



**Southern Grampians**  
SHIRE COUNCIL

# Draft Strategic Resource Plan

2019/20 TO 2022/23

## DOCUMENT CONTROL

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# 1. EXECUTIVE SUMMARY

## 1.1 Introduction

The **Strategic Resource Plan** (SRP) is the key medium term financial plan produced by Council on a rolling basis that summarises the resourcing forecasts for at least four years. The SRP forms part of the Council Plan.

Resource planning is important for ensuring that a Council remains sustainable in the long term and good practice is to extend forecasting for a ten year period, to take account of long lived assets such as road and drainage infrastructure. **Southern Grampians Shire Council** has prepared a 10 year long term financial plan to enable a longer term perspective of the ongoing financial sustainability of the Council and the impact of financial decisions into the longer term.

In preparing the SRP Council must take into account all other plans and strategies in regards to services and initiatives which commit financial and non-financial resources over the four year period.

Section 125(1) of the *Local Government Act 1989* (the Act) requires Councils to prepare a SRP and include this in the Council Plan. The SRP outlines the resources required to achieve Council's strategic objectives expressed in the Council Plan. Section 126 of the Act expects that:

- a. The SRP is a plan of the resources to achieve the Council Plan strategic objectives;
- b. The SRP will:
  - i. Include financial statements describing the financial resources in respect of at least the next four financial years;
  - ii. Include statements describing the non-financial resources including the human resources in respect of the next four financial years;
  - iii. Take into account services and initiatives contained in any plan adopted by Council and if the Council proposes to adopt a plan to provide services or take initiatives, the resources required must be consistent with the SRP;
  - iv. Review the SRP during the preparation of the Council Plan; and
  - v. Adopt the SRP no later than 30 June each year and a copy must be available for public inspection at the Council office and on the Council internet website.
- c. In preparing the SRP, Council should comply with the principles of sound financial management as prescribed in the Act, being to:
  - i. Prudently manage financial risks relating to debt, assets and liabilities
  - ii. Provide reasonable stability in the level of rate burden
  - iii. Consider the financial effects of council decisions on future generations
  - iv. Provide full, accurate and timely disclosure of financial information.

Significant changes to this revised SRP 2019/20 are:

- Council will increase municipal rates and municipal charge collections by **2.5 percent** in the **2019/20** financial year in line with the Rate Government Cap – refer Section 9,9. This level allows Council to maintain existing service levels, fund a number of new initiatives and continue to allocate additional funds to renew the municipality's infrastructure;
- Capital Expenditure is **\$23.443 million** in 2019/20; and
- New borrowings of **\$2million** in 2019/20.

## 1.2 Purpose of Strategic Resource Plan

The purpose of the Strategic Resource Plan is to:

- Establish a financial framework over the next 4 years to ensure Council's strategic objectives, as expressed in its Council Plan are achieved;
- Provide an assessment of the resources (financial and non-financial) required to accomplish the objectives and strategies included in the Council Plan;
- Establish a basis to measure Council's adherence to its policies and strategies; and

- Assist Council to comply with sound financial management principles, in accordance with the Act and to plan for the long-term financial sustainability of the municipality.

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



Figure 1: Strategic Resource Plan – Key Strategic Areas

### 1.3 SRP Objectives

The 2019/20 SRP is intended to contribute to the following objectives in the 10-year timeframe:

- Maintain the existing range and level of service provision and improve the understanding of the range and levels of service provided;
- Maintain a viable 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 within the 10 year timeframe of the long term financial plan;
- Maintain debt to a low to moderate level to allow capacity to fund future infrastructure;
- 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 renewal demand being invested at **100 percent**.

### 1.4 Strategic Financial Direction

A number of strategic challenges remain ahead including renewing existing assets, continuing to provide an appropriate range and level of services to a growing community, maintaining a sound financial position and addressing the need for capital expansion.

The other related issues are the risks and liabilities that Council and the community face if Council does not invest in asset renewal at an adequate rate.

Council, as part of establishing its SRP, 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.

The SRP establishes the strategic financial direction for Council to meet the funding and investment challenges that lie ahead in the next 10-years.

The SRP 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 Financial Statements which are an outcome of this SRP.

## 1.5 Key Strategic Directions

The following table highlights the key strategies of this SRP.

Each section includes detailed analysis to support the strategies.

The key strategies provide direction for the preparation of the 2019/20 Budget.

Section	Strategic Direction
<b>Section 3 Financial Sustainability</b>	<ol style="list-style-type: none"> <li>1. That <b>Southern Grampians Shire Council</b> continues to benchmark with other Victorian Councils and those within the <b>Large Rural Shires</b> category.</li> <li>2. That <b>Southern Grampians Shire Council</b> applies the outcomes of this SRP to the 2019/20 Budget.</li> <li>3. That <b>Southern Grampians Shire Council</b> reduces its operating deficit over the life of this SRP and aims for a breakeven position within <b>6</b> years.</li> </ol>
<b>Section 4 Service Provision and Planning</b>	<ol style="list-style-type: none"> <li>1. That <b>Southern Grampians Shire Council</b> continue the Service Planning process in 2019/20 via a strategic service planning framework incorporating annual budget, departmental operational plans, capital works evaluation and long term financial plan leading to a determination of the appropriate range and levels of service for the community.</li> <li>2. That <b>Southern Grampians Shire Council</b>, as part of the development of its Service 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.</li> </ol>
<b>Section 5 Capital Works Program</b>	<ol style="list-style-type: none"> <li>1. That <b>Southern Grampians Shire Council</b> focuses its capital works commitment at levels that meet or exceed the targets established in this SRP and develops a 10-year capital works program.</li> <li>2. That <b>Southern Grampians Shire Council</b> initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at levels indicated in Table 7 (<b>Section 6.5 Condition Assessment</b>), with the next priority on renewal, upgrade and expansion.</li> <li>3. That any cases for expansion, new and upgrade of assets come from the Service Managers as arising from their <b>Service Plans and Asset Management Plans</b>.</li> </ol>
<b>Section 6 Asset Management</b>	<ol style="list-style-type: none"> <li>1. That <b>Southern Grampians Shire Council</b>, having established its critical renewal investment levels, complete detailed <i>Asset Management Plans</i> (focused on renewal</li> </ol>

Section	Strategic Direction
	<p>demand) for all classes of Council assets incorporating service level assessments.</p> <ol style="list-style-type: none"> <li>That <b>Southern Grampians Shire Council</b>, as part of the development of its Service 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.</li> <li>That <b>Southern Grampians Shire Council</b> adopts as policy the annual allocation of funds to meet <b>100 per cent</b> of the community's infrastructure renewal needs before it elects to upgrade or construct new assets.</li> </ol>
<b>Section 7 Long-term Borrowing Strategies</b>	<ol style="list-style-type: none"> <li>That <b>Southern Grampians Shire Council</b> based on Better Practice Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity; and</li> <li>That <b>Southern Grampians Shire Council</b> retains its debt servicing and redemption costs at or below <b>6</b> cents in the rate revenue dollar, towards interest and principal, over the life of this SRP.</li> </ol>
<b>Section 8 Restricted Assets</b>	<ol style="list-style-type: none"> <li>That <b>Southern Grampians Shire Council</b> builds into its 10 year financial plan the estimated movements in restricted assets and provides for at least <b>\$0.5 million to \$1 million</b> in working capital to meet day to day needs.</li> <li>That to ensure sufficient funds are available to meet operational needs, <b>Southern Grampians Shire Council</b> retains a cash position of at least <b>\$4 million to \$5 million</b> after deducting restricted assets, i.e. cash received but not spent or cash to be spent for specific purposes such as developer contributions (infrastructure), waste facility development, security deposits etc.</li> </ol>
<b>Section 9 Rating and Other Revenue Strategies</b>	<p>That <b>Southern Grampians Shire Council</b>;</p> <ol style="list-style-type: none"> <li>Retains capital improved value (CIV) as its valuation base;</li> <li>Provides a municipal charge that approximates <b>10 percent</b> of rate revenue plus the municipal charge to ensure an equitable contribution towards the unavoidable fixed costs of <b>Southern Grampians Shire Council</b>;</li> <li>Considers future increases in waste charges based on EPA, regulatory and safety requirements and the need to sustain the Council's long-term waste operations strategy;</li> <li>In 2019/20, adopts an <b>2.5 percent</b> increase in total revenue for general rates and municipal charges and a <b>12.17 percent</b> increase in total revenue for waste collection including funding the cost of disposal of domestic waste, recycling collection and the environment levy;</li> <li>Actively pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other Councils; and</li> <li>Undertakes detailed analysis on the level of existing fees and charges and investigates new revenue sources and report recommendations to Council.</li> </ol>
<b>Section 10 Strategic Financial Plan</b>	<ol style="list-style-type: none"> <li>That <b>Southern Grampians Shire Council</b> 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.</li> </ol>

Table 1: Key Strategies – 2019/20

## 2. LINK BETWEEN STRATEGIC RESOURCE PLAN AND COUNCIL PLAN

### 2.1 Planning and Reporting Framework

The new *Local Government Performance Reporting Framework* is a key part of the local government planning and accountability reform. The **Planning and Reporting Framework** details the relationship between the Council Plan, the Strategic Resource Plan and Annual Budget.

Effective reporting by Councils, on the spending of public money to deliver services and infrastructure, is essential for ensuring transparency and accountability to the community and other levels of government.

The following diagram shows the relationship between the key planning and reporting documents that make up the planning and accountability framework for local government.

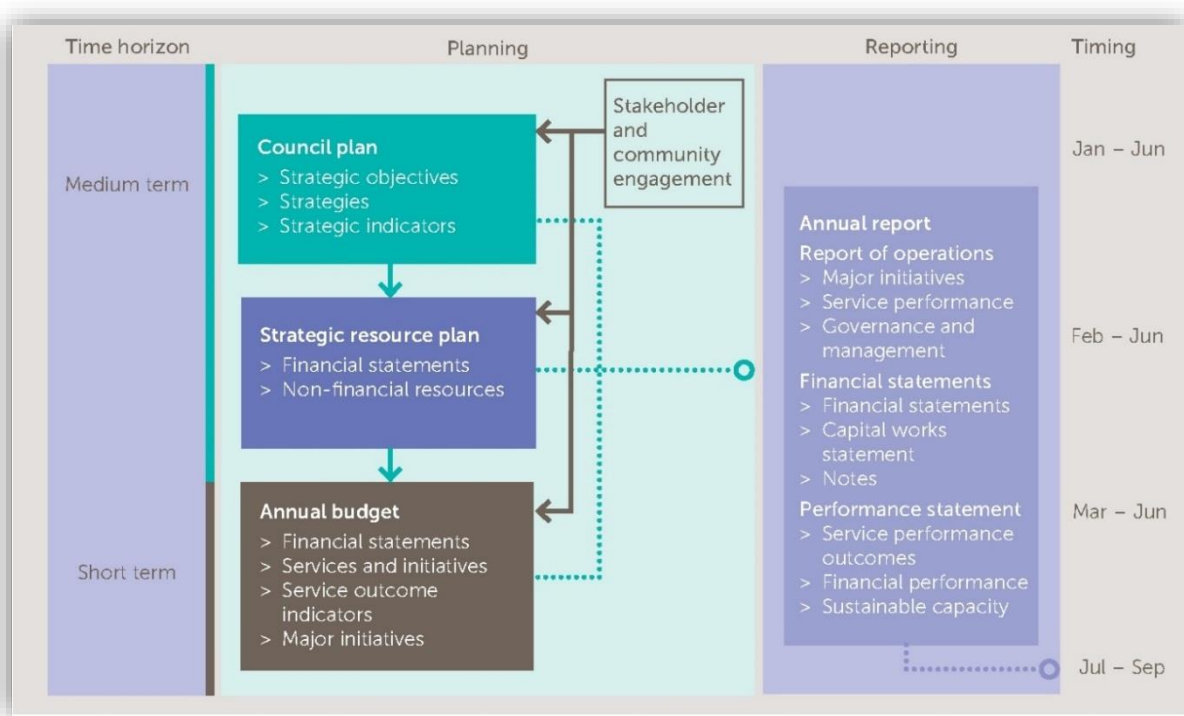


Figure 2: Planning and Reporting Framework

It also shows that there are opportunities for community and stakeholder input and feedback at each stage of the planning and reporting cycle.

This is important to ensure accountability to residents and ratepayers.

## 3. FINANCIAL SUSTAINABILITY

### 3.1 Background

Financial sustainability as defined by The Australian Local Government Association (ALGA) is worth noting:

***“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 that the sustainability of **Southern Grampians Shire Council** can be assessed.

The precise financial strategy which supports financial sustainability and which balances community expectations with the capacity to pay, challenges Councils.

As part of this process strategies, services and investment in infrastructure must be developed that meets the community's needs whilst simultaneously remaining affordable.

The question of what is 'financial sustainability' and the appropriate strategy to support this position will be answered differently by every Council.

However, there are some common questions that should be asked by Councils in the strategic development process. These include:

- the range and level of Council services that are to be offered;
- the affordability of new assets;
- the utilisation of existing assets;
- the quantum of the renewal investment compared to the renewal demand;
- the suitability of borrowings;
- whether rate and charge increases are sustainable within the rate capping requirements; and
- if the community is willing to pay for services and infrastructure.

One mechanism Councils use to support their financial strategic development is to benchmark their financial performance to like sized Councils or their neighbours.

How Councils compare and why they are different are interesting questions that assist Councils to make ultimate decisions about these complex questions.

This report contains a summary of relevant benchmarking data for Council to enable this comparative analysis to occur.

## 3.2 Financial Comparisons - Benchmarking

Council Annual Reports generally contain standard and consistent financial data.

These Reports have been reviewed to produce the data used for benchmarking purposes in this SRP.

The number of Councils in each category is shown in the table below.

Category Description	Councils within Category
Inner Metropolitan	22
Interface Metropolitan	9
Regional Cities	10
Large Shires	19
Large Shires	19
<b>TOTAL</b>	<b>79</b>

Table 2: Number of Councils in each Category – 2017/18

These key performance indicators are detailed within the relevant chapters of the SRP and assist Council to compare its position to other **Large Rural Shire** Councils.

## 3.3 Analysis of Council's Financial Sustainability

### 3.3.1 Financial Sustainability

The concepts most people use in their personal and business lives are basically the same as those that should be applied to local government; however, those concepts need some modification.

Councils are perpetual corporations that manage intergenerational community services and assets.

Councils provide the legal framework by which communities own infrastructure and assets collectively.

#### ***Underlying Operating Position (Surplus/Deficit)***

The underlying operating result as defined by the *Institute of Chartered Accountants* (2009) is a measure of the financial sustainability of a Council.

Continuous underlying operating deficits lead to a loss in equity, reduction in asset base, drop in service standards over time and a deferral of costs to future generations.

The underlying operating result is the operational result (balanced, surplus or deficit) less gifted assets, developer contributions, asset revaluations, and write offs and impacts of asset sales. Capital income is also excluded on the grounds it represents an "unmatched" income (expenditure is not included) and it is a non-recurring income source.

One of **Southern Grampians Shire Council's** long-term financial goals is to achieve a breakeven position without the inclusion of any capital income (against which there is no matching expenditure in the operating statement) and abnormal items such as granted assets.

Council's position at June 30 2018 compared within the **Large Rural Shires** category was a **\$3.315** underlying operating deficit. The ongoing restorative works around the 2016 Flood event continues to make analysis and comparison difficult for many indicators.

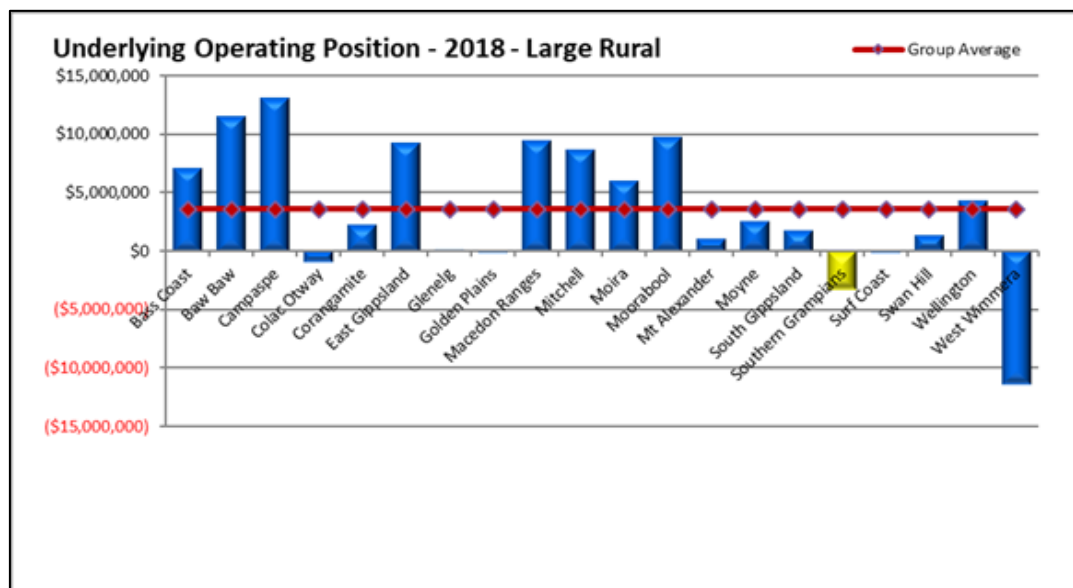


Chart 1: Underlying Operating Position – 2017/18

### Liquidity

The MAV assessment asserts a working capital ratio of **100 percent** is generally considered desirable. The analysis considers that Councils with working capital above **150 percent** may have the capacity to reduce long-term debt and preparedness to meet day to day obligations.

Council's working capital ratio of **257 percent** indicates Council's liquidity is stable in the medium term, with projections to remain stable from 2019/20.

### Rate effort

The ability to increase rate revenue is a significant factor in determining whether Council is potentially at risk.

Rate effort is now constrained by the State Government's introduction of rate capping legislation in the form of its "Fair Go" Rates system. The FGRS or rate capping introduces an annual rate cap set by the Minister for Local Government which controls general rate increases for all Councils during that financial year.

On 20 December 2018, the Minister for Local Government, Hon. Adem Somyurek MLC advised an annual rate increase of **2.5 per cent** for the 2019/20 financial year. Councils can seek approval for an increase above this figure through a variation with the *Essential Service Commission* (ESC).

Council's rating effort has been satisfactory and when benchmarked was just below effort of the **Large Rural** group.

### Cost and efficiency

Council is statistically a "mid cost" council.

Adjusted Total Expenses per assessment are below the Large Rural average of **\$2,746** at **\$3,515** while Council's employee cost as a percentage of total expenditure is **37.84 percent**, compared to **Large Rural** average of **37.42 percent**.



**Rates affordability**

Australian Taxation Office (ATO) income data for wage and salary earners (PAYE) can be used to give some indication of rates affordability.

