City of Port Phillip

10 YEAR FINANCIAL OUTLOOK

2017-2027

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1. Overview and Context

1.1 Background

Financial sustainability is a key objective of the City of Port Phillip (Council), as a sound financial base is required for Council to continue to deliver valued services to the community. The 10-Year Financial Outlook (Outlook) supports Council to achieve financial sustainability, particularly in the face of the significant challenge posed by the introduction of rates capping, this is the second year of rates capping. The Outlook also provides the context within which the Council can formulate the Budget 2017/18 and enable the Council to plan for the financial impacts of growth.

The Outlook demonstrates the long term financial implications of Council's revenue and expenditure projections. The Outlook is prepared and revised annually to reflect the changing environment within which Council operates. This includes consideration of the information gathered internally as well as the significant external factors that impact on Council at any point in time.

The financial resources outlined in the Outlook are used to deliver Council's services and strategic initiatives. A new Council Plan 2017-2021 is being undertaken and will set out Council's strategic plan to deliver our vision.

The Outlook also complements a number of other Council planning documents, including the Strategic Resource Plan, which is a rolling four year plan that forms part of the Council Plan, and the annual budget, which outlines the annual resources required to deliver Council services.

1.2 Key Outcomes of the Outlook: Identifying the Impact of Rates Capping

Council recognises the rising community concern regarding the affordability of Council services, with rates and other essential services forming an increasing share of average household expenditure.

The community's expectation for better value in Council service delivery has been reflected in Council's decision making. Council is continuing to put in place initiatives to ensure that its services are delivered in the most efficient and effective manner possible. These initiatives include a successful drive for efficiency savings, with Council identifying permanent operational savings of $2 million for the Budget 2016/17, in addition to the $5 million of savings identified for the Budgets 2014/15 and 2015/16.

The State Government has also responded to the affordability concerns of the community by capping rate increases from 2016/17. In this Outlook, Council demonstrates the significant impact that rate capping will have on its financial position.

The level of the rates cap in 2017/18 and beyond is still highly uncertain. The Essential Services Commission (ESC), Victoria's independent economic regulator, recommended that the rates cap be set a level that reflects movements in the consumer price index (CPI) and the wage price index (WPI), as wages form a significant proportion of council's costs. The State Government has not committed to this recommendation and is proposing complete discretion in setting the rates cap.

For the 2016/17 financial year, ESC recommended 2.8% rate cap based on its formula. However this was not accepted by the Minister of Local Government and decided on a cap of 2.5% based solely on CPI. It is possible that future rates cap could be less than CPI as an efficient factor may be incorporated in the decision making. The rates cap will not formally be announced by the State Government until December 2016 for the 2017/18 budget.

The Outlook assumes a rate cap based on forecast CPI and WPI less an efficiency factor. The rates capping impact is quantified as an accumulated challenge of $49 million over the ten years of the Plan under the ESC methodology and $103 million under a deflated economic environment of 1.5% per annum. This represents a major challenge to Council (and the whole sector) which will require fundamental changes to the way Council operates. Council's approach to meeting this challenge is outlined below.

Rates capping challenge

	2017/18	2018/19	2019/20	2026/27
Rates cap consistent with the ESC's methodology (base case)				
Rate increase	2.17%	2.20%	2.39%	2.13%
Accumulated rates capping challenge ($m)	($1.5)	($4.6)	($5.2)	($49.1)
Rates cap consistent with a deflated economic environment inflation at 1.5% per annum				
Rate increase	1.50%	1.50%	1.50%	1.50%
Accumulated rates capping challenge ($m)	($2.3)	($7.0)	($10.4)	($103.4)

Other aspects of the Outlook, such as expenditure and other revenue are currently based on Council's business as usual planning, refer to section 6 Financial Statement.

While the initiatives to improve Council's efficiency and effectiveness will position Council favourably to manage this, the medium to long-term magnitude of the rate capping challenge will require Council to fundamentally review the sustainability of its operations. It is clear that a 'business as usual' approach will not be sufficient to meet the rates capping challenge. This includes consideration of:

- opportunities to further reduce Council's cost base without impacting service levels (such as efficiencies identified through improvements in processes, procurement and project planning and delivery)
- opportunities to ensure that user fees and charges reflect the benefit that individual community members receive (that is, rates funding is not unreasonably subsidising services that provide private benefit)
- service delivery options, including fundamental changes to the way services are targeted and delivered and consideration of service level reductions in areas of lower strategic priority.
- applying to the independent economic regulator (which will administer the rate capping framework) for rate increases above CPI, where those increases are justifiable to the community.

