position to other inner metropolitan councils.

### 3.3 ANALYSIS OF COUNCIL'S FINANCIAL SUSTAINABILITY

#### 3.3.1 FINANCIAL SUSTAINABILITY

The Australian Local Government Association's (ALGA's) definition of financial sustainability is:

*“A Council's long-term financial performance and position is sustainable where planned long term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.”*

It is against this definition then that the sustainability of Bayside City Council can be assessed. The MAV assessment indicates Council is at the “low risk” category whilst the Victorian Auditor General's Office indicates “there are no financial viability concerns identified for Bayside City Council”.

In addition to benchmarking with other councils, the MAV indicators and the Victorian Auditor General measures Council uses a number of additional performance indicators to monitor and measure councils performance (refer appendix B)

#### 3.3.2 MUNICIPAL ASSOCIATION OF VICTORIA (MAV) ASSESSMENT

The MAV in late 2007 assessed the financial strength of Victorian councils; the purpose of which was to identify those councils facing financial risks and assess whether, through internal reform, they could improve their financial performance. For the purpose of this analysis, “risk” reflects the capacity of councils to renew infrastructure or service long term debt. Where a council shows high risks, without funding support from other levels of government, there are concerns that council infrastructure such as roads, bridges and community buildings will deteriorate over time. A similar risk is evident around possible financial stress in repaying long term debt.

In 2007, according to the *Municipal Association of Victoria (MAV)*, the number of unsustainable councils increased from 15 to 20. This increase is largely due as the MAV changed their viability index by making the assessment 10 percent harder. They did this because the previous test assumed that all capital spent was on renewal of ageing assets. That assumption was unrealistic as there is always a component of new or improved capital investment in most Victorian councils.

The MAV believes those councils at “moderate risk ”and “low risk” have the capacity to improve their financial strength over time, while those considered a “high risk” or “very high risk” require external funding support.

This analysis of the MAV Assessment covers the seven areas the MAV has determined as relevant to an analysis of a Council's viability:

- viability index;
- cumulative underlying operating surplus;
- liquidity;
- Rate effort;
- cost and efficiency;
- rates affordability; and
- population growth.

### 3.3.2.1 MAV VIABILITY INDEX

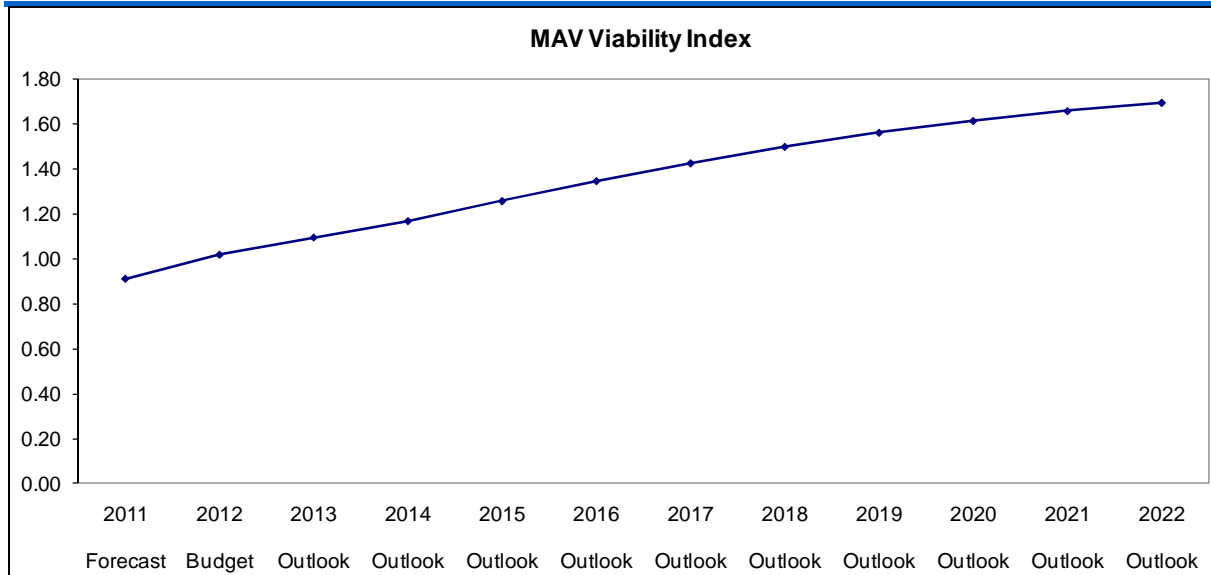
A council is considered "at risk" if it's combined (accumulated) capital underspend and long term debt exceeds 100 percent of its rate revenue over the period 1997-98 to 2005-06 or 50 percent of its rate revenue between 2001-02 to 2005-06. This rating is known as the MAV Viability Index.

The MAV Viability Index is calculated by dividing the capital spending shortfall plus long term debt by rate revenue. The capital spending shortfall equals the accumulated difference between depreciation and capital expenditure over two years.

Bayside City Council's renewal investment has been consistently increasing since 2003/04 and accordingly the results of the calculation show improvement. The viability index should be maintained above zero and ideally in excess of 1.0. Bayside's index shows consistent improvement each year as follows;

Year	MAV Viability index
2004/05	0.59
2005/06	0.59
2006/07	0.72
2007/08	0.77
2008/09	0.89
2009/10	0.90
2010/11	0.91 (forecast)

The graph below the forecast based on the financial modelling.



**3.3.2.2 CUMULATIVE UNDERLYING OPERATING SURPLUS/DEFICIT**

Operating surplus (deficit) – is total operating revenue less total operating expenses. It is an indicator of a council’s ability to meet its operating expenses from operating revenue. The operating result has a direct impact on the equity or net worth of Council. A surplus result contributes to the net worth, whilst a deficit result reduces the net worth of Council.

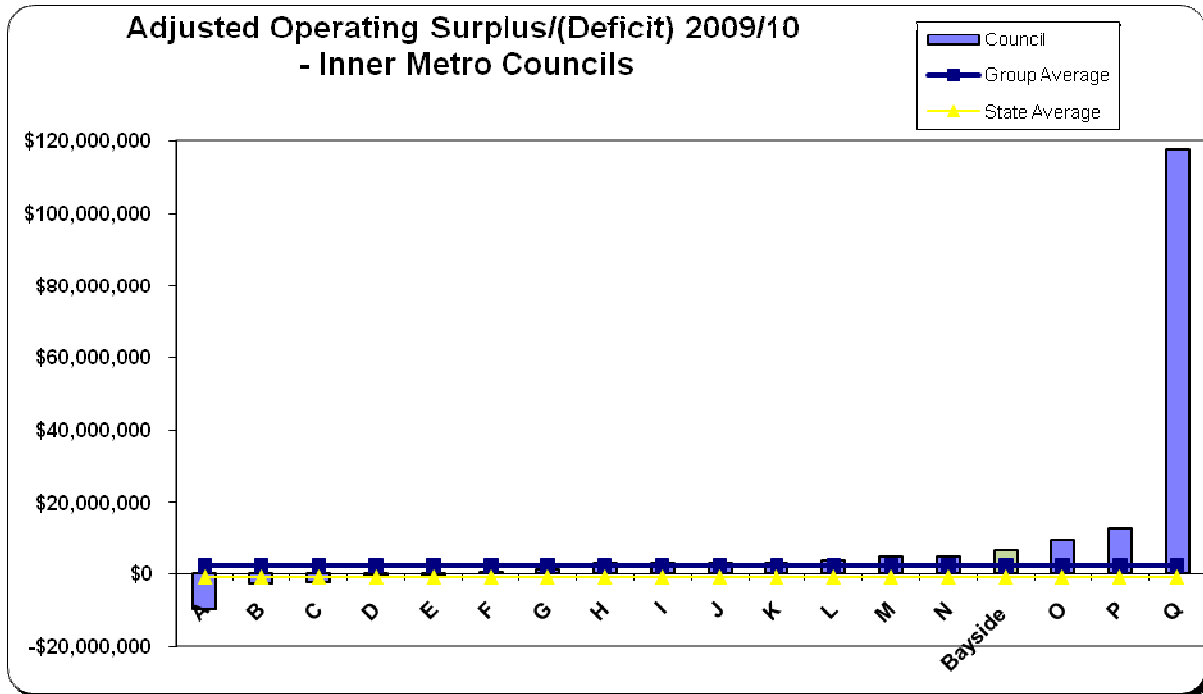
To be able to provide a given level of recurrent services (which includes some services that are infrastructure asset dependent such as transport) it is important to achieve consistent surplus operating results on a yearly basis. Council must strategically plan to be able to fully fund asset replacement over a given period of time. This can only be achieved if viable operating results are achieved on a continual basis. The operating result before taking into account ‘one off’ or non-recurrent items is commonly referred to as the ‘underlying result’.

The underlying operating result is assessed following removal of gifted assets, developer contributions, asset revaluations, and write offs and impacts of asset sales.

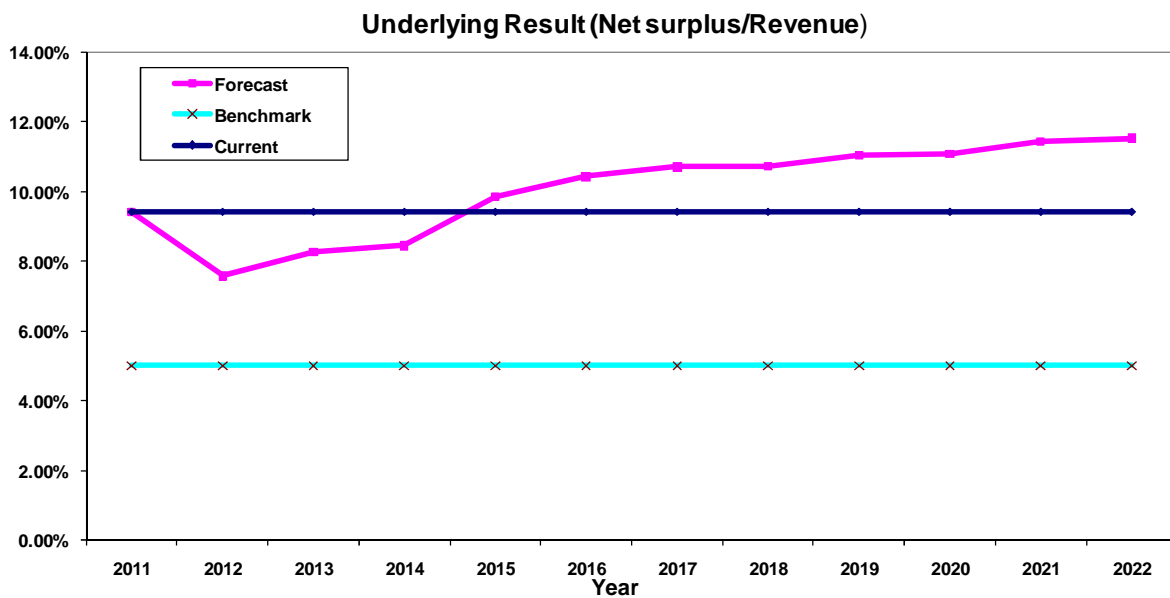
Capital income is further deducted on the grounds it represents an “unmatched” income (expenditure is not included) and it is a non-recurring income source. The aim is to reach an underlying operating position and then to assess whether this has added or eroded the net asset base of Council.

Differing views exist as to the exclusion/inclusion of capital income in this analysis.

In 2009/10, Council's position is 4<sup>th</sup> out of the 18 inner metropolitan councils and is above the group average and the state average.



Council's underlying surplus trend in the LTFP is improving and this is reflected in the MAV analysis.



### 3.3.2.3 LIQUIDITY

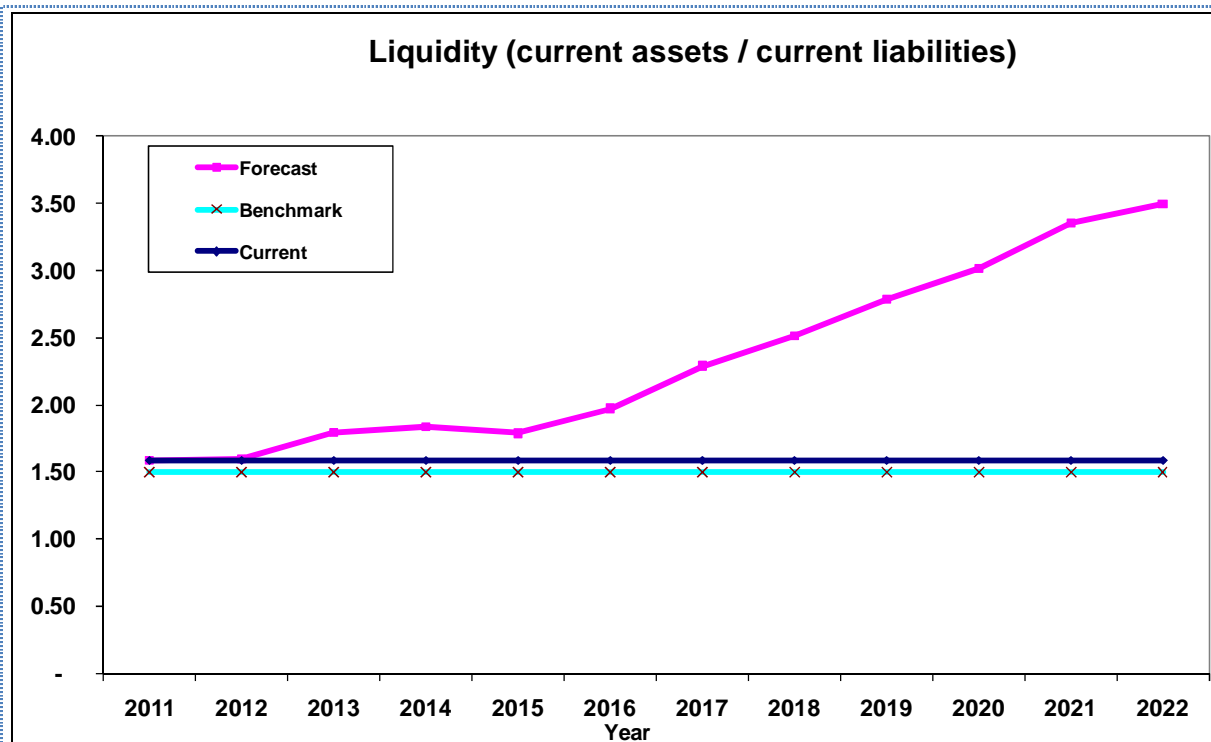
Liquidity (or current assets divided by current liabilities) is a measure of Council’s ability to pay existing liabilities within the next 12 months. A ratio of more than 1:1.5 is the preferred position.

The assets and liabilities in the balance sheet are dissected into ‘current’ and ‘non-current’ components.

This ratio is one of several ratios that are disclosed in the annual financial statements. It is also one of the key indicators used by the Australian Loan Council when assessing loan applications from Victorian Councils. It is critical that the ratio remain above 1:1.0 to ensure that current assets exceed current liabilities.

The MAV assessment asserts a working capital ratio of 1:2.0 is generally considered desirable. The analysis considers that Councils with working capital above 1:2.0 may have the capacity to reduce long-term debt.

The strategy in the LTFP is targeted to show a strengthening trend of at least, a 1:1:5 ratio in the later years of the Plan.



### 3.3.2.4 RATE EFFORT

The ability to increase rate revenue is a significant factor in determining whether Council is potentially at risk. Council in March 2009 resolved to implement a Developer Contribution Plan (DCP). Subject to successful completion of the statutory

procedure for an amendment of the Bayside Planning Scheme it was expected that the DCP would be operational for the 2011/12 financial year. However this work is still progressing and estimates of income have not been included in the LTFP as yet.

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### 3.3.2.5 COST AND EFFICIENCY

Bayside City Council performs well here and is statistically a “low cost” council. On an operating cost per head of population, Bayside was ranked 7th out of 18 inner metropolitan councils at \$817 per head of population in 2009/10 and projected to be \$863 in 2010/11. The State average in 2009/10 was \$1,427, with inner metropolitan Councils averaging \$947 per head.

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### 3.3.2.6 RATES AFFORDABILITY

Australian Taxation Office (ATO) income data for wage and salary earners (PAYE) can be used to give some indication of rates affordability. Bayside’s average wage and salary median total income and “affordability” are above state average. The Australian Bureau of Statistics (ABS) produces a set of social and economic indices known as SEIFA.

The four indices in the set, which are based on census data, reflect the level of social and economic wellbeing in local government areas. SEIFA includes the following indices:

- **Advantage/Disadvantage** – the proportion of families with high incomes, people with a tertiary education and employees in skilled occupations. Low values indicate areas of disadvantage;
- **Disadvantage** – derived from attributes such as income, educational attainment, unemployment and dwellings without motor vehicles;
- **Economic Resources** – relating to family income, rent paid, mortgage repayments and dwelling size; and
- **Education and Occupation** – covering the proportion of people with a higher qualification or those employed in a skilled occupation.

The first three indicators have been used to reflect on the socio-economic status of local areas and therefore ability to bear significant increases in rates. Bayside City Council ranks third across the LGA within the Melbourne statistical division with a score of 1095.8. This is well above both the national benchmark of 1000 (indicating that Bayside has much lower disadvantage) and the Southern Metropolitan Region score of 1025. Bayside is considered a municipality with areas of high social advantage.

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### 3.3.2.7 POPULATION GROWTH

Population changes have a direct impact on Council costs. For example, population declines can result in higher unit costs of service delivery because of the fixed nature of some costs. Rapid population growth can place significant financial pressure on councils to put new or expanded services in place.

Bayside’s average annual population change at 1.4 percent is 0.3 percent lower than the average population growth of inner metropolitan councils at 1.7 percent per annum.

**3.3.2.8 MAV ASSESSMENT – CONCLUSION**

Based on the measures the MAV analysis indicated that Bayside City Council was at “low risk” having the capacity to improve its financial position over time.


**3.3.3 THE VICTORIA AUDITOR GENERAL**

The Victoria Auditor General’s Office (VAGO) when measuring the financial performance of local governments reports on the following indicators:

Indicator	VAGO Target	Calculation	Explanation
<b>Underlying result</b>	Greater than zero	Adjusted net surplus/total underlying revenue	Adjusted net surplus is calculated by removing non-cash developer contributions and one-off items from the statement of income and expenditure.
<b>Liquidity</b>	Greater than 1:1.5	Current Assets/Current Liabilities	Measure of ability to pay existing liabilities within 12 months.
<b>Indebtedness</b>	Less than 40.0	Non-current liabilities/own sourced revenue	Compares non-current liabilities (including loans) to own source revenue. Own-sourced revenue is used because it does not include capital grants.
<b>Self-financing</b>	Greater than 20.0	Net Operating cash flow/underlying revenue.	This is a measure of local government’s ability to fund the replacement of assets from cash generated by their operations: the higher the percentages, the more able to do so.
<b>Capital replacement</b>	Greater than 1.5	Capital spend/ depreciation	This is a measure of whether local governments are spending on infrastructure at a greater rate than the infrastructure is depreciating.
<b>Renewal gap</b>	Greater than 1.0	Renewal and upgrade expenditure/depreciation	This is a measure of whether local governments are spending on renewing, restoring and replacing existing assets with depreciation.

3.3.4 VICTORIAN AUDITOR GENERAL RESULTS

The following results for Bayside City Council have been provided by the VAGO analysis:

Component	2006	2007	2008	2009	2010	Mean	Actual Trend	Forecast 2011	Future Trend	VAGO Comment
Underlying Results	-1.52	2.00	6.40	6.29	8.48	4.33	→	8.24	→	A risk of long term run down to cash reserves and inability to fund asset renewals
Liquidity	1.31	1.27	1.51	1.45	1.31	1.37	→	1.27	↑	Need for caution with cash flow as issues may arise with meeting obligations as they fall due
Indebtedness	26.107	26.60	24.59	23.43	22.03	24.55	↓	21.12	↓	No concern over ability to repay debt from own source revenue.
Self-financing	12.95	18.60	21.80	23.15	21.57	19.61	↑	22.99	→	Generating enough cash from operations to fund assets
Capital Replacement	1.13	1.18	1.15	1.45	1.77	1.34	↑	1.44	→	May indicate not spending enough on renewal
Renewal Gap	0.58	0.59	0.52	0.54	0.96	0.64	→		→	May indicate insufficient spending on renewal of assets
Sustainability assessment										Ability to manage financial resources so it can meet spending commitments at present and into the future

The Victorian Auditor General's Office overall financial sustainability rating was that there were no financial viability concerns identified for Bayside City Council.

