

August 2009



# LG CREDIBILITY

## An MAV STEP Program Initiative

Prepared by

**CT Management Group**

For the

**Municipal Association  
of Australia (MAV)**



DOCUMENT CONTROL	
<b>CT Management Group (Vic/Tas) P/L</b> PO Box 1374 GEELONG VIC 3220  Mobile: 0418 107304 Email: <a href="mailto:michaelc@ctman.com.au">michaelc@ctman.com.au</a> Web : <a href="http://www.ctman.com.au">www.ctman.com.au</a>	<b>Document:</b> Strathbogie LG Credibility summary Report
	<b>Project Manager:</b> Michael Courtney
	<b>Author:</b> Michael Courtney
	<b>Date:</b> August 2009
	<b>Synopsis:</b> Summary of 1 <sup>st</sup> Visit and Benchmarking exercise on financial sustainability.

#### CONSULTANTS DISTRIBUTION SCHEDULE

Version No.	Date	Distribution	Reference
Version 1	03/08/09	Michael Courtney	1 <sup>st</sup> Draft Template
Version 2	06/08/09	Michael Courtney	2 <sup>nd</sup> Draft
Version 3	13/09/09	Sharon Simpfendorfer	No Council Names Version
Version 4			

#### SCHEDULE OF ADOPTION

Version No.	Date	Comment	TRIM Reference

## CONTENTS

<b>1.</b>	<b><i>Executive Summary</i></b> _____	<b>6</b>
1.1	Strategic Resource Plan _____	6
1.2	Review of Asset Management Strategy _____	6
1.3	Whole of organisation approach _____	6
<b>2.</b>	<b><i>Introduction</i></b> _____	<b>7</b>
<b>3.</b>	<b><i>Project participants</i></b> _____	<b>7</b>
<b>4.</b>	<b><i>project scope</i></b> _____	<b>8</b>
4.1	Key Project Outcomes _____	8
4.2	Methodology _____	8
<b>5.</b>	<b><i>Strathbogie Shire council</i></b> _____	<b>9</b>
5.1	Introduction _____	9
<b>6.</b>	<b><i>LG Credibility Results</i></b> _____	<b>9</b>
6.1	Current Status of the Pillars _____	10
6.2	Current Status of Key Success Factors _____	10
6.3	Strathbogie Shire - Gap Analysis Chart _____	11
6.4	Strathbogie Shire – LG Credibility Scorecard and Actions _____	11
6.5	Benchmarking- Pilot Key Result areas _____	14
6.5.1	Key Challenge 1: Understanding Financial Sustainability and its Implications _____	14
6.5.2	Key Challenge 2: Corporate Governance _____	15
6.5.3	Key Challenge 3: Service and Asset Management Plans _____	15
6.5.4	Key Challenge 4: Financial Reporting _____	16
6.5.5	Key Challenge 5: Annual Planning, Budgeting and Rating _____	16
6.5.6	Key Challenge 6: Long Term Financial Management Plan _____	17
6.5.7	Key Challenge 7: Service Provision _____	17
6.5.8	Key Challenge 8: Financial Management Skills _____	18
6.5.9	11 Shires – LG Credibility Framework Benchmark Results 2008 _____	18
<b>7.</b>	<b><i>Renewal Gap</i></b> _____	<b>19</b>
7.1	MAV Renewal Gap Statewide Program _____	19
7.2	Strathbogie Shire - Renewal Gap Results - 2007/08 _____	20
7.3	Proposed and Predicted Renewal Expenditure 2007/08 Statewide Benchmarking Results _____	20
7.4	Proposed and Predicted Renewal Expenditure April 2009 Visit _____	21
<b>8.</b>	<b><i>Financial Sustainability</i></b> _____	<b>22</b>
8.1	Introduction _____	22
8.2	Financial Indicators _____	23
8.2.1	Introduction _____	23
8.2.2	Underlying Operating Surplus/Deficit _____	23
8.2.3	Capacity to pay _____	24
8.2.4	Rating effort _____	24
8.2.5	Borrowings _____	25
8.2.6	Capital Works _____	26
8.2.7	Grants _____	27