The Australian Bureau of Statistics (ABS) produces a set of socio-economic indices for areas 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:

**Relative Index of Socio-economic Advantage and Disadvantage (IRSAD):** The proportion of families with high/low incomes, people with/without a tertiary education and employees in skilled/unskilled occupations. Low values indicate areas of disadvantage;

**Relative Index of Socio-economic Disadvantage (IRSD):** Derived from attributes such as income, educational attainment and skill level;

**Index of Economic Resources (IER):** Derived from attributes relating income and wealth; and

**Index of Education and Occupation (IEO):** reflect the educational and occupational levels of communities.

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. The other issue **Southern Grampians Shire** has to contend with, and which does distort these benchmarks, is that the census understates both number of residents and annual household income due to the impact of non-resident ratepayers.

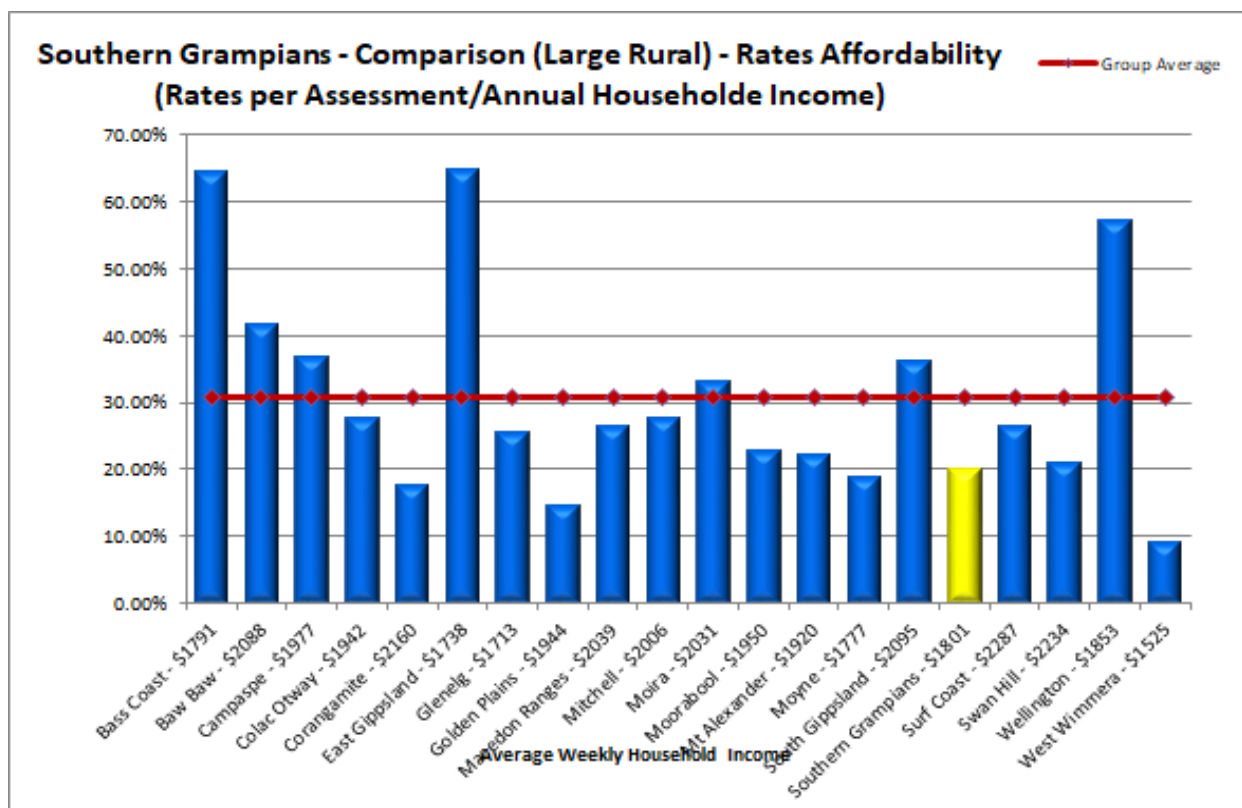


Chart 2: Rates Affordability Large Rural 2017/18

### 3.3.2 Victoria Auditor General

The Victoria Auditor General's Office (VAGO) in late 2007 prepared a report on Local Government which outlines for the first time a detailed analysis on the financial sustainability of Councils and Regional Library Corporations.

The 2017/18 result compared to the five (5) year average for VAGO's indicators of Council viability are:

Indicator	Calculation	Description	Results 2017/18	Five (5) Year Ave
Net result	Net result/ total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long-term.	4.19%	2.07%
Adjusted Underlying Operating Result	Adjusted underlying surplus (or deficit) / Adjusted underlying revenue	Indicator of the broad objective that an adjusted underlying surplus should be generated in the ordinary course of business. A surplus or increasing surplus suggests an improvement in the operating position.	-24.6%	-11.97%
Liquidity	Current Assets/ Current Liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio one or more means there is more cash and liquid assets than short-term liabilities	2.57	2.39
Indebtedness	Non-current liabilities/ own sourced revenue	Comparison of non-current liabilities (mainly comprised of borrowings) to own-sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues they generate themselves. Own-sourced revenue is used (rather than total revenue) because it does not include capital grants, which are usually tied to specific projects.	8.68%	16.95%
Internal financing	Net Operating cash flow/Net capital expenditure	Measures the ability of an entity to finance capital works from generated cash flow. The higher the percentage, the greater the ability for the entity to finance capital works from their own funds.	100%	107%
Capital Replacement	Cash outflows from property, infrastructure, plant and equipment / Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.	1.72	0.95
Renewal gap	Renewal and upgrade expenditure / Depreciation	Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is faster than the depreciating rate. Similar to the capital replacement, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.	1.52	0.99

**Table 3: Southern Grampians Shire Council VAGO Indicators of Council Viability**

### 3.4 Benchmarking

In most instances Council compares favourably with its neighbours and other **Large Rural** Councils. When benchmarked to other **Large Rural Shires** and neighbours **Southern Grampians Shire Council** is characterised by:

- Higher Underlying operating deficit (currently distorted by flood funding & impact);
- Higher levels overall operational costs in comparison to Councils in the category;
- Lower rating effort;
- Below average debt ratios; and
- Growing capital works program with sufficient priorities given to asset renewal.

The ongoing impact of the 2016 Flood event continues to distort some indicators.

#### *Strategic Direction*

1. That **Southern Grampians Shire Council** continues to benchmark with other Victorian Councils and those within the **Large Rural Shires** category.
2. That **Southern Grampians Shire Council** applies the outcomes of this SRP to the 2019/20 Budget.
3. That **Southern Grampians Shire Council** reduces its operating deficit over the life of this SRP and aims for a breakeven position within **6** years.

## 4. SERVICE PROVISION AND PLANNING

### 4.1 Introduction

The range and level of services a Council should, or is capable of, or wants to provide is a complex question to consider.

It is critical that an overall understanding of the **Service Planning Framework** be considered within the context of the key service drivers including:

- Community expectations: Ever changing and balanced against willingness to pay;
- Legislative requirements: e.g. Health and environmental standards and regulations;
- Organisational: Strategic Mission and Objectives; and
- Resources: Availability of resources and funding, particularly within a rate capped environment.

This section includes:

- Local Government Service Planning
- Introducing a Service Planning approach
- Service Planning approach and the six key steps
- Conclusion

### 4.2 Local Government Service Planning

#### 4.2.1 Service Delivery challenges

**Southern Grampians Shire Council** is grappling with these questions as it seeks to achieve a balance between capital investment, renewal and service delivery right. What is the correct range of services, what level should they be provided at and are they sustainable within a rate capped environment for the majority of ratepayers?

- What range of services does Council provide and do these align to the Council Plan and service strategies?
- What level of service does Council want to provide within the capacity of the community to pay?
- What assets are required to underpin the required level of service and are these fit for purpose?
- Is the current mix of capital investment ensuring assets underpinning services are safe and serviceable – is Council's renewal investment adequate?
- Are the services (range and level) sustainable over a ten-year timeframe against the Council's long-term financial plan?

In 2016/17, Council began a six phase **Service Planning** project to facilitate answers to these questions. Council's long-term financial sustainability is critically linked to answering these fundamental questions.

## 4.2.2 What is Service Planning

**Service Plans** define programs and projects which need to be undertaken to deliver the service and include specific information on service levels, the service provider, service cost, service targets, performance Indicators and the reporting framework.

**Service Plans** identify assets (upgrades or new) required to support those services and reviews the outcomes of Asset Management Plans to ensure existing assets are appropriate for the delivery of services required.

Actions are specific, based on a 10-year horizon. Having detailed **Service Plans** with costed levels of service allows comparative choice decisions to be made in a transparent manner when budget adjustments are required.

The service outputs should be achievable and defined within service plans which are fully funded and resourced within the Council's 10-year Long Term Financial Plan. Through this sustainable service delivery model Council has the capacity to deliver on its promises. Council must remain financially sustainable to continue to provide services to its community into the future.

Having detailed **Service Plans** with costed levels of service will allow Council to make comparative choice decisions in a transparent manner if and when service and budget adjustments are required.

**Service Plans** provide a clear point of reference to manage and monitor progress towards achievement of strategic outcomes as well as forming the basis of reporting to the community and State Government.

The Council acknowledges that there will always be many competing interests for scarce Council resources. Adopting a *service planning* approach throughout the organisation will address many of the service delivery priorities and in turn community perceptions of Council performance.

The process will ensure that Council remains committed to providing service levels to the community that are of acceptable standard and delivered in the most efficient and appropriate manner.

The **Strategic Service Framework** fits within the broader context of Council operations as illustrated below:

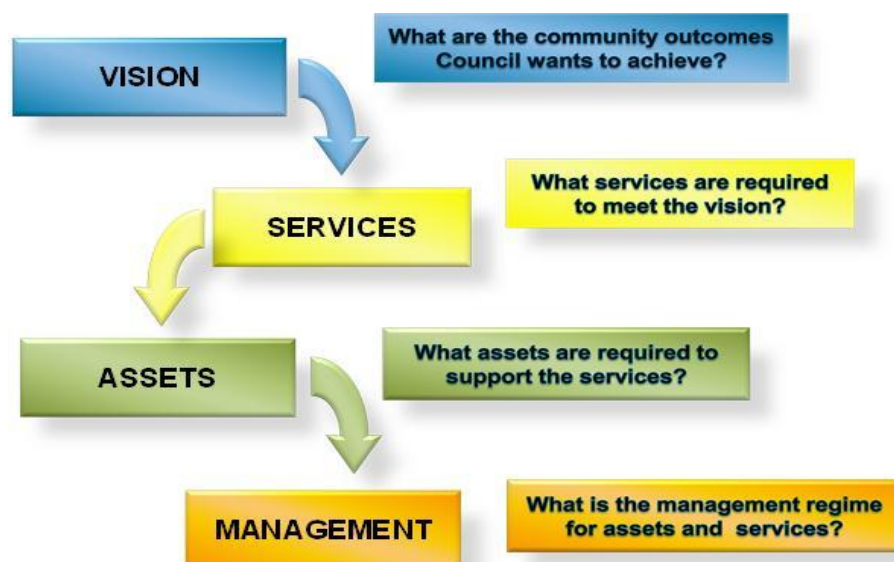


Figure 3: Strategic Service Framework

### 4.3 Introducing a Service Planning Approach

#### 4.3.1 Understanding Levels of Service

Understanding the *Levels of Service* approach within a Council context is important because it facilitates:

- Support for the sustainability of current services;
- Increasing satisfaction levels: minimising the gap between what is provided and what the community needs;
- Transparent decision making for good governance; and
- A robust relationship between Levels of service and funding.

The objective for the level of service process is to enable Council to engage in community consultation efforts that focus on *Community Levels of Service*.

### 4.4 Service Plan Process: 6 Key Steps

The **Service Planning** process needs to be comprehensive and cover the entire organisation.

All services need to be included in the process (including internal services) as the Council needs to be in a position to be able to make informed comparative choice decisions.

Council proposes that the service review process be undertaken in six stages.

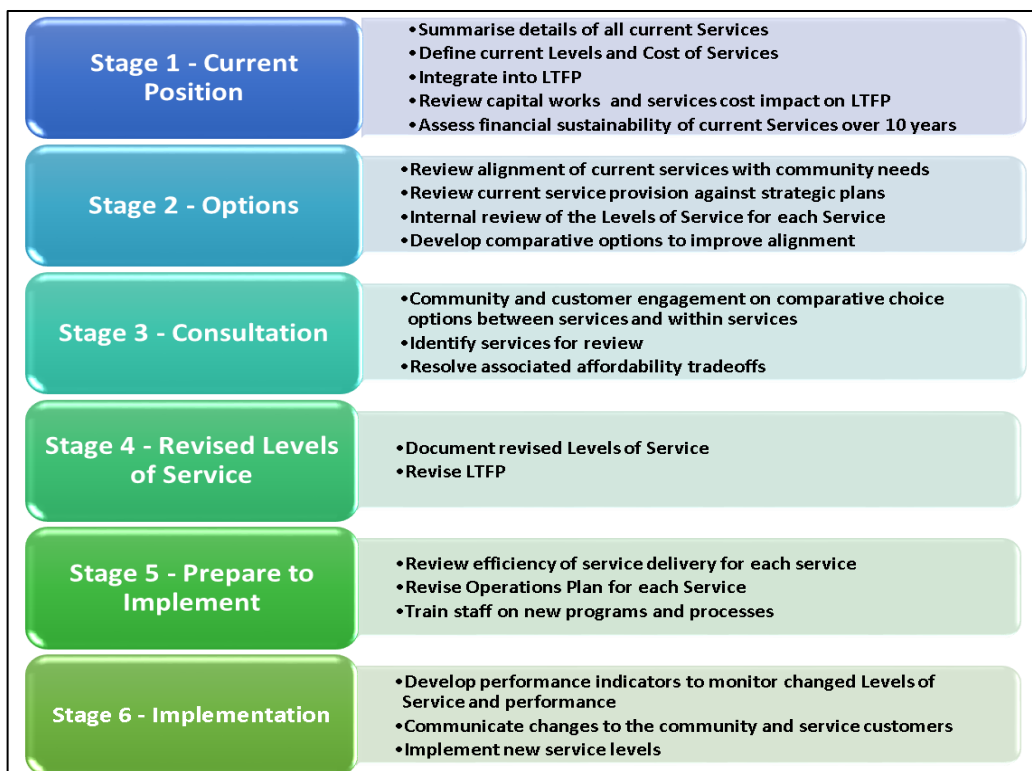


Figure 4: Service Plan Process - 6 Key Steps

Council has completed Stage 1. Stages 2 – 6 are underway for all services over the life of this SRP.

#### 4.4.1 Stage 1 – Current Practices Sustainability Assessment

This first stage takes a holistic approach and prepares a 10-year *Service Profile* and a *Service Cost Evaluation* for all services to assess the long-term sustainability of the Council's range of services.

At the end of **Stage 1** Council will have a detailed understanding of the:

- Range of Services it provides to the community;
- Levels of Service for each Service;
- Projected cost of each service over the forward 10-year period;
- Life cycle cost impacts of capital works associated with the service delivery;
- Long term financial sustainability of Council's current service model; and
- Framework under which Council can make informed choices around resource allocation to specific service areas.

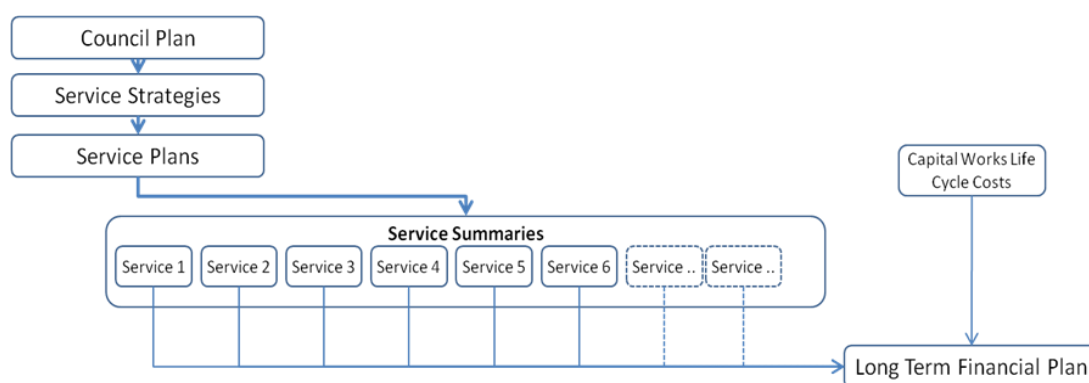


Figure 5: Current Practices Sustainability Assessment

These Plans also provide a direct linkage to *Service Plans* and to implementing program and projects defined in the *Service Plans* with specific actions and budgets generally for years 1 and into year 2.

#### 4.4.2 Council Budget

Council's operation includes provision of building, planning, economic development services, community services, infrastructure planning, operations and corporate support services including finance, information technology, asset management and organisation development.

Council's operating costs and revenues for **2019/20** are **\$42.026 million** and **\$42.787 million** respectively with forecasts for the next 10 years contained in **Appendix B**.

The Capital Works Program is explained in more detail in Section 5.

#### 4.4.3 Human Resource Needs

Council's Human Resources are integral to the delivery of Council's services. Council's overall adjusted operating expenses per assessment ( depreciation) in the graph below show Councils total operating costs benchmarked to like sized Councils.

