Long Term Financial Strategy 2019/20 – 2028/29

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Foreword

I am pleased to introduce Council's Long Term Financial Strategy to the Baw Baw Shire community.

This Council is committed to ensuring financial accountability and sustainability for our community.

The Long-Term Financial Strategy is a tangible example of that commitment and is a credit to the Council officers who have worked tirelessly to make good on Council's desire to develop such a vital strategy.

The Structural Analysis of Council's Financial position has been delivered, made public and is now being implemented. Given that the need for a long-term financial strategy was identified by that analysis, I feel confident that we are laying the foundations for the ongoing financial sustainability of Baw Baw Shire Council.

Critical issues such as borrowing, depreciation, the asset renewal gap, rates revenue and the level of delivered services are all addressed within this strategy. Not only does the strategy help to guide Council in its decision-making over the next decade, it also gives the community an insight into the financial tensions inherent in managing such a broad and diverse organisation.

The importance of addressing capital expenditure is made very clear by the strategy. It is a situation that we cannot afford to ignore. When our capital expenditure does not match the cost of renewing our assets, we are setting ourselves up for greater expense, and problems, in the long term. As a Council and as a community, we must be prepared to invest in the future.

I hope that this plan is a catalyst for greater community participation in Council budgeting into the future. What services does the community want Council to deliver now and into the 2020's? What does the community see as being Council's remit? These are the conversations we need to be having, even more so since the introduction of Rate Capping, and we hope that this document can kick start those discussions.

I commend this strategy to you and look forward to hearing from members of our community on Council's direction for the next decade.

Cr Mikaela Power
Mayor

1 Summary

The Long Term Financial Strategy (Strategy) is designed to provide the following objectives:

- establish a prudent and sound financial framework, combining and integrating financial strategies as expressed in its Council Plan,

- provide an assessment of the resources (financial and non-financial) required to accomplish the objectives and strategies included in the Council Plan (non-financial resources are assumed to include human resources and Council's asset base;

- establish a financial framework against which Council's strategies, policies and financial performance may be measured

- ensure that Council complies with sound financial management principles, as required by the Local Government Act (1989) and plan for the long term financial sustainability of Council;

- allow Council to meet the objectives of the Local Government Act (1989) to promote the social, economic and environmental viability of municipal district and its role in maintaining the viability of Council to ensure that resources are managed in a responsible manner;

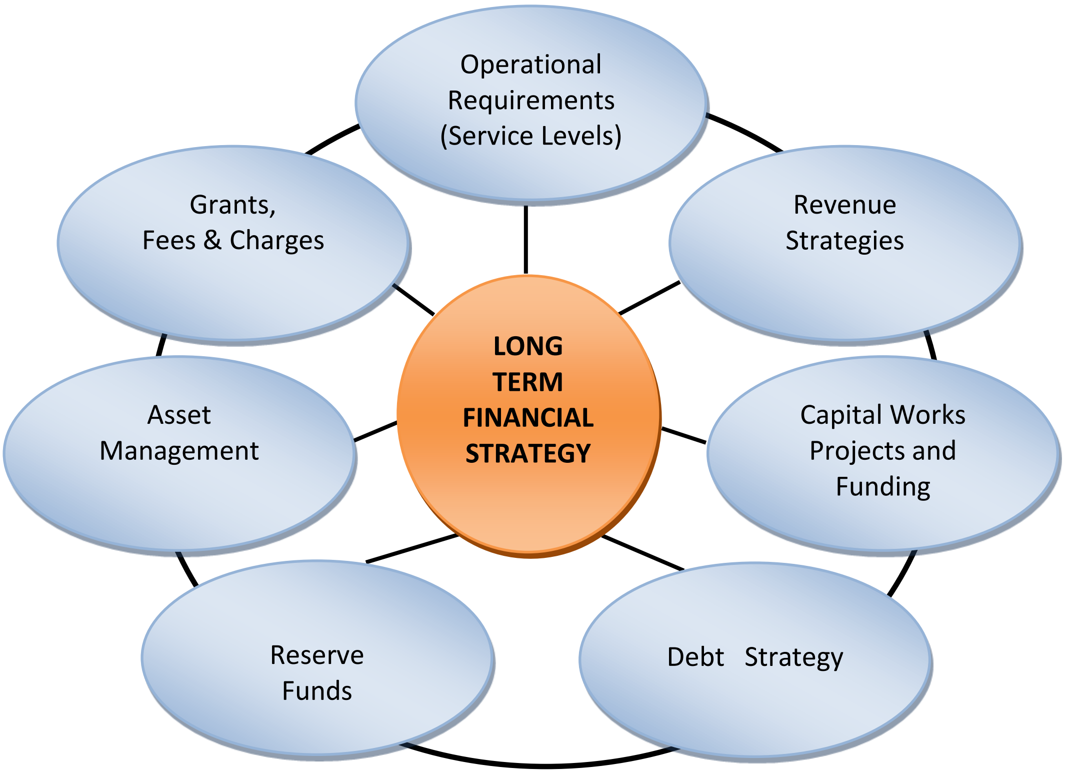
While compliance with the legislation can be achieved with the development of mandatory Strategic Resource Plan (four year) financial statements, a 10-year approach that is supported by a ten year long term financial plan (LTFP financial model) will better support Council's financial sustainability objectives. Notwithstanding the importance of the ten year view, this Strategy is aligned to the four year Strategic Resource Plan adopted at the time of completion of the 2019/20 Budget.

The Strategy will be reviewed on an annual basis and represents a comprehensive approach to document and integrate the various strategies (financial and other) of Council. The development of the long term financial projections represents the output of several strategy areas that is represented by the following diagram.

While meeting Council's service needs within a financially sustainable framework, the funding scenarios within the Strategy are designed to consider the impact to the community particularly with regard to the affordability of rates and charges.

While establishing a long term financial framework for Council's strategic financial direction, the specific projects and services to be funded in any given year are the subject of Council's consideration, review and approval during the annual budget process.

The LTFS is designed to assist the Council and the community to sustainably manage the growth and development of the Shire over the next 15-20 years. The Shire-wide Baw Baw Settlement Management Plan will guide growth and development of towns and localities across the Shire, prepare for the projected population changes, and identify key infrastructure needs. Council's long term strategy is designed to provide a financially sustainable model that will deliver on the expectations identified within the community vision statement. More specifically the purpose of the LTFS is to provide a mechanism that will continue to fund ongoing services to the changing population demographic as well as fund the identified infrastructure needs.



2 Objective of the Long Term Financial Strategy

The Strategy is intended to achieve a number of objectives within the ten year timeframe.

The achievement of a prudent balance between meeting the service needs of our community and remaining financially sustainable for future generations is a key platform of the strategy.

The strategy aims to fund the ongoing provision of quality services, while meeting the community needs within a financially sustainable context.

Achieving a financially sustainable context is achieved by maintaining an ongoing operating surplus and debt levels within policy and prudential guidelines.

The strategy framework includes the ability to manage funding for capital works as well as meet the asset renewal requirements that is articulated within the asset management plans.

3 Strategic Direction Outcomes

The following table highlights the key strategies of the strategy. Each section includes a detailed analysis to support the relevant strategies.

Each of the strategy recommendations are designed to support Council's strategic financial direction and are subject to review and confirmation during the annual budget process.

Summary - Strategy Recommendations
1. That Council endorse the rating parameters applied in this Strategy based on the rate cap increase of 2.5%. 2. That Council applies differential rates for: • General Residential properties. • Farms at a discount of 10% to the general rate. • Vacant land with a surcharge of 80%. • Commercial and Industrial properties with a surcharge of 20%. • Urban Living at a discount of 10%. • Residential Development with a surcharge of 30%. 3. That Council, where appropriate, applies loan borrowing to fund new and/or significantly upgraded major assets that provide a broad community benefit while total debt remains within the maximum 40% prudential limit (Debt Management Ratio). 4. That Council continues to review its critical infrastructure renewal requirements and allocate funds to the replacement of existing assets.

3.1 Financial Sustainable Position

To ensure ongoing financial sustainability the following performance outcomes are identified:

- Achieving and maintaining an adjusted underlying operational surplus (refer Appendix 1 Financial Statements – Comprehensive Income Statement) prior to the recognition of capital income over the life of the Strategy;

- Increasing the capital works investment, funded from operational sources to a sufficient level that allows it to adequately fund its asset renewal requirements;

- That the asset management funding gap identified between existing asset renewal funding and that required to maintain assets at present levels, be progressively addressed through the period of this Strategy;

- That Council endorse through this Strategy, the principle that ongoing asset renewal requirements are be funded from ongoing operational funding sources and that non-renewable funding sources such as asset sales, reserve funds or loan funds not be used to address these needs;

- Maintaining a working capital (liquidity) ratio above 1.2 to ensure adequate cash to fund day to day operational needs as they fall due.