1.3 Growth in the Municipality

The Council faces a period of significant growth in the municipality due to development in FBURA. Current planning projections provide for a possible population increase of 120,000 people in the next 40 years, over 100% of the current population in the municipality. Council is continuing to invest in planning for growth in the municipality, including FBURA, to ensure that service outcomes meet the expectations of current and future generations.

Council is working closely with State Government to deliver on a package of work in the Montague Precinct, where development is to occurring first within FBURA. This Outlook includes financial outcomes from works agreed with State Government and known proposals only.

The State Government is currently in the process of preparing a Developer Contributions Plan for FBURA which will outline future investment needs and funding sources. This is not expected to be complete until 2017. Due to the uncertainty associated with the future investment profile, no further investment has been incorporated in this Outlook, beyond the immediate proposal for the Montague Precinct outlined above. Council will continue to update its financial planning for FBURA as new information becomes available.

To the extent that growth related investment is required ahead of growth occurring, it will be financed through developer contribution, open space contribution, state contribution and or borrowings, rather than rates revenue. However, in some cases investment will benefit the existing community and a rates contribution could be justified.

1.4 Renewing Community Assets

Council owns and controls a wide variety of assets ranging from land and buildings to roads, drains, footpaths and open space improvements. The total value of Council's fixed assets is $2.6 billion and is largely the product of investment by prior generations in the municipality. Consistent with the trend across the local government sector, Council is facing escalating costs to maintain and renew its ageing asset base.

This Outlook considers the increasing renewals expenditure due to an expanding asset base, as well as cost escalation for delivering renewals. A major focus of Council is to continue to improve its asset planning and management capability. The risk of insufficient asset renewal investment is that assets deteriorate much faster than necessary, costing Council more in the long run and potentially compromising service levels.

The continued use or viability of some assets is considered a high priority because they are of high economic, architectural, historical and/or cultural significance to the community. One such asset is the iconic Palais Theatre in St Kilda, for which Council has management responsibility.

1.5 Realising the community's vision for the St Kilda Triangle

Council is leading a process to realise the community's vision for the St Kilda Triangle. Council is using a 'co-design' approach with the community and key stakeholders to develop a fundable project for the St Kilda Triangle which creates a locally-loved place that is world admired.

Council is currently preparing a Draft Masterplan that will continue to be tested with the community. In conjunction with the Draft Masterplan, Council is preparing a business case that will outline costs, benefits and likely funding sources for the development of the St Kilda Triangle site. Council is in the process of determining its contribution based on the relevant local benefits, however this is too uncertain to include in the Plan at this time. Council will update its financial forecast once its contribution is known with more certainty.

1.6 Impacts of State and Commonwealth Government Policy

The transfer of responsibilities and costs from other levels of Government to councils has been well documented and continues to be a significant issue for the City of Port Phillip. Types of 'cost shifting' and additional taxes that currently impact Council are:

- the direct removal of funding, such as the freeze in indexation of grants commission funding and the cessation of $250,000 funding for Adventure Playgrounds
- the indirect impact of Government policies that formally or informally transfer service responsibility to Council , for example Council currently allocates resources to supporting social housing ($500,000), a public policy area that in many respects should be the responsibility of State and Commonwealth Governments
- the introduction of the congestion levy, which is being partly funded by a contribution of rates revenue to mitigate the significant negative impact on visitation and trade in the areas where the levy applies (in addition to an increase in parking fees).
- additional capital expenditure budget will be required to ensure Council buildings are compliant in accordance with the Disability and Discrimination Act.

1.7 Financial Outcomes

Council decision making continues to have reference to principles of sound financial management to ensure Council's finances remain prudent and sustainable. This Outlook outlines the Council principles by which financial resources are managed to support financial sustainability.

This Outlook assesses Council financial performance using key financial indicators. Refer to Section 7 for the performance over the 10 year outlook.

Cash surplus/deficit – This is a measure of the cash inflows from all sources of revenue and the cash outflows for all expenditure (capital and operating expenditure both included). The Outlook presents a balanced budget over the 10 year planning horizon. However it is important to note that Council will have to make significant financial savings to meet the rate capping challenge (quantified as $49 million over 10 years).

Borrowings – No further investment has been incorporated in this Outlook beyond the immediate proposal for the Montague Precinct due to the uncertainty associated with the future investment profile. It is most likely that investment for growth in the municipality will require the prudent use of Council borrowing. Council has the capacity to borrow up to $68 million and achieve a low risk rating in accordance with VAGO's financial sustainability risk assessment. The Outlook assumes repayment of existing loans $7.5 million in 2021/22.