## **OUTCOME**

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1. That Bayside City Council has enough cash to fund daily cash requirements and to enable flexibility to respond to opportunities as they arise.

## **STRATEGY**

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1. That Bayside City Council target to achieve a consistent and gradually strengthening underlying surplus results in the income statement in order to ensure the ongoing delivery of services and capital works programs.
2. That the working capital ratio of Bayside City Council in the Long Term Financial Plan be targeted to show a strengthening trend of at least, a 1:1.5 ratio in the later years of the Plan.
3. That the budgeted cash position be sufficient to fund daily cash requirements as well as provide opportunities for funding of new acquisitions and short term contingencies.
4. That Council invests in high security, low risk financial products (mainly term deposits and bank bills) to safeguard Council's financial position.

## **KEY ACTIONS**

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1. That Bayside City Council continues to benchmark with other Victorian councils and those within the inner metropolitan council category.
2. That Bayside Council applies the outcomes of the adopted Long Term Financial Strategy to the 2011/12 Budget.

## SECTION FOUR: LONG-TERM BORROWING STRATEGIES

### 4.1 INTRODUCTION

This section includes:

- Background to Bayside City Council’s current debt portfolio;
- Measuring what level of debt is appropriate;
- Borrowings assessment;
- Financial indicators;
- Prudent debt level;
- Future loan program.

### 4.2 BACKGROUND TO CURRENT DEBT PORTFOLIO

The table below highlights Council’s interest bearing liabilities and the movements that have occurred during the past two financial years, the 2011 forecast and 2011/12 Budget. Borrowings in 2011/12 are \$16.5 million.

Debt Type	Position at 30 June 2009 \$000	Position at 30 June 2010 \$000	Forecast at 30 June 2011 \$000	Budget at 30 June 2012 \$000
<b>Loan borrowings</b>	17,500	17,500	17,000	16,500
<b>Finance leases</b>				0
<b>Total debt</b>	<b>17,500</b>	<b>17,500</b>	<b>17,000</b>	<b>16,500</b>

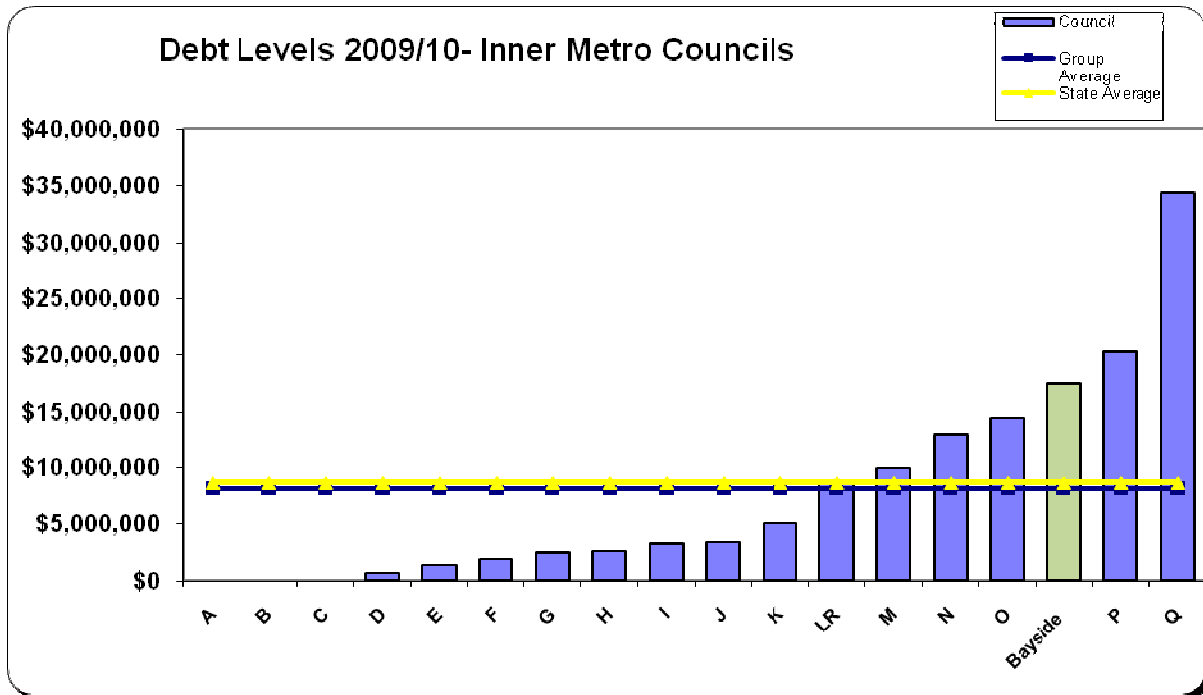
### 4.3 MEASURING WHICH LEVEL OF DEBT IS APPROPRIATE

Deciding an appropriate debt level is a difficult task. Each council is different and the level of debt that is appropriate for Bayside City Council may not be acceptable for another council.

The following factors are seen as important issues for consideration by Bayside City Council:

- level of debt servicing as a proportion of rate revenue;
- ability to raise revenue in addition to rates;
- level of realisable assets to support the indebtedness;
- achieving the right mix of capital works and debt commitments;
- growth rate of municipality;
- community needs; and
- demographics

Council is responsible and accountable for indebtedness and the cost of debt servicing needs to be controlled to manageable levels. The table below highlights the relative debt levels of councils within the metropolitan council grouping as at 30 June 2010. Bayside City Council’s relative debt level is also shown.



By comparing a number of different debt ratios within the inner metropolitan council grouping, Bayside City Council can begin to consider what level of debt is appropriate. The table on the following page highlights the outcomes of a debt level review based on figures at 30 June 2010.

The table also details the financial ratios with respect to debt management with the inner metropolitan councils and the state average and highlights the following points.

- Bayside City Council’s debt level is above both the group and state average.
- Recent improvement in its debt ratios have meant that at 30 June 2010 Bayside Council has improved two places in the debt ratios in the inner metropolitan council grouping. However Bayside still remains at the high end.
- Bayside City Council’s financial ratios are within State Government Prudential Guidelines.
- The debt commitment ratio of 5.3 percent in 2009/10 meant ratepayers funded principal redemption and interest at 5.3 cents in every dollar of rates paid. This was below Council’s guideline threshold of 10 cents in the dollar.

With the borrowings of \$16.5 million, Council’s debt commitment ratio in 2011/12 will move to 4.04 cents in the dollar.

Council	2009/10 Debt Servicing / Adjusted Total Revenue	2009/10 Debt Commitment / Rates	2009/10 Total Indebtedness / Realisable Assets	2009/10 Debt Commitment / Own- Source Revenue	2009/10 Total Debt / Own- Source Revenue	2009/10 Total Debt / Rate Revenue
<b>Bayside City Council</b>	<b>1.3%</b>	<b>5.33%</b>	<b>2.08%</b>	<b>4.12%</b>	<b>23.34%</b>	<b>30.24%</b>
<b>Average Metropolitan</b>	<b>0.52%</b>	<b>5.41%</b>	<b>3.53%</b>	<b>1.74%</b>	<b>8.66%</b>	<b>11.67%</b>
<b>Median Metro</b>	<b>0.20%</b>	<b>1.58%</b>	<b>3.34%</b>	<b>1.16%</b>	<b>3.09%</b>	<b>4.28%</b>
<b>State Average</b>	<b>0.84%</b>	<b>4.59%</b>	<b>9.50%</b>	<b>3.59%</b>	<b>19.04%</b>	<b>24.20%</b>
<b>Ranking</b>	<b>17</b>	<b>15</b>	<b>4</b>	<b>16</b>	<b>17</b>	<b>17</b>

#### 4.4 BORROWING ASSESSMENT

Council assessed its capacity to borrow against the Victorian State Government’s Prudential Guidelines. The administration of the Local Government sector’s borrowing involves:

- The collation of the sector’s borrowing requirements through an annual survey;
- The assessment of individual council’s borrowings; and
- Recommendation to the Department of Treasury and Finance (DTF) of the aggregate net new borrowing requirement of the sector.

All borrowings by individual councils are assessed under a borrowings assessment policy adopted by the Local Government Division. The policy identifies four key areas of financial management with certain thresholds that are required to be met.

Area	Financial Indicator	Threshold (Prudential Guidelines)	Position 2009/10	Forecast 2010/11	Budget 2011/12
Liquidity	Current Assets to Current Liabilities	1:1.1	1:1.31	1:1.26	1:1.27
Debt Exposure	Total Indebtedness to Total Realisable Assets	50%	2.44%	2.13%	2.13%
Debt Management	Total Debt as a % of Rate Revenue	80%	30.24%	30.24%	27.52%
Debt Service Management	Debt Servicing Costs as a % of Total Adjusted Revenue	5%	1.30%	1.33%	1.33%

Bayside City Council is within the State Government Prudential Guidelines as at 30 June 2010 and is forecast to be within these as at 30 June 2011.

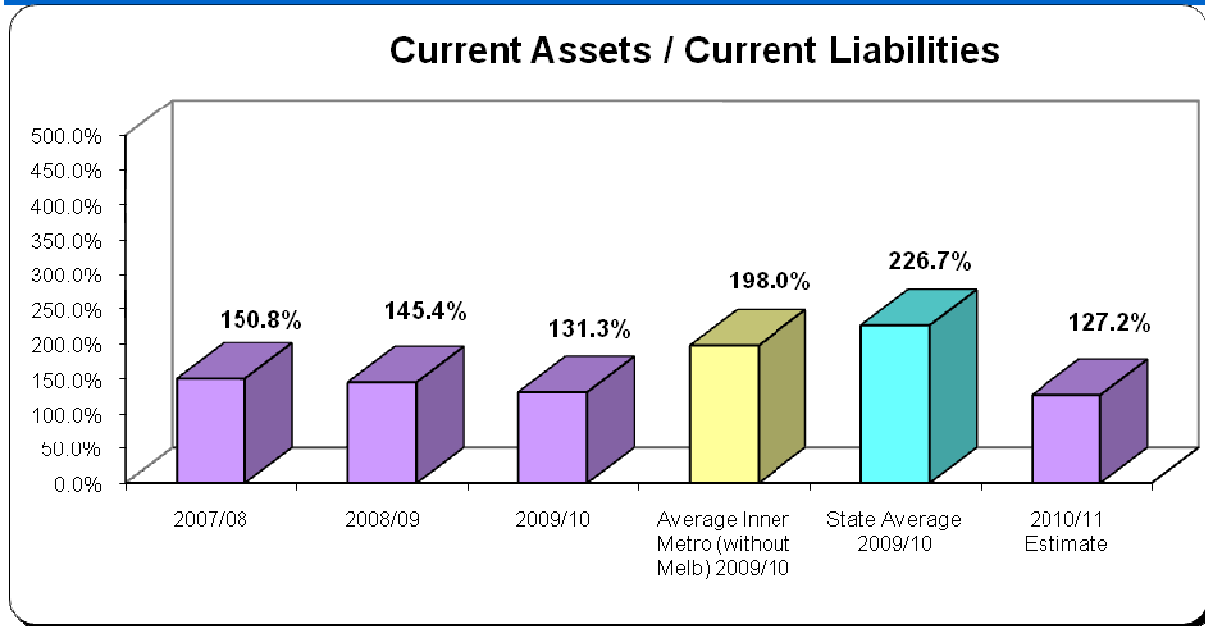
#### 4.5 WHAT DO THE FINANCIAL INDICATORS MEAN?

The graphs below detail the above mentioned financial indicators and presents Council’s position graphically. The threshold detailed against each indicator is the minimum level council must meet in order to achieve approval to borrow from the State Government.

##### 4.5.1 LIQUIDITY – THRESHOLD 1.1:1

###### Current Assets to Current Liabilities

This indicator reflects the short-term liquidity position; that is, Council’s ability to repay current commitments from cash or near cash assets. Councils with a ratio of 1.1:1 and below, or with a deteriorating trend, may be financially at risk of not being able to meet creditors’ commitments.

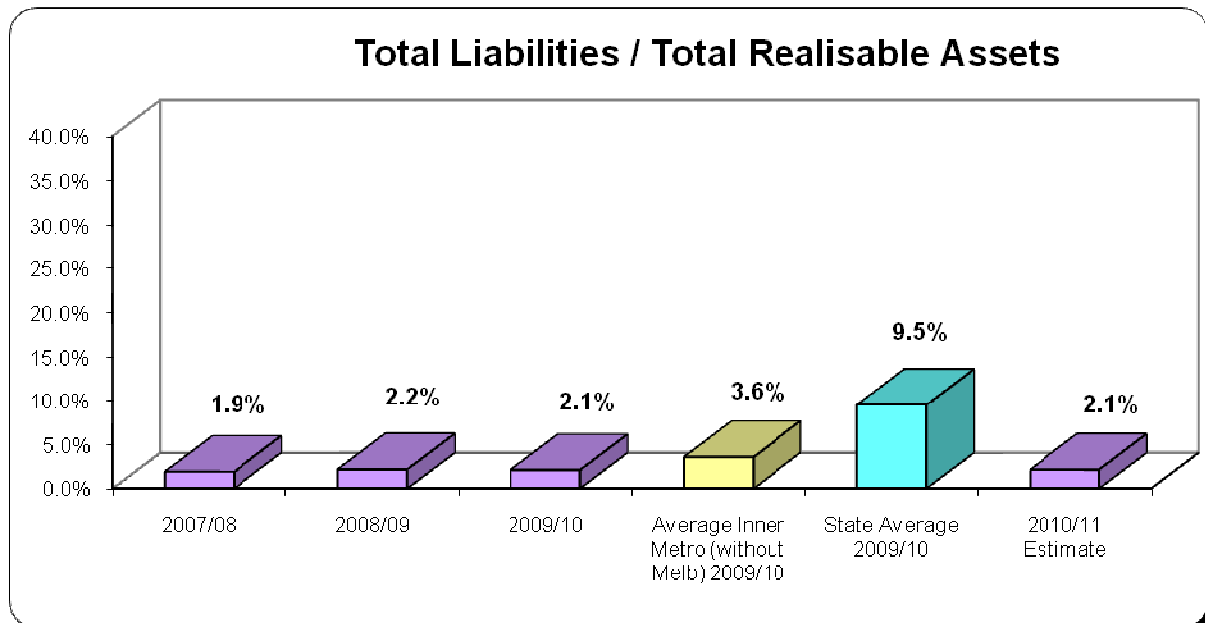


The MAV assessment asserts a working capital ratio of 1:2.0, the VAGO recommends a working capital ratio of 1:1.5. In the Long Term Financial Plan council is targeted to show a strengthening trend of at least, a 1:1.5 ratio in the later years of the Plan.

#### 4.5.2 DEBT EXPOSURE – THRESHOLD 50 PERCENT

##### Total Indebtedness / Realisable Assets

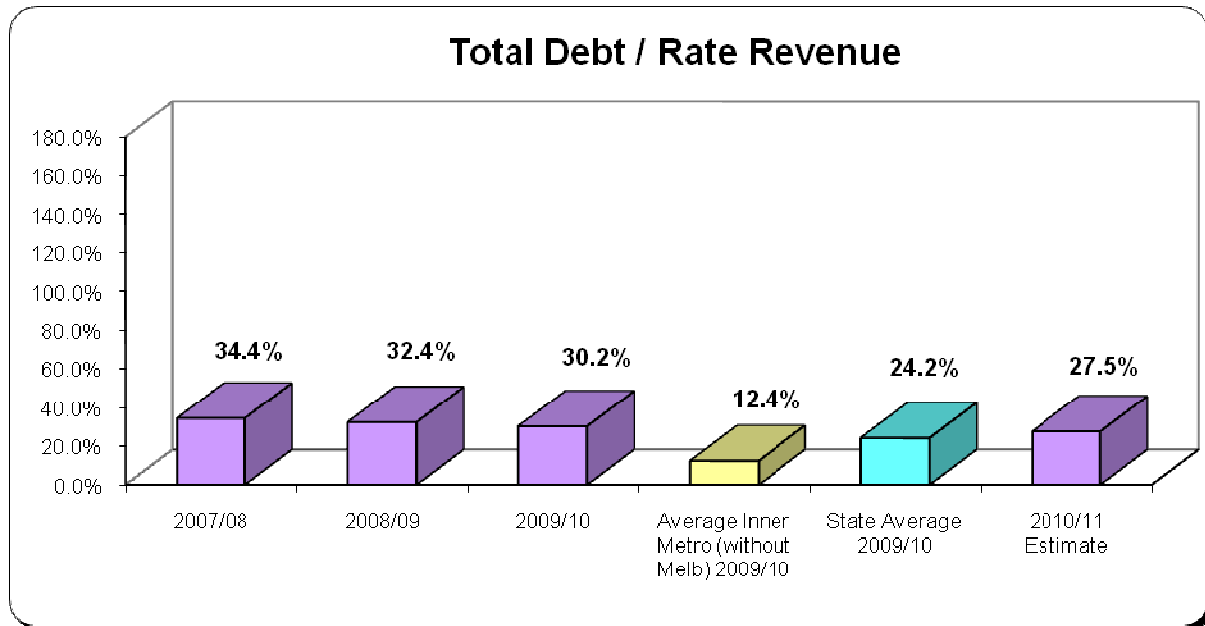
This indicator reflects the ability to acquit liabilities with the proceeds from the disposal of its realisable assets. Ideally, total liabilities should be significantly less than 50 percent of total realisable assets.



**4.5.3 DEBT MANAGEMENT: TOTAL DEBT AS A PERCENTAGE OF RATE REVENUE**

Debt Management – Threshold 80 percent

The *Local Government Act (1989)* requires that all loans are secured against the revenue stream from rates. A council with total debt in excess of the revenue from rates would be unable to meet all debt commitments from rate revenue should they be required to be repaid at the one time. A threshold of 80 percent has been set.

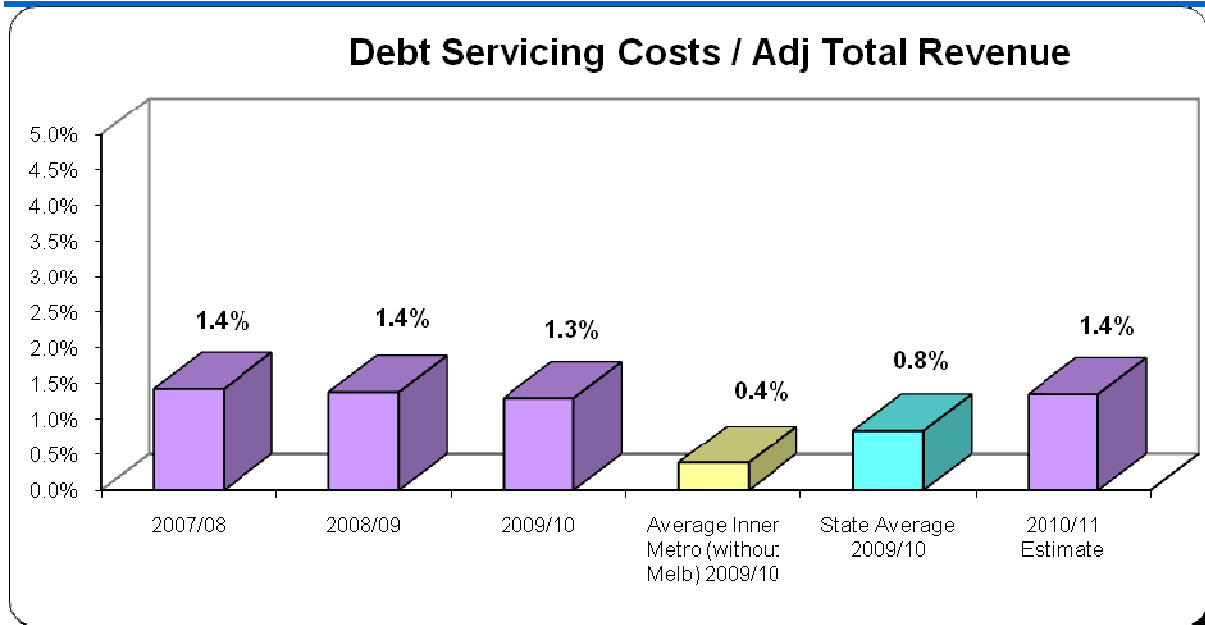


**4.5.4 DEBT SERVICING COSTS AS A PERCENTAGE OF TOTAL REVENUE**

Debt Servicing – Threshold 5 percent

This indicator reflects the proportion of total revenue that is used to service debt (interest on outstanding debt and any loan administration charges) and which cannot be used directly for service delivery. A threshold of 5 percent has been set.