3.2 Performance Reporting

The financial performance indicators report the results for the prior 2018/19 year and the four years projections from 2019/20 to 2022/23. The LFPRF financial performance results are based on the 2017/18 Annual Financial Statements and included at Appendix 3.

While the LGPRF discloses a sustainable financial position, the ratios are regularly updated to ensure ongoing sustainability. The up to date version of the key ratios are reflected in the Long Term Financial Plan Appendix 1 Financial Statements as well as Appendix 2 VAGO Performance Ratios. The up to date ratios are based on the 2019/20 Budget.

The LGPRF measures, per Appendix 3, are reflected by:

- Average residential rate per residential property – indicates the average rates paid for each residential property.
- Expenses per property assessment – total expenses divided by total number of properties indicates the average cost of operating Council for each ratepayer.
- Workforce turnover – number of resignations compared to the total number of staff.
- Working capital – above 120% for each year reflecting adequate capacity to meet short term liabilities.
- Unrestricted cash – the result indicates there is sufficient cash to meet short term liabilities.
- Asset renewal – target is to remain above 100% that requires further work and review. While the future years ratio is below the preferred 100%, this report is prior to the completion of the 2019/20 Budget that now identifies increased investment to renewal capital. This increased renewal investment is reported at Appendix 1 – Statement of Capital Works.
- Loans and borrowing compared to rates – maximum of 26.9% that is well within Council's policy to retain total debt to within 40% of rate revenue. The LTFS reflects further borrowings during the 2020/21 and 2021/22 financial years, to partly fund new strategic capital projects.
- Loans and borrowings repayments compared to rates – maximum of 4.0% that is well within the preferred guide to retain interest and debt repayments to within 10% of rate revenue.
- Indebtedness – non-current liabilities divided by own source revenue. The guideline is to remain below 40%.
- Adjusted underlying result – the target is to remain above 0%. The table at Appendix 3 reflects positive above 0% results with the exception of the 2021/22 financial year is a minor negative projection of 0.4%.
- Rates concentration – rates compared to adjusted underlying revenue measures the reliance on rate revenue that will be partly impacted by rate capping for ensuing years.

- Rates effort (rates compared to property values) – rates levied relative to the total value of properties in the municipality. There is limited capacity for Council to influence this measure due to rate capping.

4 Revenue Strategies

4.1 Proposed Rating Levels

The rating system determines how Council will raise money from properties within the municipality. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property.

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

The Victorian Government has now established the Fair Go Rates System (FGRS), which is a framework limiting the maximum amount Council may increase rates in a year without seeking additional approvals.

Each year the Minister for Local Government will set the rate cap that will specify the maximum increase in Council's rates and charges for the forthcoming financial year. The rate cap set by the Minister for 2019/20 is 2.5 per cent. Council does not propose to seek a variation to the 2019/20 rate cap.

Baw Baw Shire Council currently applies the Capital Improved Valuation methodology in order to levy its rates. Council currently applies differential rating (versus uniform rating) and has six differential rates in use.

The following table below highlights the various "surcharges and discounts" that are utilized in the current rating structure.

Council has structured its approach to rating to raise a higher proportion of its rate revenue from its commercial, industrial and vacant land sectors while providing a discount to farm ad urban farm ratepayers.

Rating Category	Budget 2019/20 Rate in $	Differential Rating Category
General (Residential)	0.003433	1.0
Commercial and Industrial	0.004119	1.2
Vacant land	0.006179	1.8
Farm	0.003089	0.9
Urban Living	0.003089	0.9
Residential Development	0.004463	1.3

Council currently utilises a service charge to fully recover the cost of the waste disposal services.

Baw Baw Shire Council applies the Capital Improved Valuation as the valuation base for the following reasons:

- CIV is considered to be the closest approximation to an equitable basis for distribution of the rates across the community.
- CIV provides Council with the ability to levy a full range of differential rates. Limited Differential rating only is available under the other rating bases.

Strategy Recommendations
1. That Council applies differential rates for: • General Residential properties. • Farms at a discount of 10% to the general rate. • Vacant land with a surcharge of 80%. • Commercial and Industrial properties with a surcharge of 20%. • Urban Living at a discount of 10%. • Residential Development with a surcharge of 30%. 2. That Council continues to allow a 100% discount on the Cultural and Recreational properties subject to a two-yearly review being undertaken.

4.2 Rating Strategy – the future impact

A key decision of Council during the life of the Long Term Financial Strategy is to determine the level of rate increase that will address funding levels for capital works, service provision for the municipality and maintain Council's long-term financial sustainability. Council will need to assess, on an annual basis, its appetite to seek a variation to the State Government rate cap.

The LTFP includes rate revenue for 2019/20 of $50.94 million based on the rate cap of 2.5 percent, plus growth of $0.49 million, over prior year levels. The total rate revenue generated is therefore $51.43 million including supplementary valuations (growth).

Baw Baw Shire Council currently applies a service charge for the collection and disposal of waste on properties that fall within the collection area. Council retains the objective of setting the service charge for waste at a level that fully recovers the cost of the service.

A total of $8.30 million is included for waste service charges. Total revenue from rates and service charges for 2019/20, including growth (supplementary rates and charges) is $59.73 million (excluding interest on rate income).

Council's annual costs are expected to increase by 3.4% mainly due to the provision for new staff to cover growth in services mainly in the areas of statutory planning, compliance, Maternal & Child Health, open space maintenance, property management and customer service. By contrast revenue is expected to increase by 11.6% mainly due to the impact of additional capital grants plus the the expected receipt of 12 months Financial Assistance Grants (only 9 months received during the prior year).

Council is budgeting for a surplus of $17.19 million during 2019/20 (before the impact of asset revaluation increments) however if should be noted that $17.48 million of income, comprising capital grants plus monetary and non-monetary contributions, is dedicated specifically to fund capital projects. Excluding this income Council's 2019/20 budget would therefore reflect an approximate breakeven position.

The rating strategy is based on future years base rates increasing by 2.5% with no allowance for rate variations to be approved above the cap. The rate of 2.5% is expected to be marginally below the rate of increase of Council's cost base thereby placing some limitation to future capital works programs and the capacity to fully fund infrastructure renewal needs.

Asset Management identifies the significant challenges to both maintain infrastructure at agreed service levels and close the pre-existing infrastructure gap.

These challenges are not able to be met from within the existing resource base without a significant alteration to the current provision of operational services.

4.3 Revenue from Grants and Contributions

The Strategy includes grant revenue as an integral component of Council's funding mix for the coming ten years. The assumptions and escalation factors for grant revenue are identified within Section 10, Financial Projections.

Grants and contributions are identified as Operating or Capital. A further dissection applies for recurrent and non-recurrent grant income. The majority of Council's operating grants are recurrent in nature.

Baw Baw Shire Council currently receives in the order of $14.07 million for recurrent operating grants representing 16% of total income.

Capital grants are generally one off in nature and vary depending upon the level of capital works expenditure to which the funding is applied. For the 2019/20 Budget year Council proposes to receive a total of $14.07 million operating plus a further $8.44 million capital grants as well as $2.55 million contributions to be applied to the annual capital works program.

4.4 Revenue from User Charges, Fees and Fines

User charges, fees and fines for 2019/20 are expected to total $5.53 million that represents in the order of the 5.5% of total operating income.

This income category comprises:

- Statutory fees and fines – these charges are fixed by law and can only be increased in line with the annual increases announced by State Government.

- Discretionary fees and fines - the balance of fees and charges is discretionary wherein Council may levy and increase these charges at its discretion.

The annual Schedule of Fees and Charges includes a detailed listing of user charges, fees and fines adopted during the annual budget process.

Strategy Recommendations
1. That Council endorse the rating parameters applied in this Strategy based on an annual rate increase of 2.5% per annum. In addition, supplementary rates are expected to raise a further 0.8% for growth (mainly new ratepayers); 2. That Council continue its focus of securing grant revenue particularly for capital works projects and; 3. That Council seeks to maximise revenue from user charges, fees and fines by applying an annual cost escalation factor as the index to all discretionary fees and charges.

5 Long Term Borrowing Strategy

This section includes a review of Council's:

- Current debt position and
- Future debt strategy

5.1 Current Debt Position

The following table reports Council's current debt position and the movements in total interest bearing liabilities 2015/16 to 2019/20.

	2015/16 $'000s	2016/17 $'000s	2017/18 $'000s	2018/19 $'000s	2019/20 $'000s
Total Debt	**11,266**	**13,892**	**12,422**	**11,607**	**11,168**

During the 2019/20 budget year Council is proposing to refinance a $4.0 million loan facility applied to partly fund the West Gippsland Arts Centre (WGAC). This loan was originally drawn down during the 2016/17 year and will be due for repayment / rollover during the 2019/20 year. The 2019/20 year will result in a net debt reduction of $0.439 million as follows:

- $4.439 million repayment comprising $4.0 million WGAC short term loan for rollover plus $0.439 million repayment of other principal and interest loans less

- $4.0 million refinance of the original $4.0 million loan to partly fund the WGAC.