Working Capital – This is a measure of current assets to current liabilities in determining the Council's ability to pay existing liabilities that falls within the next 12 months. The outlook is expected to remain above 100%, peaking at 199% and the lowest point at 139%.

Renewal Gap – This measures the spending on existing assets through renewing and upgrading with depreciation. A ratio100% or higher indicates spending on existing assets is faster than the rate of asset deterioration. The Outlook presents a significant investment portfolio over the 10 year planning horizon on existing assets, achieving renewal gap ratio between 117% (lowest) and 142% (highest).

2. Financial Sustainability

Despite being in a very strong financial position, rates capping introduced in the 2016/17 financial year presents a significant threat to Council's financial sustainability. This Outlook outlines the extent of that challenge.

As outlined above, to maintain financial sustainability in the face of this challenge, Council is fundamentally reviewing its approach to service delivery. In doing so, Council will continue to consider the principles of sound financial management prescribed in the *Local Government Act 1989* in the process of meeting the rates capping challenge, being to:

- prudently manage financial risks related to debt, assets and liabilities
- provide reasonable stability in the level of the rates burden
- consider the financial impacts of Council decisions on future generations
- provide full, accurate and timely disclosure of financial information.

To support financial sustainability, Council has its own financial principles which aim to ensure continued operating viability, sustainable funding of assets and the ability to absorb the impact of unexpected budget shocks. These are outlined in the table below.

Financial principles		Measures
1. CoPP will have a fair, affordable and stable rating strategy.	1	Applying the fairness test where ratepayers in similar situation should pay similar amounts and those who are better off should pay more than those worse off. A progressive rating structure looking after the poor and vulnerable. Ratepayer's capacity to pay is levied against their Net Annual Value (NAV) of the property owned within the municipality. NAV is to remain below 0.27%
	2	To ensure rates are affordable, the Average Ratepayer is to expect a rate increase in line with or lower than the legislated rates cap.
	3	Rate revenue will remain at a stable percentage of total underlying revenue (target between 60% and 65% of total underlying revenue) and other revenue will be strengthened over the medium term to reduce reliance on rate revenue.
2. CoPP will have an ongoing sustainable and balanced budget and ideally a small cash surplus.	4	Expenditure on operating activities will be in line with or lower than income from operating activities, producing a surplus. Any surplus achieved will be used to repay debt or carried over to subsequent years.
	5	Net cash outflow from operational activities, capital activities and financing activities will be in line with or lower than cash inflow from operational activities, producing a cash surplus. A positive cash surplus balance any budgeted year is targeted.
	6	Growth in universal services will be funded through growth in the rates base. Where private benefit exists for services, this will be funded by those who receive that benefit and have the capacity to pay.
	7	Net cash flow from operations is to generate sufficient cash to fund capital works over the long term. Internal financing ratio to be greater than 100%.
	8	The Victorian Audit General Office (VAGO) audits Council's finances and assesses against a number of financial indicators to arrive at an overall assessment of financial sustainability. CoPP is to achieve a low risk overall assessment score from VAGO.

Financial principles		Measures
3. The CoPP asset base will be maintained, enhanced and expanded to ensure fit for purpose to deliver services to the Community.	9	The total pool of assets will increase in value each year – excluding the effect of any revaluation adjustments and sale of assets of lower strategic value. Capital Expenditure compared to depreciation (Capital Replacement Ratio) is to be greater or equal to 150% over a medium to long term planning horizon.
	10	Assets will be managed in accordance with community need, optimum utilisation and long-term efficiency.
	11	Capital expenditure on existing assets (asset renewals and upgrades) will be higher than depreciation over a medium to long term planning horizon. Infrastructure Renewal Gap ratio is to be greater than or equal to100%.
4. Capital will be managed in the most efficient manner possible.	12	General reserves will be maintained at levels sufficient to ensure operational liquidity. Working Capital Liquidity Ratio (current assets compared to current liabilities) is to be at least 100%.
	13	Council will consider new loans for strategic property acquisitions, funding community capital works projects that will provide inter-generational community benefit and work that deliver revenue streams to repay debt. Prudent use of debt shall be subject to and achieving the following metrics; • Indebtedness ratio (Non-current liabilities compared to Own Source revenue) is to maintain below 40%. • Loans & Borrowings compared to rates is to maintain below 70% • Loans & Borrowing repayments compared to rates is to maintain below 20%.
	14	Reserves may be built up over time to enable Council to part fund periodic large capital expenditure items where this is considered more efficient than the use of debt.
5. CoPP will proactively develop and lead an efficient and effective organisational culture.	15	In order to deliver better value to our growing community, Council will support the development of policy and practice in the workplace to increase organisational innovation, effectiveness and efficiency. CoPP is to achieve Efficient savings set by Council.
	16	The growth in operation expenditure excluding the effect of population growth driven expenditure should be limited to the movement in Consumer Price Index. Expenditure per property assessment is to be limited to the movement in Consumer Price Index.