Council's operating costs per assessment are slightly higher than average and Council's employee costs are on the average. Employee costs are one element of these costs. Councils use employees or contractors to deliver services. Council's employee costs as a percentage of operating expenses have been benchmarked to similar sized Councils in Victoria are also detailed hereunder:

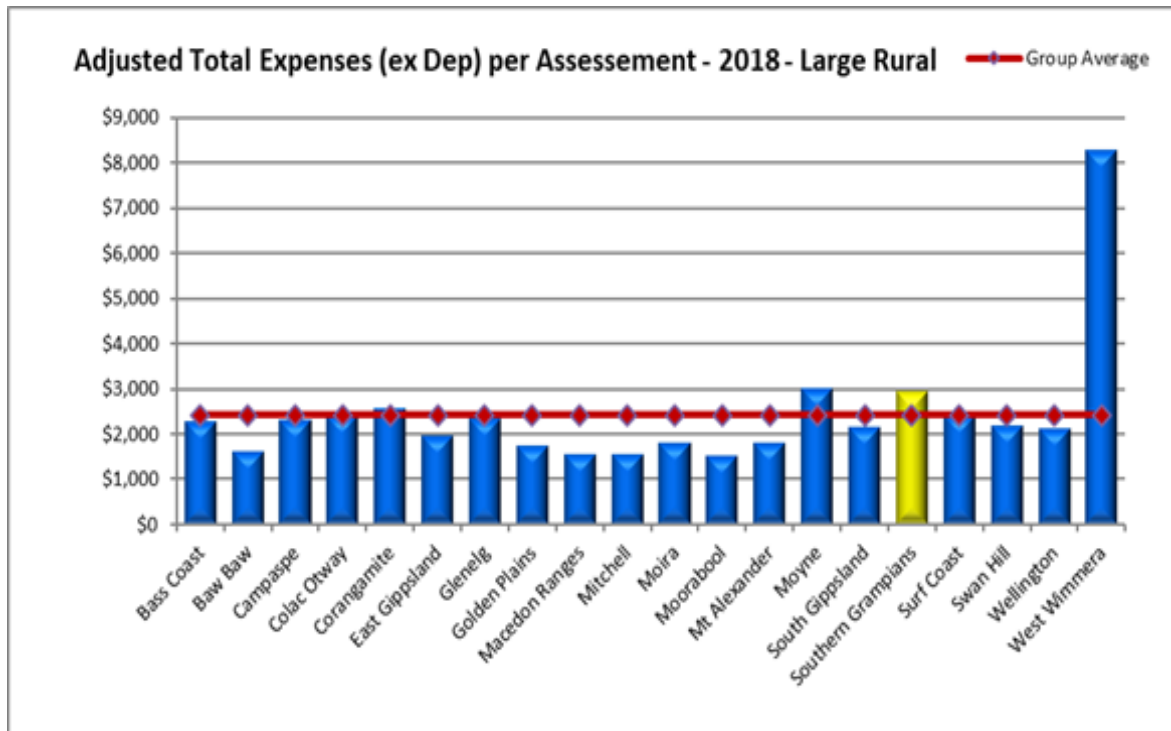


Chart 3: Operating Expenses per Assessment 2017/18

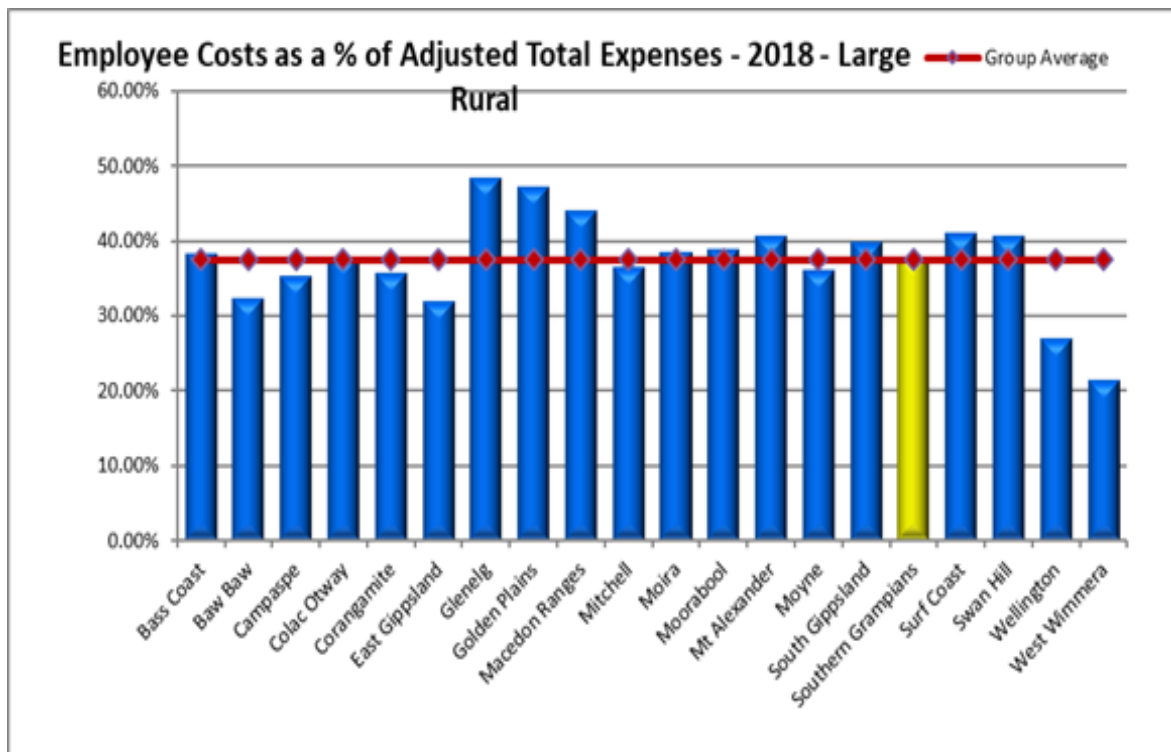


Chart 4: Employee Costs % Operating Expenses 2017/18



The table below details the *Statement of Human Resources* for the oncoming four years:

	2019/20	2020/21	2021/22	2022/23
	\$'000	\$'000	\$'000	\$'000
<b>Staff Expenditure</b>				
Employee Costs – Operating	17,090	17,603	18,131	18,675
Employee Costs – Capital	2,318	2,594	2,671	2,671
<b>Total staff expenditure</b>	<b>19,408</b>	<b>20,197</b>	<b>20,802</b>	<b>21,346</b>
	EFT	EFT	EFT	EFT
<b>Staff numbers</b>				
Employees	232	228	228	228
<b>Total staff numbers</b>	<b>232</b>	<b>228</b>	<b>228</b>	<b>228</b>

**Table 4: Statement of Human Resources - For the four years ended 30 June 2023**

The above statement of human resources should be read in conjunction with the accompanying notes

## 4.5 Conclusion

Managing financial sustainability and the range and level of services provided will remain an ongoing challenge, particularly in a now rate capped environment.

This work continues in the context of improving financial sustainability, linking infrastructure planning to service planning and resource constraints.

Council will demonstrate clear and transparent decision making in allocating scarce resources whilst delivering the best service outcomes from amongst the many alternatives demanded by the community, a critical outcome of the proposed service planning framework.

### *Strategic Direction*

1. That **Southern Grampians Shire Council** continue the Service Planning process in 2019/20 via a strategic service planning framework incorporating annual budget, departmental operational plans, capital works evaluation and long term financial plan leading to a determination of the appropriate range and levels of service for the community.
2. That **Southern Grampians Shire Council**, as part of the development of its Service 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.

## 5. CAPITAL WORKS PROGRAM

### 5.1 Introduction

The previous section discusses the long-term issues with respect to *Service Planning*.

It should be noted **67 per cent** of the capital expenditure is on renewal and upgrade type projects in the draft capital works program for 2019/20. The total capital program of **\$23.443 million** is composed of **\$6.735 million** in new assets and **\$16.708 million** in renewal, expansion and upgrade.

The proposed program for 2019/20 comprises **\$12.408 million** in renewal, **\$1.100 million** in expansion and **\$3.200 million** in upgrade.

This section includes:

- Level and nature of capital works;
- 2019/20 Capital Investment levels
- Capital funding sources; and
- Capital Works Evaluation process

The benchmark for 2017/18 capital expenditure levels by **Large Rural Shires** is illustrated below:

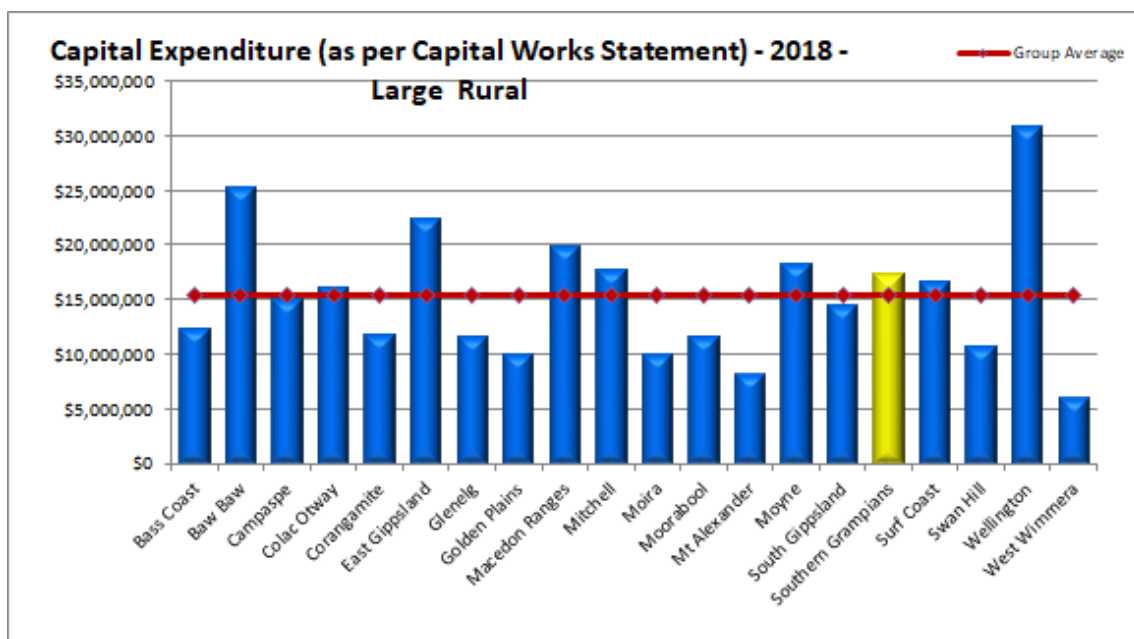


Chart 5: Capital Expenditure per Capital Works Statement – 2017/18

Capital expenditure per assessment is higher than average in 2017/18 at **\$1,585** per assessment as compared to **\$915** for the average **Large Rural Shires**. This has, in part, been attributed to restorative capital works following the 2016 Flood event.

## 5.2 Level and Nature of Capital Works

It is important that the *Asset Management* issues raised in the next section inform the decisions taken in determining the capital works program.

Four key outcomes from the long-term financial plan will be:

- To maintain the annual critical renewal investment – section 6;
- To maintain agreed service levels as determined in Council's *Service Plans*- section 4;
- Maintain average condition where desired; and
- Invest in new assets subject to principles espoused in section 4.

### 5.2.1 Capital works 2019/20 – 2028/29 - Parameters

The following are the parameters against which the 2019/20 capital works program has been developed:

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

In terms of the longer-term program to 2023/24 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 expansion and new, 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* and *Service Plans*) by 2023/24;
- Income assumptions to remain conservative given they are less predictable; and
- Roads to Recovery income assumed to continue at current level spread across relevant projects within the Roads Program.

## 5.3 2019/20 Capital Investment Levels

The 2019/20 capital works program by expenditure type is detailed hereunder:

Capital Expenditure Type	2019/20 \$'000	2019/20 %
Renewal	12,408	53%
Upgrade	3,200	14%
New	6,735	28%
Expansion	1,100	5%
<b>TOTAL</b>	<b>23,443</b>	<b>100%</b>

**Table 5: Capital Works Summary – 2019/20**

## 5.4 Capital Funding Sources

The development of a 10-year capital works program will enable a precise cash flow budget to be developed.

This program will be refined during the 2019/20 financial year by Council's Infrastructure Development department.

External capital funding services include capital grants, developer contributions and special charges schemes.

Internal capital funding sources include land sales, asset sales, special charge schemes and general rates. The SRP forecasts capital funding sources conservatively.

## 5.5 Capital Works Evaluation Process

### 5.5.1 Business Case

The Council's *Capital Works Evaluator* subjected all proposed capital works to an objective business case analysis so that the costs of the priority projects could be scored and the cost implications assessed.

If a project was required due to statutory obligations or had been approved by a **Southern Grampians Shire Council** resolution it is automatically assigned the highest priority. If a project did not meet **Southern Grampians Shire Council** objectives it is automatically assigned the lowest priority.

Projects that meet **Southern Grampians Shire Council** objectives but are not required to meet statutory obligations or have not been approved by a council resolution are assigned a prioritisation score based on the results of four equally weighted criteria:

- Financial
- Council Plan Objectives
- Risk/Criticality
- Community Benefit

Responsibility for the capital works **Business Case Analysis Process** is vested in the Executive Leadership Team.

The results of the *Business Case Analysis* are contained in Council's Capital Works Evaluation Model.

### 5.5.2 Whole of Life Costing

It is imperative that all proposals for new and upgrade have the full **whole of life costs** calculated and disclosed as part of the evaluation process and that the operating and maintenance are calculated and placed in the long-term financial year for the life of the asset.

## 5.6 Conclusion

Council's capital works program underpins the needs and priorities as determined by Council's capital evaluation process.

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

### *Strategic Direction*

1. That **Southern Grampians Shire Council** focuses its capital works commitment at levels that meet or exceed the targets established in this SRP and develops a 10-year capital works program.
2. That **Southern Grampians Shire Council** initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at levels indicated in Table 7 (**Section 6.5 Condition Assessment**), with the next priority on renewal, upgrade and expansion.
3. That any cases for expansion, new and upgrade of assets come from the Service Managers as arising from their **Service Plans** and **Asset Management Plans**.

## 6. ASSET MANAGEMENT

### 6.1 Introduction

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

This section includes:

- Council's asset portfolio at 30 June 2018
- Key questions to determine service level/investment
- Asset investment
- Condition assessments
- Management Systems
- Strategic asset management

### 6.2 Council's Asset Portfolio - 30 June 2018

#### 6.2.1 Current Assets

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, debtors and land held for resale. The balance of current assets held by **Southern Grampians Shire Council** at 30 June 2018 is **\$30.336 million**.

Non-current assets consist of Council's debtor accounts not expected to be collected in the coming **12** months and Council's fixed assets.

Fixed assets consist of land, buildings, plant, furniture, roads, drains, playgrounds and other similar infrastructure assets.

The total value of fixed assets at 30 June 2018 was **\$314.997 million**. The balance of this section will focus on the fixed assets and the management strategies that Council is pursuing.

#### 6.2.2 Non-Current Fixed Assets

Councils all over Australia are facing the problem of ageing assets in need of renewal.

Many of these assets were not initially funded by councils, but came by State and Federal government grants, developer contributions, or from a shift of responsibilities for State owned assets to Local Government.

Council's fixed assets and land held for resale at 30 June 2018 total **\$316.092 million**.

### 6.2.3 Depreciation Expense

Depreciation expenses, useful lives and the rate at which the economic benefits or the service potential of the asset are consumed is reassessed following condition assessments and when asset valuations are undertaken.

All changes to depreciation expenses have been reviewed by Council's external auditor and reported to Council's *Audit Committee* prior to being adopted by Council.

Council's depreciation expenses as a percentage of its total assets are benchmarked and depicted in the following graph:

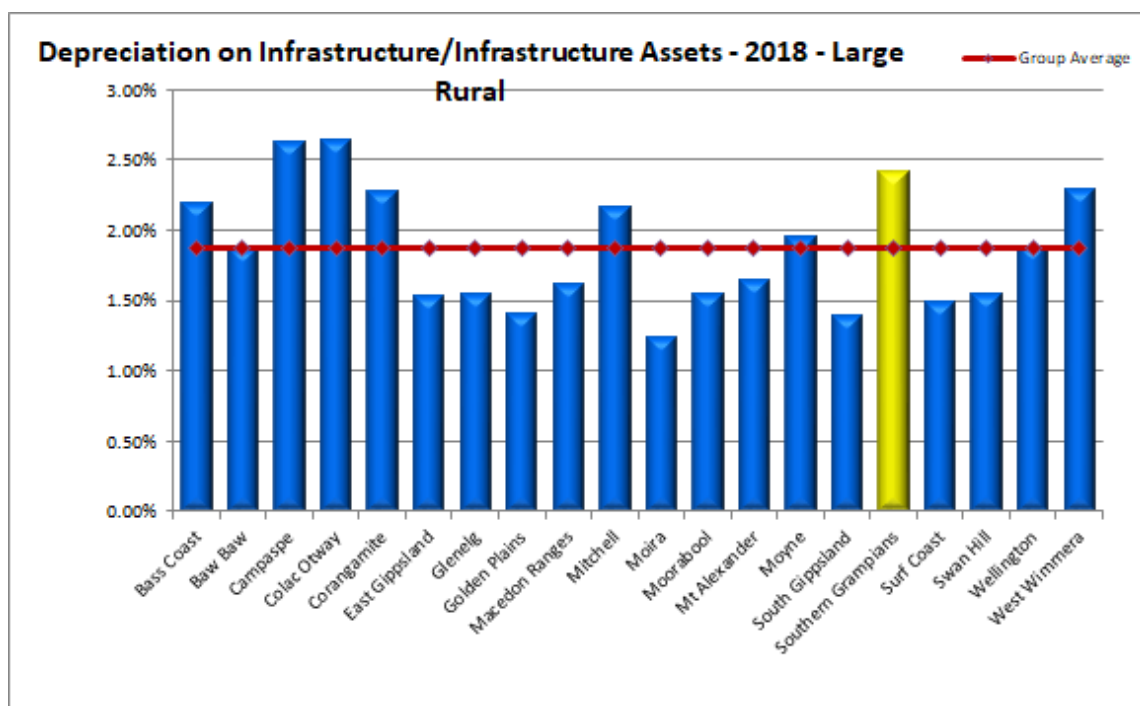


Chart 6: Depreciation on Infrastructure/Infrastructure Assets – 2017/18

## 6.3 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. What assets support services and therefore should be renewed and retained as opposed to assets that are surplus and should be rationalised?
3. How much will need to be spent in the short term (next 10 years) relative to the renewal expenditure invested in the recent past?
4. How much more management effort (financial and operational) will be required of Council as its assets age?
5. What assets are at the “at risk” phase (intervention level) of their life cycle and will ultimately result in their being unserviceable and unsafe?
6. What outcomes would the community and Council like to achieve with respect to asset upgrades? For example, would Council like to see an extension to the sealed road network, or playground network?
7. Are the Council assets providing the level of service expected by the community?
8. What assets should the community “manage for decline” – public halls, buildings, bridges, roads?

## 6.4 Asset Investment

Asset investment can be made in the following ways:

Type of Expenditure	Definition	Purpose/Example
Maintenance	Expenditure on an asset that maintains the asset in use but does not increase its service potential or life.	Maintaining asset serviceability by repair eg: repairing a single pipe in a drainage network, or a pot hole in a road.
New asset expenditure	Means expenditure that creates a new asset that provides a service that does not currently exist. New asset expenditure does not have any element of renewal, expansion or upgrade of existing assets. New capital expenditure may or may not result in additional revenue for council and will result in an additional burden for future operation, maintenance and capital renewal.	Retains an existing service level, e.g. Re-sheeting a road reseals, resurfacing an oval.
Asset renewal expenditure	Means expenditure on an existing asset or on replacing an existing asset, that returns the service capability of the asset to its original capability. It has no impact on revenue but may reduce future operating and maintenance expenditure if completed at the optimum time.	Increases the quality of service provided to ratepayers or provides new services, eg: widening the pavement of a sealed area of an existing road.
Asset expansion expenditure	Means expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing beneficiaries. It is discretionary expenditure which increases future operating and maintenance costs, because it increases council's asset base, but may be associated with additional revenue from the new user group.	Extends services to newly developing areas of the Council where there are new ratepayers, eg: extending a road or drainage network, new pre-school.
Asset upgrade expenditure	Means expenditure that enhances an existing asset to provide a higher level of service or that will increase the life of the asset beyond its original life. Asset upgrade expenditure is discretionary and often does not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure in the future because of the increase in the council's asset base.	Provides new assets for services that do not currently exist

**Table 6: Expenditure Definitions – Asset Management – 2018/19**

It is important Council records its expenditure correctly as the impacts of capital investment differ between these categories – for example whole of life costs for new assets as opposed to renewal.



## 6.5 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. Council has developed its *Asset Management System* 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; and
- Determine what corrective action is required and when (maintenance, rehabilitation, renewal).