5.2 Future Debt Strategy

Future loan borrowing should generally be applied to fund capital expansion and new projects rather than recurrent expenditure for day-to-day operations and/or asset replacement.

Expenditure of a renewal nature, both operating and capital, should be funded from renewable revenue sources rather than non-renewable sources such as loans, asset sales and reserves.

Council's future debt strategy will align with the Baw Baw Shire Council Borrowing Policy. The policy is designed to demonstrate prudent financial management by using loan facilities to fund specific capital projects. Consideration of loan facilities as a source of funding is to be assessed against the following predetermined criteria:

1. Intergenerational equity – that the loan be paid by future generations who benefit from projects funded by the loan proceeds;

2. Capital infrastructure – loan borrowings to be used to fund capital infrastructure, usually new and upgrade projects;

3. Loan term – that the loan term does not exceed the life of the infrastructure asset funded by the loan proceeds and;

4. Prudent Debt Levels – that Council assess its capacity to borrow against prudent financial guidelines.

5.2.1 Prudent Debt Levels

Council assessed its capacity to borrow against prudent financial guidelines.

The administration of the Local Government sector's borrowing involves:

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

All borrowings by individual councils are assessed under a borrowings assessment policy adopted by the Local Government Division.

The following financial ratios are identified to manage Council's capacity for debt.

Measure	Description	Financial Guideline (maximum)	2016/17	2017/18	2018/19	2019/20
Debt Management Ratio	Total debt as a % of rates	40.0%	25.5%	22.2%	19.3%	18.6%
Debt Servicing	Interest costs as a % of total revenue	5.0%	0.7%	0.8%	0.6%	0.5%
Debt Commitment	Principal and Interest as a % of rates	10.0%	3.5%	3.9%	8.9%	8.1%

- Debt Management Ratio - total debt divided by rates is to be a maximum of 40% (Borrowing Policy) notwithstanding that prudential guideline allows a maximum of 80% for total debt to rates. Council's ratio is well within both prudent guidelines and the Borrowing Policy and is projected to be 18.6% at the completion of the 2019/20 financial year.

- Debt Servicing – interest repayments as a percentage of total revenue. This measure reflects the proportion of total revenue that is used to service debt (interest on outstanding debt) and which cannot be used directly for service delivery. Ideally the ratio should remain below 5.0%. Council's ratio is projected to be 0.5% for the 2019/120 financial year that is well within prudent guidelines.

- Debt Commitment - principal and interest repayments divided by total rates. This ratio measures the amount of rate dollars being spent to repay debt and interest as an overall percentage of rate revenue. It is preferable that this ratio remain below 10%. Council's ratio is within the prudential guideline and projected to be 8.1% at the for the 2019/20 financial year. The increase for the 2018/19 and 2019/20 years is due to the rollover of the $4.0 million loan for the West Gippsland Arts Centre.

Council has utilised the Municipal Association of Victoria Local Government Funding Vehicle (LGFV) for the 2014/15, 2015/16 and 2016/17 loans that offered a bond issue facility.

5.2.2 Future Loan Requirements

This Strategy includes projected future borrowing assumptions to highlight the likely impact to Council's financial position as well as the potential applications for future borrowings.

All new borrowings are to be included to the annual budget and adopted by Council prior to the approval and drawdown of loan funds.

2019/20 borrowings of $4.0 million to refinance a 2016/17 short term loan to partly fund the redevelopment of the West Gippsland Arts Centre project.

The 2020/21 and 2021/22 years are proposing additional borrowing of $5.50 million $3.88 million respectively to partly fund new community projects including outdoor sports facilities and community hubs.

Projected future borrowings have been structured to ensure that Council does not exceed an indebtedness level more than 40% of annual rate revenue (Debt Management Ratio). As reflected in the above table, the debt management ratio remains well below 40% at the completion of the 2018/19 and 2019/20 financial years.

Future years borrowing ratios will also be impacted by the capitalisation of operating leases that will be effective by the 2020/21 financial year. While lease agreements are not yet included to Council's Strategic Resource Plan or future years Balance Sheet, their impact is not expected to create a significantly material impact to the prudent debt ratios.

Strategy Recommendations

1. That prior to undertaking any future borrowings, Council model the implications of the proposed loan program within the long term financial plan and determine the funding mechanism to meet annual debt servicing and redemption requirements;

2. That Council remain within the maximum 40% prudential limit (Debt Management Ratio) and;

3. That Council applies loan borrowing to fund new and/or significantly upgraded major assets that provide a broad, multigenerational community benefit.

6 Reserve Usage Strategy

Reserve funds are amounts of money set aside for specific purposes in later years. In general, these funds are identified as restricted cash that is quarantined from Council's surplus cash.

6.1 Nature of Reserves

Council utilises the following reserve funds.

- Open Space
- Open Space – Development Contributions
- Development Contribution Plans
- Defined Benefits Superannuation
- Unexpended Grants
- Land Sales – Statutory and Discretionary
- Native Vegetation Offset Scheme
- Loan Repayment
- Community Infrastructure
- Capital works carryover
- Library facility reserve

6.1.1 Open Space

The Open Space Reserve holds funds contributed by developers for works associated with developing and improved public open space and recreational facilities within Council. Funds are contributed in accordance with Section 18 of the Subdivision Act and transfers are restricted to the purpose of creating open space such as parks, playgrounds, pavilions and other such items where it is deemed that these works should occur at a later point than the initial development.

Transfers to the reserve (inflows) comprise contribution income from subdividers in lieu of the 5.0% Public Open Space requirement. Transfers from the reserve (outflows) are applied to fund Open Space capital projects on an annual basis.

The Open Space - Development Contribution Reserve is a new fund to hold levy income pursuant to a Public Infrastructure Plan (PIP) and payable to Council by landowners. The PIP will generally identify the Open Space levy amount, or quantum of land in lieu of payment, due to Council prior to the issue of a Statement of Compliance.

6.1.2 Development Contribution Plans

This reserve retains funds received from developers for infrastructure provision related to the Baw Baw Shire Development Contributions Plans.

Council has three (3) Development Contribution Plans with currently two reserves established to manage DCP01 and DCP02 (Warragul). A third reserve will be established for DCP03 (Drouin) when Council is in receipt of DCP03 levies from developers. Development Contribution Plan reserves (DCP02 & 03) was introduced to manage proceeds from the recently adopted Precinct Structure Plans within Warragul and Drouin

Transfers from this reserve will be for nominated capital works for Development Infrastructure projects and Community Infrastructure projects. These funds are tied directly to the income received or cash funds refunded to developers for capital works completed directly by the developer.

Whilst this Reserve fund displays a projected increasing balance over the term of the Development Contributions Plan (DCP01), all reserve funds will eventually be expended at the conclusion of the DCP.

DCP02 and DCP03 - Due to the impact of developer works in kind arrangements, where developers are expected to complete infrastructure works in lieu of Council receiving levy income, there is limited levy income (transfers to reserve) identified after the 2020/21 financial years notwithstanding the increased level of activity. Council's current information from its DCP Priority Development team indicates that developer activity that would normally give rise to the receipt of levy income, is now expected to be applied to offset 'works in kind' credits where developers will complete DCP capital projects on behalf of Council, and apply levies payable to offset capital woks rather than remit the levies due as cash payments to Council.

6.1.3 Defined Benefits Superannuation

The purpose of this reserve is to set aside any surplus funds from annual savings in employee costs (budget to actual variance) to fund future calls relating to the defined benefits superannuation scheme. There is minimal change to this reserve as there were no recent identified savings, to increase the reserve, or advised calls necessary to repay the defined benefits scheme.

6.1.4 Unexpended Grants

The purpose of this reserve is to set aside any unexpended grant funds arising at the completion of a prior financial year in order to then allow them to be carried over to the following year for matching against the relevant operating and capital expenditure.

Transfers to this reserve will be unspent government grants for operating and capital and projects. Transfers to this reserve will be in the form of funds, accumulated to the reserve and then applied to the following financial year to match with the associated operating and capital expenditure.

6.1.5 Land Sales

Council has allocated two reserves, statutory and discretionary, that comprises proceeds from the sale of Council land. The statutory reserve is to comprise the proceeds from open space land. The discretionary reserve comprises sales from all other Council land that is not required to be held for a specific purpose.

6.1.6 Native Vegetation Offset Scheme

This reserve is designed to hold contributions in order to complete the native vegetation program works.

6.1.7 Loan Repayment

This is a discretionary reserve to hold funds for the repayment of interest only loans. The annual contributions are equal to the deemed principle repayment so sufficient funds will be available to fund the future repayment of interest only loans.