In addition to the principles of sound financial management outlined above, Council is guided by a number of key strategies that guide its financial decision making. The principles behind these strategies are outlined below.

2.1 Use of Rate Revenue

Council's main revenue source is assessment rates on properties in the municipality. Council's rating strategy is supported by the following principles:

- Local government rates are levied in accordance with a ratepayer's capacity to pay as measured by the Net Annual Value (NAV) of property owned within the municipality. Rates levied are therefore directly proportional to the NAV of individual properties. Other measures such as concessions, deferral of rate payments and other discounts to fees and charges will be applied by Council to address equity and access issues.
- Universal services are funded from the broadest forms of income; rates and parking revenue.
- Fees for subsidised services provided by Council in a market such as childcare and aged care will be based on a clearly articulated policy position. To achieve equitable outcomes, these services will be funded through a mix of user charges, government grants and rates.
- Specific individual regulatory services such as, but not limited to, animal licences, parking permits and planning permits will be funded, where possible, through user charges (some may be set by statute) and otherwise through rates.
- Special rates are levied against retail tenants in various shopping precincts and this rate income is then distributed to centralised trader associations to spend on the improvement of the shopping strip for the benefit of all traders.
- Council provides for rate concessions for recreational land and pensioners. The City of Port Phillip is one of few councils that provide a pensioner rate rebate in addition to the State Government pensioner rate rebate.
- Furthermore, self-funded retirees are entitled to request Council to defer their rates indefinitely at a discounted interest rate. Persons experiencing financial hardship may also, subject to application and financial assessment, access this benefit.

2.2 Use of Borrowings

Council's borrowings strategy is supported by the following principles:

- Borrowings will not be used to fund ongoing operations.
- A prudent and fiscally responsible approach will be applied in considering any proposals for new debt to deliver Council objectives.
- Where debt is increased, the servicing costs ideally need to be funded from future revenue streams or cost savings that can be expected from the investment of the funds raised.
- Borrowings are also appropriate for the purpose of funding large non-recurrent capital works projects that can be expected to provide benefits to future generations.
- Debt will be managed as part of an efficient capital management policy and repaid when it is prudent to do so.

2.3 Infrastructure and Asset Management

Council's infrastructure and asset management strategy is supported by the following principles:

- Council is committed to spending what is required to renew and enhance its asset base to ensure its ongoing fitness for use. The capital budget takes into account expected asset deterioration, increased asset utilisation (capacity requirements) and technology development.
- Renewal of existing assets is generally funded from the depreciation expense that is provided each year. This needs to be applied to the different asset subsets (drainage, roads, buildings and land improvements) to ensure consistency across the entire network of assets that Council manages.
- Maintenance of capital expenditure at levels that will replenish existing assets is a higher priority than debt reduction and investment in new assets, as asset funding shortfalls will transfer the liability to future generations.
- Asset acquisitions and capital works projects are funded from rate revenue, reserves, sales of existing assets, government grants or external borrowings.
- Council's investment and asset management strategies, purchasing arrangements and other financial tools should encourage environmental responsibility.

3. Financial Resource Planning Assumptions and Risks

3.1 Financial Assumptions

The Outlook is updated annually following a review of internal financial results and changes in the external environment. Following this, scenario analysis is performed to test key assumptions and to prepare a ten year forecast that best represents Council's expected financial performance given those assumptions.

The financial information used for 2016/17 (the base year) is based on Council's November 2016 forecast. The revenue and expenditure associated with growth has been separated from all other Council activities for the purposes of this Plan. The assumptions associated with growth are included in the 'Planning for growth' chapter below.

A detailed explanation of planning assumptions is provided below.