To encourage longer term planning by councils, the framework also includes an assessment of reasons for the new borrowings. This rationale is explained in Council’s strategy, which is to fund long term intergenerational assets from loan funds to ensure intergenerational equity.



#### 4.6 WHAT IS A PRUDENT DEBT LEVEL?

Council has identified borrowings as an important source of funding for capital project works. Following amalgamation, Council was required to increase the level of borrowings to improve the infrastructure throughout the municipality. Council has relied on surplus from operations as well as cash and investment reserves to fund capital works programs required to maintain the municipality infrastructure.

Given the competitive nature of acquiring funds (low interest rates) Council was able to leverage its low risk status to borrow at competitive rates in order to enable the completion of projects that may otherwise be deferred until sufficient funds can be raised from alternate sources.

Council's current borrowing strategy is to borrow for ten years at a fixed rate of interest. This strategy is prudent in times of low interest rates as well as enables Council a degree of certainty regarding the expected payment over the ensuing ten years. Loans are interest only with full payment scheduled at the completion of the loan term.

A ten year loan is acceptable since infrastructure projects are generally designed to last well in excess of this time span. That is, the life of the capital works project should exceed the life of the loan from which it was funded. This will assist to spread the financial burden across generations who will utilise the resultant services.

The graph below introduces an additional financial ratio, namely debt commitment costs as a percentage of rates. Debt commitment costs include principal and interest repayments in a year. This ratio details how much of Council's rate dollar is being spent to repay debt and interest as an overall percentage of Council's rate revenue.

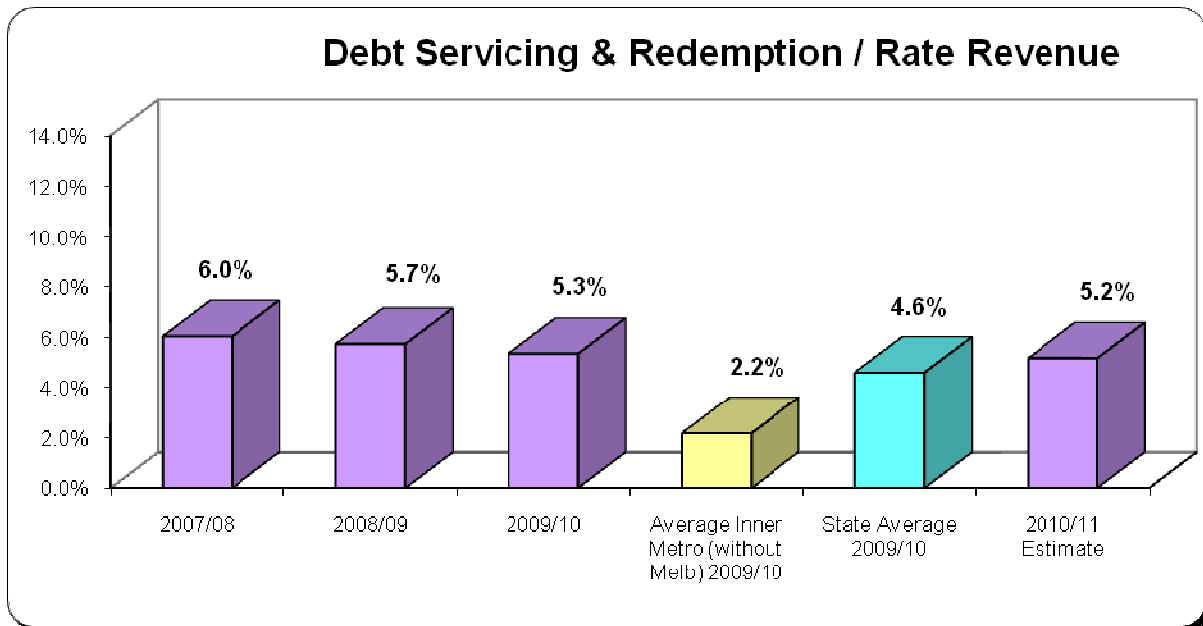
Council's guideline is to retain debt commitment costs below 10 cents in the dollar. That is, for every dollar of rate revenue received, the cost to service debt (principal and interest) should not exceed 10 cents.

Council has also determined to only borrow for capital expansion projects that provide intergenerational equity. That is, borrowings will only occur for new assets, where the asset life is greater than one generation.

This strategy will provide Council with a loan program that will maintain consistent borrowing for capital expansion whilst managing debt servicing at or below 10 cents in the rate dollar. The graph below depicts this ratio.

In 2009/10 5.33 cents in the rate dollar received serviced debt – both principal and interest payments. The intergenerational equity theory is based on the premise that successive generations and new residents should contribute to infrastructure or facilities that they will enjoy and benefit from. Generally these include major facilities (preschools, halls, arts centres) where the benefit of the investment will extend beyond the current ratepayers.

By borrowing, Council ensures today’s ratepayers are not fully funding these facilities. There are limits on borrowings due to the costs of interest payments. If Council were to borrow too heavily it would result in an inability to invest in capital works due to funds being consumed in debt repayment. Therefore a balance is important.



Along with the State Government Prudential Guidelines Council proposes to limit its debt servicing and redemption costs to 10 cents in every rate dollar. This will mean at any time Council will:

- Be within State Government prudential guidelines; and
- Not exceed 10 cents in the dollar for the cost of debt servicing and redemption (interest and principle).

In 2010/11 5.2 cents in the rate dollar received is projected to service debt (both principal and interest payments). Council proposes to borrow \$1.0 million in the 2011/12 year based on the need to fund capital expansion projects. These projects

arise specifically due to population growth and align with the intergenerational equity principle. The debt servicing and redemption as a percentage of rate revenue is estimated to be at 4.04 cents in the dollar in the 2011/12 financial year which is within Council's current guideline parameters.

#### 4.7 FUTURE LOAN PROGRAM

The table below highlights the forecast debt, with borrowings reducing to \$16.5 million in 2011/12 in line with the scheduled program of debt reduction to be undertaken during the life of this LTFP.

Year	New Borrowings \$000	Loan Principal Repayments \$000	Loan Interest \$000	Outstanding Loans \$000
2010/11	1,500	2,000	1,178	17,000
2011/12	1,000	1,500	1,163	16,500
2012/13	1,000	1,500	1,128	16,000
2013/14	500	1,000	1,122	15,500
2014/15	1,500	2,000	1,073	15,000
2015/16	3,500	4,000	1,001	14,500
2016/17	3,000	3,500	1,019	14,000
2017/18	1,500	2,000	1,022	13,500
2018/19	1,000	1,500	994	13,000
2019/20	500	1,000	969	12,500
2020/21	500	1,000	931	12,000
2021/22	-	500	897	11,500

The table details a reduction in borrowings between 2011/12 and 2021/22, which, if adhered to, will reduce Council's debt level to 1.20 cents in the dollar for debt servicing and redemption costs.

The table indicates that during the next 10 years, the outstanding borrowings will be decreased to \$11.5 million in 2021/22. Total interest paid from 2011/12 to 2021/22 is projected at \$11.319 million. Council, following the adoption of a 10 year capital works program will review the financial sustainability of the program.

## **OUTCOME**

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1. That Bayside City Council undertakes to consider options to reduce overall reliance on borrowings

## **STRATEGY**

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1. Any new loan borrowings are to be used to fund intergenerational capital investments where the community benefits are long term

## **KEY ACTIONS**

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1. That Bayside City Council, based on compliance with the State Government Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity.
2. That Bayside City Council retains its debt servicing and redemption costs at or below 10 cents in the rate revenue dollar over the life of this LTFP.
3. That Bayside City Council reduces borrowings by \$0.5 million on average per annum over the life of the Long Term Financial Plan.

**SECTION FIVE: STATUTORY AND DISCRETIONARY RESERVES**

**5.1 INTRODUCTION**

Victorian councils have traditionally operated with reserve funds that are allocated for specific purposes. The following section details Bayside City Council’s statutory and discretionary reserves.

**5.2 NATURE AND PURPOSE OF DISCRETIONARY RESERVES**

Council’s statutory and discretionary reserve funds at 30 June 2010, forecast to 30 June 2011 and Budget 30 June 2012 are detailed below:

Discretionary Reserve	Forecast 30 June 2011 \$000	Budget 30 June 12 \$000
General	3,668	5,000
Infrastructure	600	1,000
<b>Total</b>	<b>4,268</b>	<b>6,000</b>

Statutory reserve	Forecast 30 June 2011 \$000	Budget 30 June 2012 \$000
Recreational land	3,636	3,636
Car parking	366	366
Long Service leave	3,567	3,831
<b>Total</b>	<b>7,569</b>	<b>7,833</b>

<b>Total Discretionary &amp; Statutory</b>	<b>11,837</b>	<b>13,833</b>
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The Asset Revaluation Reserve is identified for the purposes of Accounting Standards and is not cash backed. This reserve balance reflects the extent of revaluation of Council’s infrastructure assets.

Recreational Land Reserve receives inflows from sub divisional income that is transferred to this reserve for future allocation to Capital Projects. The Subdivision Act requires sub divider’s contributions be spent on acquiring or improving land for use as public open space.

The Car Parking Reserve is designed to hold funds for allocation to Car Park project works. There is currently limited funds and minimal activity to this reserve pending approval precinct plans as a context for charging.

General Reserve – While not a statutory requirement for the purposes of legislative or Accounting Standards reporting, Local Government sometimes maintains general reserves to fund specific projects.

The practice of maintaining specific general reserves is not necessary from a funding or cash flow management perspective. Bayside’s general reserve balance is held as a contingency for any unforeseen circumstances and as a means to limit the need for a bank overdraft facility.

Infrastructure reserve - wherever possible any material favourable budget variations realised in a given financial year are to be specifically quarantined and allocated to an infrastructure reserve. The reserve is to be used to fund either replacement infrastructure or held as a contingency to finance projects deemed as ‘unavoidable’ or to be allocated against the repayment of interest only loans that are due to be refinanced.

Long Service Leave – Council is required to “cash back” sufficient funds to repay all long service leave entitlements.

## **OUTCOME**

---

1. That we generate sufficient surplus from operations to fund daily operations and replace assets.

## **STRATEGY**

---

1. That wherever possible any material favourable budget variations realised in a given financial year be specifically quarantined and allocated to an infrastructure reserve. The reserve is to be used to fund either replacement infrastructure or held as a contingency to finance projects deemed as ‘unavoidable’ or to be allocated against the repayment of interest only loans that are due to be refinanced.

## **KEY ACTION**

---

1. That Bayside City Council maintains discretionary reserves for stand-alone operations or investments.
2. That Bayside City Council continues to maintain the infrastructure reserve in order to support funding for the 100 percent replacement of infrastructure assets.

## SECTION SIX: RATING AND OTHER REVENUE STRATEGIES

### 6.1 INTRODUCTION

This section includes:

- Valuations
- Background to present rating system;
- Components of Council's rating base;
- Assessment of current rating levels;
- Rates and charges Budget 2011/12;
- Rating strategy;
- Grant revenue;
- Victoria Grants Commission;
- Fees and charges revenue; and
- Investment revenue.

### 6.2 VALUATIONS

#### 6.2.1 GENERAL VALUATION

Valuations are conducted under the provisions of the *Valuation of Land Act (1960)* with each, separate occupancy on rateable land computed at its net annual value (NAV), capital improved value (CIV), and site value (SV). Valuations are carried out using Valuation Best Practice Principles as set down by the State Government Valuer General.

In Bayside, data on every property is recorded and used by independent valuers with sales, rentals and other information to determine the valuations. A general valuation (revaluation) establishes the value of a property relative to all other properties, that is, its market relativity. Valuations form the basis of Council's rating system; therefore, their accuracy is of paramount importance.

General valuations are required every two years. This ensures a common date is used for all valuations. The 2010 revaluation was undertaken based on property values as at 1 January 2010. The revaluation does not in itself raise the total rate income for Council, as the rates are distributed based on the property value of all properties across the municipality.

As a result of the revaluation, some property owners may pay more in rates and others less, depending on the new valuation of their property, relative to others.

### 6.2.2 DEFINITIONS OF VALUATIONS

Bayside City Council uses the capital improved method of valuation (CIV), which is the market value of a property including land, buildings and improvements. CIV has the following long term advantages relative to other valuation bases:

- flexibility to apply an unlimited range of strategic differentials;
- does not prejudice the industrial, commercial and retail sectors in terms of the rate burden; and
- is easier for people to understand.

The other valuation bases the valuer is required to return are:

- Site value (SV) which is the market value of land excluding improvements; and
- Net annual value (NAV) which represents the reasonable annual rental of a property, minus specified outgoings. In most cases this is five percent of the CIV.

### 6.2.3 SUPPLEMENTARY VALUATIONS

Supplementary valuations are made during the financial year when a significant change to the valuation occurs. The most common causes for supplementary valuations are:

- Construction of a new dwelling or building;
- Subdivision of a property; or
- Consolidation of properties.

As a result of a supplementary valuation, a rate notice is issued to reflect any change in rates.

## 6.3 BACKGROUND TO THE PRESENT RATING SYSTEM

Prior to dealing with the rating strategy, it is important to have a broad knowledge of the present rating structure. The table below outlines the initial rates levied for 2010/11.

Rating Categories	2010/11 CIV \$m	2010/11 No. of properties	2010/11 Rate in Dollar Cents	2010/11 Annual Charge \$	2010/11 Rates/ Charges Budgeted \$000's
<b>General</b>	40,250	40,734	0.126481		50.908
<b>Waste management service charge</b>	N/A	-	N/A	142	5,730
<b>Cultural/Recreational</b>	309.6	39	0.075889		245
<b>Municipal Charge</b>		-		115	4,689
<b>TOTAL</b>		<b>40,773</b>			<b>61,572</b>

Bayside City Council's 2011/12 Budget includes an estimate of \$300,000 for supplementary rates.

## 6.4 COMPONENTS OF COUNCIL'S RATING BASE

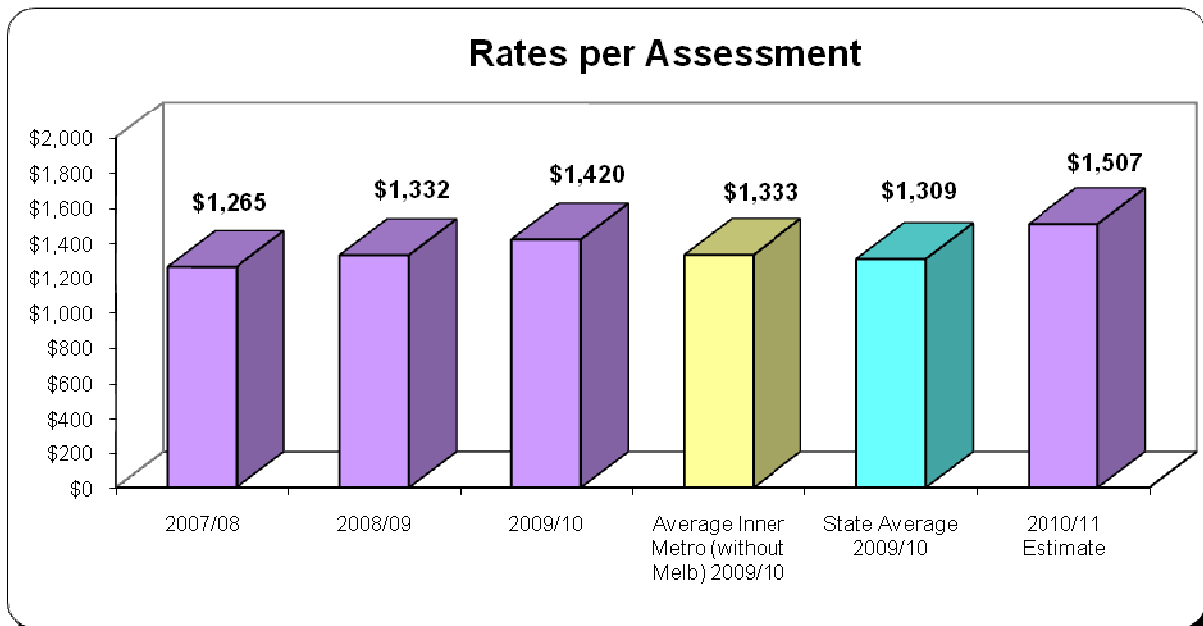
### 6.4.1 INTRODUCTION

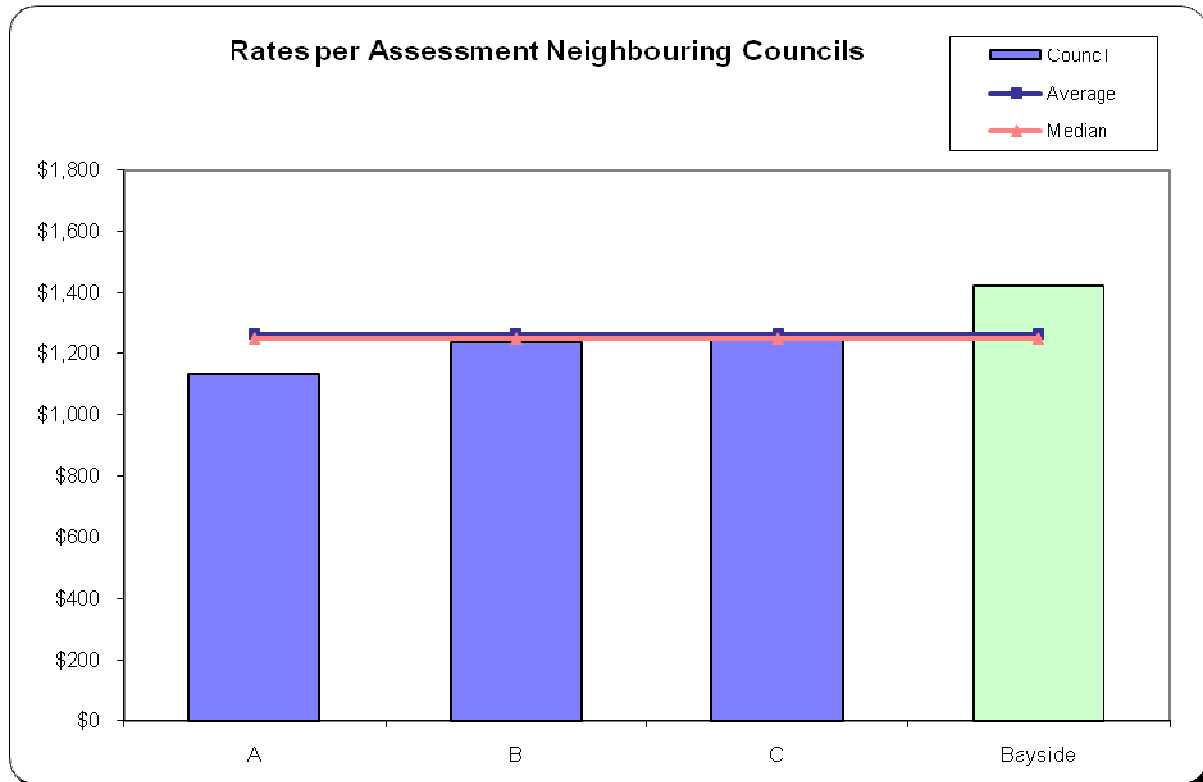
Bayside City Council levies, annual service charges and a municipal charge, to raise its annual rates and charges revenue. The legislative basis of the following and details of how they apply to Bayside are available upon request:

- Municipal Charge;
- Special Rates and Charges;
- Service Rates and Charges; and
- Rebates and Concessions