8.2.8	Fees & Charges	27
8.2.9	Financial ratios	28
	Rate Revenue/Adjusted Total Revenue	28
	Adjusted Total Expenses (ex Depreciation) Per Assessment	28
	Employee Costs/Adjusted Total Expenses	29
	Debt Servicing and Redemption/Rate Revenue	29
	Working Capital	30
	Total Depreciation/Total Assets	30
	Depreciation on Infrastructure/Infrastructure Assets	31
	Capital Expenditure / Adjusted Total Expenses	31
8.2.10	Financial Indicators	32
<b>9.</b>	<b>Asset and financial data</b>	<b>32</b>
<b>9.1</b>	<b>Introduction</b>	<b>32</b>
<b>9.2</b>	<b>Valuation methodology and depreciation</b>	<b>32</b>
9.2.1	Accounting requirements	33
9.2.2	Infrastructure valuation approach	33
9.2.3	Greenfield versus Brownfield	33
<b>9.3</b>	<b>Strathbogie Shire Council - Valuation Data</b>	<b>34</b>
<b>10.</b>	<b>Benchmark Results (Advanced Step Framework)</b>	<b>35</b>
<b>10.1</b>	<b>Strathbogie Shire Council - Key Challenge Results and Scorecard</b>	<b>36</b>
10.1.1	Key Challenge Results	36
10.1.2	Key Challenge Score sheet – Strathbogie Shire Council	37
<b>10.2</b>	<b>Advanced Framework Benchmark Results 2008</b>	<b>37</b>
10.2.1	Small rural shire Advanced Framework Benchmark Overall Results 2008	37
<b>10.3</b>	<b>Advanced Framework Results– Strathbogie Shire Council</b>	<b>38</b>
<b>11.</b>	<b>CONCLUSION</b>	<b>38</b>
<b>11.1</b>	<b>Strategic Resource Plan</b>	<b>38</b>
<b>11.2</b>	<b>Review of Asset Management Strategy</b>	<b>39</b>
<b>11.3</b>	<b>Whole of organisation approach</b>	<b>39</b>

# 1. EXECUTIVE SUMMARY

Strathbogie Shire was formed on 18 November 1994 with the amalgamation of the former Shires of Goulburn, Euroa and Violet Town, and part of the City of Seymour.

The Strathbogie Shire has a rural economic base of wool, grain and cattle production, extensive vineyards at Nagambie and throughout the Strathbogie Ranges and a wide range of intensive cool climate horticultural enterprises.

The following issues are priorities and will be addressed as part of *LG Credibility 2*:

## 1.1 Strategic Resource Plan

- Review and enhance the long term *Strategic Resource Plan* for the municipality and specifically address:
  - Development of a 10 year long term financial plan:
    - Review of level of working capital;
    - Development of a *Rating Strategy* following the 2010 valuation;
    - Review of depreciation charges to operating expenditure (rates and/or useful lives);
    - Review of infrastructure asset valuations;
    - Review 10 year capital works programme;
    - Implement CW template and reconcile capital works;
    - Review renewal component of existing capital works program going forward and reflect in LTFP;
    - Review of renewal valuation rates;
    - Review of valuation methodology for *Balance Sheet* valuations;
    - Document strategy to fund renewal annuity.

## 1.2 Review of Asset Management Strategy

- Review of intervention condition levels (standards of functionality and presentation) based on affordability and level of service as expressed in the Service and Asset Management Plans;
- Review average unit rehabilitation costs (for each asset category)
- Revise funding levels (% rate revenue, % of renewal value)
- Document strategy for management tactics (rationalisation, redundancy, additional external funding) to reduce infrastructure assets in the municipality.
- Asset “retirements” resulting from understanding real renewal requirements and consultation with their community;
- Review of capital works separation (renewal, upgrade, new) in council budgets
- Assess the opportunities of rate increases to fund the asset renewal requirements.

## 1.3 Whole of organisation approach

A whole of organisation approach must be continued and supported to resolve the challenges ahead, with *Terms of Reference*, works schedule and regular reporting to the Executive, CEO and Council.

## 2. INTRODUCTION

The *Municipal Association of Victoria* has funded the *LG Credibility* program with respect to the need to improve the credibility of financial information produced by municipalities to provide a more reliable basis for measuring their performance and long-term sustainability.