Assumption	Rationale			
Consumer Price Index (CPI)	**2017/18**	**2018/19**	**2019/20**	**2020/21 and beyond**
	2.10%	2.10%	2.10%	2.30%
	Based on the most recent forecast from the Deloitte Access Economic Business Outlook for the Victorian Consumer Price Index.			
Rates cap – base case (ESC recommended methodology)	**2017/18**	**2018/19**	**2019/20**	**2020/21 and beyond**
	2.17%	2.20	2.39%	2.13%
	The final rates cap for 2017/18 will not be announced until December 2016. Further, there remains some uncertainty as to the level of the rates cap in future years. For the purposes of the Outlook, Council has used forecasts from the Deloitte Access Economic Business Outlook for the Consumer Price Index and Wage Price Index.			
Alternative rates cap scenario (Deflated economic environment)	**2017/18**	**2018/19**	**2019/20**	**2020/21 and beyond**
	1.50%	1.50%	1.50%	1.50%
	Given the uncertainty surrounding the State Government's position on the rates cap, Council has modelled a rates cap scenario based on a deflated economic environment with inflation at 1.5% per annum.			
Growth in the rate base	1.3% per annum based on latest population growth data from Profile ID and Fisherman's Bend Taskforce.			
Parking revenue	Parking fees increase by 2.50% per annum and fines by 2.0% per annum (averaged to 2.25% per annum).			
User fees and charges	Increased by 2.50%			
Open space contributions	Remains constant at $4.1 million per annum based on five year historical average.			
Government grants	Operating grants increased by CPI. Capital grants remain constant at $1.3 million.			
Interest received	**2017/18**	**2018/19**	**2019/20**	**2020/21 and beyond**
	2.10%	2.50%	3.10%	3.60%
	Based on the Deloitte Access Economic Business Outlook forecast for the 90 day bank bill rate plus 50 basis points.			

Assumption	Rationale
Employee costs	Employee benefits to increase by 2.5% for 2017/18, 2018/19 and 2019/20 as per Strategic Resource Plan. From 2020/21, employee benefits are assumed to increase by 3.125% per annum, consistent with the Victorian Department of Treasury long-term wage price projection.
Contract services, utility costs, professional services, materials and other expenditure	Increased by CPI.
Service growth	The cost of service growth is equivalent to the increase in rates revenue attributable to increase in the rates base (that is, it is assumed that the benefit of new assessments is wholly offset by the cost to service them).
Depreciation	Depreciation has been increased as a product of new assets being created consistent with the planned capital program.
Operating projects	Total operating projects consistent with the forecast included in the Strategic Resource Plan 2016-20, including an allowance of $5.0 million in 2016/17 and increases by annual CPI.
Capital projects	An allowance of $38.2 million in 2017/18, escalated by annual CPI, increases due to renewals expenditure based on an increase in Council's asset base, and increases due to service growth. Annual capital projects budgets will target renewal gap ratio greater than 100% and capital replacement ratio greater than of 150%.
Borrowings	No borrowings are assumed in the Outlook. The prudent use of borrowing is to be consistent with Council principles for the purposes of smoothing out major financial shocks, inter-generational significant capital projects and for growth related capital projects.
Reserves	The use of reserves remains consistent with past practice. This includes the following assumptions: • open space receipts and out-goings are equivalent (each year) • sustainable transport reserve receipts and out-goings are equivalent (each year) • a debt repayment reserve is used to accumulate the capital necessary to retire council debt.

3.2 Financial Risks

Council's most significant financial risk is the impact of rates capping. The approach to managing this risk is outlined above. In addition to rates capping, a number of other financial risks exist, including:

- more subdued property development which may result in the rates revenue base growing at a lower rate than the current 1.3% growth assumption, (every 0.1% reduction in growth equates to a $117,000 revenue loss)
- lower than expected parking revenue, which forms the second largest revenue source for council, is historically volatile and is impacted by the macro-economic environment (a 1.0% reduction in revenue from parking fees and fines equates to a $300,000 revenue loss)
- a future unfunded defined benefits superannuation call occurring
- future reductions in funding from other levels of Government or increases in cost shifting
- a major, unexpected, asset renewal issue.

4. Planning for Growth

The Council faces a period of significant growth in the municipality due to development in FBURA. Current planning projections provide for a possible population increase of 120,000 people in the next 40 years, over 100% of the current population in the municipality.

In November 2014, the State Government's Metropolitan Planning Authority (MPA) prepared a Draft FBURA Developer Contributions Plan (DCP) which outlines approximately $376 million of local infrastructure and open space investment (in 2013 dollar terms). In addition to the revenue associated with the DCP Levy, the infrastructure investment will be funded through open space contributions and direct State and Local Government funding.

The proposed development in the FBURA will create unprecedented financial challenges for Council as it copes with making significant investment ahead of future revenue streams. While work is underway to model the financial impact of FBURA on Council, uncertainty remains regarding the timing and extent of FBURA infrastructure funding that Council will provide.

Recently, Council is working closely with State Government to deliver on a package of work in the Montague Precinct, where development is occurring first within FBURA. This Outlook includes financial outcomes from works agreed with State Government and known proposals only.

The agreed capital investment includes:

- community facilities and netball courts in a joint development with a proposed primary school at Ferrars Street, South Melbourne expected completion Early 2018.
- strategic acquisition of an open space land on Buckhurst Street, South Melbourne adjacent to the Ferrars Street community centre.