6.1.8 Community Infrastructure

The purpose of this reserve is to set aside surplus funds from annual budget savings for the construction of new community infrastructure including allocation to a community hub style facility. The majority of this reserve is expected to be allocated to partly fund new community facilities during the years 2019/20 to 2022/23.

6.1.9 Capital Works carryover

The purpose of this reserve is to set aside unexpended funds for incomplete capital works arising at the completion of a prior financial year in order to then allow them to be carried over to the following year for matching against the relevant capital expenditure.

Transfers to this reserve will be the balance of capital projects that are incomplete at the end of the prior financial year.

Transfers to this reserve will be in the form of funds, then applied to the following financial year to match with the associated capital expenditure to complete prior year projects.

6.1.10 Library Facility Reserve

This reserve is Council's proportion of a reserve fund held by the West Gippsland Libraries (WGL). Council is an equity shareholder in the WGL and this amount is only available for use by the Library Corporation.

6.2 Restricted and Discretionary Reserves

Reserve funds are either restricted or discretionary. Restricted reserves are legally required to be used for a specific purpose. The restricted reserves as highlighted in light green (refer Reserve table below) are:

- Open Space
- Development Contribution
- Land Sales
- Native Vegetation
- Library Facility

Discretionary reserves do not have a legal restriction wherein their creation and application are at the discretion of Council. The discretionary reserves are:

- Defined Benefits Superannuation
- Unexpended Grants
- Land Sales
- Loan Repayment
- Community Infrastructure
- Capital works carryover

6.3 Projected Reserve Funds

The following table highlights the projected reserve fund balances over the next four years.

The Open Space reserve is projected to increase in the order of $250k per annum based on estimated contribution income. Development contributions (DCP 01) are aligned to the remaining years of the Development Contribution Plan reserve when the reserve is to be fully expended.

The Unexpended Grants reserve mainly comprises Financial Assistance Grants paid in advance and to be expended in the ensuing financial year. The Capital works carryover reserve is applied to fund Capital projects carried over from 2018/19 and identified for completion during the 2019/20 financial year. The loan repayment reserve is a discretionary reserve to accumulate sufficient funds to repay interest only loans. The first repayment from this reserve is during the 2021/22 year.

Reserves	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23
Open Space					
Opening balance	1,779	2,309	2,124	2,380	2,428
Transfer to reserve	530	250	256	263	269
Transfer from reserve	0	(435)	0	(215)	(300)
Closing balance	**2,309**	**2,124**	**2,380**	**2,428**	**2,397**
Open Space - Development Contributions					
Opening balance		0	0	0	0
Transfer to reserve	0	0	0	0	0
Transfer from reserve	0	0	0	0	0
Closing balance	**0**	**0**	**0**	**0**	**0**
Development Contributions - DCP01					
Opening balance	1,091	979	1,614	2,277	2,702
Transfer to reserve (Levy income)	1,038	1,011	1,036	1,062	1,089
Transfer from reserve (Capital projects)	(1,150)	(376)	(373)	(637)	(849)
Closing balance	**979**	**1,614**	**2,277**	**2,702**	**2,942**
Development Contributions - DCP02					
Opening balance	915	2,185	1,281	2,101	2,942
Transfer to reserve (Levy income)	1,620	800	820	841	862
Transfer from reserve (Capital projects)	(350)	(1,704)	0	0	0
Closing balance	**2,185**	**1,281**	**2,101**	**2,942**	**3,803**
Unexpended Grants					
Opening balance	5,615	294	294	294	294
Transfer to reserve	294	0	0	0	0
Transfer from reserve	(5,615)	0	0	0	0
Closing balance	**294**	**294**	**294**	**294**	**294**
Native Vegetation Offset Scheme					
Opening balance	248	248	248	248	248
Transfer to reserve	0	0	0	0	0
Transfer from reserve	0	0	0	0	0
Closing balance	**248**	**248**	**248**	**248**	**248**
Land Sales - statutory					
Opening balance	713	713	713	713	713
Transfer to reserve	0	0	0	0	0
Transfer from reserve	0	0	0	0	0
Closing balance	**713**	**713**	**713**	**713**	**713**
Land Sales - discretionary					
Opening balance	268	268	268	268	268
Transfer to reserve	0	0	0	0	0
Transfer from reserve	0	0	0	0	0
Closing balance	**268**	**268**	**268**	**268**	**268**
Loan Repayment					
Opening balance	2,721	4,004	5,287	6,570	4,514
Transfer to reserve	1,283	1,283	1,283	1,833	1,666
Transfer from reserve	0	0	0	(3,889)	0
Closing balance	**4,004**	**5,287**	**6,570**	**4,514**	**6,180**
Capital Works carryover					
Opening balance	7,551	4,248	0	0	0
Transfer to reserve	4,248	0	0	0	0
Transfer from reserve	(7,551)	(4,248)	0	0	0
Closing balance	**4,248**	**0**	**0**	**0**	**0**
Community Infrastructure					
Opening balance	2,500	2,500	2,130	2,030	480
Transfer to reserve	0	0	0	0	0
Transfer from reserve	0	(370)	(100)	(1,550)	(200)
Closing balance	**2,500**	**2,130**	**2,030**	**480**	**280**
Library - Facility Statutory					
Opening balance	129	129	129	129	129
Transfer to reserve	0	0	0	0	0
Transfer from reserve	0	0	0	0	0
Closing balance	**129**	**129**	**129**	**129**	**129**
Reserve Summary					
Opening Balance	24,209	18,556	14,767	17,689	15,397
Transfer to Reserves	9,013	3,344	3,396	3,998	3,886
Transfer from Reserves	(14,666)	(7,133)	(473)	(6,291)	(1,349)
Closing Balance	**18,556**	**14,767**	**17,690**	**15,396**	**17,934**

7 Service Planning

The key objective of Council's Strategy is to maintain existing service levels and maintain a satisfactory operating position over the life of the plan.

7.1 Operational Performance

The range and level of services Council is able to offer the community is reviewed annually based on the outcome of community consultation undertaken during the year.

Council's proposed operating revenue for 2019/20 is $97.18 million while its costs are expected to total $79.99 million.

The LTFP is premised on Council is continuing to review its service levels across the shire and where possible and cost effective, maintain them at 2018/19 levels, with an emphasis on innovation and online service delivery.

Future service requirements include:

- Increased demand from the statutory planning team due to the growth and development within the municipality particularly in the areas of the Precinct Structure Plans.
- Demand for new and improved community infrastructure including the development of community hubs, kindergarten facilities and sporting complexes.
- Council building maintenance – revised building maintenance expenditure to ensure service standards are maintained across Council's extensive range of facilities.
- Parks and gardens maintenance – acquisition of gifted assets including park land has identified the necessity to increase the allocation to maintenance requirements.
- Additional capital for new / expansion and upgrade works in order to complete existing master plans and strategies.
- Home and Community Care – The service demand increase are partly offset by Council's decision to transition out of the disability service function including the decision to not register as a National Disability Insurance Scheme (NDIS) service provider.

7.2 Financial Performance Analysis

Council's financial position is characterised by:

- An underlying surplus for years 2019/20 to 2022/3 inclusive of the LTFP that provides a basis for sound financial management and capacity to fund the infrastructure renewal program.
- Moderate debt ratios with the capacity to increase loan borrowing pursuant to Council's long term borrowing strategy.
- A capital works program targeted to fund renewal demand as well as new projects including, where possible, the developer contributions plan works.
- An updated condition based assessment of infrastructure assets to inform the Long Term Infrastructure Plan and identify priority renewal requirements.

8 Asset Management

Asset Management is a major component of the LTFP as it provides an indicator of the financial resources necessary to maintain and improve Council's asset base based on community needs.

8.1 Asset Portfolio

Fixed assets include land, buildings, roads, drains and other infrastructure assets. The total value of fixed assets as at 30 June 2018 was $668.222 million (written down value).

Fixed Asset Category As at 30 June 2018	Replacement Value $'000s	Accumulated Depreciation $'000s	Written Down Value $'000s
Land (including land under roads)	110,390	-	110,390
Buildings	123,150	50,132	73,018
Plant and Equipment	5,471	2,848	2,623
Fixtures, fittings and furniture	4,262	4,003	259
Roads	390,754	78,738	312,016
Bridges	28,436	5,316	23,120
Footpaths and cycle ways	36,988	4,999	31,989
Drainage	71,029	11,962	59,067
Parks, open space and streetscapes	25,717	3,168	22,549
Off street car parks	7,284	2,701	4,583
Works in Progress	28,608		28,608
Total	**832,089**	**163,867**	**668,222**

Depreciation is reassessed following condition assessments and when general valuations are undertaken.

To ensure the ongoing delivery of service standards, it is necessary for Council to determine the cost to retain the current infrastructure portfolio including the long-term average cost of renewal plus maintenance.