A recently submitted a report to the Minister for Local Government highlighted the following key issues:

- A number of Councils, particularly small shires and rural cities, are experiencing financial sustainability problems
- Accurate assessment of financial position is limited by:
  - Unreliable asset management information particularly relating to asset renewals;
  - Inconsistencies in the calculation of depreciation;
  - Insufficient attention given to predictions contained in Strategic Resource Plans; and
  - Inadequate co-operation between financial and engineering staff involved in asset management.

The inadequacy of financial information currently produced by Councils is also restricting the capacity to credibly argue a case for financial assistance from State and Federal Governments.

## 3. PROJECT PARTICIPANTS

The Councils selected for the initial Pilot in 2008 included:

- |                      |                |
|----------------------|----------------|
| • Central Goldfields | • Corangamite  |
| • Horsham            | • Yarriambiack |
| • Hepburn            | • Towong       |
| • Ararat             | • Loddon       |
| • Gannawarra         | • West Wimmera |

All of these Councils have determined to participate in *LG Credibility 2* where the Councils will develop more robust Strategic Resource Plans and long term financial plans to pinpoint their long term financial position.

The following Councils have agreed to participate in the *LG Credibility 1* program in 2009:

- |                                    |                                |
|------------------------------------|--------------------------------|
| • Wodonga Rural City Council       | • Maroondah City Council       |
| • Wellington Shire Council         | • Hindmarsh Shire Council      |
| • East Gippsland Shire Council     | • Macedon Ranges Shire Council |
| • Moorabool Shire Council          | • Moira Shire Council          |
| • Indigo Shire Council             | • Moyne Shire Council          |
| • Kingston City Council            | • Colac Otway Shire Council    |
| • Southern Grampians Shire Council | • Surf Coast Shire Council     |
| • Strathbogie Shire Council        | • Murrindindi Shire Council    |
|                                    | • Glenelg Shire Council        |

## 4. PROJECT SCOPE

### 4.1 Key Project Outcomes

The following are the key project outcomes:

- Greater accuracy, consistency and reliability in recording and evaluating financial and technical infrastructure information;
- Better understanding of longer term financial sustainability position;
- Finance ability to identify and focus on alternative service options and methods;
- Alignment between the financial and technical aspects of infrastructure management – a “Whole of Council” approach;
- Provision of a strong reliable information base for supporting any case to State and Federal Governments justifying targeted financial assistance; and
- Increased understanding by senior management and Councillors of long term financial sustainability position.

### 4.2 Methodology

The following is a brief outline of the methodology applied.

Stage	Brief Outline of Key Tasks
1	<b>Research and Templates</b> <ul style="list-style-type: none"> <li>• Research background information</li> <li>• Prepare overall methodology</li> <li>• Develop templates</li> <li>• Arrange visits</li> <li>• Prepare for Pilot forum</li> </ul>
2	<b>Pilot Workshop</b> <ul style="list-style-type: none"> <li>• Facilitate Forum CEO's, Senior staff from each Pilot Council</li> <li>• Circulate Templates etc</li> </ul>
3	<b>Council Visit 1</b> <ul style="list-style-type: none"> <li>• Visit Council and meet with CEO, Senior Finance &amp; Engineering personal</li> <li>• Review \$ &amp; engineering data</li> <li>• Compare and validate depreciation quantities/unit rates, asset live versus Industry Benchmarks utilising MAV Renewal project.</li> <li>• Review chart of accounts – recurrent and non- recurrent</li> <li>• Identify maintenance/operational expend and renewal, upgrade and new</li> <li>• Review Renewal Gap model information – (robust)</li> </ul>
4	<b>Information Review</b> <ul style="list-style-type: none"> <li>• Review all information resulting from visit;</li> <li>• Identify areas considered satisfactory and requiring critical review/improvement.</li> <li>• Seek clarifications from participating Council's</li> </ul>
5	<b>Draft Report</b> <ul style="list-style-type: none"> <li>• Prepare draft report identifying key issues and providing recommendations for improvement</li> <li>• Circulate draft report to participating Councils for review/feedback</li> </ul>
6	<b>Council Visit 2</b> <ul style="list-style-type: none"> <li>• Review draft report</li> <li>• Identify potential solutions to key issues</li> </ul>

Stage	Brief Outline of Key Tasks
7	<b>Final Report</b> <ul style="list-style-type: none"> <li>• Prepare final report</li> <li>• Circulate to MAV &amp; participating Councils</li> <li>• Meet MAV and review report</li> <li>• Update and finalise report.</li> </ul>

This project is aimed at examining the financial capacity of those Councils at greatest financial risk by:

- Improving financial planning and recording;
- Assessing capacity for self improvement; and
- Providing a credible basis for obtaining financial assistance, where justified.