## 6.6 Management Systems

Council has determined that no asset's condition will be allowed to go below its predetermined intervention levels as the cost of renewal significantly increases 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 commence detailed *Service Plans* and *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.
- 

The **Asset Management System** should not only records asset condition and asset defects/inspection details; it should also provide financial management and year-end accounting and valuation data.

Priority is on funding the annual renewal annuity based on predetermined service levels generally described as intervention levels- the maximum level an asset can deteriorate to prior to renewal investment.

The intervention level is theoretically where the assets service life has expired, and renewal investment is required to restore service potential. For example, a road needs re-sheeting to be useable.

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

Asset Group Name	Asset Set Description	Retreat. Intervention Condition
Roads	Urban Link & Collector Pavements	8.0
Roads	Urban Access Pavements	8.0
Roads	Rural Link and Collector Sealed Pavements	8.0
Roads	Rural Access Sealed Pavements	8.0
Roads	All Asphalt Surfaces	8.0
Roads	Urban Link & Collector Spray Seals	8.0
Roads	Urban Access Spray Seals	8.0
Roads	Rural Link and Collector Spray Seals	8.0
Roads	Rural Access Spray Seals	8.0
Roads	All Unsealed Pavement	8.0
Other Transport	Carpark Pavement	8.0
Other Transport	Car park Seal	8.0
Other Transport	All Kerbs	8.0
Other Transport	Asphalt Pathways	8.0
Other Transport	Brick Paved Pathways	8.0
Other Transport	Concrete Footpaths	8.0
Other Transport	Unsealed Footpaths	8.0
Other Transport	Bridges	8.0
Other Transport	Culverts	8.0
Environment (Waste)	Environment (Waste)	8.0
Storm Water	Pits	9.0
Storm Water	Pipes	9.0
Buildings Group	Structure Long Life	8.0
Buildings Group	Structure Short Life	8.0
Buildings Group	Roof Structure	8.0
Buildings Group	Mechanical Services	8.0
Buildings Group	Building Fit Out	8.0
Recreation Group	Playgrounds	8.0
Recreation Group	Sporting Ovals	8.0
Recreation Group	Pool Shells	8.0
Recreation Group	Synthetic Surfaces	8.0
Livestock Exchange	Livestock Exchange	8.0
Fleet Group	Short Life Fleet	8.0
Fleet Group	Long Life Fleet	8.0
Airport	Runway/Carpark Pavements	8.0
Airport	Runway/Carpark Seal	8.0
Airport	Airport Other	8.0
Other	Furniture & Equipment	8.0
Other	Other	8.0
Other	Other Infrastructure	8.0

**Table 7: Intervention Levels by Service Area – Asset Set – 2017/18**

Council needs to improve its knowledge with respect to its open space structures, information technology and recreation assets.

## 6.7 Strategic Asset Management

Council reviews its *Asset Management Policy* reviewed on a triennial basis.

Other major elements are the *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 (10-years and beyond) outline renewal requirements for each asset category.

The table below explains the objectives and typical contents of these documents:

Asset Management Strategy	Asset Management Plans
Specific actions to be undertaken by Council in order to improve or enhance asset management capability and achieve specific strategic objectives.	Long-term plans (usually 20 years or more for infrastructure assets) that outline the asset activities for each service area.
<i>Develops a structured set of actions aimed at enabling improved asset management by Council.</i>	<i>Outlines actions and resources to provide a defined level of service in the most cost-effective way.</i>
<ul style="list-style-type: none"> <li>• A description of the current status of asset management practices (processes, asset data and information systems).</li> <li>• Organisation's future vision of asset management.</li> <li>• A description of the required status of asset management practices to achieve the future vision.</li> <li>• Identification of the gap between the current status and the future vision (a "gap analysis").</li> <li>• Identification of strategies and actions required to close the gaps, including resource requirements and timeframes.</li> </ul>	<ul style="list-style-type: none"> <li>• A summary of Council's strategic goals and key asset management policies.</li> <li>• Definition of levels of service and performance standards.</li> <li>• Demand forecasts and management techniques.</li> <li>• Description of the asset portfolio.</li> <li>• A broad description of the lifecycle management activities for operating, maintaining, renewing, developing and disposing of assets.</li> <li>• A cashflow forecast.</li> <li>• Key asset management improvement actions including resources/timeframes.</li> </ul>

**Table 8: Asset Management Plan Objectives & Document Content**

Council has reached the point where it has identified and funded its critical renewal – no asset's condition goes beyond those shown in **Table 7** (Section 6.6 Management Systems).

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.

### 6.7.1 Community Consultation

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 *Strategic Resource Plan* 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 these.

The target for Council in 2019/20 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.

Sound Asset Management is:

- Knowing what assets we own (Asset Register);
- Understanding the condition and expected lives of our assets;
- Knowing what 'levels of service' customers want- service planning;
- 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 will be a challenge during 2019/20.
- What services, including their performance levels, are required to meet the community outcomes?
- Finally, what infrastructure or assets are required to support the service level?

Too often Council starts focusing on the asset rather than on the outcome/service level it requires. A review of this nature may result in assets no longer being required to support community outcomes.

### 6.7.2 Asset Management Team

The *Asset Management Team (A-Team)* is a team of core Asset and Finance members, seconding representatives from Council departments as required to increase depth of knowledge of specific asset groups.

The purpose of the A-Team is to oversee the decision-making process with respect to the direction of asset management and to ensure the Council continues to develop total asset management across the organisation.

The **Asset Management Team's** Terms of Reference include:

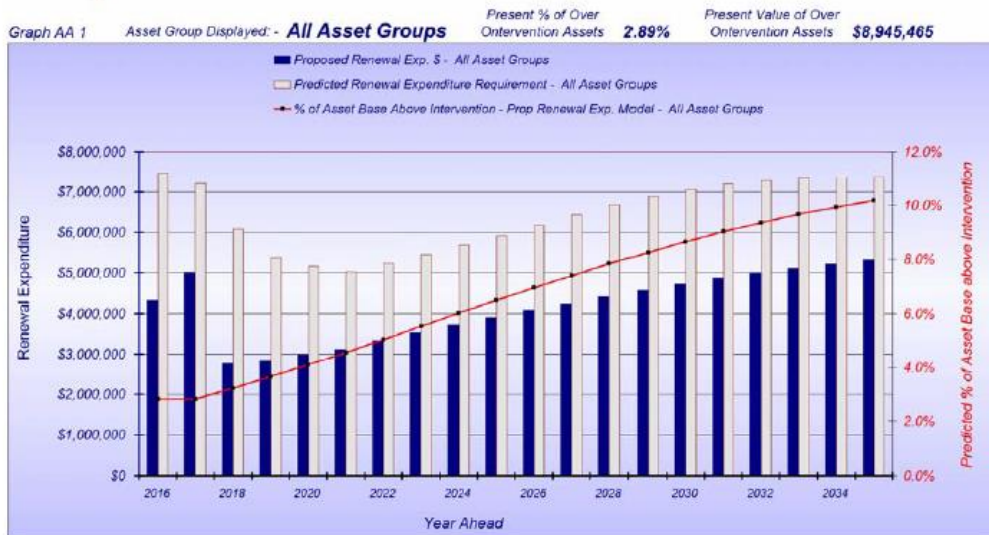
- Guiding Council's overall Asset Management Program;
- Setting priorities for system development while keeping in mind the legislative obligations of Council (e.g. Strategic Resource Plan and Council Plan etc.);
- Facilitating the implementation of appropriate asset management systems and asset management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

There is still a deal of work to be done on recording and developing *Service Plans* and *Asset Management Plans*.

### 6.7.3 Renewal Demand

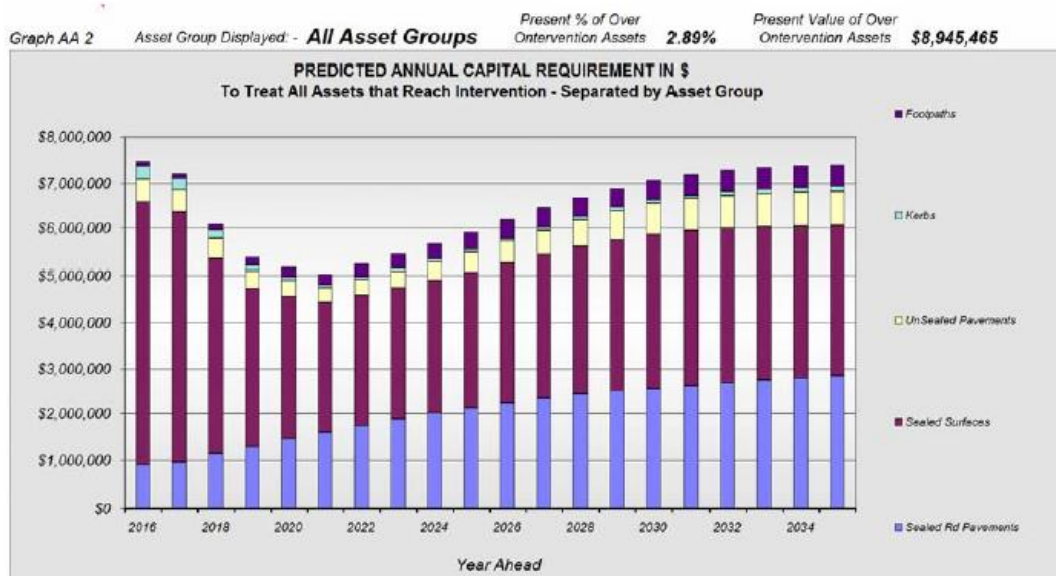
The following details the impact of Council’s investment in renewal and the consequential impact on the percentage of assets outside intervention.

Council has recently increased its renewal investment but has not had the opportunity to model the improvements since its last review.



**Chart 7: Proposed and Predicted Renewal Expenditure Chart– 2015/16**

The following graph depicts the predicted level of renewal expenditure required across all asset categories for Council until 2032 as at the end of 2015.



**Chart 8: Proposed Renewal Expenditure Profiles Chart – 2015/16**

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

Council’s *Strategic Resource Plan* is transitioning to focus on funding a “service level” that prioritises critical renewal and maintains average condition to meet community expectation.

To facilitate this process, Council will engage in consultation with key stakeholders including discussions on the key questions with respect to infrastructure investment and service levels, as detailed in Section 5.

## 6.8 Conclusion

Council's priorities for the 2019/20 financial year as regards Asset Management are:

- **Asset Management Plans:** Develop tactics to manage renewal demand/gap post the completion of Stage 1 of the service planning process.
- **Review Levels of service:** In conjunction with stage 1 of the service planning process.
- **Review of Asset hierarchies:** Determine if current categories and service levels are appropriate.
- **Field test condition data:** Review useful life left versus condition rating based on a field analysis to ensure quality and interpretation of condition is accurate.
- **Revaluation of Assets:** Develop a schedule for the revaluation of assets and ensure condition assessments are done concurrently to facilitate review of useful lives etc.
- **Increased renewal investment:** Continue investment in renewal to ensure the future safety and serviceability of assets.
- **Continue participation in National Asset Management Assessment Framework (NAMAF):** Recommence in the NAMAF program and recalibrate assessment in line with current objectives and practices.
- **Improved data:** Improve component data for recreation assets and buildings.

### *Strategic Direction*

1. That **Southern Grampians Shire Council**, having established its critical renewal investment levels, completes detailed *Asset Management Plans* (focused on renewal demand) for all classes of Council assets incorporating service level assessments.
2. That **Southern Grampians Shire Council**, as part of the development of its *Service 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 **Southern Grampians Shire Council** adopts as policy the annual allocation of funds to meet **100 per cent** of the community's infrastructure renewal needs before it elects to upgrade or construct new assets.

## 7. BORROWING STRATEGIES

This section includes:

- Measuring what level of debt is appropriate
- Borrowing Assessment Policy
- What do financial indicators mean
- What is a prudent level of debt
- Future Loan Program.

### 7.1 Measuring Which Level of Debt is Appropriate

Each Council is different and the level of debt that is appropriate for Council may not be adequate for another Council.

The following factors are seen as important issues for deliberation by 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; and
- community growth needs.

The table below highlights the relative debt levels of Councils within the **Large Rural Shires** grouping at 30 June 2018. Council's relative debt level is also shown. By comparing a number of different debt ratios within the Council grouping, **Southern Grampians Shire Council** can begin to consider what level of debt is appropriate.

The table below confirms that **Southern Grampians Shire Council** is currently better than average and better than the median<sup>1</sup> across all of the debt indicators within the **Large Rural Shires** grouping. In terms of total debt levels, Council is below average with the **Large Rural Shires** grouping, refer to Chart 9.

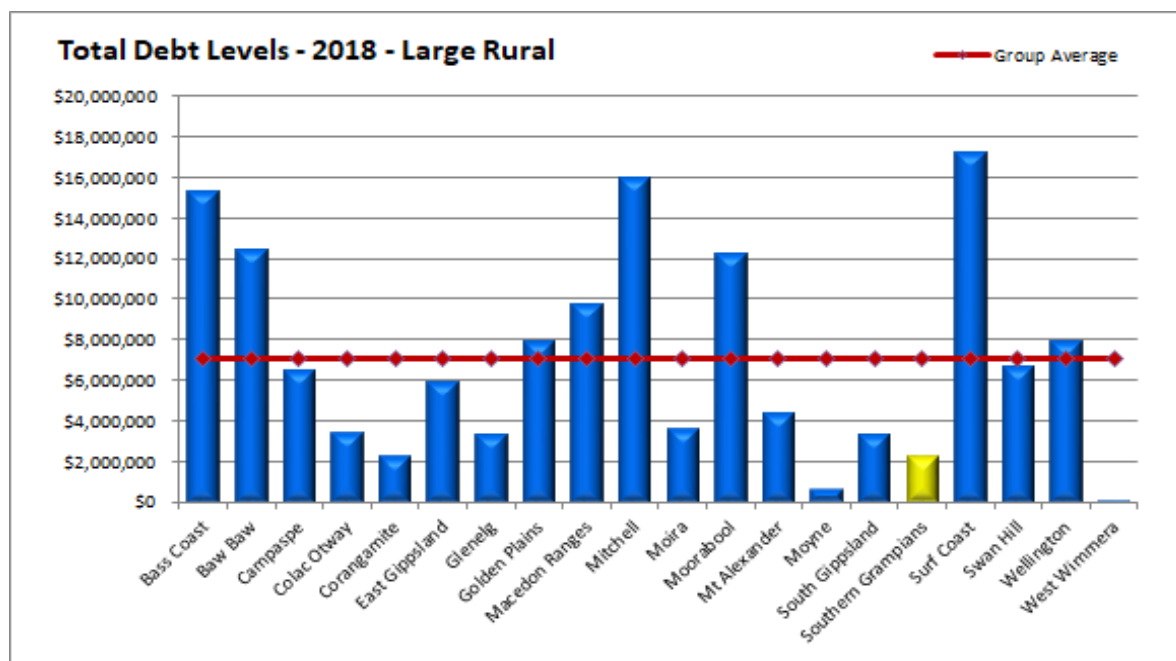


Chart 9: Comparison of Total Debt Levels within Large Rural Group 2017/18

<sup>1</sup>The **median** is described as the numerical value separating the higher half of a sample

Council	Debt Servicing / Adj. Total Revenue	Debt Commitment / Rates	Total Liabilities / Realisable Assets	Debt Commitment / Own Source Revenue	Total Debt / Own Source Revenue	Total Debt / Rate Revenue
Bass Coast	0.69%	6.77%	16.89%	5.86%	23.98%	27.70%
Baw Baw	0.61%	3.84%	40.51%	3.43%	20.46%	22.88%
Campaspe	0.32%	3.29%	15.85%	2.18%	10.61%	15.96%
Colac Otway	0.41%	2.79%	48.26%	2.30%	9.39%	11.36%
Corangamite	0.21%	11.22%	46.18%	7.54%	7.20%	10.72%
East Gippsland	0.42%	2.03%	18.48%	1.51%	8.05%	10.80%
Glenelg	0.32%	2.56%	93.54%	1.97%	10.88%	14.16%
Golden Plains	0.77%	2.68%	36.29%	2.26%	31.07%	36.89%
Macedon Ranges	0.51%	2.18%	7.00%	1.71%	16.66%	21.26%
Mitchell	1.07%	6.24%	39.60%	5.09%	32.21%	39.51%
Moira	0.53%	3.82%	13.42%	3.24%	8.53%	10.07%
Moorabool	1.16%	6.33%	35.23%	5.20%	31.10%	37.85%
Mt Alexander	0.58%	3.00%	32.43%	2.58%	16.98%	19.68%
Moyne	0.09%	5.64%	17.73%	3.36%	1.67%	2.80%
South Gippsland	0.21%	0.35%	15.08%	0.29%	6.88%	8.16%
<b>Southern Grampians</b>	<b>0.34%</b>	<b>2.78%</b>	<b>31.07%</b>	<b>1.79%</b>	<b>7.42%</b>	<b>11.48%</b>
Surf Coast	1.05%	3.44%	16.58%	2.84%	28.70%	34.68%
Swan Hill	0.70%	5.09%	19.64%	3.88%	18.96%	24.88%
Wellington	0.34%	1.82%	18.22%	1.52%	10.83%	12.98%
West Wimmera	0.03%	1.91%	32.44%	1.12%	0.28%	0.47%
<b>Average</b>	<b>0.52%</b>	<b>3.89%</b>	<b>29.72%</b>	<b>2.98%</b>	<b>15.09%</b>	<b>18.71%</b>
<b>Median</b>	<b>0.46%</b>	<b>3.14%</b>	<b>25.36%</b>	<b>2.44%</b>	<b>10.86%</b>	<b>15.06%</b>

**Table 9: Council Comparison Debt Levels within Large Rural Group – 2017/18**

In order to track the trend in **Southern Grampians Shire Council** debt position, the table below confirms that debt levels will decrease by **\$0.409 million** from 30 June 2018 to 30 June 2019.

Despite the increase in loan liability, relative debt ratios for the **Southern Grampians Shire Council** will remain well within *State Government Prudential Guidelines* throughout the life of the SRP.



## 7.2 Borrowing Assessment Policy

**Southern Grampians Shire Council** assessed its capacity to borrow against the (Better Practice) former 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 Southern Grampians Shire 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 key areas of financial management with certain thresholds that are required to be met.

Detailed below is Council's current and projected performance on a number of the financial indicators which are necessary for borrowing approval by State Government.

Area	Financial Indicator	Threshold (Prudential Guidelines)	Forecast 2018/19	Budget 2019/20
Liquidity	Current Assets to Current Liabilities	>150%	180.6%	91.5%
Debt Exposure	Total liabilities over total realisable assets	<50%	4.0%	4.4%
Debt Servicing	Debt Servicing Costs as a % of Total Revenue	<5%	0.7%	1.6%
Debt Commitment	Debt Servicing and Redemption Costs as a % of Rate Revenue	<10%	2.7%	3.3%

**Table 10: State Government Prudential Guidelines– 2018/19 to 2019/20**

**Southern Grampians Shire Council** is well within the State Government Prudential Guidelines as at 30 June 2019 and 2020.