The total infrastructure and building assets (Roads, Bridges, Footpaths and cycleways, Drainage, Off street car parks, Parks, open space & streetscapes as well as Buildings) comprise $697.9 million replacement value and $540.8 million written down value as at 30 June 2018. The 2017/18 annual depreciation for infrastructure and building assets totaled $13.1 million.

This result indicates that Council's infrastructure and building assets have a total useful life of 53 years ($697.9 million replacement value divided by $13.1 million depreciation) and an average remaining useful life of 41 years ($540.8 million written down value divided by $13.1 million depreciation).

That is, based on the audited annual financials, Council's infrastructure and building assets are in the order of 23% utilised (12 years divided by 53 years) and have in the order of 77% of their life remaining (41 years divided by the total life of 53 years).

The depreciation amount of $13.1 million is a product of recent revaluation of the major classes of infrastructure assets including roads, drains, bridges and footpaths as well as a revaluation of Council buildings. This work also included a detailed condition-based assessment of each asset class in order to reassess useful lives and therefore the annual depreciation charge.

The LTFP includes annual capital renewal in the order of $13.9 million for 2019/20 that, while insufficient to replace the estimated total depreciation charge of $16.4 million, the renewal to depreciation ratio is an improvement on the ratios reported in the prior years forward projections. The ratio for 2019/20 is 85.4% (target 100%) with the ensuing three financials years projected to be 86.0%, 85.4% and 76.1% respectively.

The following table provides a summary of the valuation of Council's infrastructure and building assets.

Infrastructure and Building Assets 2017/18	Replacement Value $M	Written Down Value $M	Annual Depreciation $M
Infrastructure	574.7	467.8	10.4
Building	123.2	73.0	2.7
Total	**697.9**	**540.8**	**13.1**

8.1.1 Infrastructure Assets

Council's infrastructure assets hare in relatively sound condition and on average 10 years or 18% through their average total life of 55 years:

- Average total life of 55 years ($574.7 million divided by $10.4 million depreciation)
- Average remaining life of 45 years ($467.8 million divided by $10.4 million depreciation).

This high level result indicates that in the order of $10.4 million per annum is required to replace Council's infrastructure assets. This estimate is continually reviewed following the updated condition-based assessment of each asset class.

8.1.2 Building Assets

Council's building assets are generally in average condition reflecting the need for further renewal investment to this asset category. The table indicates that building assets are on average 19 years or 41% through their average total life of 46 years:

- Average total life of 46 years ($123.2 million replacement value divided by $2.7 million depreciation)
- Average remaining life of 27 years ($73.0 million written down value divided by $2.7 million depreciation)

This high level result indicates that $2.7 million per annum is required replace Council's building assets. This result of 2.7 million has increased from $2.1 million following a review and revaluation of building assets during 2017/18.

8.1.3 Asset Sales

During the review of the LTFP it is proposed to continually monitor the service requirements of realisable (saleable) assets, including land and buildings, that may be surplus to requirements and can be the identified as potential asset sales.

Asset sales will generally provide a cash injection that can be either quarantined to a discretionary reserve and/or applied to fund new or expanded assets that better reflect Council's service requirements.

8.2 Future Asset Management and Infrastructure Gap

Council continues to address the renewal funding gap and the maintenance funding gap particularly as shortfalls in maintenance funding accelerate the need to renew assets.

The challenges in managing infrastructure assets may differ as each group is re-assessed however common themes are expected to be present across all grouping.

These issues include:

- Collection and management of data;
- Understanding the relationship between maintenance and renewal works;

- Quantifying the backlog;
- Lifecycle costing; and
- Accurately projecting future renewal requirements and updating Council's Strategy to reflect these.

8.3 Asset Management Policy and Plans

Asset management policy and planning provides Council with a sound base to understand and manage the risk associated with managing its assets for the community's benefit.

Council continues to review and refine the process for establishing standards of service and delivery to the community. These revised levels of service are based on an assessment of risk and affordability that will also influence funding decisions into the long term.

Robust asset management practices will ensure that Council continues to meet the needs of current and future generations in a sustainable manner. Funding will need to be continually provided into the future to improve data collection and enable better understanding of asset performance. The ongoing assessment of agreed service levels and the application of a risk framework will enable Council to be more proactive in assessing the investment in infrastructure assets.

Each of the individual asset plans to be delivered by Council will detail a methodology for responsible management of that asset class, incorporate knowledge of the condition of the asset group, risk assessment issues, establishment of intervention and service levels, and the identification of renewal, backlog and maintenance funding requirements projected over the life of the Long Term Infrastructure Plan.

Council monitors asset condition and performance to:

- Identify those assets which are surplus to requirements;
- 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).

Priority is on funding the annual renewal annuity based on predetermined service levels.

The infrastructure asset intervention levels identify the condition when infrastructure assets are to be replaced. The higher the intervention level the greater the asset deterioration prior to replacement. The condition sets the minimum service standard of infrastructure assets as a basis when funding is required for renewal purposes.

Lowering the intervention level would increase the dollar amount necessary for capital renewal as assets would be identified earlier (better condition) at the time of replacement.

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

A renewal gap exists where the renewal expenditure is less than the renewal demand resulting in an annual increase in the percentage of assets that are above intervention (exceeds their useful life and past their due date for replacement).

It is recommended that no asset's condition be allowed to go below their respective 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.

Strategy Recommendations	
1.	That Council continues to allocate additional funds to the renewal of existing assets while investing in strategic infrastructure projects to service the growth within the municipality.
2.	That Council, as part of the review of its Asset Management Plans, continue to align the financial results (asset portfolio) that indicate a remaining useful life of 45 years (82%) and 27 years (59%) for infrastructure and building assets respectively.
3.	That Council, to maintain its critical renewal investment levels, continues to update its Asset Management Plans for all classes of Council assets incorporating service level assessments.

9 Capital Works – Program expenditure and funding sources

This section considers the asset management requirements of the previous section and provides a framework for renewal and improvement of Council's infrastructure.

The Strategy will focus on the following outcomes in order to:

- Improve and maintain the level of investment in infrastructure renewal;
- Maintain or improve the condition of Council's infrastructure;
- Invest in upgrade, expansion and new assets based on the expectations of the Council Plan and the funding principles with regard to the revenue strategy, the long term borrowing strategy and the reserve usage strategy.

Future years of the Strategy propose to allocate sufficient funds from rate revenue to complete the capital expenditure program.

9.1 Capital program expenditure

Council's longer term capital program is based on the following guidelines:

- Provide for expenditure growth required to level of sustainable renewal to meet the community's service level requirements (based on current Asset Management Plans);
- Continue to fund capital renewal as a priority followed by the allocation of funds to upgrade and construct new assets. Project priority is based on community needs in line with the Council Plan. This strategy has resulted in the inclusion of identified projects to the Long Term Infrastructure Plan
- Income assumptions to remain conservative given they are less predictable.

Council's ten-year capital program is reflected at Appendix 1 Capital Works Statement. In particular there is significantly higher investment in the 2019/20 and 2020/21 financial years. The four-year future capital program includes a total of $33.1 million for new strategic projects mainly to develop sporting facilities and community hubs in response to the increased community demand. The $33.1 million is to be primarily funded from external grants, new loan borrowings and Council cash reserves.

The level of prior and current capital investment is reflected in the following table between the 2015/16 to 2019/20 financial year. The 2019/20 budget includes $4.25 million of project works carried forward from the prior 2018/19 year.

Capital Expenditure Type	2015/16 Actual $000's	2016/17 Actual $000's	2017/18 Actual $000's	2018/19 Forecast $000's	2019/20 Budget $000's
Renewal	$15,899	$12,813	$12,201	$13,324	$14,170
Upgrade	$8,463	$5,581	$8,668	$12,016	$10,528
New/Expansion	$5,230	$6,049	$4,451	$2,207	$9,189
TOTAL	**$29,592**	**$24,443**	**$25,320**	**$27,547**	**$33,887**

9.2 Capital funding sources

External capital funding includes capital grants, capital contributions, developer contributions and open space contributions.

Internal capital funding sources include Council cash contribution (rates), statutory reserves, discretionary reserves, asset sales and, where appropriate, land sales.

10 Financial Projections

10.1 Modelling Methodology

The Long Term Financial Plan (LTFP) establishes a framework for Council to benchmark its performance within the LG sector. The future year operating projections are modelled on the 2019/20 Budget and identify available funding to complete capital works while applying the financial ratios to demonstrate ongoing sustainability. The Budgeted Statements (financial statements) are the result of this modelling and included as Appendix 1.

10.2 Financial parameters and assumptions

The following information explains the major forecast parameters for the life of the ten year LTFP. Council's cost base (materials, services and contract costs) is expected to increase by more than the rate of CPI mainly due to:

- The impact of contract costs that are driven by price indexes other that Consumer Price Index and generally greater than CPI.
- An allowance for population growth and, where necessary, additional expenditure to meet the community demands for increases to existing service levels.