## 5. STRATHBOGJIE SHIRE COUNCIL

### 5.1 Introduction

Strathbogjie Shire was formed on 18 November 1994 with the amalgamation of the former Shires of Goulburn, Euroa and Violet Town, and part of the City of Seymour.

The Strathbogjie Shire has a rural economic base of wool, grain and cattle production, extensive vineyards at Nagambie and throughout the Strathbogjie Ranges and a wide range of intensive cool climate horticultural enterprises.

Council's Operating Budget in 2007/08 was **\$17.42 million** with an Operating Deficit of **\$0.0082million**.

Council's infrastructure asset valuation at June 30 2008 is **\$128.76 million**.

## 6. LG CREDIBILITY RESULTS

The "LG Credibility Self Assessment Sheet" was completed by each Council with an MAV facilitator (CT Management Group).

It comprised a series of columns providing information for scoring of each measure.

Each row represented an individual measure that requires assessment.

The Councils were asked to self assess across eight key challenges:

- Understanding financial sustainability and its implications
- Corporate governance
- Service and Asset Management Plans
- Financial Reporting
- Annual Planning Budgeting and Rating
- Long Term Financial Plan
- Service Provision
- Financial Management skill development

The Council teams were then asked to rate the 59 questions in relation to the key challenges that focused on Policy, Strategy, Plans and Operations, and from this rating, identify what stage their development, documentation and application was at (Excellence, Proficient, Systematic, Awareness & Innocence) to generate a maximum score of 100 for each question. (See 5.1 and 5.2)

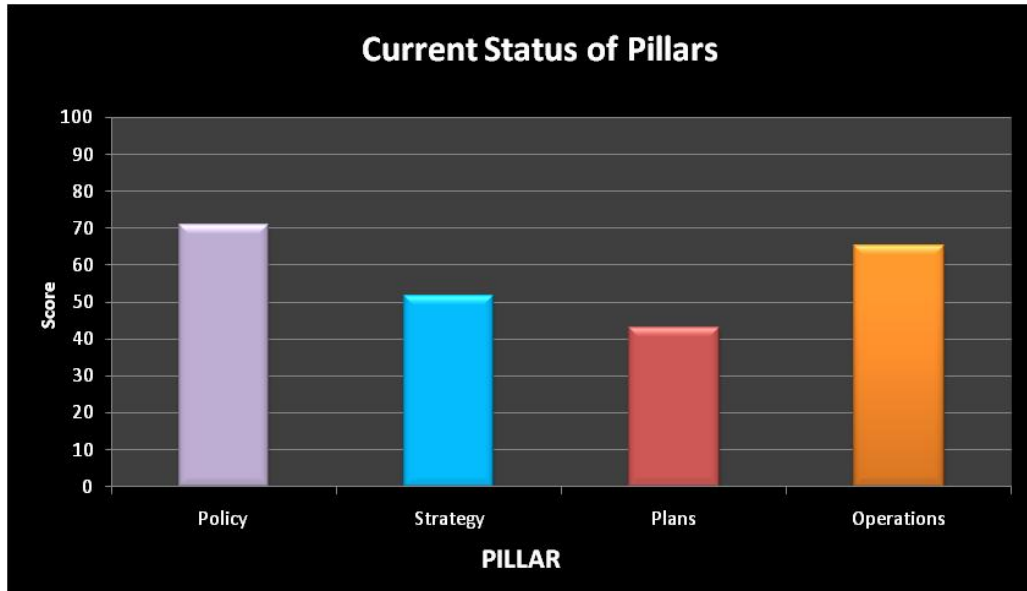
These 59 Question results were then collated to produce an overall Council LG Credibility Gap Analysis Chart (see 5.4)