## 7.3 What do the Financial Indicators Mean?

The graphs below detail the previously mentioned financial indicators and present the 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.

To encourage longer term planning by councils, the framework also includes an assessment of reasons for the new borrowings.

This rationale is explained in the council's policy, which is to fund long term intergenerational assets from loan funds to ensure intergenerational equity. **Southern Grampians Shire Council's** forecast is within the State Government prudential guidelines at June 30, 2018 for most indicators.

### 7.3.1 Liquidity

**How measured** Current assets over current liabilities

**Threshold** **110 percent** or higher

**Description** This indicator reflects the short-term liquidity position. That is, the council's ability to repay current commitments from cash or near cash assets. Councils with a ratio of **110 percent** and below or with a deteriorating trend may be financially at risk of not being able to meet creditors.

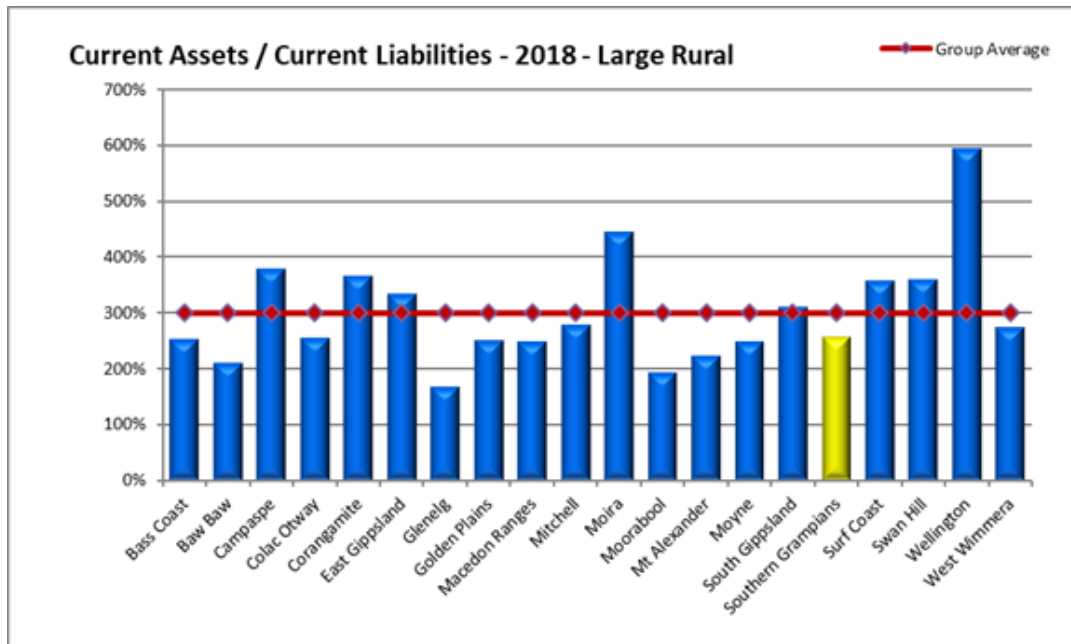


Chart 10: Current Assets / Current Liabilities – 2017/18

**Southern Grampians Shire Council's** working capital ratio as at June 30, 2018 was **257 percent** (that is, current assets over current liabilities), which is in excess of the **110 percent** benchmark, which would be the minimum acceptable level.

### 7.3.2 Debt Management

**How measured** Total debt as a percentage of rate revenue

**Threshold** 80 percent or below

**Description** 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 paid at one time. A threshold of **80 percent** has been set.

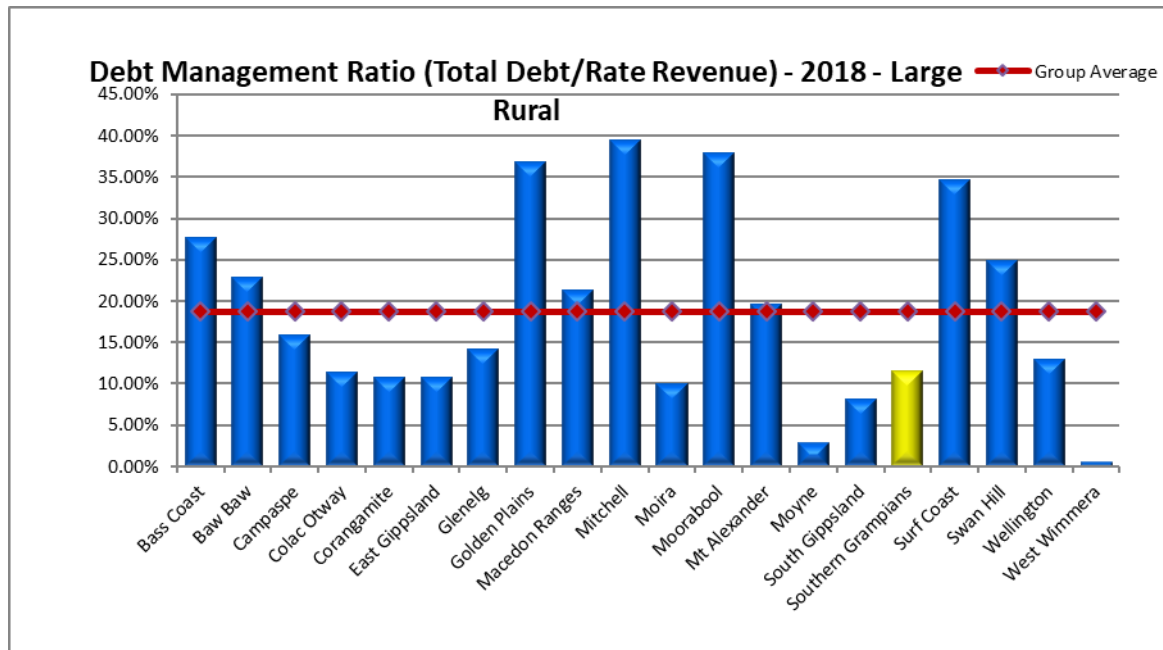


Chart 11: Total Debt as a Percentage of Rate Revenue – 2017/18

**Southern Grampians Shire Council's** debt as a percentage of rate revenue as at June 30, 2018 was **11.48 percent**, which is well below the **80 percent** benchmark and below the **Large Rural Shires** average of **18.71 percent**.

### 7.3.3 Debt Servicing

**How measured** Debt servicing costs as a percentage of adjusted total revenue

**Threshold** 5 percent or below

**Description** 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.

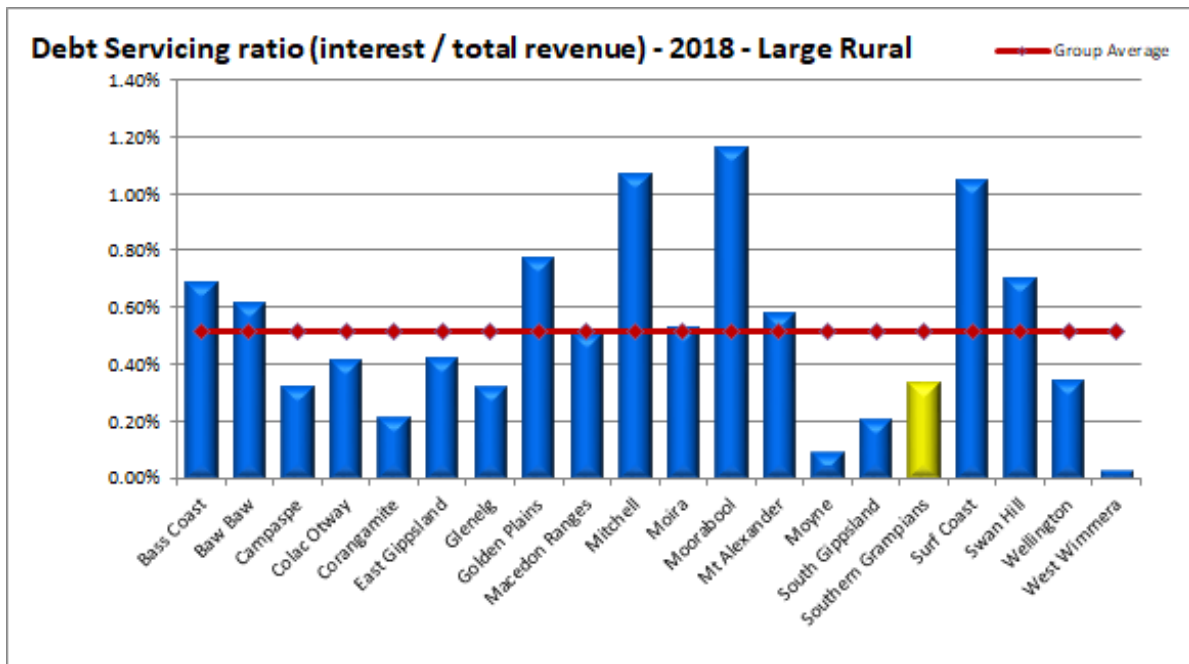


Chart 12: Debt Servicing Ratio (Interest / Total Revenue) – 2017/18

The **Southern Grampians Shire Council's** projected ratio is **0.34 percent** at 30 June 2018, which is below both the state and **Large Rural Shires** average of **0.52 percent** and the **5 percent** benchmark.

This illustrates the benefit of taking loans over a longer period of time such that each generation of ratepayers incurs a modest share of the long-term cost of providing long life community assets.

## 7.4 What is a Prudent Level of Debt?

The following graph 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.

The ratio details how much of the Council's rate dollar is being spent to repay debt and interest as an overall percentage of the Council's rate revenue.

What should the debt servicing and redemption costs be for **Southern Grampians Shire Council**, if any? This ratio is the most important ratio as it provides the best indicator of the affordability of debt for a community and Council.

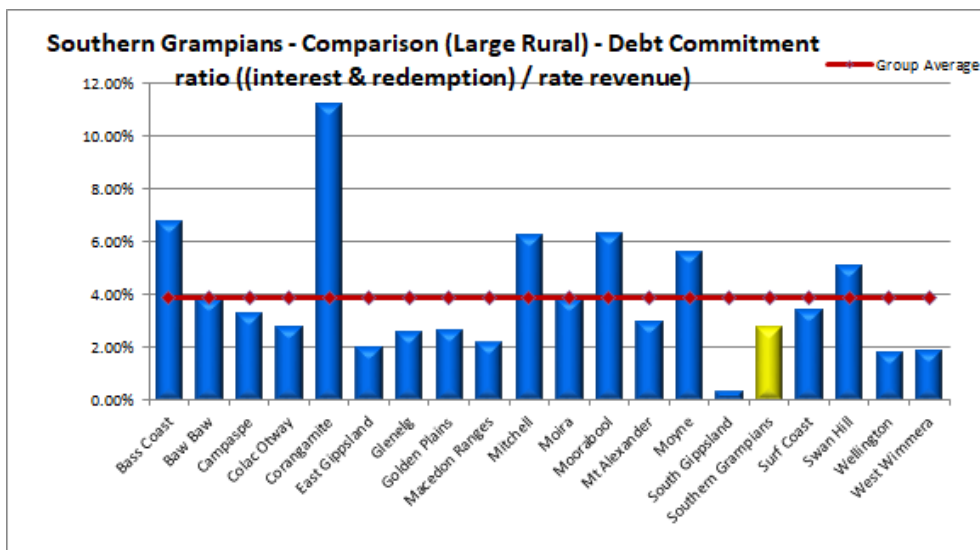


Chart 13: Debt Servicing & Redemption / Rate Revenue – 2017/18

Council needs to determine what a prudent level of debt is given that it is a growing **Large Rural Shire** that services a community greater than its population and rate base.

The examination should determine:

- If the Council was to borrow, what types of projects should these funds be put towards; and
- If the Council was to borrow, on what terms should these borrowings be structured

In 2017/18 **2.78 cents** in the rate dollar received serviced debt – both principal and interest payments. This is an affordable level and reflects the benefit of taking out loans over a longer period.

In 2018/19 it is proposed that this figure will remain to **2.77 cents** in the rate dollar received.

Debt is generally used to fund capital expansion projects or new projects (i.e. It should not be used for renewal or maintenance) when the asset life is greater than one generation that is, often described as intergenerational equity.

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 (pre-schools, halls, arts centres) where the benefit of the investment will extend beyond the current ratepayers. By borrowing, the Council ensures today's ratepayers are not fully funding these facilities.

There are limits on borrowings due to the costs of interest payments. If the council was 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.

## 7.5 Future Loan Program

The chart below highlights the forecast borrowings.

The Chart includes the split between current (payable within 12 months) and the total interest-bearing facilities:

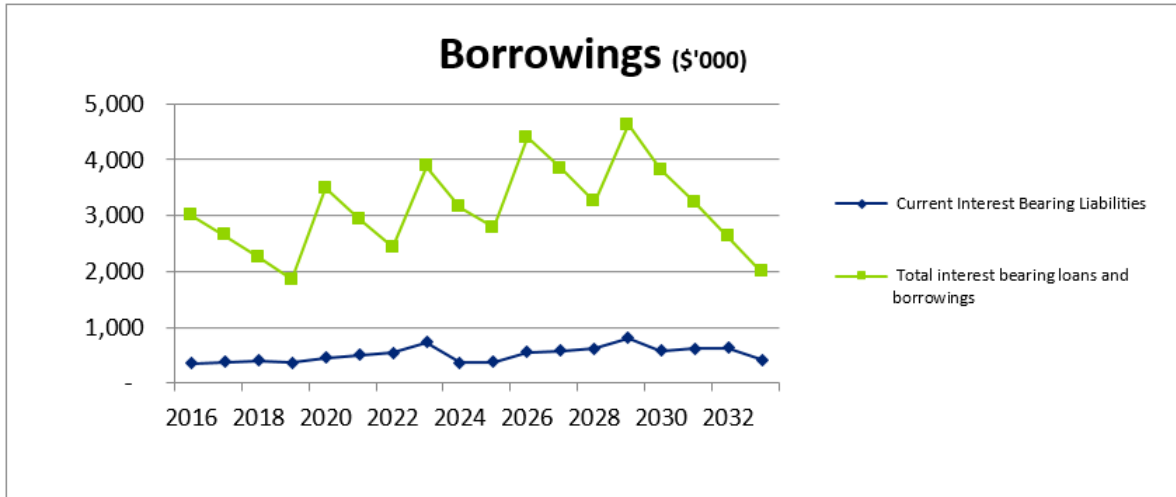


Chart 14: Total and Current Interest-Bearing Liabilities 2019/20 (From LTFP)

### Strategic Direction

1. That **Southern Grampians Shire Council** based on Better Practice Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity; and
2. That **Southern Grampians Shire Council** retains its debt servicing and redemption costs at or below 6 cents in the rate revenue dollar, towards interest and principal, over the life of this SRP.

## 8. RESTRICTED ASSETS

### 8.1 Introduction

Victorian Councils have traditionally operated with reserve funds that are allocated for specific purposes. These funds do not have bank accounts of their own but are a theoretical split-up of Council's equity. Discretionary reserves are used only as an indicator of funds for specific purposes and represent what those functions have earned.

**Southern Grampians Shire Council** does hold separate investment accounts for reserves, however they are at call should the need arise to access the cash.

### 8.2 Nature and Purpose of Restricted Assets

**Southern Grampians Shire Council** allocates expenditure for known outlays and revenues, directly to the financial year where the expenditure will be incurred, rather than to specific reserve funds.

The 2019/20 *Strategic Resource Plan* is framed around having sufficient cash reserves to cover restricted assets which are primarily developer open space contributions, long service entitlements and grant funding.

**Southern Grampians Shire Council** also generally provides for at least **\$0.5 million to \$1 million** in working capital to meet day to day needs.

#### 8.2.1 Developer Contributions

Development contribution receipts and payments or in-kind works, facilities or services provided by developers towards the supply of infrastructure (generally by the **Southern Grampians Shire Council**) required to meet the future needs of a particular community, of which the development forms part.

Levies can be raised through *Development Contribution Plans ("DCPs")* for a range of State and local government provided infrastructure including roads, public transport, storm water and urban run-off management systems, open space and community facilities.

Under the current legislative framework, any funds that have been received from developers for those infrastructure works, under a DCP or freely negotiated agreements must be held in reserve or "restricted" for that actual infrastructure and cannot be reallocated for other non-related capital projects.

Additionally, even if the **Southern Grampians Shire Council** does not achieve its predicted expenditure, the works represent Council commitment to infrastructure, and any unspent funds are routinely reserved for the infrastructure in readiness for when it is actually required to be delivered.

These projects should also be placed in the relevant year of the 10-year capital works program.

#### 8.2.2 Parking Development

The Parking Development Reserve is in lieu of provision of off-site parking as part of a development. These funds are used for the purchase and development of public access parking in the general area.

#### 8.2.3 Drainage Headworks

The Drainage Headworks Reserve is in lieu of meeting the cost to develop, upgrade and/or renew drainage infrastructure downstream of any subdivision development, a charge is levied on subdivision developers.

### 8.2.4 Waste Levy

The Waste Levy Reserve is in lieu of meeting the cost to develop, upgrade and/or renew waste infrastructure. A charge is levied on waste fees and transfer stations as waste is deposited in these facilities.

### 8.2.5 Unexpended Grants

These are Grants recognised as revenue during the year that were obtained on condition that they be expended in a specified manner that had not occurred at balance date.

### 8.2.6 Notional Reserves, Amounts held in Trust

It is a requirement of Council to separately identify trust funds or refundable deposits as “restricted assets”. While the council is able to access these funds in its day to day treasury management, the financial statements must recognise that a component of its cash balances relates to deposits that may be refundable in the future.

Restricted Assets	Estimate 30 June 2019 \$000's
Developer/Subdivider Contributions	273
Parking Development	98
Drainage Headworks	97
Waste Levy	401
Trust Accounts	353
<b>Total</b>	<b>1,222</b>

Table 11: Restricted Assets – 2018/19

### Strategic Direction

1. That **Southern Grampians Shire Council** builds into its 10 year financial plan the estimated movements in restricted assets and provides for at least **\$0.5 million** to **\$1 million** in working capital to meet day to day needs.
2. That to ensure sufficient funds are available to meet operational needs, **Southern Grampians Shire Council** retains a cash position of at least **\$4 million** to **\$5 million** after deducting restricted assets, i.e. cash received but not spent or cash to be spent for specific purposes such as developer contributions (infrastructure), waste facility development, security deposits etc.



## 9. RATING AND OTHER REVENUE STRATEGIES

### 9.1 Introduction

This section includes:

- Valuations
- Components of **Southern Grampians Shire Council's** rating base
- Background to present rating system
- Rates Affordability
- Rating Strategy
- Rate Capping
- Rating Strategy 2019/20
- Waste services
- Grant revenue
- Victoria Grants Commission
- Fees and charges revenue

### 9.2 Valuations

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 **Southern Grampians Shire Council**, the valuation unit's general valuations are now required every year. Data on every property is recorded and used by the appointed valuer, along 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 **Southern Grampians Shire Council's** rating system; therefore, their accuracy is of paramount importance. The 2019 revaluation was undertaken based on property values at 1 January 2019.