10.2.1 Rate revenue

Base rate revenue will increase by 2.5% for the 2019/20 year, based on the state government rate cap, with future annual increases of 2.5% per annum for the ensuing years of the long term financial plan. In addition, it is expected that during the 2019/20 year a further increase of 0.8% per annum will be received for growth (additional properties) as a result of supplementary rates.

Waste charges will remain at 2018/19 levels as the current waste charges are sufficient to defray the cost of waste management including the additional impost for recycling charges that have resulted in the addition of a further $0.75 million effective from the 2018/19 year.

10.2.2 Fees and charges revenue

Revenue from user fees and charges is expected to increase by 15.3% for the 2019/20 Budget year. This revenue, that includes both user fees plus statutory fees and fines, is partly due to the expected twelve months operation of the West Gippsland Arts Centre that was only operational for approx. seven months of the prior 2018/19 year. The ensuing years are based on a conservative annual rate of increase of 2.5% to reflect, as a minimum, annual increases in line with the rate cap.

Statutory fees are set by legislation and are not necessarily indexed on an annual basis. Therefore the annual increase is set at 2.0% being marginally below the rate cap increase of 2.5%.

10.2.3 Grants and subsidies

Operating grants are expected to increase on an annual basis by approximately 2.5%. The 2019/20 increase of 47.2% is mainly due to the 2018/19 prior year comparative only reflecting 50% of the Financial Assistance Grants allocation (funding in the order of $4.3 million was received in the previous 2017/18 year). Additional funding is also expected to partly fund new staff positions identified at 10.2.5 below.

10.2.4 Investment income

Interest income received from the investment of surplus funds is pursuant to Council's Investment Policy. The future year's estimates are based on projected average cash balances held during the year and using current term deposit rates.

10.2.5 Employee costs

The 2019/20 Budget includes a 9.1% increase for employee costs. This result reflects the increase from the 2018/19 forecast actual to the 2019/20 budget. he increases are mainly due to:

- Salary increase for all staff pursuant to the Enterprise Bargaining Agreement; plus
- Reduction to the 2018/19 forecast actual due to the reclassification of the costs of relief staff to the "Materials, contracts and services' line item. Excluding this impact, the total movement in employee costs would be in the order of 7.9%; plus
- Additional staff in the areas of statutory planning, compliance, Maternal & Child Health, open space maintenance, property management and customer service to keep pace with growth and service demands; less
- Staff reduction in the disability (National Disability Insurance Scheme) as Council transfers this operation to alternate service providers.

The ensuing years, from 2020/21 to 2022/23, reflect annual increases of 3.5% per annum to provide for annual EBA increases, some increases to salary increase within a band as well as a marginal increase to the delivery of existing services.

10.2.6 Materials, contracts and services

Materials, contracts and services are expected remain the same as the prior 2018/19 year (forecast actual). Future year cost increases are expected to be in the order of 3.5% per annum.

The 2019/20 result reflects the forecast over budget expenditure for the prior 2018/19 year as well as the reclassification of relief staff from the “Employee costs’ line item (refer above). Excluding the increase in the prior year due to relief staff reclassification, the 2019/20 year would reflect in the order of a 2.5% increase being in line with the rate cap allowance. The rate of annual increase for the ensuing years is generally expected to exceed CPI mainly due to:

- Additional expense allocation to respond to community demands and the cost of maintaining existing services.

- Adjustments more than CPI for major contracts such as road maintenance that are impacted by costs drivers, including the road construction index and transport costs.

10.2.7 Borrowing costs

Borrowing costs for 2019/20 are budgeted at $0.445 million that reflects a 14.8% reduction of the prior year. This result is mainly due to high interest loans now being fully repaid. During the 2019/20 budget year total borrowing is expected to reduce by $0.439 million to $11.168 million.

Appendix 1 Financial Statements

Period start		1 Jul 18	1 Jul 19	1 Jul 20	1 Jul 21	1 Jul 22	1 Jul 23	1 Jul 24	1 Jul 25	1 Jul 26	1 Jul 27	1 Jul 28
Period end		30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23	30 Jun 24	30 Jun 25	30 Jun 26	30 Jun 27	30 Jun 28	30 Jun 29
Comprehensive Income Statement												
Revenue from Operating Activities												
Rates and Charges	$'000	56,704	58,684	61,224	63,445	65,747	68,132	70,603	73,164	75,818	78,335	80,936
Supplementary Rates	$'000	733	1,047	673	698	723	749	777	805	607	627	627
Special Charges	$'000	-	-	-	-	-	-	-	-	-	-	-
Grants - Operating (Recurrent)	$'000	9,610	14,074	14,426	14,786	15,156	15,535	15,923	16,322	16,730	17,148	17,576
Grants - Operating (Non-recurrent)	$'000	-	-	-	-	-	-	-	-	-	-	-
Grants - Capital (Recurrent)	$'000	1,436	1,636	1,436	1,436	1,436	1,436	1,436	1,436	1,436	1,436	1,000
Grants - Capital (Non-recurrent)	$'000	4,464	6,803	15,798	930	1,280	1,480	961	4,993	2,527	1,052	1,513
Contributions (Non monetary)	$'000	6,500	6,695	6,896	7,103	7,316	7,535	7,761	7,994	8,234	8,481	-
Contributions (Monetary)	$'000	3,188	2,555	2,113	2,165	2,219	2,275	2,332	2,390	2,510	2,635	2,635
Reimbursements and Subsidies	$'000	-	-	-	-	-	-	-	-	-	-	-
User Charges	$'000	2,809	3,237	3,318	3,401	3,486	3,573	3,662	3,754	3,848	3,944	4,043
Statutory Fees and Fines	$'000	2,260	2,288	2,334	2,380	2,428	2,477	2,526	2,577	2,628	2,681	2,734
Total Revenue from Operating Activities	$'000	87,704	97,019	108,218	96,345	99,791	103,192	105,982	113,434	114,337	116,339	111,064
Revenue from Outside of Operating Activities												
Interest Revenue	$'000	1,053	630	649	668	688	709	730	752	775	798	822
Other Revenue Outside of Operating Activities	$'000	615	827	852	877	904	931	959	987	1,017	1,048	1,079
Total Revenue from Outside Operating Activities	$'000	1,668	1,457	1,501	1,546	1,592	1,640	1,689	1,740	1,792	1,846	1,901
Total Revenue	$'000	89,372	98,476	109,719	97,890	101,383	104,832	107,671	115,174	116,129	118,184	112,965
Operating Expenses from Ordinary Activities												
Employee Costs	$'000	(26,736)	(29,182)	(30,203)	(31,260)	(32,355)	(33,487)	(34,659)	(35,872)	(37,128)	(38,427)	(39,772)
Employee Costs Provisioned	$'000	(39)	(40)	(41)	(42)	(43)	(45)	(46)	(47)	(49)	(50)	(50)
Materials, Contracts & Services	$'000	(29,593)	(29,573)	(30,608)	(31,679)	(32,788)	(33,837)	(34,920)	(36,038)	(37,191)	(38,381)	(39,609)
Depreciation	$'000	(15,736)	(16,366)	(17,020)	(17,701)	(18,409)	(19,146)	(19,911)	(20,708)	(21,535)	(22,396)	(22,883)
Other Operating Expenses	$'000	(4,339)	(4,431)	(4,564)	(4,701)	(4,842)	(4,987)	(5,137)	(5,291)	(5,450)	(5,613)	(5,781)
Interest on Borrowings (Finance Costs)	$'000	(496)	(447)	(574)	(698)	(752)	(752)	(752)	(737)	(442)	(442)	(442)
Total Operating Expenses	$'000	(76,939)	(80,039)	(83,010)	(86,082)	(89,189)	(92,254)	(95,425)	(98,693)	(101,794)	(105,308)	(108,537)
Net Surplus/(Deficit) from Operations	$'000	12,433	18,437	26,709	11,809	12,194	12,578	12,246	16,481	14,335	12,876	4,428
Adjustments												
Net Gain/(Loss) on Disposal of Property Plant & Equipme	$'000	(1,338)	(1,329)	(1,324)	(1,319)	(1,314)	(1,308)	(1,302)	(1,296)	(1,346)	(1,346)	-
Share of Net Profit/(Loss) of Associates and Joint Ventur	$'000	177	37	37	37	37	37	37	37	37	37	37
Unrealised Gain/(Loss on investment in Associates)	$'000	39	39	39	39	39	39	39	39	-	-	-
Total Adjustments	$'000	(1,122)	(1,253)	(1,248)	(1,243)	(1,238)	(1,232)	(1,226)	(1,220)	(1,309)	(1,309)	37
Operating Surplus/(Deficit) after Adjustments	$'000	11,311	17,184	25,461	10,565	10,956	11,346	11,020	15,261	13,026	11,567	4,465