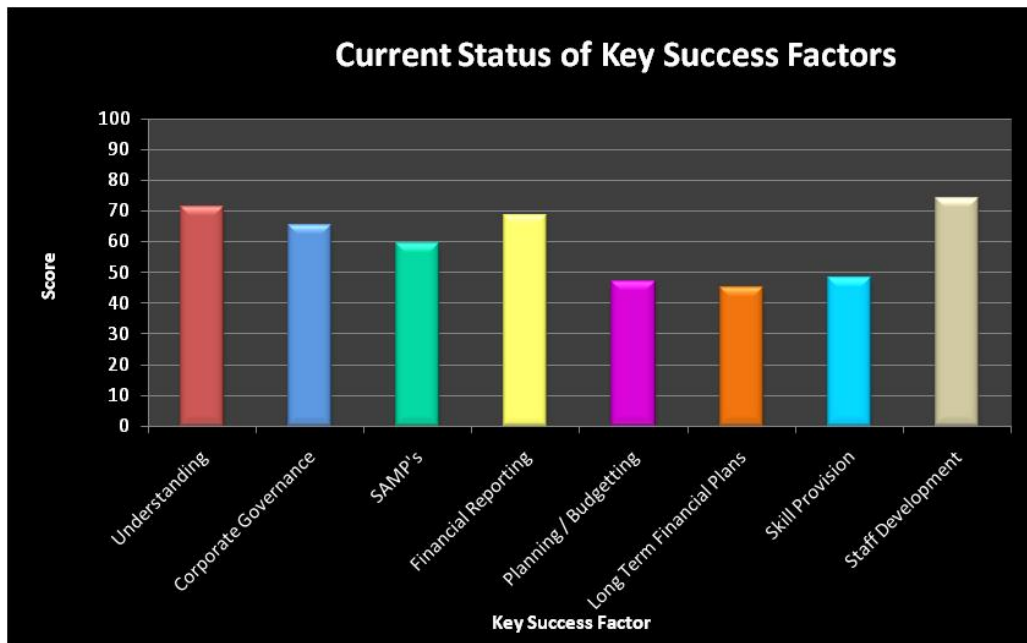
In addition the Councils identified improvement opportunities against each of these 59 questions and the *Chief Executive Officer* of each of the Pilot Councils signed these off in the form of a "LG Credibility Scorecard and Actions Sheet" (see 5.3).

### 6.1 Current Status of the Pillars

The following graph details the Self Assessed scores for Strathbogie Shire under the policy, strategy, plans and operations criterion. The scores fall in the systematic range.



### 6.2 Current Status of Key Success Factors



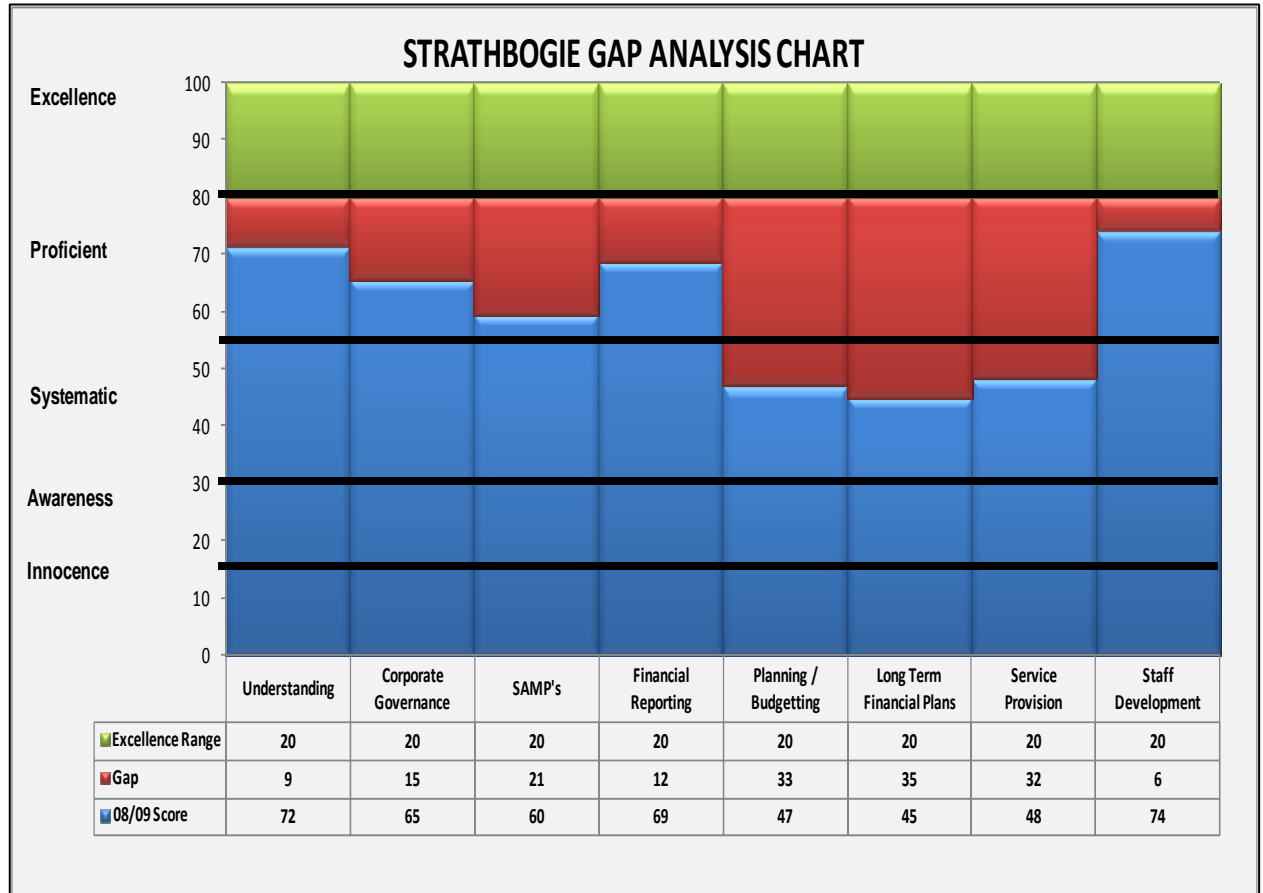
The above graph details the self assessed scores for the current status of the eight key success factors under the program.