The revaluation does not in itself raise the total rate income for **Southern Grampians Shire 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 their new property valuation, relative to others.

### 9.2.1 Definitions of valuations

**Southern Grampians Shire 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.

### 9.2.2 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

**Southern Grampians Shire Council** presently undertakes this task on a quarterly basis.

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

## 9.3 Components of Council's Rating Base

**Southern Grampians Shire Council** levies differential rates, annual service charges and a municipal charge, to raise its annual rates and charges revenue.

The legislative basis of how they apply to **Southern Grampians Shire Council** are available upon request:

- Differential Rates – Legislation
- Municipal Charges
- Special Rates and Charges
- Service Rates and Charges
- Rebates and Concessions

## 9.4 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.

Each local government sets rates based on an assessment of the desires, wants and needs of its community and as each community is different, direct comparisons can be difficult. For example, cash holdings of municipalities vary, and councils have significantly different infrastructure needs and geographic sizes.

Each municipality also has significantly different levels of capital works, funding structures for capital works and varying debt levels.

On rates per assessment basis in the 2017/18 financial year, **Southern Grampians Shire Council** was below average for the **Large Rural Shires** group.

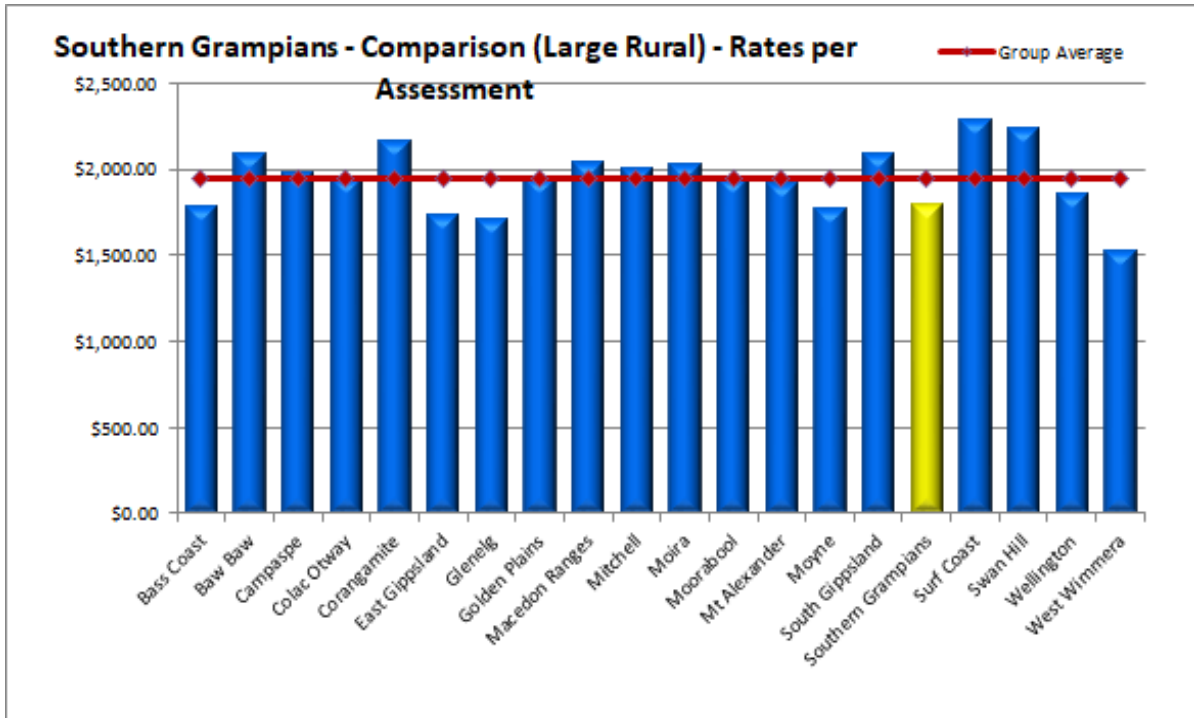


Chart 15: Rates per Assessment – 2017/18

On a rates per residential assessment **Southern Grampians Shire** rating effort is below the average of the benchmark group.

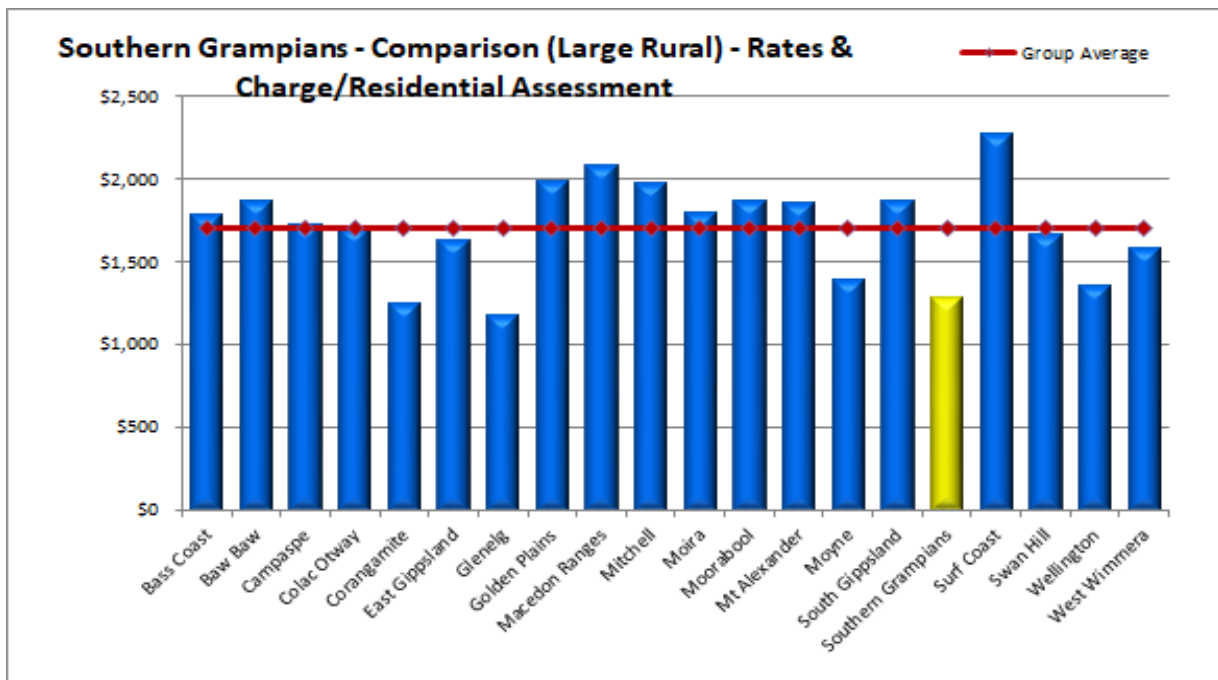


Chart 16: Rates and Charges per Residential Assessment

Higher comparative rating levels do not necessarily represent a position of weakness or inefficiency.

External funding bodies may consider levels of rating effort in their funding decisions, i.e. low rates could be construed as less preparedness at the local level to match the external contribution. Higher rating can also indicate that a council has opted for more control of its destiny, e.g. to achieve a particular project for the community that would otherwise be out of reach.

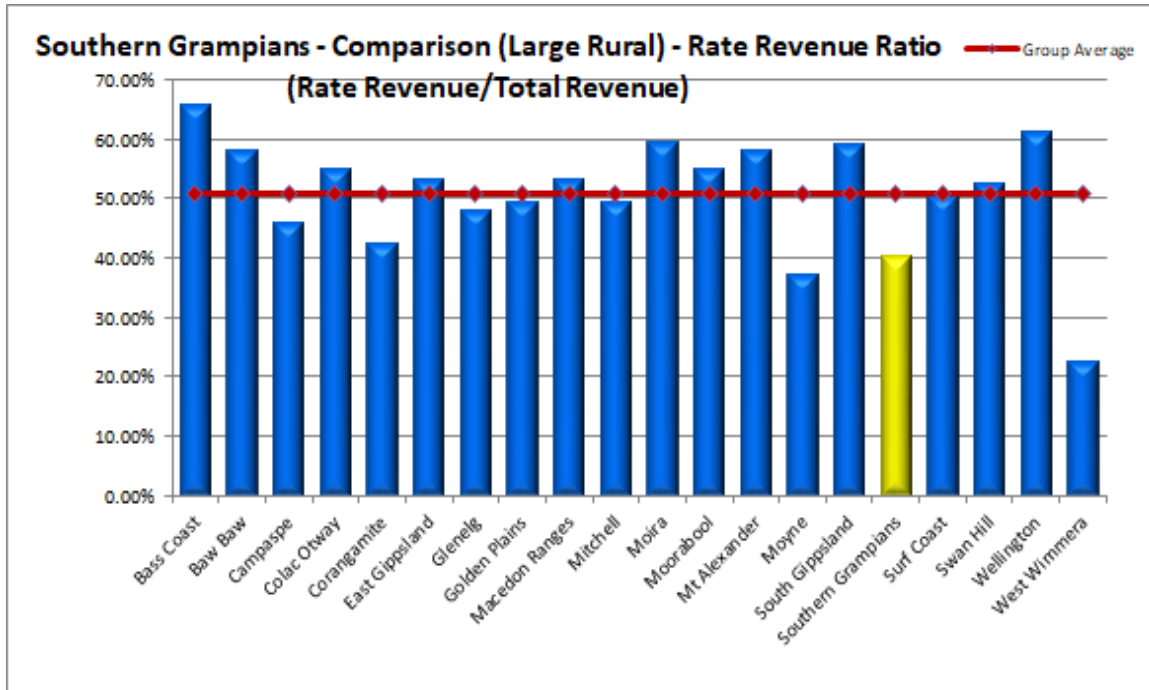


Chart 17: Rates as a % of Total Revenue - 2017/18

What is most critical in setting a rating structure is for **Southern Grampians Shire** Council to be accountable and responsible for the policy decisions with respect to the range of services provided, the expenditure and delivery of the services and the way services are funded and paid for by the community.

## 9.5 Background to the Present Rating System

Council's current rating structure comprises of three differential rates.

These rates are structured in accordance with the requirements of Section 161 "Differential Rates" of the Act and in line with Ministerial Guidelines for differential rating.

On 9 May 2018 Council revised this Policy to provide an equitable and consistent basis for the levying of rates and charges.

The policy provides that differential general rates will be levied on the capital improved valuation of all rateable land to reflect the different standard, range and access to municipal services available to the residents and ratepayers of the Shire. The rationale for this policy being that the owners and occupiers of properties in the Hamilton urban area and immediate surrounds enjoy a greater range and standard of services and access to services compared to residents and ratepayers in other areas of the Shire.

The policy provides for the levying of three differential rates as follows: -

1. Differential General Rate No. 1 - will be levied on the capital improved valuation of all rateable land in the parishes of North Hamilton and South Hamilton, excluding farm land (as defined in the Valuation of Land Act 1960) comprising all or part of a single farm enterprise with an area of 40 hectares or more.
2. Differential General Rate No. 2 - will be levied on the capital improved valuation of all rateable farm land (as defined in the Valuation of Land Act 1960) in the parishes of North Hamilton and South Hamilton comprising all or part of a single farm enterprise with an area of 40 hectares or more.
3. Differential General Rate No. 3 - will be levied on the capital improved valuation of all other rateable land in the Shire.
4. Differential Rates Nos. 2 and 3 will be fixed at the same rate.
5. Differential Rates No. 2 and 3 will be fixed at 80% of Differential Rate No.1.

The policy also provides for a municipal charge, service (or garbage) charges and special drainage rate.

This Policy is revised in conjunction with the Return of the 2019 Valuation and 2019/20 Budget. The following tables summarises the rates in dollar levied in the 2019/2020 year including a comparison with 2018/19:

Differential Rate Type	Cents in/\$ CIV 2018/19	Cents in/\$CIV 2019/20	Change (%)
General Rate 1	0.5237	0.4469	(14.66)
General Rate 2	0.4190	0.3575	(14.66)
General Rate 3	0.4190	0.3575	(14.66)
Special Rate – Yatchaw Drainage	0.0363	0.0323	(11.02)

**Table 12: Rates in \$ 2018/19 compared to 2019/20**

The table below outlines the total rates and charges for 2018/19 and 2019/20:

Description	Total Anticipated 2018/19 (\$)	Total 2019/20 (\$)	Change (%)
General Rates	16,425,736	16,830,760	2.46%
Municipal Charges	1,831,050	1,878,000	2.56%
Waste Service Charges	1,682,674	1,887,410	12.17%
Organic Waste Charges	115,805	115,805	0.00%
<b>Total Rates and Charges Revenue</b>	<b>20,055,265</b>	<b>20,711,975</b>	<b>3.27%</b>

**Table 13: Rates and Charges 2018/19 as compared to 2019/20**

Type or class of land	2018/19 \$	2019/20 \$	Change %
Residential	6,940,724	<b>6,431,010</b>	(7.34%)
Rural	8,278,234	<b>9,300,633</b>	12.35%
Industrial	299,968	<b>259,379</b>	(13.53%)
Commercial	906,810	<b>839,738</b>	(7.40%)
<b>Total amount to be raised by general rates</b>	<b>16,425,736</b>	<b>16,830,760</b>	2.46%

**Table 14: Individual Rates Annualised 2019/20**

### 9.6 Rates Affordability

The ability to increase rate revenue is a significant factor in determining whether a Council is potentially at risk.

**Southern Grampians Shire** Council’s rating effort has been satisfactory and when benchmarked was above the average effort of the **Large Rural Shire** group.

Australian Taxation Office (ATO) income data for wage and salary earners (PAYE) can be used to give some indication of rates affordability.

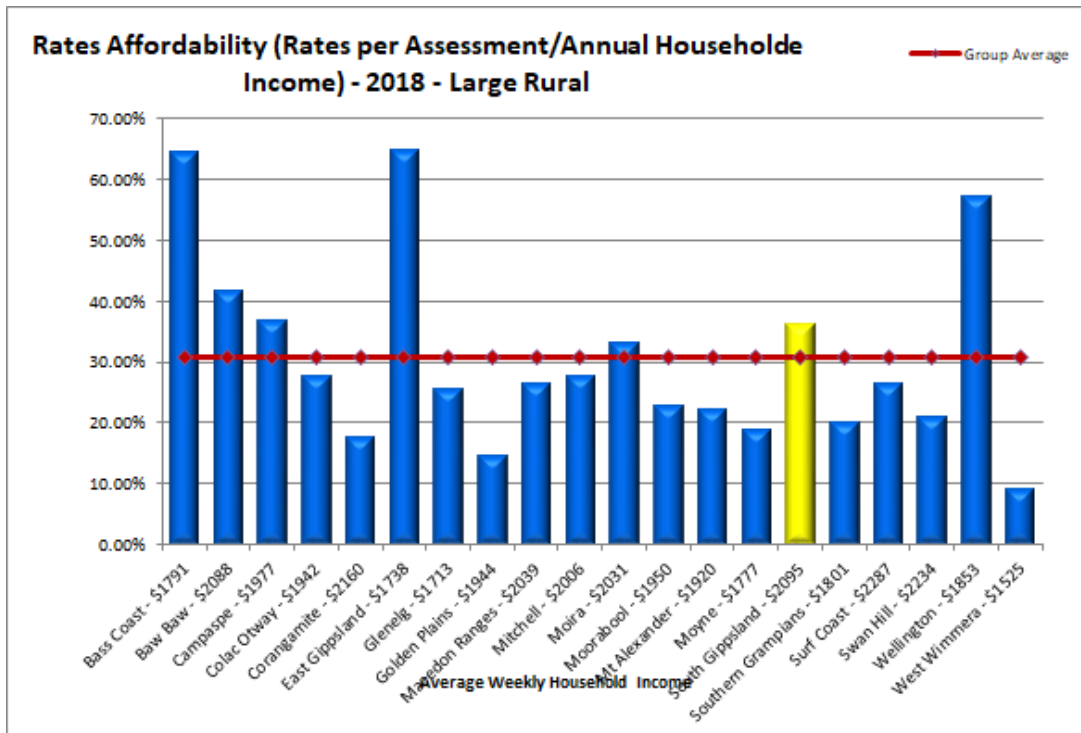


Chart 18: Rates Affordability Large Rural - 2017/18

The Rates Affordability Chart above details the percentage of income that pays rates and charges to Council.

## 9.7 Rating Strategy

**Southern Grampians Shire Council's** rating 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.

The rating system determines how **Southern Grampians Shire 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 **Southern Grampians Shire Council's** long-term financial plan.

**Southern Grampians Shire Council** and the community invariably confront trade-offs and the principles are designed to improve the quality of decision making in this environment.

The principles were synthesised from a number of sources including the work published by a number of authors quoted in the Productivity Commission report, *Assessing Local Government Revenue Raising Capacity*.

**Southern Grampians Shire Council** can then exercise its legitimate governance role and determine not only who wants what service and who benefits but what is socially equitable, that is, who pays how much.

Use was also made of long-established principles in the public finance and economics literature, as well as some of the principles outlined in recent Financial Sustainability reports around the nation.

The principles of the **Rating Strategy** include ensuring the capacity for:

- Sustainable financial management
- Evaluating and setting priorities
- Core functions
- Service delivery
- Prudent borrowings
- Rate setting and pricing for services
- Openness and transparency
- Providing services on behalf of other tiers of government.

**Appendix C** details the rating principles in more detail.



## 9.8 Rates and Charges Budget – 2019/20

A key decision of **Southern Grampians Shire Council** during the life of the SRP is to determine the rating structure and the level of rate increase that will address funding levels for capital works, service provision for the municipality and improve **Southern Grampians Shire Council's** long-term financial sustainability.

Council has established a rating structure which is comprised of two key elements. These are:

- Property values, which reflect capacity to pay and form the central basis of rating under the *Local Government Act 1989*
- A “user pays” component to reflect usage of services provided by Council.

Striking a proper balance between these elements provides equity in the distribution of the rate burden across residents.

Council makes a further distinction based on the concept that different property categories should pay a fair and equitable contribution to rates, taking into account the benefits those properties derive from the local community and Council.

Council's current rating structure comprises of three differential rates.

These rates are structured in accordance with the requirements of Section 161 “Differential Rates” of the Act and in line with Ministerial Guidelines for differential rating.

Council also charges a service charge under the Act for the collection and disposal of waste and recyclable material. A further elective charge for the disposal of compostable materials is also made available.

## 9.9 Rate Capping

Rate effort is now constrained by the State Government's introduction of rate capping legislation in the form of its “Fair Go” Rates system (FGRS).

The FGRS or rate capping introduces an annual rate cap set by the Minister for Local Government which controls general rate increases for all Councils during that financial year.

On 20 December 2018, the Minister for Local Government, Hon. Adam Somyurek MLC advised an annual rate increase of **2.5 per cent** for the 2019/20 financial year.

Councils can seek approval for an increase above this figure through a variation with the Essential Service Commission (ESC).

Council is not seeking an increase in the 2019/20 year.

## 9.10 Waste Service Charges – Waste Collection Service

**Southern Grampians Shire Council** is empowered under Section 162(1) (b) of the *Local Government Act (1989)* to levy a service charge for the collection and disposal of refuse.