Period start		1 Jul 18	1 Jul 19	1 Jul 20	1 Jul 21	1 Jul 22	1 Jul 23	1 Jul 24	1 Jul 25	1 Jul 26	1 Jul 27	1 Jul 28
Period end		30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23	30 Jun 24	30 Jun 25	30 Jun 26	30 Jun 27	30 Jun 28	30 Jun 29
Balance Sheet												
Current Assets												
Cash and Cash Equivalents	$'000	33,464	27,236	30,684	30,775	33,667	37,095	41,706	33,258	38,638	42,494	47,472
Trade and Other Receivables	$'000	6,522	7,246	8,166	7,170	7,432	7,669	7,897	8,487	8,538	8,654	8,937
Other Current Assets	$'000	805	805	805	805	805	805	805	805	805	805	805
Total Current Assets	$'000	40,791	35,287	39,655	38,750	41,905	45,569	50,409	42,550	47,981	51,953	57,215
Non Current Assets												
Property Plant and Equipment	$'000	201,026	204,449	207,689	211,736	208,458	200,978	193,259	185,291	177,016	168,472	161,479
Infrastructure Assets	$'000	499,608	521,728	548,621	560,800	590,088	605,682	620,093	644,399	660,824	677,499	684,319
Landfill Rehabilitation Intangible Asset	$'000	-	-	-	-	-	-	-	-	-	-	-
Investment in Associates and Joint Ventures	$'000	1,816	1,855	1,894	1,933	1,972	2,010	2,049	2,088	2,088	2,088	2,088
Trade and Other Receivables (Long Term)	$'000	-	-	-	-	-	-	-	-	-	-	-
Other Financial Assets	$'000	568	568	568	568	568	568	568	568	568	568	568
Total Non Current Assets	$'000	703,017	728,601	758,772	775,037	801,085	809,239	815,969	832,346	840,495	848,627	848,454
Total Assets	$'000	743,808	763,888	798,427	813,786	842,990	854,808	866,378	874,896	888,476	900,580	905,669
Current Liabilities												
Trade and Other Payables	$'000	9,435	9,817	10,186	10,540	10,906	11,239	11,646	12,035	12,436	12,816	13,280
GST Payable	$'000	-	-	-	-	-	-	-	-	-	-	-
Trust Funds and Deposits	$'000	2,800	2,884	2,970	3,059	3,151	3,245	3,343	3,443	3,546	3,653	3,762
Current Provisions	$'000	-	-	-	-	-	-	-	-	-	-	-
Current Landfill Rehabilitation Provision	$'000	-	-	-	-	-	-	-	-	-	-	-
Current Employee Benefits	$'000	4,595	4,615	4,635	4,656	4,677	4,699	4,722	4,745	4,770	4,794	4,818
Current Interest Bearing Liabilities	$'000	4,439	-	3,889	-	-	-	7,279	-	-	-	-
Total Current Liabilities	$'000	21,268	17,315	21,680	18,255	18,734	19,184	26,990	20,223	20,752	21,263	21,860
Non Current Liabilities												
Non Current Employee benefits	$'000	1,510	1,530	1,550	1,572	1,594	1,616	1,639	1,663	1,688	1,714	1,740
Non Current Provisions	$'000	-	-	-	-	-	-	-	-	-	-	-
Non Current Landfill Rehabilitation Provision	$'000	6,993	6,993	6,993	6,993	6,993	6,993	6,993	6,993	6,993	6,993	6,993
Non Current Interest Bearing Loans and Borrowings	$'000	7,168	11,168	12,779	16,662	16,662	16,662	9,383	9,383	9,383	9,383	9,383
Total Non Current Liabilities	$'000	15,671	19,691	21,322	25,227	25,249	25,271	18,015	18,039	18,064	18,090	18,116
Total Liabilities	$'000	36,939	37,006	43,002	43,481	43,983	44,455	45,005	38,263	38,816	39,352	39,976
Net Assets	$'000	706,870	726,882	755,425	770,305	799,007	810,353	821,373	836,634	849,660	861,227	865,693
Equity												
Accumulated Surplus	$'000	358,497	376,135	399,857	409,109	418,995	429,053	437,862	451,139	462,044	471,205	475,671
Reserves - Statutory	$'000	6,563	6,109	7,848	9,161	10,231	11,519	13,730	15,714	17,835	20,241	20,241
Asset Revaluation Reserve	$'000	341,810	344,638	347,720	352,035	369,781	369,781	369,781	369,781	369,781	369,781	369,781
Total Equity	$'000	706,870	726,882	755,425	770,305	799,007	810,353	821,373	836,634	849,660	861,227	865,693

Period start		1 Jul 18	1 Jul 19	1 Jul 20	1 Jul 21	1 Jul 22	1 Jul 23	1 Jul 24	1 Jul 25	1 Jul 26	1 Jul 27	1 Jul 28
Period end		30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23	30 Jun 24	30 Jun 25	30 Jun 26	30 Jun 27	30 Jun 28	30 Jun 29

Cash Flow Statement

Cash flows from Operating Activities												
Rates and Charges Received	$'000	57,105	59,257	61,340	64,852	66,283	68,712	71,216	73,559	76,389	78,878	81,357
Grants - Operational Received	$'000	9,554	13,962	14,296	14,950	15,114	15,497	15,887	16,231	16,722	17,129	17,532
Grants - Capital Received	$'000	5,866	8,372	17,079	2,392	2,708	2,909	2,391	6,393	3,961	2,485	2,507
Interest Received	$'000	1,053	630	649	668	688	709	730	752	775	798	822
User Fees Received	$'000	2,793	3,211	3,288	3,438	3,476	3,564	3,654	3,733	3,846	3,940	4,032
Statutory Fees and Fines Received	$'000	2,247	2,270	2,313	2,407	2,421	2,471	2,520	2,562	2,627	2,678	2,727
Other Revenue Received	$'000	3,781	3,355	2,938	3,076	3,114	3,198	3,283	3,359	3,525	3,679	3,705
Employee Costs Paid	$'000	(26,493)	(29,005)	(30,033)	(31,097)	(32,185)	(33,333)	(34,470)	(35,692)	(36,941)	(38,250)	(39,555)
Materials and Consumables Paid	$'000	(29,323)	(29,394)	(30,435)	(31,514)	(32,617)	(33,681)	(34,730)	(35,856)	(37,004)	(38,204)	(39,393)
Trust Funds and Deposits	$'000	82	84	87	89	92	95	97	100	103	106	110
Other Expenses Paid	$'000	(4,299)	(4,404)	(4,538)	(4,676)	(4,817)	(4,964)	(5,109)	(5,264)	(5,422)	(5,587)	(5,750)
Net Cash flows from Operating Activities	$'000	22,365	28,338	36,983	24,586	24,278	25,176	25,470	29,879	28,581	27,652	28,093
Cash flows from Investing Activities												
Payment for Property Plant and Equipment and Infrastruct	$'000	(27,547)	(33,887)	(38,675)	(24,009)	(20,857)	(21,225)	(20,342)	(30,552)	(23,000)	(23,596)	(22,710)
Proceeds from Property Plant and Equipment and Infrastr	$'000	162	171	176	181	186	192	198	204	204	204	-
Proceeds from/(to) Investments	$'000	177	37	37	37	37	37	37	37	37	37	37
Proceeds/(Payments) from/for Financial Assets	$'000	-	-	-	-	-	-	-	-	-	-	-
Net Cash flows from Investing Activities	$'000	(27,208)	(33,679)	(38,462)	(23,791)	(20,634)	(20,996)	(20,107)	(30,311)	(22,759)	(23,355)	(22,673)
Cash flows from Financing Activities												
Proceeds from Interest Bearing Loans and Borrowings	$'000	4,000	4,000	5,500	3,883	-	-	-	-	-	-	-
Repayments of Interest Bearing Loans and Borrowings	$'000	(4,809)	(4,439)	-	(3,889)	-	-	-	(7,279)	-	-	-
Finance Costs	$'000	(496)	(447)	(574)	(698)	(752)	(752)	(752)	(737)	(442)	(442)	(442)
Net Cash flows from Financing Activities	$'000	(1,305)	(886)	4,926	(704)	(752)	(752)	(752)	(8,016)	(442)	(442)	(442)
Net Change in Cash Held	$'000	(6,148)	(6,227)	3,447	92	2,892	3,428	4,611	(8,448)	5,380	3,855	4,978
Cash at Beginning of the Financial Year	$'000	39,612	33,464	27,236	30,684	30,775	33,667	37,095	41,706	33,258	38,638	42,494
Cash at End of the Financial Year	$'000	33,464	27,236	30,684	30,775	33,667	37,095	41,706	33,258	38,638	42,494	47,472