### 6.3 Strathbogrie Shire - Gap Analysis Chart

Results from the LG Credibility “Self Assessment Framework”, the Council’s Gap Analysis chart, provides a visual “snapshot” as to where Council’s sustainability performance is situated.

The *LG Credibility* Project aims for Councils to achieve Excellence in all key challenge areas and the chart below records Strathbogrie’s present performance, which indicates a “systematic” performance at the end of the 1<sup>st</sup> Visit.

The LG Credibility Score Card and Action Plan set down the key improvement actions required to achieve excellence in Financial Sustainability.



### 6.4 Strathbogrie Shire – LG Credibility Scorecard and Actions

The following are the improvement actions identified by the Council team as part of the *Self Assessment* process focusing on the 8 Key Challenges and require the Council CEO or his delegate to endorse for future financial sustainability improvement plan.

These actions arose as part of the Self Assessment and were contributions made by the participants following the scoring of each challenge question.

It will be necessary for the team to now develop a schedule of implementation.

This will be one of the first tasks of the *LG Credibility 2 program*.

**LG CREDIBILITY GAP ANALYSIS & IMPROVEMENT ACTIONS REPORT CARD - Visit 1**

*Based on 8 Key Challenges*

**1. Understanding Financial Sustainability and its implications**

72

**Improvement Actions:**

**Proficient**

- 1.1
- 1.2 Formally develop a policy.
- 1.3 Undertake an independent review of infrastructure service levels is in Council Plan.
- 1.4
- 1.5 Financial Plan is 5 years.

**2 .Corporate Governance**

65

**Improvement Actions:**

**Proficient**

- 2.1 Develop some formal policies via the SRP
- 2.2
- 2.3
- 2.4
- 2.5
- 2.6
- 2.7
- 2.8
- 2.9
- 2.10
- 2.11

**3. Service and Asset Management Plans**

60

**Improvement Actions:**

**Proficient**

- 3.1
- 3.2 Identify what assets will not be renewed and refine data as we go.
- 3.3 Undertake review of levels of service.
- 3.4
- 3.5 Whole of life costing

**4. Financial Reporting**

69

**Improvement Actions:**

**Proficient**

- 4.1
- 4.2
- 4.3 Better linkages between AMPs and financial plans.
- 4.4 Overheads recovery process improved.  
PRODUCTION targets to be set for major investments.  
Need to get back to scheduled asset system programs.
- 4.5

**5. Annual Planning, Budgeting and Rating**

47

**Improvement Actions:**

**Systematic**

- 5.1 Template for programs detailing service levels.
- 5.2 Develop a report to Council substantiating cost inflator for the annual budget.
- 5.3 Review MAV overhead programme - apply for NCP purposes.
- 5.4 Develop a community consultation process in relation to the Budget.
- 5.5
- 5.6 Focus group to be facilitated - action groups or Involve

**LG CREDIBILITY GAP ANALYSIS & IMPROVEMENT ACTIONS REPORT CARD - Visit 1**

*Based on 8 Key Challenges*

Audit Committee.