Further proposed capital investment includes:

- streetscape works needed to make the proposed school safe and accessible
- remediation and improvement works for the acquired land fit for open space use

The agreed and proposed capital investment and associated funding sources of Council's proposal are outlined in the table below. It should be noted that Council is still working with the State Government to finalise parts of the proposed investment.

Works	State funding ($'M)	Developer contributions ($'M)	Open Space Contributions ($'M)	CoPP Direct Rates Funding ($'M)	Total ($'M)
Community facilities	1.60	8.29	-	4.54	**14.43**
Streetscape upgrades	-	5.20	-	1.51	**6.71**
Open space acquisition and improvements	-	18.32	9.67	-	**27.99**
Total	**1.60**	**31.81**	**9.67**	**6.05**	**49.13**

The State Government is currently in the process of preparing a Developer Contributions Plan for FBURA which will outline future investment needs and funding sources (beyond the investment outlined above). This is not expected to be complete until 2017. Due to the uncertainty associated with the future investment profile, no further investment has been incorporated in this Outlook, beyond the immediate proposal for the Montague Precinct outlined above. Council will continue to update its financial planning for FBURA as new information becomes available.

5. Non-Financial Resources

5.1 Council Culture

Council delivers a broad range of services. To strengthen the delivery of the Council Plan and Council's key strategic priorities, Council has developed an organisational strategy called 'Community First'.

Community First is a mindset whereby all Council actions are viewed through the community's eyes, ensuring delivery of the best possible services, projects and outcomes for the community Council serves.

To build Council capability, the Community First strategy has five key priority areas of enterprise-wide focus:

- Enterprise Portfolio Management
- Great Places & Precincts
- Continuous Service and Business Improvement
- Aligned Organisational Culture & Capability
- Good Governance

5.2 Council Staff

The Council's employees are its most valued resource. Council has a diverse workforce of committed individuals with an extensive range of skills and experience. Council aspires to be an employer of choice and to operate collectively as one organisation focused on the achievement of the Council Plan initiatives. To enable this, Council is committed to professional development, mentoring, open communication and maintaining a safe and respectful working environment.

In response the financial challenges that Council is facing, a significant investment has been made in building the capability of Council staff. This includes improving the ability of Council staff to:

- manage and prioritise projects with the support of new processes and systems.
- focus on identify and realise efficiency savings
- achieve better service and financial outcomes through continuous process improvement initiatives
- perform detailed service reviews with an objective of improving the overall value of Council's services
- make more informed asset management decisions
- leverage technology to improve customer service
- undertake long-term planning and performance measurement.

6. Financial Statement

Financial Forecast, which includes a projection of Council revenue and expenditure, cash surplus/deficit and borrowings.