The purpose of this charge is to meet the costs of waste disposal and recycling activities throughout the **Southern Grampians Shire** area, including development and rehabilitation of Landfill sites and the operating costs of Landfills and Transfer Stations.

Council consistently monitors all expenses and revenues related to waste management and proposes adjustments to charges to maintain a policy position of full cost recovery.

**Southern Grampians Shire Council** has typically used this option through the raising of garbage and recycling charges on the annual rate assessment.

Southern Grampians Shire Council's Waste Services includes:

- Weekly kerbside waste collection service;
- Fortnightly kerbside recycling;
- Green organics collection service;
- Public recycling and waste disposal and transfer station facilities;
- Commercial disposal facility and Landfill;
- Street litter and public place recycling bins; and
- Forward planning for capital budget requirements.

**Southern Grampians Shire Council's** proposed service charges are as described below. A total income of **\$1.776 million** will be received for refuse, recycling and organics services in 2019/20 to support recurrent operating expenditure.

Service Charge	Charge per Service 2018/2019 (\$)	Charge per Service 2019/2020 (\$)	Change (\$)	Change (%)
Waste & Recycling Collection	263	295	32	12.17%
Organics Collection	95	95	0	0.00%

**Table 15: Projected Waste Charges 2019/20**

### 9.11 Grant Revenue

As at 30 June 2018 **Southern Grampians Shire Council** was above average in terms of receiving government grant revenue, compared to its like Council grouping as outlined in the graph below.

As a benchmark **Southern Grampians Shire Council** receives **20 percent** of its revenue (as a percentage of total revenue) from recurrent operating grants compared to the average of **Large Rural Shires** at **17 percent**.

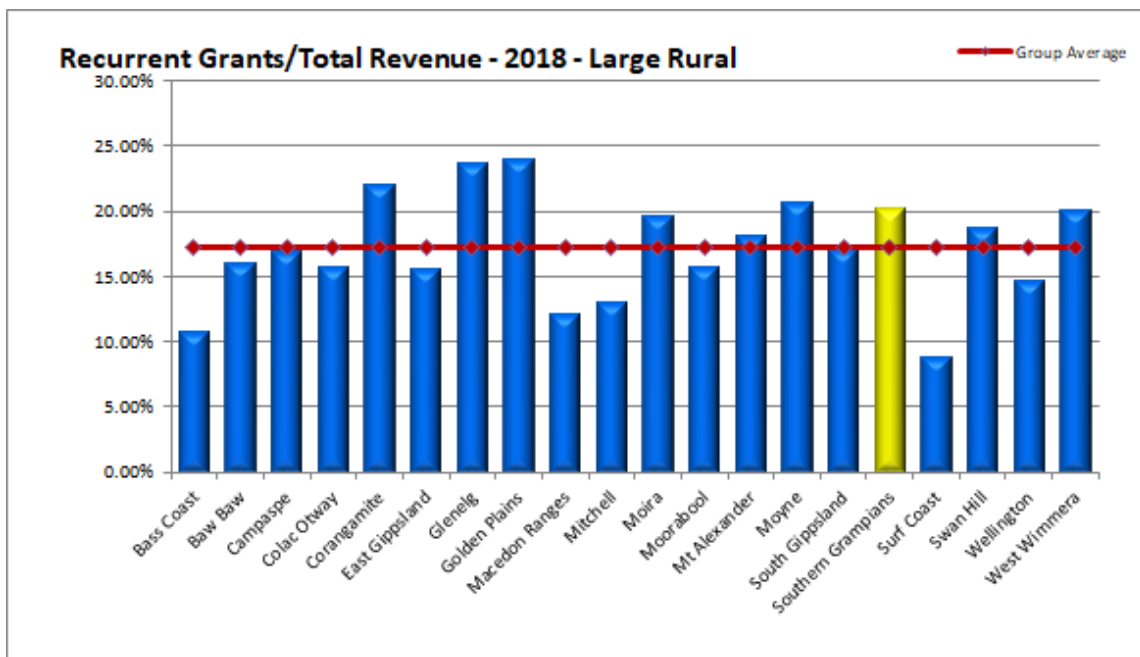


Chart 19: Recurrent Grants/Total Revenue 2017/18

**Southern Grampians Shire Council** must continue its strong focus on securing grant revenue, particularly for capital works. Grants (capital and operating) at 30 June 2018 totalled **\$18.159 million**. With a longer-term capital works program in place **Southern Grampians Shire Council** should be able to target and focus on grants that align with its overall strategic direction.

### 9.12 Victoria Grants Commission

**Southern Grampians Shire Council** receives approximately **15 percent** of its revenue from the Victoria Grants Commission.

This revenue received in 2017/18 was **\$7.2 million** (50 percent of the 2017/18 allocation and 50 percent of the 2018/19 allocation).

In 2018/19 the actual received (as at April 2019) is \$3.6 million which is the remaining 50 percent of the allocation not prepaid.

At this point it is not known with certainty whether the 2019/20 allocation will be paid in totality in the 2019/20 year or 50 percent prepaid in the 2018/19 year.

## 9.13 Fees and Charges Revenue

Southern Grampians Shire Council's fees and charges revenue as a percentage of its total revenue is above average for **Large Rural Shires** as outlined in the graph below. There is scope for **Southern Grampians Shire Council** to review fees and charges to ensure maximum return for service.

This is mainly due to the operation of significant business enterprises which generate large fee bases. These enterprises include the operation of an indoor leisure and aquatics center and a regional livestock exchange.

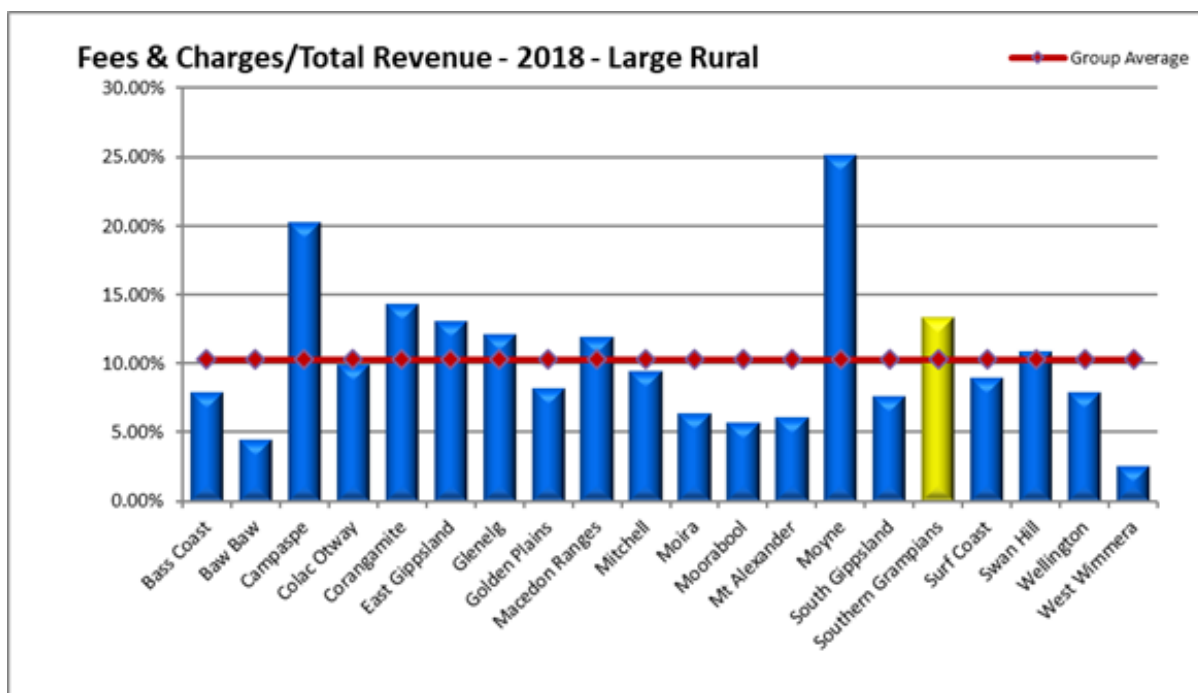


Chart 20: Fees & Charges/Total Revenue - 2017/18

### Strategic Direction

That **Southern Grampians Shire Council**

1. retains capital improved value (CIV) as its valuation base
2. provides a municipal charge that approximates **10 percent** of rate revenue plus the municipal charge to ensure an equitable contribution towards the unavoidable fixed costs of **Southern Grampians Shire Council**
3. considers future increases in waste charges based on EPA, regulatory and safety requirements and the need to sustain the Council's long-term waste operations strategy
4. in 2019/20, adopts an **2.5 percent** increase in total revenue for general rates and municipal charges and a **12.17 percent** increase in total revenue for waste collection including funding the cost of disposal of domestic waste, recycling collection and the environment levy
5. pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other Councils
6. Undertakes detailed analysis on the level of existing fees and charges and investigates new revenue sources and report recommendations to Council.

## 10. STRATEGIC FINANCIAL PLAN

### 10.1 Introduction

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

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

This section includes:

- Modelling methodology
- Financial assumptions
- Adopted financial strategy
- Conclusion

### 10.2 Modelling Methodology

The SRP establishes a framework for Council to benchmark its performance and an industry developed long term financial software model has been utilised to verify the data. The base point used for financial modelling has been the Council budget for 30 June 2019.

The Standard Statements (financial statements) are the result of the modelling and are reproduced from the long-term financial software model, refer *Appendix B*.

### 10.3 Financial Assumptions

The following information explains the major financial assumptions applicable to the financial option considered by Council prior to community input.

#### 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.

#### 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 expenses are assessed following condition assessments. The overall depreciation charge is also impacted by the amount of assets granted to the municipality following subdivision.

#### 10.3.3 Materials and contracts

These materials are essentially one-off expenditures that do not constitute the creation of an asset and have been maintained at 2018/19 levels through the life of the SRP.

The broad assumption in materials and contracts is for an increase matching CPI. Outside of the broad parameters are one off expenses, such as election expenses, valuation contract amounts and insurances.

A subsidiary record of one-off items and how they are factored into the model is recommended instead of a series of individual adjustments within the model.

#### 10.3.4 Special projects/consultancies

These works are essentially one-off expenditures that do not constitute the creation of an asset and have been maintained at 2018/19 levels through the life of the SRP.

#### 10.3.5 Debt servicing and redemption

Debt redemption is calculated according to the restructured loan schedules. Council borrowings are dealt with in detail in Section 9.

#### 10.3.6 Written-down values of assets sold

All written-down values relate to plant and land sold as part of the 10-year program. These are based on information from Council's Asset Registers.

#### 10.3.7 Rate revenue

The 2019/20 Budget is based on an increase of **2.5 percent** for rates and a municipal charge at **10 per cent** of the total revenue. Council's Rating Strategy is dealt with in detail in Section 9.7.

The mechanism to estimate supplementary revenue is at present an arbitrary one, based on historical dollar returns with forward probable development revenue estimated.

#### 10.3.8 Service charges

The 2019/20 Budget waste charge was based on a **12.17 percent** increase.

Funds raised are ultimately deployed to waste management (operating and capital) activities. This is discussed in Section 9.8 in more detail.

#### 10.3.9 Grant revenue

An allowance of **\$10.485 million** has been made as operating grant revenue for services and projects in 2019/20. In broad terms, a **2 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.

#### 10.3.10 Fees and charges

Fees and charges that Council has discretion over have been increased by **4 percent** per annum. Fees and charges of **\$5.873 million** have been provided for in 2019/20.

#### 10.3.11 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 the animal pound. Fees and fines are included in the above.

#### 10.3.12 Interest on investments

Interest on investments has been estimated based on cash flow.

#### 10.3.13 Proceeds from sale of assets

Proceeds from sale of assets are those relating to plant changeover and land sales.

### 10.3.14 Capital grants

Capital grant revenue is **\$4.335 million** in 2019/20, 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.

### 10.3.15 Granted assets

Granted assets are those handed over to Council following the completion of a subdivision. These include roads, footpaths, kerb, channel, drainage etc.

The level of granted assets is forecast to continue at low-levels based on predicted levels of property development.

However, estimates beyond 2019/20 are not based on any reliable data at this point. While granted assets add to Council's overall asset base, they also add to the future obligations to maintain and replace these assets at the end of their useful lives.

### 10.3.16 Capital expenditure

Capital expenditure amounts for new assets, local roads, buildings and information technology (renewal), and the like and have been directly budgeted for during the next 4-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 expansion.

## 10.4 Conclusion

The *Strategic Resource Plan* was adopted, by Council at its Special meeting in June 2019.

The SRP 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 *Financial Statements* are detailed in *Appendix B*.

### **Strategic Direction**

1. That **Southern Grampians Shire 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.

The background is a solid blue color. Overlaid on this is a complex, abstract network of white lines and dots. The dots are small circles, and the lines are thin, connecting the dots in a way that suggests a network or a molecular structure. The lines and dots are more concentrated in the upper-left and central areas, with some lines extending towards the bottom and right. The overall effect is a sense of connectivity and structure.

## ANNEXURES



## 11. APPENDIX A: GLOSSARY OF TERMS

TERM	DEFINITION
Act	The <i>Local Government Act 1989</i> .
Activities	The operations of the council including services undertaken to meet the needs of the community as reflected in the council plan and are generally ongoing in nature.
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.
Annual report	A report of the council's operations of the previous financial year and contains a report of operations, audited financial statements and an audited performance statement.
Australian Accounting Standards	The accounting standards published by the Australian Accounting Standards Board.
Average Rate Cap	Means an amount expressed as a percentage amount, based on the change to CPI over the financial year to which the cap relates, plus or minus any adjustment.
Borrowings	Loan funding.
Budget	A plan setting out the services and initiatives to be funded for the financial year and how they will contribute to achieving the strategic objectives specified in the council plan.
Capital works expenditure	Expenditure on non-current assets and includes new assets, asset renewal, asset expansion and asset upgrades.
Council cash	Funding from council's own sources of income. Example include rates, charges, investments and reserves, interest and asset sales.
Council plan	A plan setting out the medium-term strategic objectives, strategies, strategic indicators and resources reflecting vision and aspirations of the community for the next four years.
Current assets	Total current assets from "Statement of financial position".
Current liabilities	Total current liabilities from "Statement of financial position"
Debt redemption	Debt principal's repayments.

TERM	DEFINITION
Debt servicing costs (interest)	Total borrowing costs or interest expense as per the “Statement of financial performance” or as disclosed in the notes of the council statements.
Details list of planned capital works expenditure	A list of projects in relation to non-current assets by class and expenditure type.
Developer cash contributions	Cash contributions from developers. This does not include in-kind works or developer contributed assets.
Federal grants	Grant funding from the Commonwealth government.
Fees and charges revenue	Total fees and charges revenue as per the “Statement of financial performance” or as disclosed in the notes of the council statements (includes fines).
Financial performance indicators	A set of indicators measuring the effectiveness of financial management in a council covering operating position, liquidity, obligations, stability and efficiency.
Financial resources	Income, expenditure, assets, liabilities, equity, cash and capital works required to deliver the services and initiatives in the budget.
Financial statements	The financial statements and notes prepared in accordance with the Local Government Model Financial Report, Australian Accounting Standards and other applicable standards as they apply to the general purpose financial reports and a statement of capital works and included in the annual report.
Financial year	The period of 12 months ending on 30 June each year.
General Order	Means an order made by the Minister under section 185D of the Act.
Grant income and reimbursements	Total grants revenue as per the “Statement of financial performance” or as disclosed in the notes of the council statements (includes VicRoads 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 the notes of the council statements.
Higher cap	An amount expressed as the average rate cap specified in a general order plus an additional percentage amount in respect of that financial ear.
Human Resources	The staff employed by a council.
Indicator	What will be measured to assess performance.
Initiatives	Actions that are one-off in nature and/or lead to improvements in service.
Interest earnings	Total interest received as per the “Statement of financial performance” or as disclosed in the notes of the councils statements.
Local Government Model Financial Report	The model report published by the department of Environment, Land, Water and Planning
Major initiatives	Significant initiatives that will directly contribute to the achievement of the council plan during the current year and have a major focus in the budget.

TERM	DEFINITION
Measure	How an indicator will be measured and typically includes a numerator and denominator.
Minister	The Minister for Local Government.
Model Budget	The <i>Victorian City Council Model Budget</i> prepared annually by the Chartered Accountants in Australia and New Zealand.
No. of rateable properties	Number of rateable properties in municipality.
Non-current liabilities	Total non-current liabilities from "Statement of financial position".
Non-financial resources	The resources other than financial resources required to deliver the services and initiatives in the budget.
Non-recurrent grant	A grant obtained on the condition that it be expended in a specified manner and is not expected to be received again during the period covered by a council's strategic resource plan.
Philanthropic or private contributions	Funding from philanthropic or private sources. An example would be a co-contribution by the private sector towards construction of a community asset.
Performance statement	A statement including the results of the prescribed service outcome indicators, financial performance indicators and sustainable capacity indicators for the financial year and included in the annual report.
Planning and accountability framework	The key statutory planning and reporting documents that are required to be prepared by councils to ensure accountability to local communities in the performance of functions and exercise of powers under the Act.
Proceeds from sale of non-current assets	Total proceeds from asset sales as per the "Statement of financial performance" or as disclosed in the notes of the council statements, (gross received not written-down value).
Rate revenue	Total rate revenue as per the "Statement of financial performance" or as disclosed in the notes of the council statements.
Rates outstanding at end of year	Rate debtor amount as disclosed in "Receivables" note.
Recurrent grant	A grant other than a non-recurrent grant.
Regulations	The Local Government (Planning and Reporting) Regulations 2014.
Report of Operations	A report containing a description of the operations of the council during the financial year and included in the annual report.
Services	Assistance, support, advice and other actions undertaken by a council for the benefit of the local community.
Special order	An order made by the ESC under section 185E of the Act.
State grants	Grant funding from the State government.
Strategic objectives	The outcomes a council is seeking to achieve over the next four years and included in the council plan.

TERM	DEFINITION
Strategic resource plan	A plan of the financial and non-financial resources for at least the next four years required to achieve the strategic objectives in the council plan. It also referred to as a long term financial plan.
Strategies	High level actions directed at achieving the strategic objectives in the council plan.
Statement of capital works	A statement which shows all capital expenditure of a council in relation to non-current assets and asset expenditure type prepared in accordance to the model statement of capital works in the Local Government Financial Report.
Statement of human resources	A statement which shows all council staff expenditure and numbers of full time equivalent council staff.
Statements of non-financial resources	A statement which describes the non-financial resources including human resources.
Summary of planned capital works expenditure	A summary of capital works expenditure in relation to non-current assets classified according to the model statement of capital works in the <i>Local Government Model Financial Report</i> , by asset expenditure type and funding source.
Summary of planned human resources expenditure	A summary of permanent council staff expenditure and numbers of full-time equivalent council staff categorised according to the organisational structure of the council.
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, finance and Investment Act	Total inflows per the “Cash flow statement”.
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 the notes of the council statements.
Total depreciation on infrastructure assets	Total depreciation on infrastructure assets as disclosed in the “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 the 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, and have been included as infrastructure.
Total net realisable assets	Total assets less total infrastructure assets.