5.7

5.8 10 year capital works programme to be reviewed.

5.9 Highlight the discrepancy between requirements in LTFP and SAMPs and what is funded in BUDGET.

5.10

5.11

**6. Long Term Financial Management Plan**

**Improvement Actions:**

6.1 Develop LTFP linked to SRP etc. Current LTFP built on estimated resources rather than what is needed.

We know what we need not in current LTFP.

6.2 Formalise policy position on some financial parameters.

6.3 Improved linkage between SAMP's and LTFP.

6.4 Documentation to support level and policy to establish minimum levels of working capital.

6.5

6.6

6.7

**45**  
**Systematic**

**7. Service Provision**

**Improvement Actions:**

7.1 Resheeting works productivity - to be completed.

7.2 Linking outputs to LTFP.

7.3 Service level review to be undertaken

7.4 Apply a capital works evaluation model. Council develop a service provision policy as part of its service review in 2009/10.

7.5 Document current practice.

7.6 Continue to participate the MAV regional/state resource sharing initiatives. Continue local initiatives.

7.7 Explore further opportunities as part of service review.

7.8 Review opportunities to meaningfully participate.

**48**  
**Systematic**

**8. Financial Management Skills Development of Council Members and Staff**

**Improvement Actions:**

8.1

8.2

8.3

8.4 Document processes.

8.5

**74**  
**Proficient**

Signed \_\_\_\_\_  
CEO

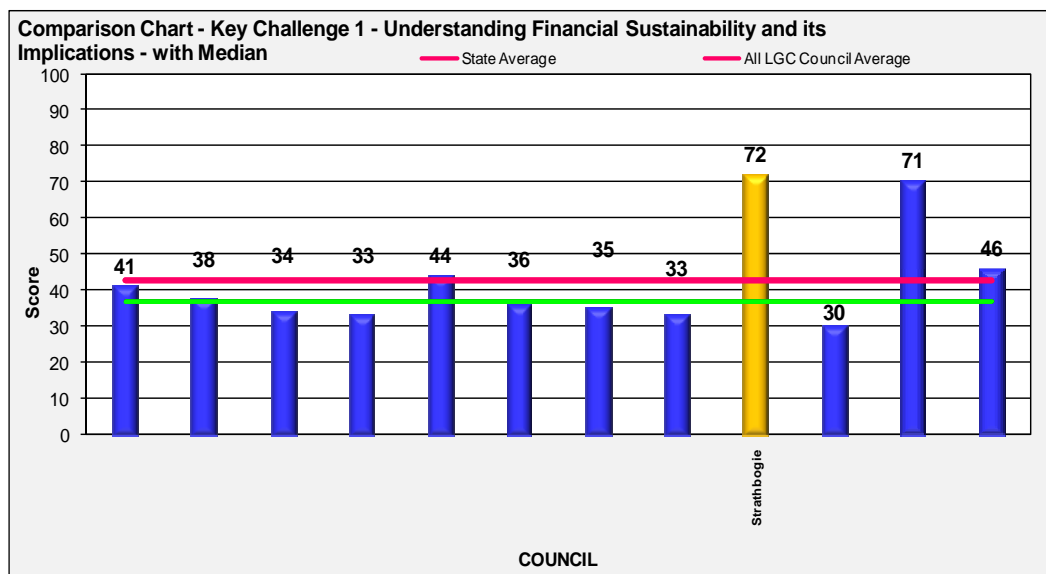
Date \_\_\_\_\_

## 6.5 Benchmarking- Pilot Key Result areas

This section details the Pilot Councils Self Assessment results across the eight key result areas. The scoring legend is as follows:

Score	Performance
0-15	Innocence
16-30	Awareness
31-50	Systematic
51-80	Proficient
80-100	Excellence