	Forecast Actual	Forecasts									
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income											
Rates and charges	116,923	121,613	126,504	131,811	137,623	143,330	149,176	155,161	161,283	167,541	173,934
Statutory fees and fines:											
• Parking fines	19,842	20,430	20,839	21,256	21,681	22,115	22,557	23,008	23,468	23,937	24,416
• Other statutory fees and fines	4,624	4,845	4,947	5,051	5,167	5,286	5,408	5,532	5,659	5,789	5,922
User fees:											
• Parking fees	14,043	14,623	14,989	15,364	15,748	16,142	16,546	16,960	17,384	17,819	18,264
• Other user fees	15,756	16,096	16,499	16,911	17,334	17,767	18,212	18,667	19,134	19,612	20,102
Grants - operating	9,907	10,102	10,314	10,531	10,773	11,021	11,274	11,533	11,798	12,069	12,347
Grants - capital	2,071	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Contributions - monetary	4,100	4,100	4,488	4,773	4,884	5,063	5,131	5,252	5,331	5,373	5,405
Contributions - non-monetary	-	-	-	-	-	-	-	-	-	-	-
Share of net profits/(losses) of associates and joint ventures accounted for by the equity method	-	-	-	-	-	-	-	-	-	-	-
Other income	13,117	12,337	13,038	12,991	14,207	14,001	14,590	14,592	15,395	15,216	16,033
Total Income	**200,383**	**205,446**	**212,918**	**219,988**	**228,717**	**236,025**	**244,194**	**252,005**	**260,752**	**268,656**	**277,723**
Expenses											
Employee costs	83,994	87,270	89,665	92,685	96,600	101,260	106,141	111,255	116,611	122,223	127,570
Materials and services*	69,579	69,333	70,097	74,728	77,216	77,906	80,909	81,641	83,018	83,245	85,590
Bad and doubtful debts	3,399	3,477	3,477	3,477	3,547	3,619	3,692	3,766	3,842	3,919	3,998
Depreciation and amortisation	22,457	23,329	24,235	25,169	26,183	27,230	28,312	29,429	30,582	31,773	33,002
Borrowing costs	459	488	523	553	583	653	274	244	214	184	214
Other expenses	10,299	19,759	9,924	10,132	10,365	10,603	10,847	11,096	11,351	11,612	11,879
Net (gain)/loss on disposal of property, infrastructure, plant and equipment	2,121	2,715	2,715	2,715	2,715	2,715	2,715	2,715	2,715	2,715	2,715
Total Expenses	**192,308**	**206,371**	**200,636**	**209,460**	**217,209**	**223,986**	**232,890**	**240,147**	**248,333**	**255,671**	**264,968**
Operating Surplus for the year	**8,075**	**(925)**	**12,282**	**10,528**	**11,508**	**12,039**	**11,304**	**11,858**	**12,419**	**12,985**	**12,755**
Income Statement Converted to Cash											
Adjustments for non-cash operating items:											
• Add back depreciation	22,457	23,329	24,235	25,169	26,183	27,230	28,312	29,429	30,582	31,773	33,002
• Add back written-down value of asset disposals	6,181	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
• Add back non-cash Child Care Infrastructure Levy transfer	800	820	841	862	884	906	929	952	976	1,000	1,025
• Add back balance sheet work in progress reallocated to operating	1,200	1,225	1,251	1,277	1,306	1,336	1,367	1,398	1,430	1,463	1,497
Adjustments for investing items:											
• Less capital expenditure (deferrals funded from reserves)	(41,397)	(38,215)	(38,505)	(38,668)	(40,642)	(42,431)	(44,084)	(45,779)	(47,518)	(49,302)	(50,414)
Adjustments for financing items:											
• Less Loan Repayments	-	-	-	-	-	(7,500)	-	-	-	-	-
• Less Lease Repayments	(500)	(470)	(440)	(410)	(380)	(410)	(440)	(470)	(500)	(530)	(500)
• Add New Borrowings	-	-	-	-	-	-	-	-	-	-	-
Adjustments for reserve movements:											
• Statutory Reserve Drawdown/ (Replenish)	888	-	-	-	-	-	-	-	-	-	-
• Discretionary Reserve Drawdown/ (Replenish)	292	11,117	(2,664)	(1,758)	(1,859)	5,831	(388)	(388)	(388)	(388)	(365)
Cash Surplus for the Year	**(2,004)**	**(119)**	**0**	**0**	**(0)**	**1**	**(0)**	**(0)**	**0**	**1**	**(0)**
Opening Balance - Cash Surplus/ (Deficit)	2,623	619	500	500	500	500	500	500	500	500	500
Closing Cash Surplus Balance	**619**	**500**	**500**	**500**	**500**	**500**	**500**	**500**	**500**	**500**	**500**
Annual Rates Cap Challenge											
Annual Savings Target		1,504	3,082	582	1,116	3,760	3,662	5,738	8,067	10,285	11,277
Accumulative Savings Target	-	-	1,504	4,586	5,168	6,284	10,044	13,706	19,444	27,511	37,796
Total Savings Target	**-**	**1,504**	**4,586**	**5,168**	**6,284**	**10,044**	**13,706**	**19,444**	**27,511**	**37,796**	**49,073**
Total Borrowings (incl Finance leases)	**9,030**	**8,987**	**8,944**	**8,901**	**8,858**	**1,315**	**1,272**	**1,229**	**1,186**	**1,143**	**1,100**

7. Key Financial Indicators

Council's principles to support financial sustainability can be measured by targets set for each of the key financial indicators below:

Indicator	Indicator Targets	Forecast Actual 2016/17	Forecasts 2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Objective: Equity, Affordable and Stable												
Rate increase	Rates increase <= % capped increase	2.50%	2.17%	2.20%	2.39%	2.62%	2.38%	2.33%	2.28%	2.23%	2.18%	2.13%
Rate concentration	Rates income as a percentage of adjusted underlying revenue <65%	60.2%	60.8%	61.1%	61.6%	61.8%	62.4%	62.7%	63.2%	63.5%	64.0%	64.2%
Objectives: Sustainable and Balanced Budget												
Adjusted underlying result	Positive adjusted underlying surplus	1,904	(6,325)	6,494	4,455	5,324	5,676	4,873	5,306	5,788	6,312	6,050
Cash surplus balance	Positive cash surplus balance	619	500	500	500	500	500	500	500	500	500	500
Internal Financing	Net cashflow from operations to net capital expenditure >100%	85.5%	72.6%	108.9%	106.6%	106.9%	106.4%	102.5%	102.4%	102.4%	102.3%	102.2%
VAGO Assessment	Overall low risk VAGO Assessment	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Objectives: Efficient use of Capital												
Indebtedness	Indebtedness ratio <40%	6.1%	6.0%	5.8%	5.7%	1.9%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%
Loans and Borrowings	Loans compared to rates <70%	7.7%	7.4%	7.1%	6.8%	6.4%	0.9%	0.9%	0.8%	0.7%	0.7%	0.6%
Loans and Borrowings	Loan repayments to rates <20%	0.8%	0.8%	0.8%	0.7%	0.7%	6.0%	0.5%	0.5%	0.4%	0.4%	0.4%
Working Capital	Working Capital Ratio >100%	199.0%	164.1%	167.8%	168.8%	142.5%	151.3%	148.8%	146.3%	143.9%	141.7%	139.6%
Objectives: Looking after our Assets												
Infrastructure Renewal Gap	Renewal/upgrade to depreciation >100%	142%	117%	128%	123%	124%	125%	125%	126%	126%	126%	124%
Capital Replacement	Capital to depreciation >150%	184%	164%	159%	154%	155%	156%	156%	156%	155%	155%	153%
Objectives: Efficient and Effective Organisation												
Expenditure Level	Expenditure per property assessment	2,696	2,842	2,727	2,812	2,880	2,933	3,011	3,066	3,132	3,184	3,258

8. Glossary

Adjusted Underlying Surplus
Adjusted Underlying Surplus is the surplus result after adjusted underlying revenue less total expenditure.

Average Ratepayer
Is the nominal ratepayer as a result of total rate revenue over total number of assessable properties.

Balanced Budget
A quantitative statement of assets, liabilities and equity of the organisation at a particular point in timer.

Cash Surplus
Is the net cash flow of the organisation for the financial year after accounting for net operational cash flows, net cash flows from investing activities, net cash flows from financing activities and net cash flows from reserves.

Cash Surplus Balance
The carried forward balance of cash surplus Council holds.

Depreciation
The systematic allocation of the value of an asset over its expected useful life. CoPP uses the straight-line depreciation method.

Developer Contribution
Cash payments or assets made by developers towards the supply of infrastructure to support land developments in accordance with the requirements of the Development Contribution Plan.

Development Contribution Plan
A mechanism used to levy new developments for contributions to planned infrastructure needed by the future community.

Indebtedness ratio
Is the ratio comparison of non-current liabilities to own-sourced revenue. The higher the percentage, the less able to cover non-liabilities from the revenues the entity generates itself.

Infrastructure Renewal Gap Ratio
Comparison of spending on existing assets through renewing and upgrading with depreciation. A ratio100% or higher indicates spending on existing assets is faster than the rate of asset deterioration.

Internal financing ratio
Is Council's ability to generate cash from operations to finance capital expenditure. The higher the percentage, the greater the ability for Council to finance capital works from own funds.

Net Annual Value
Net Annual Value is the valuation methodology for Council rating purposes. The NAV treats commercial and industrial properties differently to residential.

- Commercial or industrial properties: it is the current value of a property's net annual rent (gross annual rental less all outgoings including land tax, building insurance and maintenance costs, except Council rates).
- Residential Dwellings: 5 per cent of the Capital Improved Value (land, building and other improvements) and is not a reflection of rental achievable for the property.

Own-Sourced Revenue
Is total income/revenue excluding all grants and contributions.

Rates Income/ Revenue
Is revenue from general rates, municipal charges service rates and services charges.

Rate Cap
The maximum annual rate of increase that councils can apply to their rate revenue as gazetted by the Minister of Local Government.

Renewal expenditure
Capital expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.

Special Rates
A rate or charge declared by Council for a specific purpose and is cost neutral to Council.

Underlying Revenue
Is total income/revenue excluding:

- Non-recurrent capital grants used to fund capital expenditure
- Non-monetary asset contributions
- Contributions to fund capital expenditure from sources other than those referred to above.

Upgrade expenditure
Capital expenditure on an existing asset to provide higher level of service or increase the life of the asset beyond its original life.

Victorian Audit General Office
An independent office of the Victorian Parliament that examines the management of resources within the public sector by conducting and reporting on financial and performance audits.

Working Capital Ratio
Is the ratio comparison of current assets to current liabilities to measure the ability of the organisation to pay existing liabilities in the next 12 months. A ratio greater than one means there are more cash and liquid assets than short-term liabilities.

For more information, please contact us via:
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