## 6.5 ASSESSMENT OF CURRENT RATING LEVELS

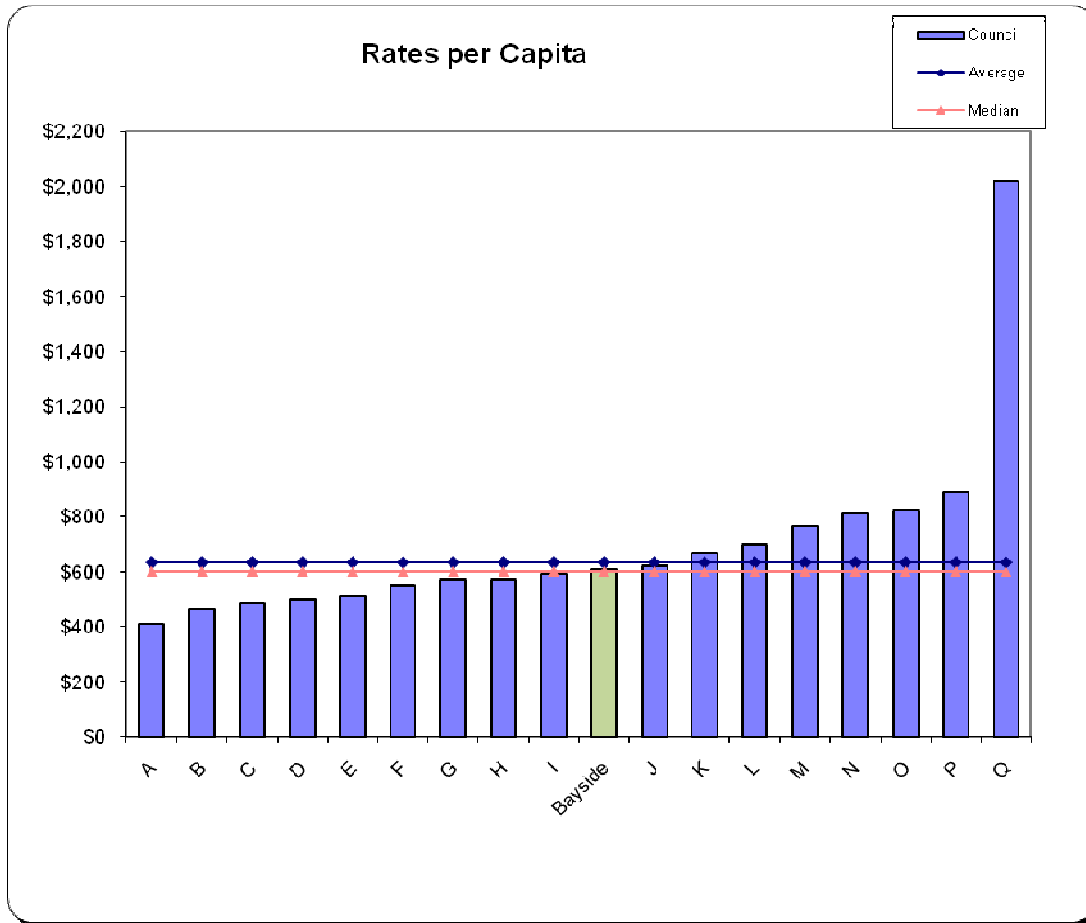
Comparing the relativity of rating levels between councils can be a difficult exercise due to debate over the most appropriate methods to use and the inability to take into account the intricacies of rating structures in different councils. Also, cash holdings of municipalities vary and councils have significantly different infrastructure needs and geographic sizes.



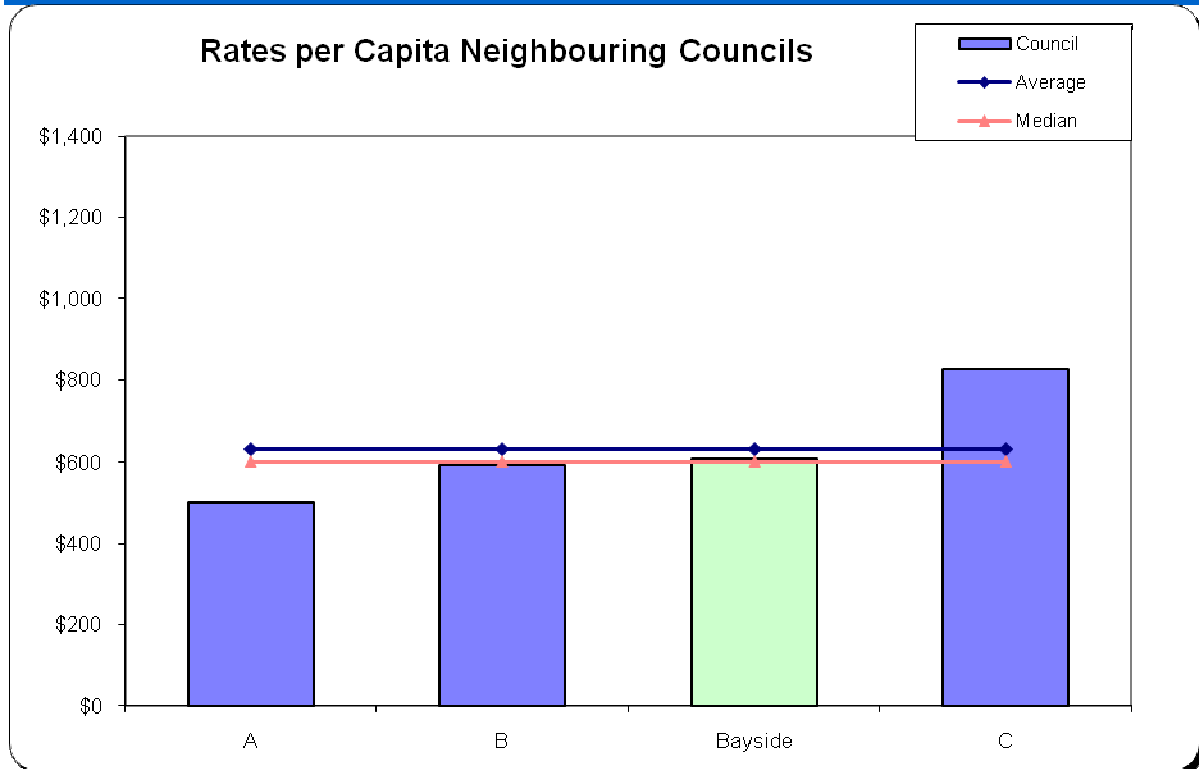


On rates per assessment basis in the 2009/10 financial year, Bayside City Council was slightly above average for the inner metropolitan councils and state average.

6.6 RATES AND CHARGES BUDGET – 2010 / 11



On a rates per capita basis Bayside is ranked 10<sup>th</sup> out of 18 when compared with the inner metropolitan councils.



On a rates per capita basis when compared to our neighbours Bayside is ranked 3<sup>rd</sup> out of 4.

### 6.6.1 REVENUE – RATE, WASTE LEVY AND MUNICIPAL CHARGE INCREASE – 2011/12

A key decision of Council during the life of the LTFP is to determine the level of rate increase that will address funding levels for capital works and service provision for the municipality and improve Council’s long term financial sustainability.

Council’s required rate service charge and municipal charge revenue for 2011/12 is \$65.687 million based on a 5.9 percent increase over the 2010/11 rate revenue. In total the Council will raise rate revenue of \$65.987 million, which includes \$300,000 generated from supplementary rates.

In 2010 the Victorian Government announced a proposal to increase municipal and industrial waste landfill levies. The levy increase came into effect from 1 July 2010 and is an increase in the charge placed on the delivery and disposal of materials to landfill sites. This charge is passed to the community by Councils operating landfill sites through rates. Following two initial increases on 1 July 2010 and 1 July 2011, levies will be progressively increased over the following four years to 2014/15 .

The levy rates are:

<b>PROPOSED LANDFILL LEVY PAYABLE – dollars per tonne</b>					
	2010-11	2011-12	2012-13	2013-14	2014-15
Municipal –metro/provincial	\$30	\$40	\$44.0	\$48.4	\$53.2
Industrial – metro/provincial	\$30	\$40	\$44.0	\$48.4	\$53.2
Municipal –rural	\$15	\$20	\$22.0	\$24.2	\$26.6
Industrial – rural	\$25	\$35	\$38.5	\$42.4	\$46.6

Bayside City Council's charges for waste to landfill and disposal is estimated to increase by \$246,000 in 2011/12 from current levels in 2010/11. This increase will result in waste levy charges to ratepayers increasing from \$142 to \$147 (140L bin). New waste related initiatives to be introduced will include an on-call hard waste collection and a permanent chemical disposal "detox your home" facility at the Bayside Waste Transfer and Recycling Centre.

The outcome of this level of increase is as follows:

- A 5.9 percent overall increase in rates and charges in 2011/12 will provide an additional \$3.7 million over the 2010/11 financial year.
- The municipal charge for 2011/12 is \$120 which is at 7.4 percent. The maximum allowable under Section 159(4) of the Local Government Act is 20 percent of the total revenue from rates and charges that may be levied as a municipal charge. The municipal charge ensures all properties pay an equitable contribution towards the unavoidable fixed costs of Council. Revenue from the municipal charge is anticipated to be \$4.91 million in 2011/12.
- Total revenue from rates, municipal and service charges in 2011/12 is \$65.987 million.
- The LTFP also applies rate revenue increases of CPI (assumed 3.0 percent) plus 2.5 percent (total 5.5 percent per annum) for 2012/13 to 2020/21 for the purpose of financial modelling assumptions.
- Increase of the waste management charge by 0.3 percent in 2011/12 to recover costs of Waste Management levy results in a total increase in rates and charges of 5.9 percent.

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### 6.6.2 DEVELOPER CONTRIBUTIONS

When land is developed for any use it will often contribute to or cause the need for new or upgraded infrastructure. Council in March 2009 resolved to implement a Developer Contribution Plan (DCP), subject to successful completion of the statutory procedure for an amendment of the Bayside Planning Scheme. This is yet to be included in the Long Term Financial Plan.

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### 6.6.3 BORROWING STRATEGY

The borrowing strategy will provide additional capital income and is considered in Section 4 of this document in detail.

## 6.7 RATING STRATEGY

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### 6.7.1 PRINCIPLES AND OPTIONS

Bayside City Council's Rating Strategy establishes a framework by which rates and charges will be shared by the community. In developing a Long Term Financial Plan, rates and charges are an important source of revenue.

Higher percentages of rates and charges as a proportion of total revenue represent greater financial independence and financial sustainability. The rating system determines how Council will raise money from properties within the municipality. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property. The total money to be raised is taken from Council's Long Term Financial Plan.

This strategy considers the capacity of the Bayside community to pay annual rates and charges. The strategy aims to ensure rates and charges are levied equitably as well as considering the affordability of rates and charges to ratepayers within Bayside.

The difference between rate equity and rate affordability is as follows:

Rates equity relates to who should pay rates. There are three definitions:

- That rates are a wealth tax wherein the current method of assessment against property values is appropriate
- That Council should levy rates in proportion to the benefit received from services
- That rates reflect each ratepayers capacity to pay. This approach will generally not be reflected by property wealth as some ratepayers are asset rich but cash poor.

In contrast rates affordability focuses on the specific difficulties facing individuals in order to pay their rates.

The MAV report (cite) identified that the lifetime income approach is an effective measure of rates affordability. However due to limitations in the ability to measure income and wealth over a ratepayers life, this review has applied the household income derived from the national census results.

Increasing property values will result in the reduction of the tax rate termed rate in the dollar since:

Rates = Property value multiplied by the Rate in the Dollar

While not resulting in a change or increase in rates, changing property values, (due to a revaluation) will often result in a redistribution of the rate burden between individual ratepayers. That is the total rates levied by Council does not alter, however the contribution by individual ratepayers may change relative to the change in their property values.

The MAV annually calculates a LG cost index that demonstrates the cost of local government goods and services increase at a greater rate than the CPI index. Keeping pace with Local Government costs generally requires a corresponding increase in rates and charges particularly as some other income sources, such as grant revenue, is usually not indexed in line with the increase in local government goods and services.

The Local Government Act provides a number of mechanisms that are available to address the issues of rate equity and rate affordability.

- Differential rating categories – apply to different property classes including commercial, industrial and vacant land. Bayside has previously but does not currently levy a differential rate.
- Municipal charge – Increasing the municipal charge would result in a redistribution of rates and charges from higher valued properties to lower valued properties. Total income from municipal charges is to not exceed 20 percent of the annual rates and charges. Bayside’s current municipal charge is 7.4% of total rates and charges.
- Rebates or concession – can apply to a maximum of one third of rateable properties. The purpose is to support the ‘proper development’ of the municipal district or to preserve historic buildings or the environment. Bayside does not provide a rebate or concession.
- Rate deferrals – Where rates and charges are deferred and remain as a debt to Council until the property is sold. Usually approved in cases of financial hardship. Bayside currently has 7 ratepayers who have elected to defer their rates and charges. Bayside rate deferrals currently attract an interest charge equal to the penalty interest rate applied for ratepayers who default on payment of rates.

- Rates waiver for pensioners or for financial hardship. Bayside does not waive rates and charges but will consider deferral as a debt against the property until eventually sold.

Income levels will fluctuate during the course of a ratepayer's lifetime. This is because a person will accumulate wealth as they age however income peaks and then later declines. It is acknowledged, therefore, that the average household income, for each suburb, comprises low income households, such as cash poor and asset rich ratepayers as well as households with higher levels of disposable income.

The following table provides an analysis of household income and annual rates and charges. As expected the average annual household income for Bayside is higher than the Melbourne average - \$86,850 compared to \$67,303 respectively. Household income figures are derived from the 2006 census results.

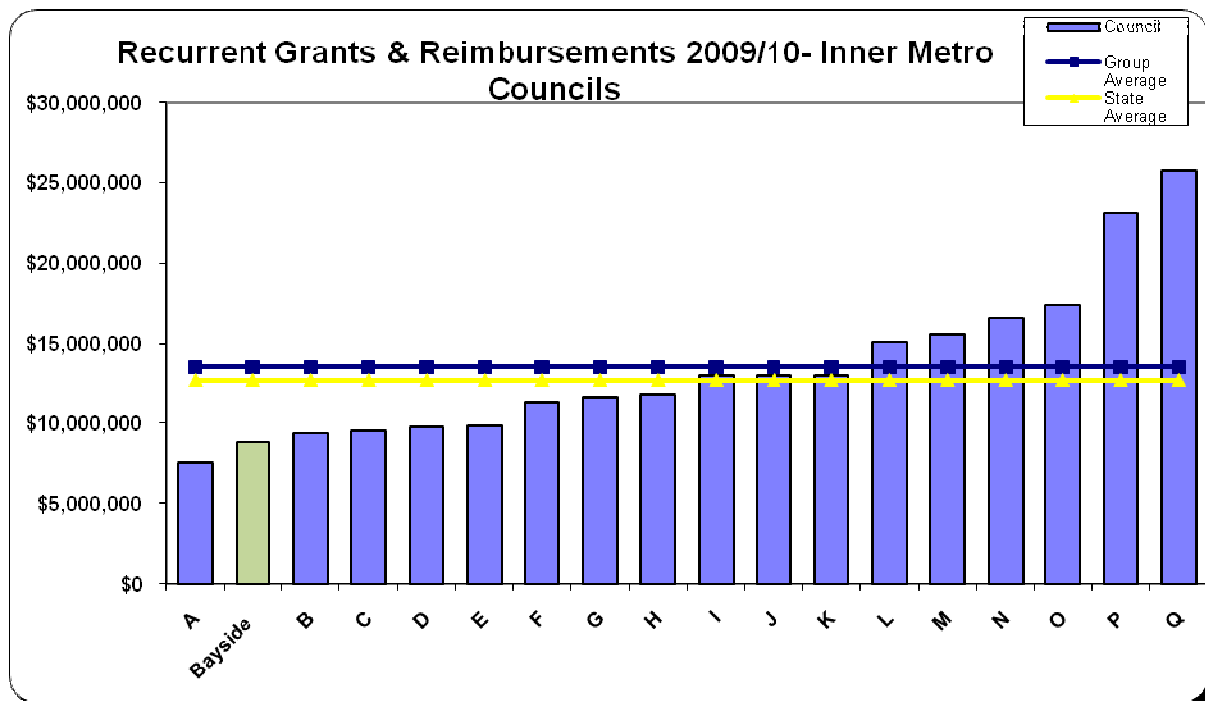
Of particular interest are the suburb by suburb results for the average rates and charges as a percentage of household income. The result provides a measure of rates affordability by calculating the percentage of household income allocated to the payment of annual rates and charges. The results indicate that the highest allocation of is the suburb of Brighton (2.01% based on average CIV) while the lowest allocation of annual household income towards the payment of rates and charges is the suburb of Cheltenham (1.29% based on average CIV).

Assessment from both an average and median CIV perspective, produces limited variation between the suburb by suburb comparatives.

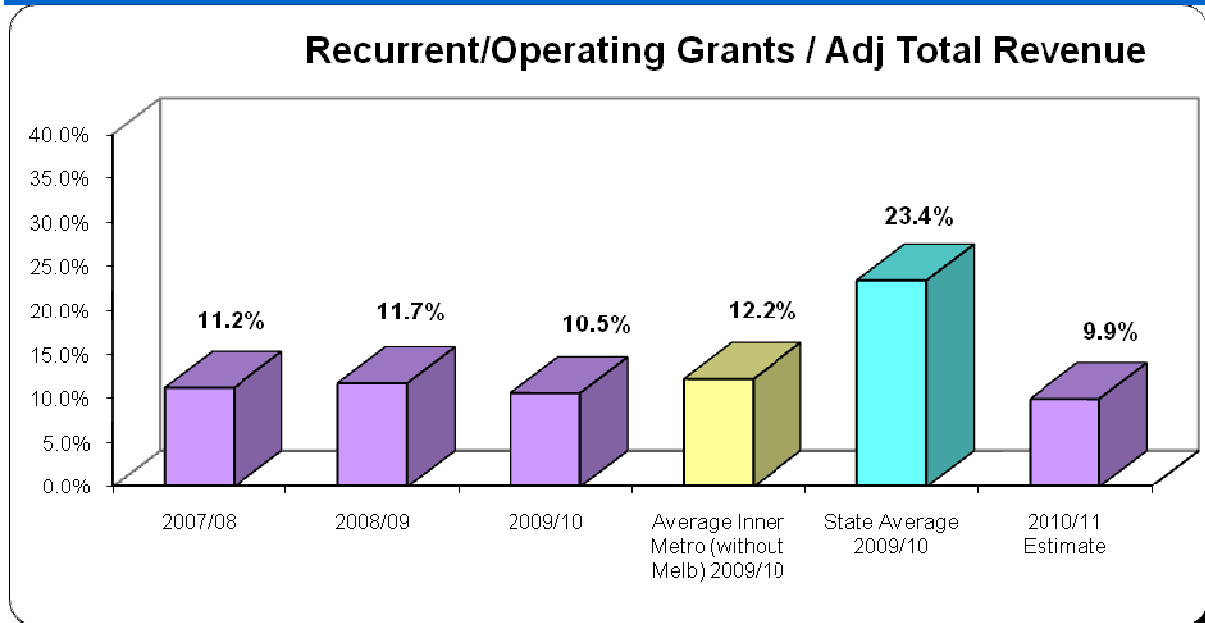
	2006 Census Avge Weekly Household Income	2006 Census Avge Annual Household Income	2010/11 Average CIV	2010/11 Median CIV	2010/11 Rates & Chgs Avge CIV	2010/11 Rates & Chgs Median CIV	Avge CIV Rates & Chgs /Hhold Income	Median CIV Rates & Chgs /Hhold Income
<b>Melbourne</b>	1,294	67,303						
<b>Bayside City</b>	1,670	86,850	1,004,728	825,000	1,528	1,300	1.76%	1.50%
<b>Beaumaris</b>	1,698	88,320	931,476	870,000	1,435	1,357	1.62%	1.54%
<b>Black Rock</b>	1,627	84,606	1,027,903	895,000	1,557	1,389	1.84%	1.64%
<b>Brighton</b>	1,889	98,238	1,397,878	1,140,000	2,025	1,699	2.06%	1.73%
<b>Brighton East</b>	1,698	88,300	987,013	945,000	1,505	1,452	1.70%	1.64%
<b>Cheltenham</b>	1,421	73,885	729,945	580,000	1,180	991	1.60%	1.34%
<b>Hampton</b>	1,703	88,536	908,160	835,000	1,406	1,313	1.59%	1.48%
<b>Hampton East</b>	1,207	62,758	515,725	545,000	909	946	1.45%	1.51%
<b>Highett</b>	1,290	67,102	569,149	575,000	977	984	1.46%	1.47%
<b>Sandringham</b>	1,672	86,961	931,236	845,000	1,435	1,326	1.65%	1.52%

**6.8 GRANT REVENUE**

Detailed below is a graph of recurrent grants and reimbursements as compared with the inner metropolitan council group at 30 June 2010. Council traditionally has not performed as well in the area of securing grants partly due to the higher property valuations and socio economic group relative to other councils in the sector. The perception is that the Bayside community has the capacity to more readily substitute grant revenue from alternate sources such as rate revenue. Bayside City Council must continue its focus on securing grant revenue, particularly for capital works. Grants (capital and operating) for the year ending 30 June 2010 totalled \$10.94million.