TERM	DEFINITION
Total operating expenses	Total operating expenses as per the “Statement of financial performance”.
Total revenue	Total revenue from “Statement of financial performance”
User contributions	Funding from users. An example would be a co-contribution by a sporting club to the construction of a new facility.
Written-down value of assets sold	Written-down value of assets sold as per the “Statement of financial performance” or as disclosed in the notes of the council statements.

**Table 16: Glossary of Terms/Definitions**

## 12. APPENDIX B: FINANCIAL STATEMENTS

This Appendix contains the financial statements that follow:

- Comprehensive Income Statement;
- Balance Sheet;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- Statement of Capital Works;
- Statement of Human Resources
- Summary of planned capital works expenditure
- Summary of planned human resources expenditure
- Financial Performance Indicators

These statements are required under Division 1, Part 6 of the *Local Government (Planning and Reporting) Regulations 2014*.

The Regulations commenced on 18 April 2014.

Regulations 13(2), 16(1) and 17(2) come into operation on July 1 2015.

## 12.1 Comprehensive Income Statement

### Budgeted Comprehensive Income Statement

For the four years ending 30 June 2023

	Forecast	Budget	Strategic Resource Plan Projections		
	Actual		2019/20	2020/21	2021/22
	2018/19	2019/20	2020/21	2021/22	2022/23
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Income</b>					
Rates and charges	20,038	<b>20,716</b>	21,234	21,765	22,309
Statutory fees and fines	505	<b>491</b>	496	501	506
User fees	5,341	<b>5,873</b>	6,108	6,352	6,606
Grants - Operating	6,569	<b>10,485</b>	10,687	10,892	11,102
Grants - Capital	33,823	<b>4,200</b>	2,510	3,335	3,935
Contributions - monetary	260	-	-	-	-
Other income	2,675	<b>1,022</b>	1,028	1,035	1,041
<b>Total Income</b>	<b>69,211</b>	<b>42,787</b>	42,588	44,405	45,849
<b>Expenses</b>					
Employee costs	(17,254)	<b>(17,090)</b>	(17,603)	(18,131)	(18,675)
Materials and services	(16,840)	<b>(10,106)</b>	(9,861)	(10,245)	(10,645)
Bad and doubtful debts	-	-	(2)	(1)	(1)
Depreciation and amortisation	(11,017)	<b>(10,072)</b>	(11,052)	(11,052)	(11,052)
Borrowing costs	(139)	<b>(323)</b>	(183)	(150)	(127)
Other expenses	(4,009)	<b>(4,435)</b>	(5,206)	(5,461)	(5,911)
<b>Total Expenses</b>	<b>(49,259)</b>	<b>(42,026)</b>	(43,906)	(45,041)	(46,411)
<b>Surplus/(deficit) for the year</b>	<b>19,952</b>	<b>761</b>	(1,318)	(636)	(562)
<b>Other comprehensive income</b>					
Items that will not be reclassified to surplus or deficit in future periods:					
Net asset revaluation increment/(decrement)	-	-	-	-	-
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-
Items that may be reclassified to surplus or deficit in future periods	-	-	-	-	-
<b>Total comprehensive result</b>	<b>19,952</b>	<b>761</b>	(1,318)	(636)	(562)

Figure 6: Comprehensive Income Statement

## 12.2 Budgeted Balance Sheet

### Budgeted Balance Sheet

For the four years ending 30 June 2023

	Forecast	Budget	Strategic Resource Plan Projections		
	Actual		2020/21	2021/22	2022/23
	2018/19	2019/20	2020/21	2021/22	2022/23
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	15,360	4,966	4,375	2,566	1,479
Trade and other receivables	4,767	4,767	3,746	3,866	3,970
Other financial assets	-	-	-	-	-
Inventories	1,095	1,095	1,106	1,117	1,128
Non-current assets classified as held for sale	-	-	-	-	-
Other assets	-	-	-	-	-
<b>Total current assets</b>	<b>21,222</b>	<b>10,828</b>	<b>9,227</b>	<b>7,549</b>	<b>6,577</b>
<b>Non-current assets</b>					
Trade and other receivables	96	96	91	87	82
Investments in associates and joint ventures	-	-	-	-	-
Property, infrastructure, plant & equipment	346,474	359,264	358,348	359,007	361,007
Investment property	-	-	-	-	-
Intangible asset	-	-	-	-	-
Landfill rehabilitation intangible asset	-	-	-	-	-
<b>Total non-current assets</b>	<b>346,570</b>	<b>359,360</b>	<b>358,439</b>	<b>359,093</b>	<b>361,089</b>
<b>Total assets</b>	<b>367,792</b>	<b>370,188</b>	<b>367,666</b>	<b>366,642</b>	<b>367,667</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	4,070	4,070	3,409	3,526	3,663
Trust funds and deposits	353	353	357	360	364
Provisions	6,962	6,962	4,474	4,474	4,474
Interest-bearing loans and borrowings	365	450	509	541	734
<b>Total current liabilities</b>	<b>11,750</b>	<b>11,835</b>	<b>8,748</b>	<b>8,901</b>	<b>9,234</b>
<b>Non-current liabilities</b>					
Provisions	793	793	3,281	3,281	3,281
Interest-bearing loans and borrowings	1,488	3,038	2,433	1,892	3,145
<b>Total non-current liabilities</b>	<b>2,281</b>	<b>3,831</b>	<b>5,714</b>	<b>5,173</b>	<b>6,426</b>
<b>Total liabilities</b>	<b>14,031</b>	<b>15,666</b>	<b>14,462</b>	<b>14,074</b>	<b>15,661</b>
<b>Net assets</b>	<b>353,761</b>	<b>354,522</b>	<b>353,204</b>	<b>352,568</b>	<b>352,006</b>
<b>Equity</b>					
Accumulated surplus	152,429	153,130	151,812	151,176	150,614
Reserves	201,332	201,392	201,392	201,392	201,392
<b>Total equity</b>	<b>353,761</b>	<b>354,522</b>	<b>353,204</b>	<b>352,568</b>	<b>352,006</b>

Figure 7: Budgeted Balance Sheet



## 12.3 Budgeted Statement of Changes in Equity

### Budgeted Statement of Changes in Equity

	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
<b>2019/20</b>				
Balance at beginning of the financial year	353,761	152,429	200,463	869
Surplus/(deficit) for the year	761	761	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	-	(60)	-	60
<b>Balance at end of financial year</b>	<b>354,522</b>	<b>153,130</b>	<b>200,463</b>	<b>929</b>
<b>2020/21</b>				
Balance at beginning of the financial year	354,522	153,130	200,463	929
Surplus/(deficit) for the year	(1,318)	(1,318)	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	-	-	-	-
<b>Balance at end of financial year</b>	<b>353,204</b>	<b>151,812</b>	<b>200,463</b>	<b>929</b>
<b>2021/22</b>				
Balance at beginning of the financial year	353,204	151,812	200,463	929
Surplus/(deficit) for the year	(636)	(636)	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	-	-	-	-
<b>Balance at end of financial year</b>	<b>352,568</b>	<b>151,176</b>	<b>200,463</b>	<b>929</b>
<b>2022/23</b>				
Balance at beginning of the financial year	352,568	151,176	200,463	929
Surplus/(deficit) for the year	(562)	(562)	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	-	-	-	-
<b>Balance at end of financial year</b>	<b>352,006</b>	<b>150,614</b>	<b>200,463</b>	<b>929</b>

Figure 8: Budgeted Statement of Changes in Equity

## 12.4 Budgeted Statement of Cash Flows

### Budgeted Statement of Cash Flows

For the four years ending 30 June 2023

	Forecast	Budget	Strategic Resource Plan Projections		
	Actual				
	2018/19	2019/20	2020/21	2021/22	2022/23
	\$'000	\$'000	\$'000	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
<b>Cash flows from operating activities</b>					
Rates and charges	20,038	<b>20,716</b>	21,755	21,707	22,258
Statutory fees and fines	505	<b>491</b>	508	500	505
User fees	5,341	<b>5,873</b>	6,258	6,335	6,591
Grants - operating	19,656	<b>10,485</b>	10,949	10,863	11,077
Grants - capital	20,736	<b>4,200</b>	2,572	3,326	3,926
Contributions - monetary	260	-	-	-	-
Interest received	460	<b>365</b>	369	372	376
Dividends received	-	-	-	-	-
Trust funds and deposits taken	-	-	4	4	4
Other receipts	2,215	<b>657</b>	676	660	663
Net GST refund / payment	-	-	-	-	-
Employee costs	(17,254)	<b>(17,090)</b>	(17,959)	(18,068)	(18,602)
Materials and services	(16,840)	<b>(10,106)</b>	(10,071)	(10,221)	(10,615)
Trust funds and deposits repaid	-	-	-	-	-
Other payments	(4,009)	<b>(4,435)</b>	(5,311)	(5,442)	(5,888)
<b>Net cash provided by/(used in) operating activities</b>	<b>31,108</b>	<b>11,156</b>	<b>9,748</b>	<b>10,037</b>	<b>10,296</b>
<b>Cash flows from investing activities</b>					
Payments for property, infrastructure, plant and equipment	(40,135)	<b>(23,443)</b>	(10,751)	(12,342)	(13,698)
Proceeds from sale of property, infrastructure, plant and equipment	461	<b>581</b>	615	630	646
Proceeds from investment property	-	-	525	525	350
<b>Net cash provided by/(used in) investing activities</b>	<b>(39,674)</b>	<b>(22,862)</b>	<b>(9,611)</b>	<b>(11,186)</b>	<b>(12,702)</b>
<b>Cash flows from financing activities</b>					
Finance costs	(139)	<b>(323)</b>	(183)	(150)	(127)
Proceeds from borrowings	-	<b>2,000</b>	-	-	2,000
Repayment of borrowings	(409)	<b>(365)</b>	(546)	(509)	(554)
<b>Net cash provided by/(used in) financing activities</b>	<b>(548)</b>	<b>1,312</b>	<b>(728)</b>	<b>(660)</b>	<b>1,319</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>	<b>(9,114)</b>	<b>(10,394)</b>	<b>(591)</b>	<b>(1,809)</b>	<b>(1,087)</b>
Cash and cash equivalents at the beginning of the financial year	24,474	<b>15,360</b>	4,966	4,375	2,566
<b>Cash and cash equivalents at the end of the financial year</b>	<b>15,360</b>	<b>4,966</b>	<b>4,375</b>	<b>2,566</b>	<b>1,479</b>

Figure 9: Budgeted Cash Flow Statement

## 12.5 Budgeted Statement of Capital Works

### Budgeted Capital Works Statement

For the four years ending 30 June 2023	Forecast	Budget	Strategic Resource Plan Projections		
	Actual 2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000
<b>Property</b>					
Land	188	-	-	-	-
Land improvements	450	3,580	-	-	250
<b>Total land</b>	<b>638</b>	<b>3,580</b>	-	-	250
Buildings	1,279	2,860	2,028	1,895	2,682
Heritage buildings	-	-	-	-	-
Building improvements	-	-	-	-	-
Leasehold improvements	-	-	-	-	-
<b>Total buildings</b>	<b>1,279</b>	<b>2,860</b>	<b>2,028</b>	<b>1,895</b>	<b>2,682</b>
<b>Total property</b>	<b>1,917</b>	<b>6,440</b>	<b>2,028</b>	<b>1,895</b>	<b>2,932</b>
<b>Plant and equipment</b>					
Heritage plant and equipment	82	-	-	-	-
Plant, machinery and equipment	-	2,561	1,900	1,948	1,996
Fixtures, fittings and furniture	2,626	70	406	97	168
Computers and telecommunications	-	25	-	-	-
Library books	403	85	60	60	60
<b>Total plant and equipment</b>	<b>3,111</b>	<b>2,741</b>	<b>2,366</b>	<b>2,104</b>	<b>2,224</b>
<b>Infrastructure</b>					
Roads	70	5,537	3,278	3,318	3,481
Bridges	15	610	250	250	250
Footpaths and cycleways	17,040	550	74	84	97
Drainage	8,772	-	17	20	23
Recreational, leisure and community facilities	1,259	960	1,223	1,731	1,151
Waste management	1,008	1,100	-	300	-
Parks, open space and streetscapes	119	3,805	1,300	2,470	3,515
Aerodromes	1,674	-	4	9	15
Off street car parks	203	-	-	-	-
Other infrastructure	4,947	1,700	210	161	10
<b>Total infrastructure</b>	<b>35,107</b>	<b>14,262</b>	<b>6,357</b>	<b>8,343</b>	<b>8,543</b>
<b>Total capital works expenditure</b>	<b>40,135</b>	<b>23,443</b>	<b>10,751</b>	<b>12,342</b>	<b>13,698</b>
<b>Represented by:</b>					
New asset expenditure	3,084	6,735	-	300	1,000
Asset renewal expenditure	33,738	12,408	8,901	8,272	8,683
Asset expansion expenditure	52	1,100	-	300	-
Asset upgrade expenditure	3,261	3,200	1,850	3,470	4,015
<b>Total capital works</b>	<b>40,135</b>	<b>23,443</b>	<b>10,751</b>	<b>12,342</b>	<b>13,698</b>
<b>Funding sources represented by:</b>					
Grants	20,930	4,200	2,510	3,335	3,935
Contributions	721	581	-	-	-
Council Cash	18,484	18,662	8,240	9,006	9,763
Borrowings	-	-	-	-	-
<b>Total capital works expenditure</b>	<b>40,135</b>	<b>23,443</b>	<b>10,751</b>	<b>12,342</b>	<b>13,698</b>

Figure 10: Statement of Capital Works

## 12.6 Budgeted Statement of Human Resources

	Forecast Actual	Budget	Strategic Resource Plan Projections		
	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000
<b>Staff Expenditure</b>					
Employee Costs – Operating	17,254	17,090	17,603	18,131	18,675
Employee Costs – Capital	2,676	2,318	2,594	2,671	2,671
<b>Total Staff Expenditure</b>	<b>19,930</b>	<b>19,408</b>	<b>20,197</b>	<b>20,802</b>	<b>21,346</b>
<b>Staff Numbers</b>					
	<b>FTE</b>	<b>FTE</b>	<b>FTE</b>	<b>FTE</b>	<b>FTE</b>
Employees	223	232	228	228	228

**Figure 11: Budgeted Statement of Human Resources**

## 12.7 Financial Performance Indicators

Indicator	Measure	Note	Forecast Actual 2018-19	Budget 2019-20	SRP Projections		
					2020/21	2021/22	2022/23
<b>Operating position</b>							
Adjusted underlying result	Adjusted underlying surplus (deficit) / Adjusted underlying revenue	1	28.8%	1.8%	(3.1%)	(1.4%)	(1.2%)
<b>Liquidity</b>							
Working Capital	Current assets / current liabilities	2	180.6%	91.5%	105.5%	84.8%	71.2%
Unrestricted cash	Unrestricted cash / current liabilities		124.7%	36.0%	41.9%	20.8%	8.3%
<b>Obligations</b>							
Loans and borrowings	Interest bearing loans and borrowings / rate revenue	3	9.2%	16.8%	13.9%	11.2%	17.4%
Loans and borrowings	Interest and principal repayments / rate revenue		2.7%	3.3%	3.4%	3.0%	3.1%
Indebtedness	Non-current liabilities / own source revenue		8.0%	13.6%	19.4%	17.1%	20.9%
Asset renewal	Asset renewal expenditure / depreciation	4	306.2%	123.2%	80.5%	74.8%	78.6%
<b>Stability</b>							
Rates concentration	Rate revenue / adjusted underlying revenue	5	40.4%	51.1%	50.5%	50.6%	50.8%
Rates effort	Rate revenue / property values (CIV)		0.5%	0.5%	0.5%	0.5%	0.5%
<b>Efficiency</b>							
Expenditure level	Total expenditure / no. of assessments		\$4,487	\$3,829	\$4,000	\$4,103	\$4,228
Revenue level	Residential rate revenue / No. of residential assessments		\$958	\$982	\$1,006	\$1,031	\$1,057
Workforce turnover	No. of resignations & terminations / average no. of staff		10%	10%	10%	10%	10%

Table 17: Financial Performance Indicators

## 13. APPENDIX C: RATING PRINCIPLES

### **(a) Sustainable financial management**

The aggregate revenue raised by Council plus that received from grants needs to be sufficient to cover the aggregate long-run cost of delivering the services provided measured on an accrual-accounting basis. Sustainable financial management requires the application of multi-year framework to financial management, asset management, planning, spending and revenue decisions.

### **(b) Evaluating and setting priorities**

Council is aware of and will have regard to the views of its communities with respect to the priority areas for Council services. Council will heighten the communities awareness of the short and long-term financial implications of potential service priorities and key decisions, including trade-offs between service priorities.

### **(c) Core Functions**

Council will continue to provide a full range of municipal goods and services in accordance with its statutory and community service obligations.

Where Council engages in the provision of services, that resemble those of private sector markets, the application of competitive neutrality principles requires Council to aim to recover the full costs of a significant business activity, including the direct costs of providing goods and services, rate and tax equivalent payments and a commercial rate of return on investment.

### **(d) Identifying the cost of service delivery**

Council will understand the cost of delivering its services as an acknowledgement that this information is useful in determining the range of services, and the level of service provision, and the corresponding structure for rates and charges.

### **(e) Prudent borrowings for infrastructure**

Borrowings when undertaken prudently are an appropriate means for local government to finance long lived infrastructure assets as the cost of servicing of debt through rates or user charges enables the cost of the asset to be matched with the benefits from consumption of the services over the life of the asset, thereby promoting intergenerational equity.

### **(f) Rate setting and pricing of services**

A single rate cap of 2.5% has been introduced for the 2019/20 financial year by the Victorian Government.

Rate capping delivers on a key election promise for a fairer rating system to help ease cost of living pressures on Victorians. It is part of delivering value for communities and provide fair, responsible and effective policies and processes for Victorian ratepayers.

Only the general rate and municipal charges part of a rates bill will be capped at 2.5%. All other parts, such as waste charges and other fees and levies, remain uncapped.

Where infrastructure costs are directly attributable to individual property owners, Council will recover those costs through the application of special charge schemes, developer charges or contributions. Council will also take consideration of the community's ability to pay as well as the benefits derived from the provision of services.

**(g) Openness and transparency**

Council is accountable and responsible for the policy decisions with respect to the range of services provided, the expenditure and delivery of the services and the way services are funded and paid for by the community. Open and transparent processes for decision making of Council include the making of information openly available to people in the local community and seeking active participation by the community with respect to choices regarding the range and level of services provided and how they are funded.

**(h) Providing services on behalf of other tiers of government**

Effective interaction between Council and other tiers of government is important to ensure delivery of some essential services to the community. Where Council enters into the delivery of services on behalf of other tiers of government, the supply of these services should be delivered on commercial terms based on the incremental cost to Council. In situations where Council determines to provide subsidies for the delivery of these services Council will make the costs transparent and inform the community about the purpose and amount of the subsidy and how it is to be funded.