Period start		1 Jul 18	1 Jul 19	1 Jul 20	1 Jul 21	1 Jul 22	1 Jul 23	1 Jul 24	1 Jul 25	1 Jul 26	1 Jul 27	1 Jul 28
Period end		30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23	30 Jun 24	30 Jun 25	30 Jun 26	30 Jun 27	30 Jun 28	30 Jun 29
Capital Works Statement												
Land	$'000	584	685	-	350	800	-	-	-	-	-	-
Land improvements	$'000	-	-	-	-	-	-	-	-	-	-	-
Buildings	$'000	4,942	8,240	8,926	5,345	2,082	-	-	-	-	-	-
Plant, machinery and equipment	$'000	551	568	585	603	621	-	-	-	-	-	-
Fixtures, fittings and furniture	$'000	-	-	-	-	-	-	-	-	-	-	-
Computers and telecommunications	$'000	936	542	545	463	469	-	-	-	-	-	-
Roads	$'000	14,081	11,023	9,725	10,055	8,436	-	-	-	-	-	-
Bridges	$'000	789	1,295	750	750	750	-	-	-	-	-	-
Footpaths and cycle ways	$'000	1,495	1,290	1,012	833	1,223	-	-	-	-	-	-
Drainage	$'000	1,033	3,132	928	1,250	3,331	-	-	-	-	-	-
Rec, leisure and community facilities	$'000	2,574	6,710	15,904	4,160	2,945	-	-	-	-	-	-
Waste management	$'000	20	-	-	-	-	-	-	-	-	-	-
Other infrastructure	$'000	542	402	300	200	200	-	-	-	-	-	-
Total Capital Works	$'000	27,547	33,887	38,675	24,009	20,857	21,225	20,342	30,552	23,000	23,596	22,710

Appendix 2 VAGO Performance Ratios

	1 Jul 17	1 Jul 18	1 Jul 19	1 Jul 20	1 Jul 21	1 Jul 22	1 Jul 23	1 Jul 24	1 Jul 25	1 Jul 26	1 Jul 27	1 Jul 28
Period start	1 Jul 17	1 Jul 18	1 Jul 19	1 Jul 20	1 Jul 21	1 Jul 22	1 Jul 23	1 Jul 24	1 Jul 25	1 Jul 26	1 Jul 27	1 Jul 28
Period end	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23	30 Jun 24	30 Jun 25	30 Jun 26	30 Jun 27	30 Jun 28	30 Jun 29
VAGO Ratios												
15.02.01 VAGO Ratios												
Net result	16.3%	12.7%	17.5%	23.2%	10.8%	10.8%	10.8%	10.2%	13.3%	11.2%	9.8%	4.0%
Liquidity	2.09	1.92	2.04	1.83	2.12	2.24	2.38	1.87	2.10	2.31	2.44	2.62
Internal financing	118.8%	81.2%	83.6%	95.6%	102.4%	116.4%	118.6%	125.2%	97.8%	124.3%	117.2%	123.7%
Indebtedness	26.6%	24.9%	30.1%	31.4%	35.9%	34.7%	33.5%	23.1%	22.3%	21.7%	21.0%	20.1%
Capital replacement ratio	1.63	1.75	2.07	2.27	1.36	1.13	1.11	1.02	1.48	1.07	1.05	0.99
Renewal gap ratio	1.38	1.67	2.07	2.27	1.36	1.13	1.11	1.02	1.48	1.07	1.05	0.99

Appendix 3 LFPRF Financial Performance Indicators

	Dimension/*indicator*/*measure*	Results 2015	2016	2017	2018	2019	Forecasts 2020	2021	2022	Material Variations and Comments
	Efficiency									
E1	***Revenue level*** *Average residential rate per residential property assessment* [Residential rate revenue / Number of residential property assessments]	$1,735	$1,797	$1,846	$1,876	$1,805	$1,841	$1,877	$1,916	The average rates income for each residential property for 2017/18 was $1,876, consistent with previous year's results.
E2	***Expenditure level*** *Expenses per property assessment* [Total expenses / Number of property assessments]	$2,721	$2,729	$2,930	$3,002	$2,918	$2,987	$3,052	$3,127	Council's total expenses were $78,004,000 during 2017/18, resulting in a cost to deliver Council services per property assessment of $3,002.
E3	***Workforce turnover*** *Resignations and terminations compared to average staff* [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100	16.7%	17.5%	17.2%	20.1%	16.2%	11.8%	11.7%	11.6%	Sixty-seven of Councils permanent staff resigned during the year out of a total average of 333 permanent staff. This is higher than previous year's results.
	Liquidity									
L1	***Working capital*** *Current assets compared to current liabilities* [Current assets / Current liabilities] x100	206.0%	195.1%	229.5%	209.3%	185.2%	200.2%	175.6%	203.8%	Council has current assets of $46,466,000 and current liabilities of $22,196,000. The result indicates improved working capital and the ability to adequately meet liabilities as they fall due. Notwithstanding this favourable result, the marginally lower ratio in the forecast years are based on the assumption of nil capital expenditure carryover.

		Results				Forecasts				
	Dimension/*indicator*/*measure*	2015	2016	2017	2018	2019	2020	2021	2022	Material Variations and Comments
L2	***Unrestricted cash*** *Unrestricted cash compared to current liabilities* [Unrestricted cash / Current liabilities] x100	13.1%	49.7%	27.4%	21.0%	103.0%	111.1%	98.0%	104.9%	The result indicates Councils ability to meet liabilities as they fall due from available (unrestricted) cash. Budget and future years ratio calculations (2019 to 2022) assume there are no 'other financial assets' and all cash is unrestricted resulting in higher ratio figures for forecasted future years.
O1	**Obligations** ***Asset renewal*** *Asset renewal compared to depreciation* [Asset renewal expense / Asset depreciation] x100	110.3%	118.5%	89.2%	80.6%	75.2%	70.2%	65.5%	64.2%	Investment in asset renewal reports a decreasing trend due to a reduction in the total pool of funding available for allocation to capital works. This reduction to total available funding is impacted by rate capping as well as a projected decrease in capital grant funding.
O2	***Loans and borrowings*** *Loans and borrowings compared to rates* [Interest bearing loans and borrowings / Rate revenue] x100	20.1%	22.9%	26.9%	22.9%	20.3%	19.0%	18.5%	11.7%	Total debt as a percentage of rates for 2017/18 is 22.9% and is well within Council's Borrowing Policy that allows for a maximum of 40% debt to rates. The reduction in the forecast years is due to the repayment of loans.
O3	*Loans and borrowings repayments compared to rates* [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	4.0%	4.0%	3.7%	3.9%	9.3%	1.6%	0.8%	6.9%	Council paid $2,093,000 in principal and interest against its borrowings compared to rates & charges revenue received of $54,257,000. The result indicates Councils adequate ability to meet debt commitments from rates revenue. The higher percentage in years 2019 and 2022 is due to the lump sum repayment of interest only loans.

	Dimension/*indicator*/measure	Results 2015	2016	2017	2018	2019	Forecasts 2020	2021	2022	Material Variations and Comments
O4	***Indebtedness*** *Non-current liabilities compared to own source revenue* [Non-current liabilities / Own source revenue] x100	24.4%	31.6%	31.7%	24.5%	29.6%	28.8%	22.2%	21.6%	The Victorian Auditor General (VAGO) has identified 40% or less as low risk. Council is well within the VAGO threshold of low risk for indebtedness. The reduction in the 2011 and 2022 forecast years is mainly due to the reduction in loans and borrowings that will, in turn, reduce non-current liabilities.
OP1	**Operating position** ***Adjusted underlying result*** *Adjusted underlying surplus (or deficit)* [Adjusted underlying surplus (deficit)/ Adjusted underlying revenue] x100	7.2%	-5.9%	7.6%	0.1%	1.1%	0.6%	0.2%	-0.4%	The 2015/16 result mainly relates to Victoria Grants Commission funding received in the prior year. The 2016/17 result relates to Victoria Grants Commission funding received in advance for the 2017/18 year. The current 2018 and forecast year projections report a 'breakeven' result indicating Council's limited capacity to fund its future infrastructure asset replacement needs.
S1	**Stability** ***Rates concentration*** *Rates compared to adjusted underlying revenue* [Rate revenue / Adjusted underlying revenue] x100	67.6%	77.1%	64.1%	69.5%	74.1%	74.2%	74.2%	74.3%	The variation on the previous 2016/17 year result mainly relates to the Victoria Grants Commission funding received in advance for the 2017/18 year.

	Dimension/*indicator*/measure	Results 2015	2016	2017	2018	2019	Forecasts 2020	2021	2022	Material Variations and Comments
S2	***Rates effort*** *Rates compared to property values* [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	Council received $54,257,000 in rates and charges revenue in 2017/18. The result remains constant at approximately 0.5% due to minimal movement in valuations to movement in rate revenue. The slight reduction in the forecast years is mainly due to the expected increase in total rates, due to additional supplementary rates, relative to the increase in property values.