The LTFP provides for conservative annual estimates of externally funded capital works. Although unlikely, if these estimates are not achieved, the overall capital works program will be reduced. Council’s grants to total revenue are detailed below:



Bayside City Council is slightly below the inner metropolitan councils and below the State average. With a longer term capital works program in place Council should be better positioned to be able to target and focus on grants that align with its overall strategic direction. The estimate for 2010/11 is slightly lower than normally expected as a proportion of operating grants were paid in advance at the end of the 2009/10 financial year.

### 6.8.1 COST SHIFTING

Cost shifting is defined as a cost shift of goods or services from another sphere of Government to Council. In the Australian Local Government Association’s submission to the House of Representatives (2002)<sup>1</sup> cost shifting was said to occur ‘when the burden of the cost of provision of a service are transferred to local government from another sphere of government without a revenue stream’. The submission went on to detail a number of circumstances to assist with the identification of cost shifting (also contained in the Hawker Enquiry<sup>2</sup>)

Bayside City Council has adopted the following criteria in terms of identifying and measuring incidents of cost shifting:

1. The withdrawal or reduction of financial support from other levels of government for a program once it is established (indicated by increase in net cost % of total expenditure)

<sup>1</sup> Australian Local Government Association, *Preliminary Submission to the House of Representatives: Economic, Finance and Public Administration Committee Inquiry into Cost Shifting onto Local Government* (July 2002)

<sup>2</sup> House of Representatives Standing Commission on Economics, *Finance and Public Administration, Rates and Taxes: A Fair Share for Responsible Local Government* (October 2003)

2. Transfer of 'ownership' of assets without funding support (eg where Council acquires an asset from other levels of government with unfunded ongoing maintenance requirements)
3. Increased costs to Council, in particular:
  - Compulsory legislated regulatory compliance requirements on service delivery
  - New areas of responsibility which are devolved to Council from other levels of government
4. Restrictions on revenue, in particular:
  - Non-rateable or concessionally rated properties to Council (eg CLRA land) due to land ownership by other levels of government
  - Service delivery where revenue is predetermined by other levels of government - refer Statutory Fees & Charges. Fees & Charges prescribed by other levels of government not indexed fully to compensate for cost of delivery.
  - Concessions & Rebate requirements set by other levels of government without compensation of cost of administration or loss of income to Council

Cost shifting does **not** include:

Where Council voluntarily extends its activities beyond its current responsibilities, including where adequately provided by another sphere of government

In 2009/10, the areas of focus are limited to that which is capable of being measured within the determined identification criteria. The following methodology was implemented:

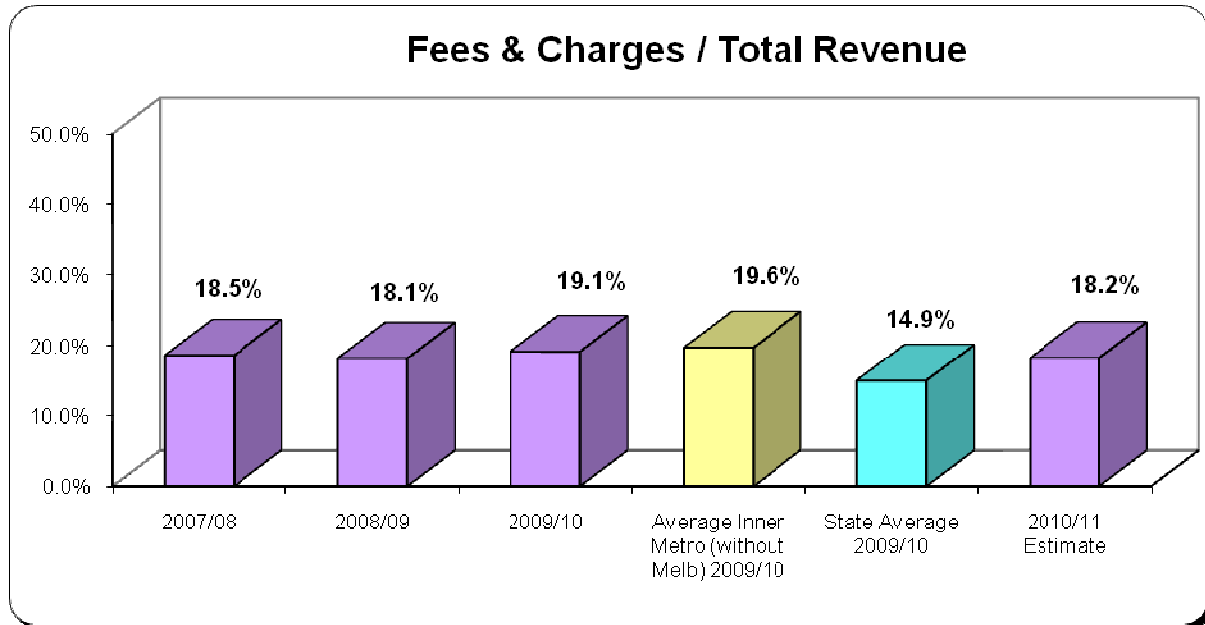
1. The withdrawal or reduction of financial support for established programs:
  - Develop a Grants Register to record Grants/subsidies received from other levels of Government for the last 3 years
  - From the Grants Register, perform cost analysis on programs which receive/have received funding
  - Determine whether the cost of delivering the program has increased for Council
2. Increased cost of service delivery for which there are Statutory Fees & Charges:
  - Record fees & charges that are set by Statute which Council collect
  - Compare individual charges' annual increases over the past 3 years to MAV Local Government Cost Index Report published rates to determine whether price increases are in line with Council's annual cost increases
  - Determine whether there has been a cost shift of the services to Council

## **6.9 VICTORIA GRANTS COMMISSION**

Council receives approximately 2.5 percent of its revenue from the Victoria Grants Commission. This revenue is projected at \$1.771 million in 2010/11 (\$0.581 million received in advance in 2009/10) and budgeted at \$2.371 million in 2011/12.

**6.10 FEES AND CHARGES REVENUE**

Bayside City Council's fees and charges revenue as a percentage of its total revenue is comparable to the average for inner metropolitan councils is outlined in the graph below.



The Schedule of Fees and Charges provides a mechanism to, where possible, apply a user pays policy by recovering the cost of Council services. In addition Bayside engages in benchmarking practices, such as the Melbourne University review, to support the annual review of fees and charges.

As a framework the ensuing years fees and charges include indicative increases in line with Local Government costs (such as movements in public sector wage rates) to ensure ongoing cost recovery is maintained.

**6.11 INVESTMENT REVENUE**

Within each twelve month period the total funds range from a maximum of approximately \$30 million, at the end of February, to a minimum of approximately \$10 million at the end of July each year.

The current Investment Strategy is conservative in nature and mainly includes investment in bank bills with the major banking institutions.

The Investment Strategy is designed to ensure Council's funds are invested with care, skill and due diligence in order to achieve the following outcomes:

Liquidity – To enable Council to maintain sufficient funds (working capital) to meet supplier and employee payment as well as anticipated liabilities as they fall due.

Income – Council's requirement for investment income as quantified in the operating budget.

Total Return – That the total returns are maximised.

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### **6.11.1 RISK MANAGEMENT**

The following mechanisms are identified to minimise Council's exposure to investment risk:

- Investment Policy – identifies restrictions on investment types as well as minimum credit quality (eg Standard & Poors rating of AAF or higher).
- List of investment types. The investment portfolio consists of funds allocation to appropriate categories based on time horizon of investment. Within each time horizon, funds are allocated across approved investment types.
- Benchmark – Each investment is evaluated against a performance benchmark appropriate to the risk and time horizon of the investment concerned. The objective is to ensure each investment is competitive within an appropriate per group of alternate investment options (eg The same Standard & Poor's rating).

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### **6.11.2 LEGISLATION**

Pursuant to Section 143 of the Local Government Act, Council may invest as follows:

- Government securities of the Commonwealth
- Securities or financial institutions guaranteed by the Victorian Government
- Authorised deposit taking institutions
- Deposits with eligible money market dealer within the meaning of the Corporations Act
- Any other manner approved by the Minister

## **OUTCOME**

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1. To provide a reasonable degree of consistency and stability in the level of the rates burden

## **STRATEGY**

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1. That Council consider the most appropriate Rating Strategy to provide adequate funds to:
  - a) Achieve a gradually strengthening underlying surplus in the income statement.
  - b) Achieve a sustainable cash flow
  - c) Fund capital renewal projects; and
  - d) Address rate equity and affordability.

## **KEY ACTION**

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1. That Bayside Council retains capital improved value (CIV) as its valuation base.
2. That Bayside City Council provides a municipal charge that is approximately 8.0 percent of rates to ensure an equitable contribution towards the “unavoidable” fixed costs of Council.
3. That Bayside City Council, in 2011/12, adopts a 5.9 percent increase in total revenue for rates and charges.
4. That Bayside City Council pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other councils.
5. That Bayside City Council review the interest rate for rate deferrals (properties with eligible pensioner rebates only) to the Local Government Borrowing Rate as at 30 June each year.
6. That Bayside City Council review the municipal charge so as to more equitably reflect the capacity to pay according to Average Rates and Charges divided by Household Income.
7. That Bayside City Council update the cost shifting register to reflect all grant revenue to review and assess each grant in order to identify instances of cost shifting and report to the Executive and Council.

8. All funds continue to be invested in compliance with Section 143 of the Local Government Act.
  
9. Continue to invest in direct bank investments (bank bills), term deposits the following expansion to Council's portfolio is proposed.
  
10. That three quotations be sought from authorised investment agencies.
  
11. That investments are placed with the financial institution offering the highest rate of return subject to the following additional criteria:
  - 11.1 A maximum of 30% of funds to be held with any one financial institution.
  - 11.2 A maximum of one third of funds to be held with institutions as A-2 or A-3 (Standard & Poors – short term rating).
  - 11.3 Two third of funds to be held with institutions rated as A-1 or above.

## SECTION SEVEN: ASSET MANAGEMENT

### 7.1 INTRODUCTION

Integrating asset management principles to Council's strategic financial direction is fundamental to achieving the goal of long term financial sustainability.

This section includes:

- Background to Council's total asset portfolio at 30 June 2011;
- Summary of fixed assets;
- Key questions to determine service level/investment;
- Sustainability index;
- Asset condition assessments;
- Strategic asset management; and
- Future asset management

### 7.2 BACKGROUND TO COUNCIL'S TOTAL ASSET PORTFOLIO AT 30 JUNE 2011

Accounting for an asset requires the recognition of all costs associated with asset ownership including creation/acquisition, operations, maintenance, rehabilitation, renewal, depreciation and disposal. This "life cycle" approach needs to be recorded at an individual asset level so all the costs of owning and operating assets are known and understood. For accounting purposes assets are grouped into current and non-current assets. Current assets are cash or those assets that are considered to be readily convertible to cash. This asset grouping includes cash at bank, investment funds, stock on hand, and debtors. The projected balance of current assets held by Bayside City Council at 30 June 2011 is forecast to be \$24.997 million.

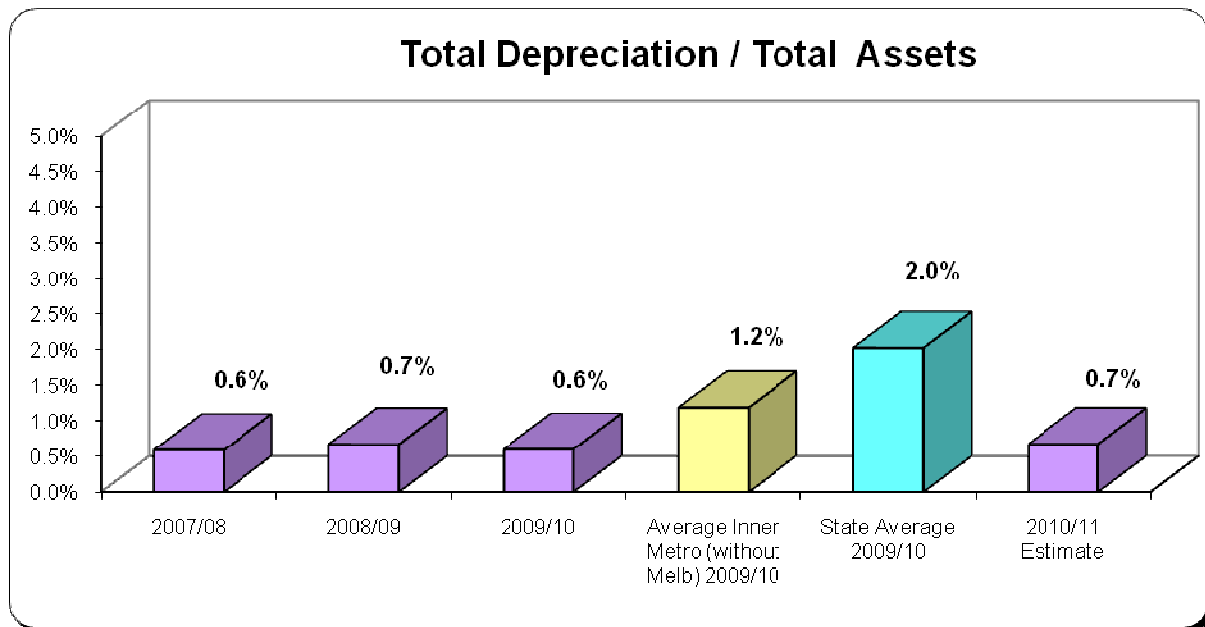
Non-current assets consist of debtor accounts not expected to be collected in the coming 12 months and Council's fixed assets. Fixed assets consist of land, buildings, plants, furniture, roads, drains, playgrounds and other similar infrastructure assets. The projected total value of fixed assets at 30 June 2011 is \$1,773.1 million. The balance of this section will focus on the fixed assets and the management strategies that Council is pursuing.

**7.3 SUMMARY OF FIXED ASSETS**

As at 30 June 2011/12, Council’s projected fixed assets are detailed below:

Fixed Assets	Forecast WDV 30 June 2011 \$000	Budget WDV 30 June 2012 \$000
Land	1,420,390	1,420,390
Buildings	134,170	135,339
Plant & equipment, furniture & fittings	1,919	2,115
Roads including footpaths, kerb and channel	141,411	143,869
Drainage	42,833	43,101
Land improvements, including playground equipment	26,925	28,990
Other	5,460	5,525
<b>Total Written-down Value</b>	<b>1,773,108</b>	<b>1,779,329</b>

Bayside City Council’s forecast depreciation on these assets for 2010/11 is \$11.073 million, and the budget for 2011/12 is \$11.666 million. Depreciation charges useful lives and the rate at which the economic benefits are consumed is reassessed following condition assessments and when general valuations are undertaken. Council’s depreciation charges as a percentage of its total assets are benchmarked and depicted in the following graph:



Condition based assessment and impact of stable road subbase has resulted in council’s depreciation charge being relative low when compared to the state average and inner metropolitan councils group.

## **7.4 KEY QUESTIONS TO DETERMINE SERVICE LEVEL/INVESTMENT**

The key questions with respect to infrastructure investment are detailed below:

1. How much does it cost ratepayers to retain the current infrastructure portfolio, that is, what is the long-term average cost of renewal plus maintenance?
2. How much will need to be spent in the short term (next ten years) relative to the renewal expenditure invested in the recent past?
3. How much more management effort (financial and operational) will be required of Council as its assets age?
4. What assets are at the “at risk” phase (intervention level) of their life cycle and will ultimately result in their being unserviceable and unsafe?
5. What outcomes would the community and Council like to achieve with respect to asset upgrades?
6. Are the Council assets supporting the level of service expected by the community?
7. What assets should the council prioritise for rationalisation?

## **7.5 SUSTAINABILITY INDEX**

The Department of Infrastructure’s (DOI’s) “infrastructure study” calculated a sustainability index for each Victorian council. The sustainability index indicates the extent of the gap between a council’s current investment in asset renewal and the required level of investment to ensure the asset remains serviceable for its useful life. This is determined largely by historical factors and the long term sustainable level of costs for the existing assets. The index measures future management requirements of each council.

The sustainability index only indicates the size of the problem. The index says nothing about the timing of when Council will need to make an effort and lift levels of expenditure. Timing of works and associated funding is determined through recommendations guided by council’s asset management system. The asset management system will ensure council achieves best value from its dollars across the following areas. The table on the following page defines the type of asset expenditure.

Type of Expenditure	Definition	Purpose/Example
<b>Maintenance</b>	Expenditure on an asset that maintains the asset in use, but does not increase its service potential or life.	Life extension: Extending asset lives by repair, reducing average annual consumption costs and renewal rates, eg. Repairing a single pipe in a drainage network or a pothole in a road.
<b>Capital Renewal</b>	Expenditure on an existing asset or a portion of an infrastructure network which returns the service potential, or extends the life of the asset, to its original potential.	Retains an existing service level, eg. Road reseals, resurfacing a footpath.
<b>Capital Upgrade</b>	Expenditure on upgrading the standard of an existing asset to provide a higher level of service, or to extend the life of the asset beyond its original standard.	Increases the quality of service provided to ratepayers or provides new services, eg. Widening the pavement of a sealed area of an existing road.
<b>New/Expansion Capital</b>	Expenditure on extending an infrastructure network at the same standard enjoyed by existing residents to a new group of users.	New or additional services to developing areas of the municipality or under serviced areas eg. Building a sporting facility.

The sustainability index is an accounting measure based on the difference, expressed as a percentage, between Council's annual depreciation charge and renewal annuity.

The sustainability index (renewal) does two things:

1. It indicates the extent to which current ratepayers are contributing to the assets they are now consuming; and
2. It indicates how much more will be required in the future – over the long haul.

## 7.6 ASSET CONDITION ASSESSMENT

Monitoring asset condition and performance relates to the ability of the asset to meet targeted levels of service. Asset condition reflects the physical state of the asset and the functional level of service it is capable of providing. Monitoring asset condition and performance throughout the asset life cycle is important in order to identify underperforming assets or those which are about to fail – that is, assets at the critical renewal level where if reinvestment is not funded the cost of future renewal will exponentially increase along with the risk of the asset being below accepted safety standards .

Council has developed its Asset Information Management System (AIM) to position Council to readily monitor asset condition and performance and to:

- identify those assets which are under performing;
- predict when asset failure to deliver the required level of service is likely to occur;

- ascertain the reasons for performance deficiencies,
- determine what corrective action is required and when (maintenance, rehabilitation, renewal) and
- prioritise renewal funding.

Bayside City Council has continued to make significant progress in the last 12 months through the development of its Asset Management System. Accordingly the management of the capital works program, asset accounting and year-end accounting processes have been significantly improved.

Priority is on funding the annual renewal annuity based on a predetermined service level linked to a condition level. No asset in the Council's condition profile is allowed to go below the intervention condition as the cost of renewal significantly increases beyond this point and the asset's functionality, safety and ability to provide its intended service level is compromised.

Council has largely collected condition data for all of its major asset categories and is now in a position to complete detailed Asset Management Plans. The benefits of knowing the current condition and performance (level of service) an asset provides are:

- ability to plan for and manage the delivery of the required level of service;
- avoidance of premature asset failure, leaving open the option of cost-effective renewal;
- managing risk associated with asset failures;
- accurate prediction of future expenditure requirements; and
- refinement of maintenance and rehabilitation strategies.

Council, as asset managers, need to be able to assess the relative merits of rehabilitation/renewal/replacement options and identify the optimum long term solution through a decision related to levels of service.

Condition assessment allows the organisation to understand the remaining life of, all asset categories, acknowledging this understanding drives future renewal expenditure.

Following this Council needs to strategically determine an affordable level of service to manage the emerging condition profile. The benefit of that knowledge now is the management process can commence across the entire asset portfolio.

Should Council increase/decrease this level of investment and consciously improve/decrease the level of service? The answer lies in considering the other asset categories condition profiles – what is affordable, what is critical and must be renewed and what service level is Council targeting?

Council now has this information for all of its asset categories and is now positioned to strategically consider these issues.

Across the asset base asset renewal cash flow is variable over time as it depends on services and service levels to be provided in the future, as well as the age and condition profile of the asset stock.

## **7.7 STRATEGIC ASSET MANAGEMENT**

Council has an adopted Asset Management Policy. The policy is supported by an Asset Management Strategy, which details specific actions to be undertaken by Council to improve asset management capability and achieve specific strategic objectives.

Asset Management Plans are subsequent components where long term plans (ten years and beyond) outline service and funding levels for each asset category.

Council has reached the point where it has identified and funded its critical renewal – no asset's condition goes beyond the defined intervention level.

Council is now in a position to analyse its condition profile and determine and understand the cost of a predetermined service level. Alternatively Council may allow some assets to degrade in condition, freeing up funds to improve the level of service for other assets.

The next phase of strategic asset management is where Council will continue to consult with the community on levels of service to better determine what is acceptable and affordable to the community and council. Community input will in part be achieved through the development of the Community Plan.

The next issue is what services, including their performance levels, are required to meet the community outcomes? Finally what infrastructure or assets are required to support the service levels? A review of this nature may result in assets no longer being required to support community outcomes.

Council aims to ensure its assets are relevant to the community, as retention of unused assets places a financial burden on the community.

Council's LTFP is presently focused on funding a "service level" that prioritises critical renewal and maintains average condition to meet community expectation. The challenge ahead is to understand the community's expectations and provide service level and funding options to accommodate this.

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### **7.7.1. STRATEGIC ASSET MANAGEMENT STEERING GROUP**

The Strategic Asset Management Steering Group (SAMG) is a cross-functional professional team with representatives from all Council departments. The purpose of the AMSG is to oversee the decision-making process with respect to the direction of

asset management and to ensure the Bayside City Council continues to develop total asset management across the organisation.

The SAMG'S (Steering Group) Terms of Reference include:

- Providing policy and strategy advice;
- Guiding Council's overall Asset Management Program;
- Setting priorities for system development while keeping in mind the legislative obligations of Council (e.g. Strategic Resource Plan and Council Plan etc.);
- Facilitating the implementation of appropriate asset management systems and asset management plan development; and
- Reviewing asset management resource requirements.

There is still a deal of work to be done on recording and developing Asset Management Plans. The AMMSG has developed a template and draft Asset Management Plans that will be refined and improved during subsequent years.

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#### **7.7.2 STRATEGIC LEVELS OF SERVICE: ASSET MANAGEMENT PLANS**

Asset management plans provide parameters around condition (that ultimately determine levels of service) to be modelled and costed. Council can elect, for example, to nominate a minimum condition/level of service, that it will not allow an asset category to exceed, and then calculate using predictive modelling the investment required to maintain this level of service.

Financial modelling based on predetermined service levels has been undertaken across a number of Council's asset categories. This modelling has been the basis for determining Council's critical renewal investment levels across each asset category.

Within the roads category modelling has been completed for all roads ( limited arterial, collector, local) asphalt, spray seals.

The minimum level of service or critical renewal level is defined as a renewal intervention level. That is the minimum service level an asset's condition can deteriorate to prior to renewal intervention. Beyond the intervention level assets functionality, cost to renew and safety standard is below what Council considers acceptable.

The target in 2011/12 will be to engage Council and the community in discussions about levels of service to provide the opportunity for differing service levels to be costed and reviewed.

The Asset Management Strategy implementation will result in:

- Knowing what assets we own (Asset Register);
- Understanding the condition and expected lives of our assets;
- Knowing what 'levels of service' customers want;
- Having processes in place to establish priorities and allocate funds;

- Knowing the long term funding requirements associated with our assets; and
- Having documented Asset Management Plans detailing levels of service.

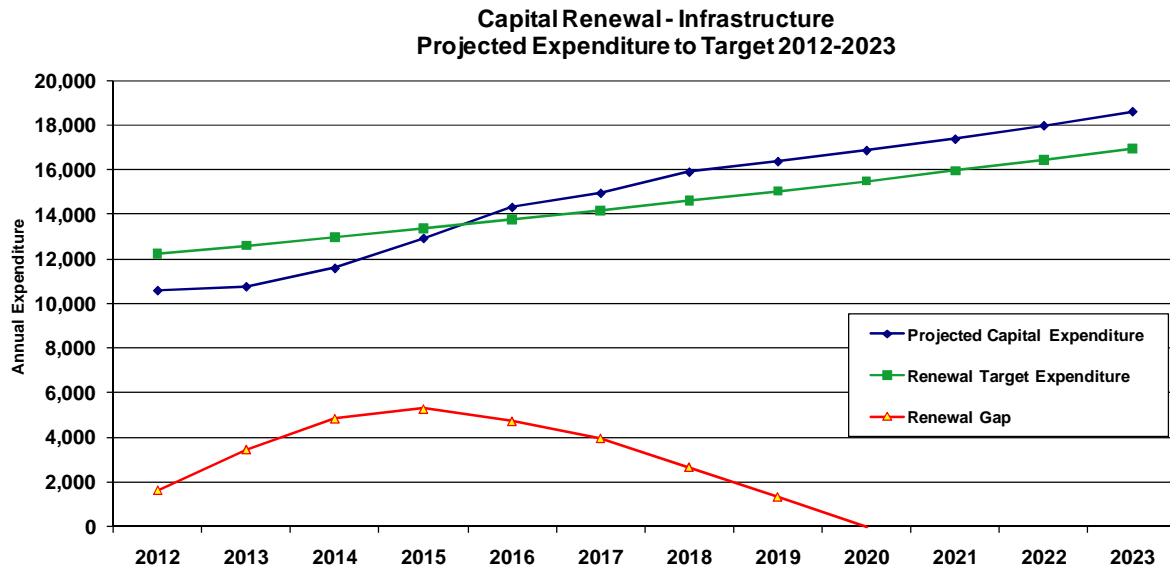
### 7.8 INFRASTRUCTURE GAP RENEWAL

During the 2009/10 year an analysis was performed using the Maloney Model Renewal results in order to identify Council’s infrastructure renewal gap. The Maloney Model compares the current renewal expenditure, the asset valuation and quantity, the existing condition of assets and the level at which the asset will be renewed (intervention level) in order to determine the required expenditure to meet the renewal targets. Both existing condition and intervention levels are based on a Maloney 0-10 rating.

When performing the evaluation, the 2009 Council asset valuation was used in the model. The asset quantities were retrieved from both the Asset database and the Road and Pavements database. The existing asset condition was retrieved from condition audits undertaken annually for buildings and every four years for roads and footpaths. The renewal expenditure was based on the 2009/10 capital budget and works program as well as historical expenditure in maintenance budgets. Intervention levels were set in consultation with service managers and also by reviewing metro council averages.

Annual Renewal Budget required to fully fund the infrastructure gap (according to Maloney analysis):

Category		09/10 Budget	Renewal Gap	Target Budget Spend
<b>Building</b>	Capital	562,000		
	Operating (Programmed Maintenance)	242,750	3,900,000	4,704,750
<b>Roads</b>	Urban Roads	2,545,022	150,000	2,695,022
	Rural Roads (Laneways & Carparks)	50,060	400,000	450,060
<b>Pathways</b>	Capital	1,629,952		
	Operating (Maintenance - adhoc renewal)	400,000	450,000	2,479,952
<b>Drains</b>		1,246,105	(250,000)	996,105
<b>Recreation</b>		757,000	150,000	907,000



The approach taken in order to fully fund the renewal gap is to gradually increase expenditure in each of the categories from 2010/11 until 2020/21 at which stage the gap will be fully funded. According to the graph above, in 2014/15, Bayside will reach the required annual expenditure level, but the gap will not be fully funded until 2018/19 when the prior years' underexpenditure is recovered.

## 7.9 FUTURE ASSET MANAGEMENT

Council has developed asset registers, knowledge and data, built information systems to support maintenance renewal, customer service and financial activities and is now in a strong position to develop strategic responses through its Asset Management Plans to manage “levels of service” into the future.

The goal of infrastructure asset management is to meet a required level of service in the most cost effective way through the creation, acquisition, maintenance, operation, renewal and disposal of assets to provide for present and future customers.

Asset management will remain a major challenge over the life of this LTFP.

## **OUTCOME**

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1. Assets will be fit for purpose to provide the desired level of service to the community

## **STRATEGY**

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1. Any new capital works (capital extension) proposals must include a lifecycle cost evaluation exercise that identifies and costs the asset construction, maintenance, operating and depreciation costs ie. Whole of lifecycle costs.
2. That Council complete asset management plans for all classes of Council assets with a focus on ensuring the assets are fit for purpose and provide the desired level of service to the community.

## **KEY ACTION**

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1. That Bayside Council, having established its critical renewal investment levels, completes detailed Asset Management Plans for all classes of Council assets incorporating service level assessments.
2. That Bayside Council, as part of the development of its Asset Management Plans, consults with the community to determine how service levels will be reached including a combination of improved revenue raising, review of existing service levels, asset disposal and composition of the asset portfolio.
3. That Bayside Council allocates funds to renewal of existing assets rather than constructing new assets where possible, noting that as the councils's population expands, it will be necessary to provide the appropriate infrastructure.
4. That Bayside Council allocates additional funding to capital works (renewal) as its debt and revenue-raising strategies are completed.
5. That Bayside City Council adopt the recommendations and findings in relation to the Maloney model analysis
6. That the Renewal gap as identified by the Maloney model be fully funded by 2018/19.

**SECTION EIGHT: CAPITAL WORKS PROGRAM**

**8.1 INTRODUCTION**

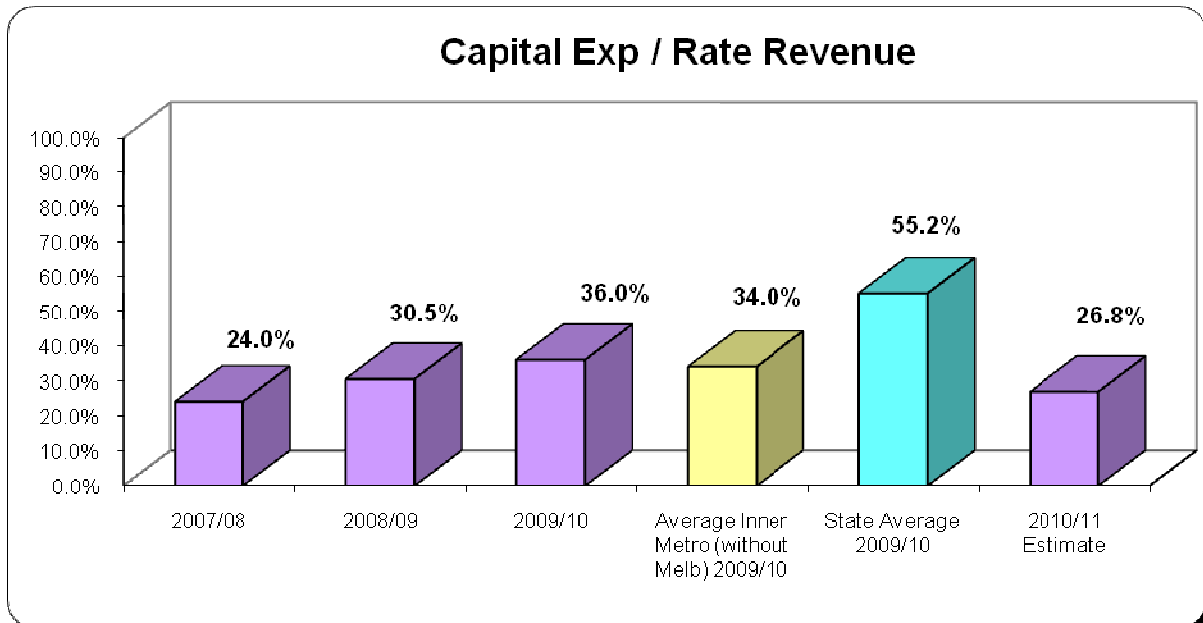
The previous section discusses the long term issues with respect to Asset Management and issues relevant to determine investment levels in capital renewal. Council has increased its investment in renewal, as shown by the MAV Viability Index, increasing from 0.59 percent in 2004/05, to a projected ratio of 0.91 percent in 2010/11.

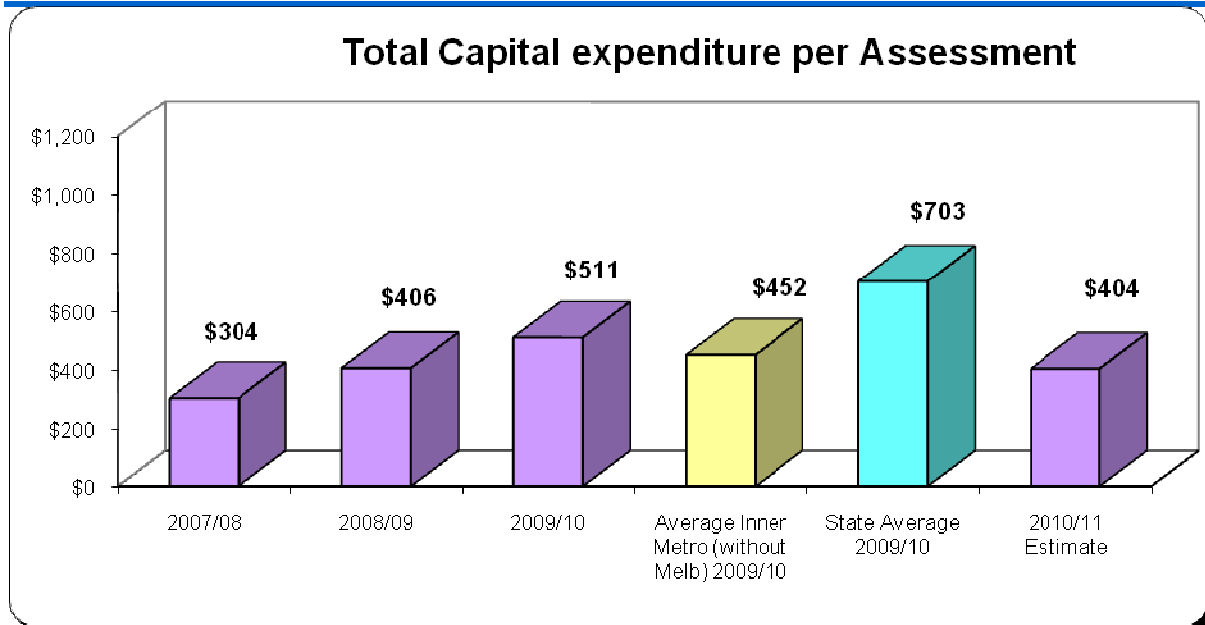
It should be noted 70.0 percent of the capital expenditure is on renewal and upgrade projects in the draft capital works program for 2011/12. The total capital program of \$15.8 million is composed of \$4.8 million in new/upgrade assets and \$11.0 million in renewal.

This section includes:

- Level and nature of capital works;
- Capital Works program 2011/12 – 2021/22 levels of service;
- 2011/12 capital investment levels
- Capital funding sources.

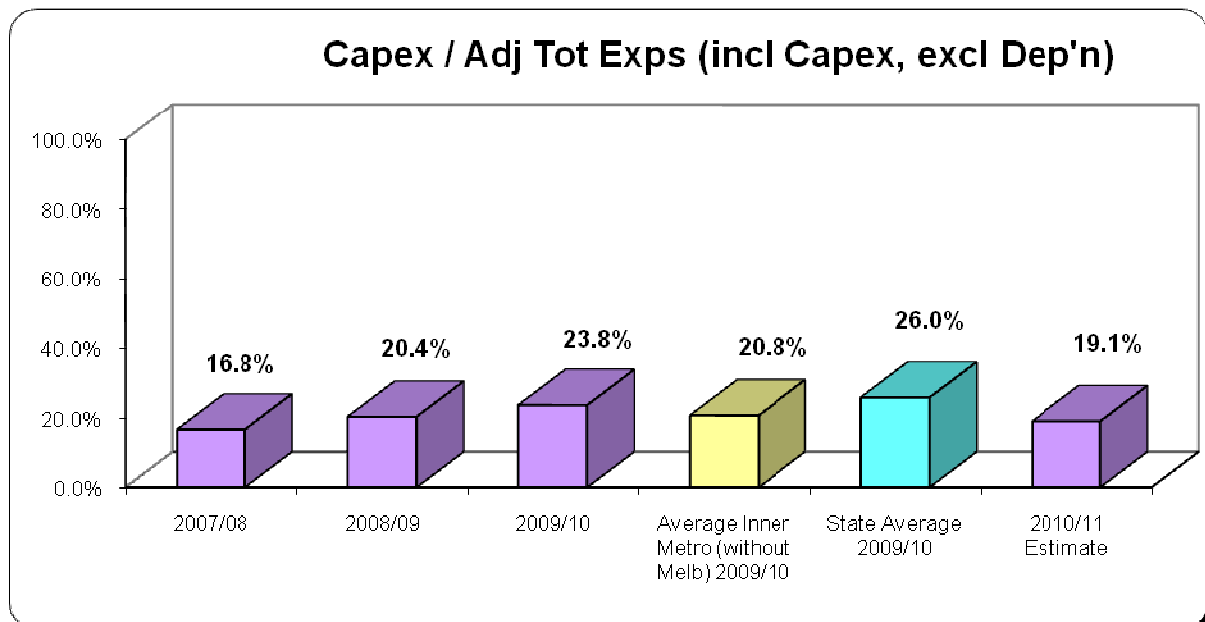
Capital expenditure forecast estimate for 2010/11 represents 26.8 percent of rate revenue which is below the state average and the average inner metro councils.





Capital expenditure per assessment for 2009/10 of \$511 per assessment being spent on capital works as compared to \$452 for the average inner metropolitan councils and \$703 for the state averages in 2009/10. In 2010/11 the projection is \$404.

The projected capital outlay as a percentage of total cash outflow is 23.8 percent at Bayside City Council compared to the average inner metropolitan councils at 20.8 percent and the state average of 26.0 percent. This confirms that other councils, in the main, have proportionally greater operating budgets than Bayside City Council.



## 8.2 LEVEL AND NATURE OF CAPITAL WORKS

It is important that the asset management issues raised in the previous section inform the decisions taken in determining the capital works program. The annual budget process will enable Council to identify individual projects for funding. The capital works program for the 2011/12 Budget provides \$15.8 million in expenditure with a contribution in 2011/12 from rate revenue and reserves of \$15.8 million or 100 percent of the program internally funded.

The renewal and upgrade investment of \$11 million represents 70 percent of the overall capital program. Three key outcomes from the LTFP will be to maintain the critical renewal investment, maintain average condition where desired and where achievable maintain the sustainability index at or above 100 percent and to also deliver new assets in a growing municipality.

## 8.3 CAPITAL WORKS PROGRAM 2011/12 – 2021/22 – LEVELS OF SERVICE

The following are the parameters against which the 2011/12 capital works program has been developed:

- Alignment to Strategic Resource Plan financial growth assumptions with respect to expenditure and revenue; and
- Priority provision for critical renewal investment, then capital renewal, capital upgrade with new capital the most discretionary.

In terms of the longer term program to 2021/22 the following parameters / assumptions apply:

- Large one-off projects flagged in subsequent years require accurate costing to be undertaken and their timing and priority finalised;
- Continue priority on renewal, followed by upgrade with new capital the most discretionary;
- Provide for expenditure growth required to level of sustainable renewal to meet the community's service level requirements (based on current Asset Management Plans) by 2021/22;
- Income assumptions to remain conservative given they are less predictable;
- Roads to Recovery income assumed to continue at current level spread across relevant projects within the Roads Program; and
- Meeting required renewal expenditure levels by 2014/15 and closing the infrastructure gap by 2018/19.

#### 8.4 2011/12 CAPITAL INVESTMENT LEVELS

The 2011/12 capital works program by expenditure type is detailed below:

Capital Expenditure Type	2011/12 \$m	2011/12 %
Renewal	11m	70
Upgrade / new	4.8m	30
<b>TOTAL</b>	<b>15.8m</b>	<b>100</b>

#### 8.5 CAPITAL FUNDING SOURCES

The development of a ten year capital works program will enable a precise cash flow budget to be developed. This program will be completed during the 2011/12 financial year. External capital funding sources include capital grants and potential developer contributions.

Internal capital funding sources include cash reserves and general rates. The LTFP forecasts capital funding sources conservatively.

#### 8.6 CONCLUSION

Council's capital works program should underpin the needs and priorities as determined by Council's Asset Management system output developed in consultation with the community.

It is the Council's challenge to develop Asset Management Plans that ensure the community's levels of service are met through the delivery of efficient and effective services.

## **OUTCOME**

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1. That we generate sufficient surplus from operations to fund daily operations and replace assets

## **STRATEGY**

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1. That capital expenditure on asset renewal projects be given priority over capital expenditure on new assets (upgrades and extensions).

## **KEY ACTION**

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1. That Bayside Council increases its capital works commitment at levels that meet or exceed the targets established in this LTFFP, and develops a 10 year capital works program.
2. That Bayside City Council initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at defined renewal intervention levels with the next priority on upgrade and new.

## SECTION NINE: SERVICE PROVISION AND PLANNING

### 9.1 INTRODUCTION

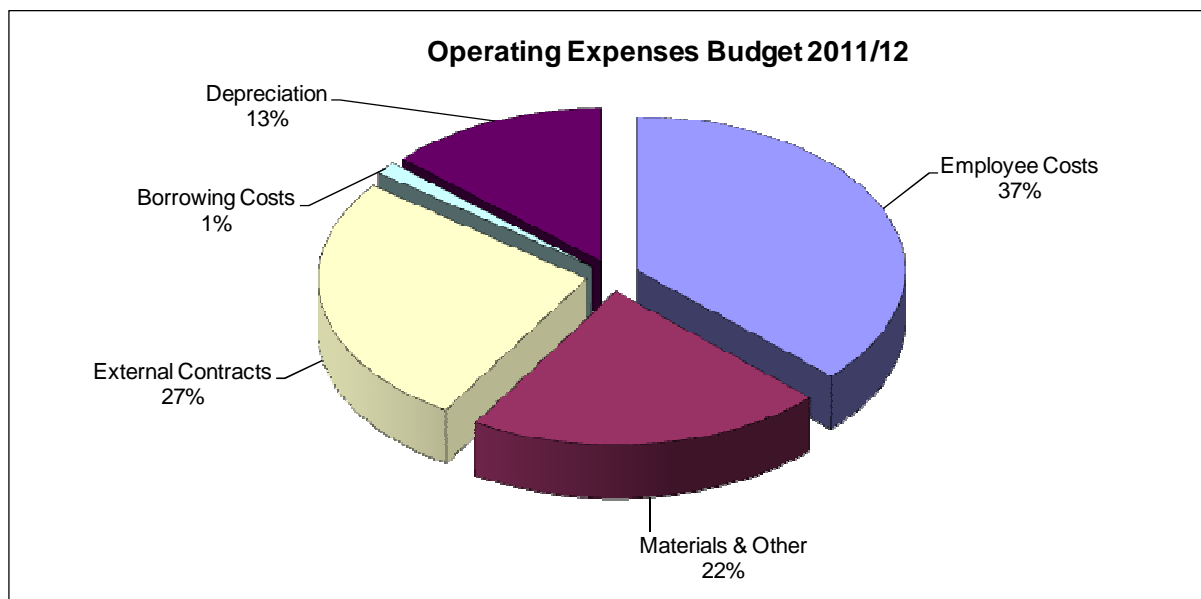
Council provides a wide range of services, including health and community services, youth services, recreation, customer services, asset maintenance, environmental and waste management.

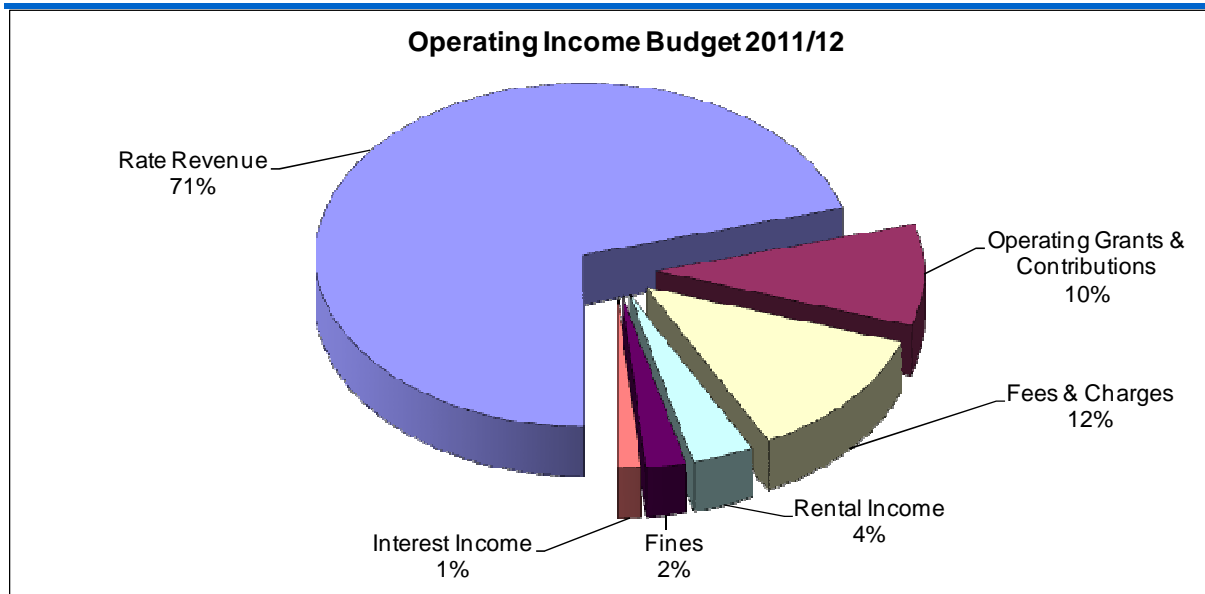
This section includes:

- Operating expenditure/revenue;
- Benchmarking financial performance and indicator analysis
- Growth of council
- Service provision and planning

### 9.2 OPERATING EXPENDITURE/REVENUE

Council's operating costs and revenue for 2011/12 are \$87.7million and \$93.5 million respectively. Council's operation includes provision of building, planning, economic development services, community services, infrastructure planning, operations and corporate support services.





### 9.3 BENCHMARKING – FINANCIAL PERFORMANCE INDICATOR ANALYSIS

Bayside City Council has achieved:

- Relatively low overall operational costs (including employee costs) in comparison to Councils in the inner metropolitan category;
- Utilisation of loan funds confirmed as a viable means of funding Council's capital expenditure in the development of new assets.
- Council's debt ratios remain below Prudential Limits; and
- Maintaining a strong capital works program, particularly in asset renewal, continues to be a desirable strategy for Council.

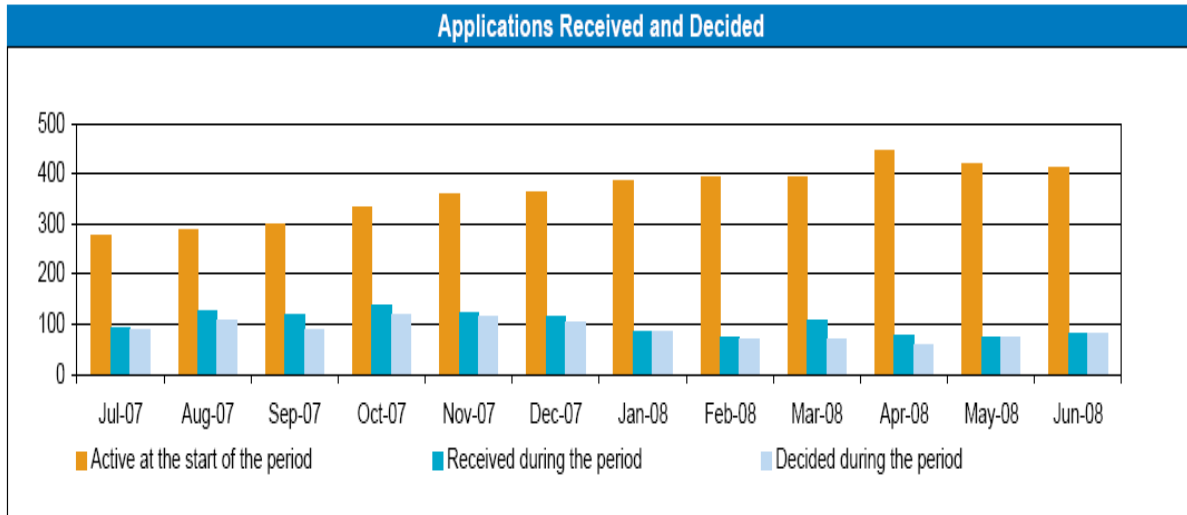
This independent report undertaken by Strategy Plus in 2009/10 confirmed the benefits and outcomes of Council's financial strategies. The financial sustainability analysis undertaken by the Victorian Auditor General's Office (VAGO) in December 2009 confirmed these findings.

### 9.4 GROWTH OF COUNCIL

The following graph details the population growth in Bayside.

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Population Growth</b>	89,432	89,934	90,151	90,778	91,730	92,346	93,033	93,284	94,853

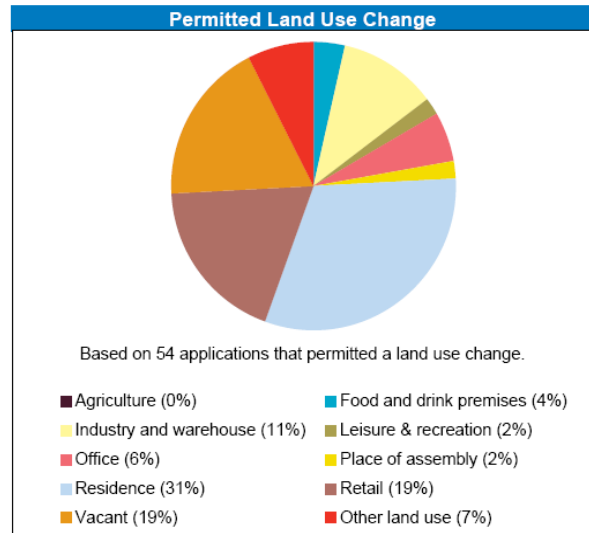
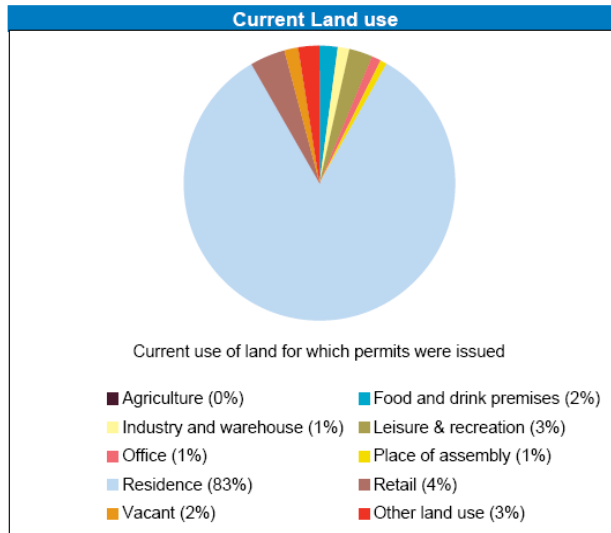
During the past decade steady growth has occurred in the number of planning applications received at Bayside. The increase in applications and in the population indicates good economic health in the municipality. However, this also indicates greater demand on Council services now and in the future. There will also be a greater demand on Council for social infrastructure to support a growing community.



	2004/2005	2005/2006	2006/2007	2007/2008
<b>Total Applications Received (1)</b>				<b>1,214</b>
New Application	831	1,057	974	<b>1,021 (84%)</b>
Amended Permit Application	-	7	38	<b>189 (16%)</b>
Combined Application	-	-	-	<b>4</b>
<b>Total Decisions (2)</b>	<b>527</b>	<b>838</b>	<b>755</b>	<b>1,071</b>
Permit/NOD (includes amended permits)	488	738	672	<b>948 (89%)</b>
Refusal	22	51	41	<b>123 (11%)</b>
<b>Withdrawn, Not Required, Lapsed</b>	<b>17</b>	<b>49</b>	<b>42</b>	<b>105</b>
<b>Amended Permits Issued</b>	<b>-</b>	<b>1</b>	<b>30</b>	<b>188</b>
<b>Decisions made under delegation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>886 (83%)</b>
<b>Review Lodged at VCAT (3)</b>	<b>123</b>	<b>110</b>	<b>118</b>	<b>143 (12%)</b>

	Council	Metropolitan Region
Value of Fees	\$382,628	\$17,396,158
Average Fee	\$315	\$420
Estimated Cost of works	\$530,645,809	\$12.56b
Average Cost of Works	\$484,166	\$335,654
Average Gross Days to Decision (5)	107	120
Median Processing Days	79	83

Applications with	Council	Metropolitan Region
Further Information Requested	326 (30%)	12,375 (37%)
Public Notice	417 (39%)	12,916 (39%)
Referrals	439 (41%)	6,561 (20%)
Objections	192 (18%)	5,461 (17%)
% within statutory timeframe	75%	61%



From a building perspective, the municipality has been steadily growing. Bayside is a comparatively strong municipality in terms of metropolitan growth.

## 9.5 SERVICE PROVISION AND PLANNING

Ultimately, Council determines the range and level of services it is able to offer the community and this is reviewed annually based on the outcome of community consultation undertaken during the year.

This is finalised through the annual budget process with the LTFP providing preliminary guidance based on the service delivery model from the previous year. One of the key objectives of Council's LTFP is to maintain existing service levels and maintain a satisfactory operating position over the life of the LTFP. The most significant service delivery areas likely to impact on the 2011/12 operating position include:

- Waste management levy and disposal costs
- Capacity to fund renewal capital and new capital

## 9.6 CONCLUSION

Managing growth and the range and level of services provided will remain an ongoing challenge.

## **OUTCOMES**

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1. That Bayside City Council generates sufficient surpluses from operations to continue to provide the existing level of services to our community.

## **STRATEGY**

---

1. That Council continues to consult with the community to determine how desired service levels will be reached including a combination of improved revenue raising, rationalization and review of existing service levels.

## **KEY ACTIONS**

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1. That Bayside City Council annually determines the range and level of service provision through the budget process incorporating an analysis of organisational and financial capability.

## SECTION TEN: STRATEGIC FINANCIAL PLAN

### 10.1 INTRODUCTION

There are a number of dynamic variables that may influence the outcomes expressed in this LTFP. They include:

- Rating levels and supplementary rate income;
- Government grant revenue (both recurrent and capital);
- Asset revaluations (major impact on fixed asset value and depreciation);
- Asset sales;
- Mix of funding between capital works/special projects (new initiatives); and
- Level of growth factor applied to expenditure items / rate of expenditure/activity level.

This section includes:

- Modelling methodology;
- Financial assumptions; and
- Conclusion

### 10.2 MODELLING METHODOLOGY

This section details the approach to financial modelling used in the preparation of the LTFP and provides background about the major financial assumptions that were applied.

The financial model has been prepared at the lowest accounting level within Council's general ledger system being sub-activity level. At this level, certain accounts were coded for manual adjustment rather than broad percentage increases (for example, election expenses occur once every four years). It is not always possible to multiply the previous year's base by a percentage to achieve a correct forecast.

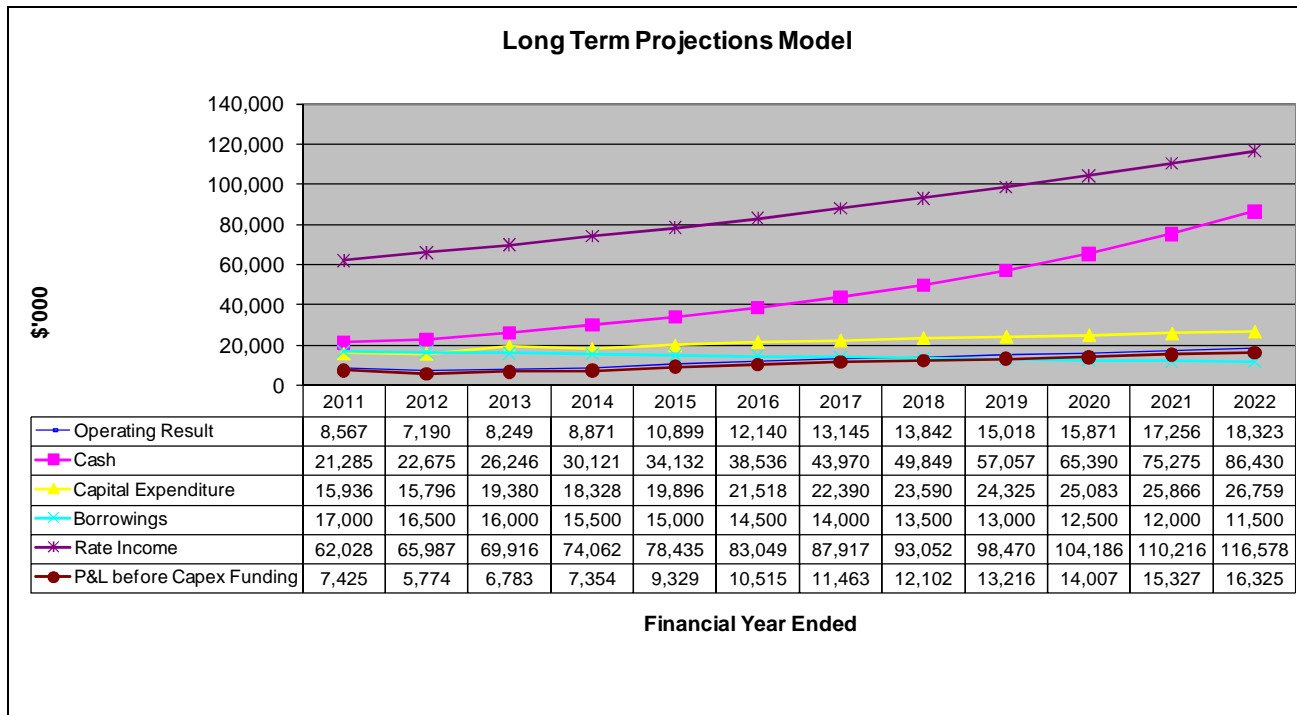
ABS forecast the underlying Consumer price Index (CPI) to be 2.9%. The Reserve Bank target rate for inflation is that it remains between 2 and 3 percent.

The base point used for financial modelling has been the forecast result for 30 June 2011 as prepared at the end of the February 2011. Where a Consumer Price Index (CPI) has been used in calculations it has been modelled at being 3.0% per annum (assumed) in the forward budgets.

While the LTFP uses the more specific assumptions as detailed in *Appendix B* and the pages that follow, it will not remove the need for Council to continue to achieve operational efficiencies.

The LTFP intends to establish a framework for Council to benchmark its performance. Where further efficiencies can be achieved, funds will be dedicated to asset renewal, maintenance or improved service provision.

The graph summarises key financial indicators for the next ten years as set out in the Long Term Financial Plan for the years 2011/12 to 2021/22. The projected result for 2010/11 is also included.



### 10.3 FINANCIAL ASSUMPTIONS

The following information explains the major financial assumptions applicable to the financial option considered by Council prior to community input. *Appendix B* details these financial assumptions with the explanation supporting their calculation.

#### 10.3.1 LABOUR AND ON-COSTS

Increases in labour and on-costs are composed of two elements. The elements are enterprise agreement increments and movements within bandings as part of the annual performance review process. The table below highlights these assumptions.

Year	2008/09	2009/10	2010/11	2011/12	2012/13 to 2019/20
	%	%	%	%	%
<b>EBA Increase</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>Award Increments</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
<b>Growth</b>	<b>1.2</b>	<b>(0.9)</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
<b>Total</b>	<b>6.1</b>	<b>4.0</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>

The employee costs for 2011/12 and forward budgets have been adjusted to take into account anticipated Enterprise Bargaining Agreement (EBA) wage movements. The 2011/12 total of 4.0 is based on an estimated 98 percent occupancy (assumes an average of 2 percent vacant positions during the year). The ensuing years are based on 98 per cent occupancy in light of the anticipated economic conditions and expected availability of staff resources.

The Long Term Financial Plan has therefore been modified to reflect the EBA movements and the future years have also been refined to allow for EBA movements of 4% per annum.

The annual movement between prices and wages in the LTFP now has parity with CommSec CPI and Wages Prices Index (WPI) predictions.

Staff Compliment	2008/09		2009/10		2010/11		2011/12		2012/13 to 2019/20	
	Total	EFT	Total	EFT	Total	EFT	Total	EFT	Total	EFT
<b>Full time</b>	230	230	238	238	239	239	254	254	257	258
<b>Part time</b>	232	118.50	230	117.23	253	127.02	260	129.94	261	131.02
<b>Casual</b>	50	12	50	12	50	12	54	14	54	14
<b>Total</b>	512	360.50	518	367.23	542	378.02	568	397.94	572	403.02

The future years of the plan from 2011/12 onwards have factored in staff increases to notionally increase by 5 EFT per year to accommodate expected population growth and service level expectations being maintained.

### 10.3.2 DEPRECIATION

Depreciation estimates are based on the projected capital spending contained within each assumption. Depreciation estimates are influenced by future asset revaluations and depreciation charges are assessed following condition assessments.

### 10.3.3 MATERIALS AND CONTRACTS

The broad assumption in materials and contracts is for an increase matching CPI. Outside of these broad parameters there have been a number of manually assessed items in this area including (election costs every four years, valuation cost every two years and annual fluctuations in insurance costs.)

#### 10.3.4 NEW INITIATIVES

These works are essentially one-off expenditures that do not constitute the creation of an asset. The expenditure for 2011/12 has been increased from the previous year in line with Bayside City Councils commitment to addressing the issue of waste management. The level of funding through the life of the LTFP has been modelled at \$1 million plus CPI increases.

#### 10.3.5 DEBT SERVICING

Council borrowings are interest only and are dealt with in detail in Section 4. A planned reduction in debt has been included in the financial model for 2011/12 to 2021/22 of \$0.5m per annum.

#### 10.3.6 RATE REVENUE

The 2011/12 Budget is based on an increase of 5.9 percent for Rates and Charges collected. The mechanism to estimate supplementary revenue is at present an arbitrary one, based on historical dollar returns with forward probable development revenue estimated. Developing improved mechanisms is a difficult task given supplementary rate growth occurs not only via the creation of new subdivisions, but also with improvements on existing properties.

In addition, revaluations every two years bring the potential for revenue loss through successful appeals against valuations being upheld.

#### 10.3.7 GRANT REVENUE

An allowance of \$8.93 million has been made as operating grant revenue for ongoing services and projects in 2011/12. In broad terms, a 4 percent per annum increase has been allowed for operating grants reflecting the nature of this revenue type, which has seldom increased by CPI across the board. Reimbursements from the State Revenue Office for land valuations have also been included in the appropriate years. An allowance of 3 percent has been made allowed for the *Victoria Grants Commission* grant.

#### 10.3.8 FEES AND CHARGES

Fees and charges that Council has discretion over have been increased by an average 5 percent in the 2011/12 budget providing \$11 million.

#### 10.3.9 STATUTORY FEES AND FINES

Council has no control over a large amount of statutory fees prescribed by the State Government. Fines include town planning, local laws and parking. It is estimated that they will generate \$2.3 million in 2011/12.

### **10.3.10 INTEREST ON INVESTMENTS**

Interest on investments has been estimated based on cash flow and forecast interest rates. It is estimated to generate \$1.3m in this area.

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### **10.3.11 CAPITAL GRANTS**

Capital grant revenue is \$1.4 million in 2011/12, with revenue from future years estimated to fund future capital works. Capital grants have been forecast conservatively. Funds raised above or below the forecast amount will directly impact on the level of capital expenditure achievable. While conservative amounts have been included, it should be noted that Council does not pursue part-funded capital works that do not fit with its strategic direction.

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### **10.3.12 CAPITAL EXPENDITURE**

Capital expenditure amounts for local roads, water quality, waste and information technology (renewal), and the like and have been directly budgeted for during the next ten years. The balance of capital expenditure has been left unallocated at this point. These funds may be available for capital renewal (priority), capital upgrade or new capital. Council will develop a ten year capital works program during the 2011/12 financial year.

## **10.4 CONCLUSION**

The Long Term Financial Plan was adopted, by Council at its Ordinary meeting on 22 June 2010. The LTFP continues to provide a financial framework for Council, enabling an assessment of Council resources and assisting Council to plan and fund capital infrastructure and meet future community aspirations. The Standard Statements (financial statements) are detailed in *Appendix B*.

## **OUTCOME**

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1. To provide a reasonable degree of consistency and stability in the level of the rates burden.

## **STRATEGY**

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1. That Council, as part of the statutory process for the Council Plan / Strategic Resource Plan / Budget consultation, places the Long Term Financial Plan on exhibition for community comment.

## **KEY ACTION**

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1. That Bayside Council finalises its preferred rating option for its strategic financial model to fund the Council Plan, capital expenditure and service delivery through the annual budget process.

## APPENDIX A GLOSSARY OF TERMS - DEFINITIONS

Adjusted operating surplus/deficit	Operating surplus/deficit less revenue from capital (non-recurrent) grants, developer contributions (i.e. assets contributed), asset revaluations, sale of assets plus expenditure from asset revaluations, WDV of assets sold and unfunded superannuation expense.
Adjusted total operating expenses	Total operating expenses as per the "Statement of financial performance" – net of asset revaluations, unfunded superannuation expense and WDV of asset sold.
Adjusted total revenue	Total revenue from "Statement of financial performance" – net of asset sales, asset contributions in kind. Capital grant funding and revaluation adjustments.
Capital grants (non-recurrent)	Capital or non-recurrent grants as disclosed in notes.
Current assets	Total current assets from "Statement of financial position".
Current liabilities	Total current liabilities from "Statement of financial position"
Debt redemption	Debt principals repayments.
Debt servicing costs (interest)	Total borrowing costs or interest expense as per the "Statement of financial performance" or as disclosed in note in some councils' statements.
Fees and charges revenue	Total fees and charges revenue as per the "Statement of financial performance" or as disclosed in note in some councils' statements (includes fines).
Grant income and reimbursements	Total grants revenue as per the "Statement of financial performance" or as disclosed in note in some councils' statements (includes Vic Roads sometimes shown as "reimbursements" by some councils).
Granted assets	Total value of assets received from developers (in kind) as per the "Statement of financial performance" or as disclosed in note in some councils' statements.
Interest earnings	Total interest received as per the "Statement of financial performance" or as disclosed in note in some councils' statements.
No. of rateable properties	Number of rateable properties in municipality.
Non-current liabilities	Total non-current liabilities from "Statement of financial position".
Proceeds from sale of non-current assets	Total proceeds from asset sales as per the "Statement of financial performance" or as disclosed in note in some councils' statements, (gross received not Written-down value).
Rate revenue	Total rate revenue as per the "Statement of financial performance" or as disclosed in note in some councils' statements.
Rates outstanding at end of year	Rate debtor amount as disclosed in "Receivables" note.
Total assets	Total assets from "Statement of financial position".
Total capital asset outlays	Payments for capital purchases per the "Cash flow statement".
Total cash inflows from operations,	Total inflows per the "Cash flow statement".

finance and Investment Act	
Total cash outflows from operations, finance and Investment Act	Total outflows per the "Cash flow statement".
Total depreciation	Total depreciation expense as per the "Statement of financial performance" or as disclosed in note in some councils' statements.
Total depreciation on infrastructure assets	Total depreciation on infrastructure assets as disclosed in "Depreciation expense" note.
Total debt	Total interest bearing liabilities (current and non-current) from "Statement of financial position".
Total indebtedness	Total liabilities (current and non-current) from "Statement of financial position".
Total infrastructure assets	Total infrastructure assets from "Statement of financial position" or as disclosed in note (Written-down value). Infrastructure includes roads, bridges, drains, road structures, other structures, playground equipment, and other like categories. Heritage assets have been deemed to be building assets. Work in progress, where not separately split, has been included as infrastructure.
Total net realisable assets	Total assets less total infrastructure assets.
Total operating expenses	Total operating expenses as per the "Statement of financial performance".
Total revenue	Total revenue from "Statement of financial performance"
Written-down value of assets sold	Written-down value of assets sold as per the "Statement of financial performance" or as disclosed in note in some councils' statements.

**APPENDIX B STANDARD FINANCIAL STATEMENTS**

The following four budgeted standard statements form a special purpose financial report prepared specifically to meet the requirements of the *Local Government Act 1989*, relating to standard statements.

**A) Budgeted Standard Income Statement**

	2010/11 Budget \$'000's	2010/11 Forecast \$'000's	2011/12 Budget \$'000's	2012/13 Outlook \$'000's	2013/14 Outlook \$'000's	2014/15 Outlook \$'000's
<b>Income</b>						
Rates and charges	61,773	62,028	65,987	69,916	74,062	78,435
Grants and contributions - operating	8,640	8,583	8,941	9,299	9,671	10,058
Grants and contributions - capital	1,368	1,142	1,416	1,466	1,517	1,570
User charges, fees and fines	15,877	17,736	17,232	17,758	18,107	18,841
Interest	1,111	1,511	1,319	1,429	1,618	1,822
<b>Total income</b>	<b>88,769</b>	<b>91,000</b>	<b>94,895</b>	<b>99,868</b>	<b>104,975</b>	<b>110,726</b>
<b>Expenses</b>						
Employee benefits	29,741	29,973	32,569	34,283	36,511	38,884
Materials and services	17,613	18,340	18,939	19,602	20,288	20,998
External contracts	21,407	21,869	23,368	24,262	25,193	26,201
Depreciation	11,509	11,074	11,666	12,346	12,991	12,672
Finance costs	1,183	1,178	1,163	1,128	1,122	1,073
<b>Total expenses</b>	<b>81,453</b>	<b>82,434</b>	<b>87,705</b>	<b>91,621</b>	<b>96,105</b>	<b>99,828</b>
<b>Profit for the year</b>	<b>7,316</b>	<b>8,566</b>	<b>7,190</b>	<b>8,247</b>	<b>8,870</b>	<b>10,898</b>
<b>Other comprehensive income</b>						
Other	-	-	-	-	-	-
<b>Comprehensive result</b>	<b>7,316</b>	<b>8,566</b>	<b>7,190</b>	<b>8,247</b>	<b>8,870</b>	<b>10,898</b>

The budgeted standard income statement shows what is expected to happen during the year in terms of revenue, expenses and other adjustments from all activities.

The budgeted standard income statement is a required format for reporting in Council's year-end audited financial statements (Annual Report).

**B) Budgeted Standard Balance Sheet**

	2010/11 Budget \$'000's	2010/11 Forecast \$'000's	2011/12 Budget \$'000's	2012/13 Outlook \$'000's	2013/14 Outlook \$'000's	2014/15 Outlook \$'000's
<b>Current assets</b>						
Cash and cash equivalents	16,615	21,285	22,675	26,246	30,121	34,132
Trade and other receivables	2,836	3,007	3,031	3,158	3,256	3,409
Inventories	51	53	55	57	59	60
Other assets	620	652	682	711	745	782
<b>Total current assets</b>	<b>20,122</b>	<b>24,997</b>	<b>26,443</b>	<b>30,172</b>	<b>34,181</b>	<b>38,383</b>
<b>Non-current assets</b>						
Trade and other receivables	106	122	130	137	145	154
Property, plant and equipment, infrastructure	1,685,337	1,773,108	1,779,329	1,784,272	1,789,610	1,796,835
Other assets	200	200	200	200	200	200
<b>Total non-current assets</b>	<b>1,685,643</b>	<b>1,773,430</b>	<b>1,779,659</b>	<b>1,784,609</b>	<b>1,789,955</b>	<b>1,797,189</b>
<b>Total assets</b>	<b>1,705,765</b>	<b>1,798,427</b>	<b>1,806,102</b>	<b>1,814,781</b>	<b>1,824,136</b>	<b>1,835,572</b>
<b>Current liabilities</b>						
Trade and other payables	6,230	6,420	6,763	7,011	7,271	7,545
Interest bearing loans and borrowings	1,500	1,500	1,500	1,000	2,000	4,000
Provisions	5,508	5,285	5,636	6,010	6,409	6,828
Trust funds and deposits	2,581	2,549	2,676	2,812	2,952	3,099
<b>Total current liabilities</b>	<b>15,819</b>	<b>15,754</b>	<b>16,575</b>	<b>16,833</b>	<b>18,632</b>	<b>21,472</b>
<b>Non-current liabilities</b>						
Interest bearing loans and borrowings	15,500	15,500	15,000	15,000	13,500	11,000
Provisions	1,135	922	1,086	1,260	1,446	1,644
<b>Total non-current liabilities</b>	<b>16,635</b>	<b>16,422</b>	<b>16,086</b>	<b>16,260</b>	<b>14,946</b>	<b>12,644</b>
<b>Total liabilities</b>	<b>32,454</b>	<b>32,176</b>	<b>32,661</b>	<b>33,093</b>	<b>33,578</b>	<b>34,116</b>
<b>Net assets</b>	<b>1,673,311</b>	<b>1,766,251</b>	<b>1,773,441</b>	<b>1,781,688</b>	<b>1,790,558</b>	<b>1,801,456</b>
<b>Equity</b>						
Accumulated surplus	335,594	335,777	342,967	351,214	360,084	370,982
Reserves	1,337,717	1,430,474	1,430,474	1,430,474	1,430,474	1,430,474
<b>Total equity</b>	<b>1,673,311</b>	<b>1,766,251</b>	<b>1,773,441</b>	<b>1,781,688</b>	<b>1,790,558</b>	<b>1,801,456</b>

The budgeted standard balance sheet shows a snapshot of the expected financial situation at the end of each year. It shows the total of what is owned (assets) less what is owed (liabilities). The 'bottom line' of this statement is net assets, which is the net worth of Council.

**C) Budgeted Standard Cash Flow Statement**

	2010/11 Budget \$'000's	2010/11 Forecast \$'000's	2011/12 Budget \$'000's	2012/13 Outlook \$'000's	2013/14 Outlook \$'000's	2014/15 Outlook \$'000's
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Receipts from ratepayers	61,714	62,245	65,928	69,857	74,000	78,370
Interest received	1,110	1,514	1,328	1,424	1,609	1,812
User charges, fees and fines (inclusive of GST)	16,883	19,157	18,507	18,939	19,334	20,069
Grants and contributions received (inclusive of GST)	10,393	10,602	10,746	11,171	11,610	12,066
Net GST refund	3,507	3,565	3,783	3,849	4,058	4,286
<b>Payments</b>						
Payments to employees	(29,257)	(29,837)	(32,048)	(33,726)	(35,919)	(38,259)
Payments to suppliers (inclusive of GST)	(43,943)	(46,399)	(47,439)	(49,160)	(51,008)	(53,009)
<b>Net cash provided by operating activities</b>	<b>20,407</b>	<b>20,847</b>	<b>20,805</b>	<b>22,354</b>	<b>23,684</b>	<b>25,335</b>
<b>Cash flows from investing activities</b>						
Payments for property, plant and equipment, infrastructure	(16,551)	(15,936)	(17,886)	(17,288)	(18,327)	(19,896)
Acquisition of investments	-	-	-	-	-	-
<b>Net cash used in investing activities</b>	<b>(16,551)</b>	<b>(15,936)</b>	<b>(17,886)</b>	<b>(17,288)</b>	<b>(18,327)</b>	<b>(19,896)</b>
<b>Cash flows from financing activities</b>						
Finance costs	(1,173)	(1,167)	(1,156)	(1,129)	(1,122)	(1,076)
Proceeds from interest bearing loans and borrowings	1,500	1,500	1,000	1,000	500	1,500
Repayment of interest bearing loans and borrowings	(2,000)	(2,000)	(1,500)	(1,500)	(1,000)	(2,000)
Proceeds from trust funds and deposits	123	121	127	134	140	148
<b>Net cash provided by financing activities</b>	<b>(1,550)</b>	<b>(1,546)</b>	<b>(1,529)</b>	<b>(1,495)</b>	<b>(1,482)</b>	<b>(1,428)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,306</b>	<b>3,365</b>	<b>1,390</b>	<b>3,571</b>	<b>3,875</b>	<b>4,011</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>14,309</b>	<b>17,920</b>	<b>21,285</b>	<b>22,675</b>	<b>26,246</b>	<b>30,121</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>16,615</b>	<b>21,285</b>	<b>22,675</b>	<b>26,246</b>	<b>30,121</b>	<b>34,132</b>

The budgeted standard cash flow statement shows what is expected to happen during the year in terms of cash. It explains what cash movements are expected to result in the difference in the cash balance at the beginning and the end of the year.

The net cash flows from operating activities, shows how much cash is expected to remain after paying for providing services to the community which is available to be invested in items such as capital works.

**D) Budgeted Standard Capital Works Statement**

	2010/11 Budget \$'000's	2010/11 Forecast \$'000's	2011/12 Budget \$'000's	2012/13 Outlook \$'000's	2013/14 Outlook \$'000's	2014/15 Outlook \$'000's
<b>Capital Works Area</b>						
Council buildings	4,136	4,065	4,550	4,777	4,946	6,118
Information systems	583	385	827	482	495	507
Library systems	440	440	462	474	485	498
Drainage infrastructure	1,835	1,811	1,671	1,264	1,308	1,354
Roads infrastructure	5,475	5,363	5,969	6,362	7,028	7,211
Parks and sportsgrounds	2,928	2,883	2,731	2,723	2,818	2,917
Foreshore infrastructure	1,154	989	1,651	1,180	1,221	1,264
Arts and culture	-	-	25	26	26	27
<b>Total capital works</b>	<b>16,551</b>	<b>15,936</b>	<b>17,886</b>	<b>17,288</b>	<b>18,327</b>	<b>19,896</b>
<b>Types of capital works</b>						
New assets	4,636	5,336	5,928	5,500	5,691	5,888
Asset renewal	11,915	10,600	11,958	11,788	12,636	14,008
<b>Total capital works</b>	<b>16,551</b>	<b>15,936</b>	<b>17,886</b>	<b>17,288</b>	<b>18,327</b>	<b>19,896</b>

The budgeted standard capital works statement sets out all expected capital expenditure in relation to non current assets for the year. It also reflects the amount of capital works expenditure dissected between the following types:

- New Assets - Upgrade, expansion or creation of new assets
- Asset Renewal – Renewal of existing assets

Total Capital works of \$17.9m includes the proposed budget of \$15.8m for 2011/12 and the forecast carry forward of capital works from the 2010/11 program of \$2.1m.

<b>Indicator</b>	<b>Target</b>
<b>Financial Health</b>	
Underlying result (net surplus / revenue) - Sufficient operating income to cover operating expenses	Greater than zero
Liquidity (current assets / current liabilities) The ability to pay existing liabilities within the next 12 months	1 or greater
<b>Debt Management</b>	
Debt Management - Indebtedness as percentage of rates & charges - This measures the total indebtedness as a percentage of rates & charges as loans are secured against the revenue stream from rates.	Less than 80%
Indebtedness (non-current liab./own source revenue) - The ability to repay debt from own source revenue being revenue not tied to specific projects	Less than 40%
Debt servicing costs as % total revenue - The proportion of total revenue required to service Council's debt costs	Less than 5%
<b>Capital Expenditure</b>	
Self-financing (net operating cash / underlying revenue) - The ability to replace assets using cash generated from day to day operations	Greater than 20%
Investment gap (capital spend / depreciation) To ensure sufficient spending on capital renewal	Greater than 1
Percentage achievement of capital expenditure - Measures the level of capital project completion	Greater than 80%
<b>Debtor Management</b>	
Percentage of rates and charges outstanding - Measures the efficiency for collection of outstanding rates and charges.	Less than 3%