### 6.5.1 Key Challenge 1: Understanding Financial Sustainability and its Implications

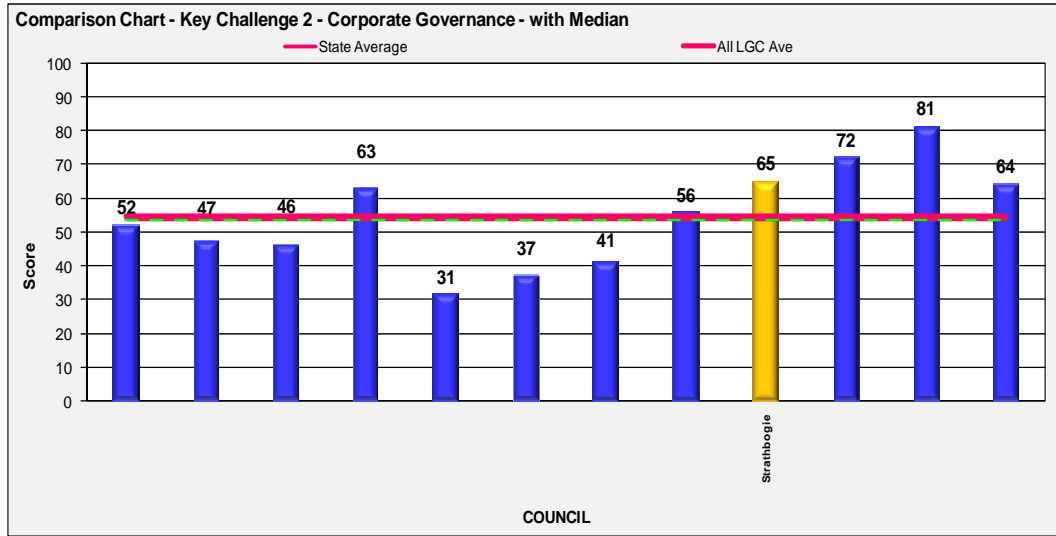


This section included 5 questions and was aiming to have the team “self assess” their understanding of financial sustainability.

Reference was made to the VAGO and MAV Viability Index, whether indicators had been established and whether Council had adopted financial sustainability as one of its key objectives.

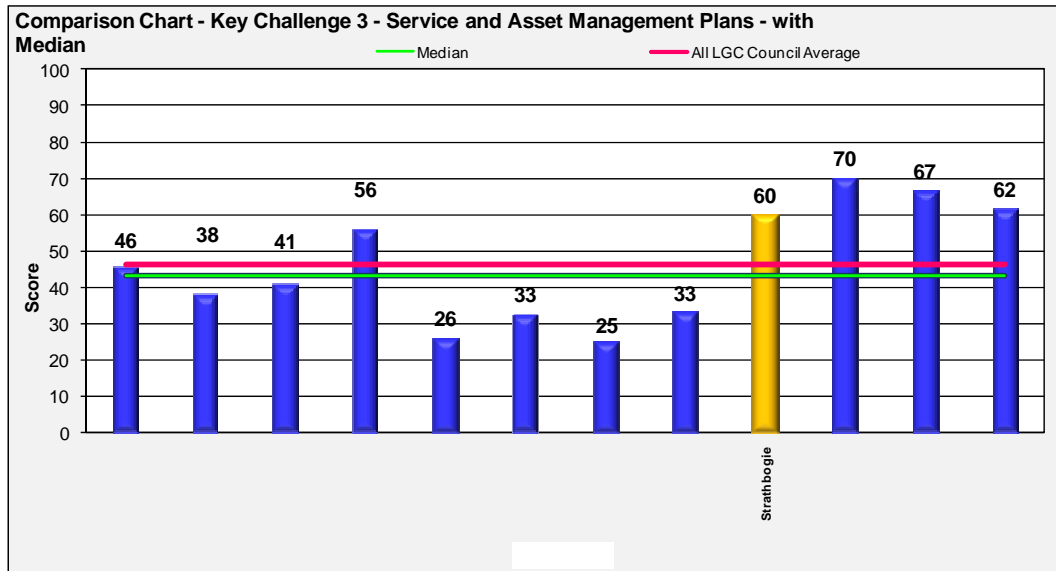
It is important Council has an understanding of financial sustainability if it is to address the issue seriously.

6.5.2 Key Challenge 2: Corporate Governance



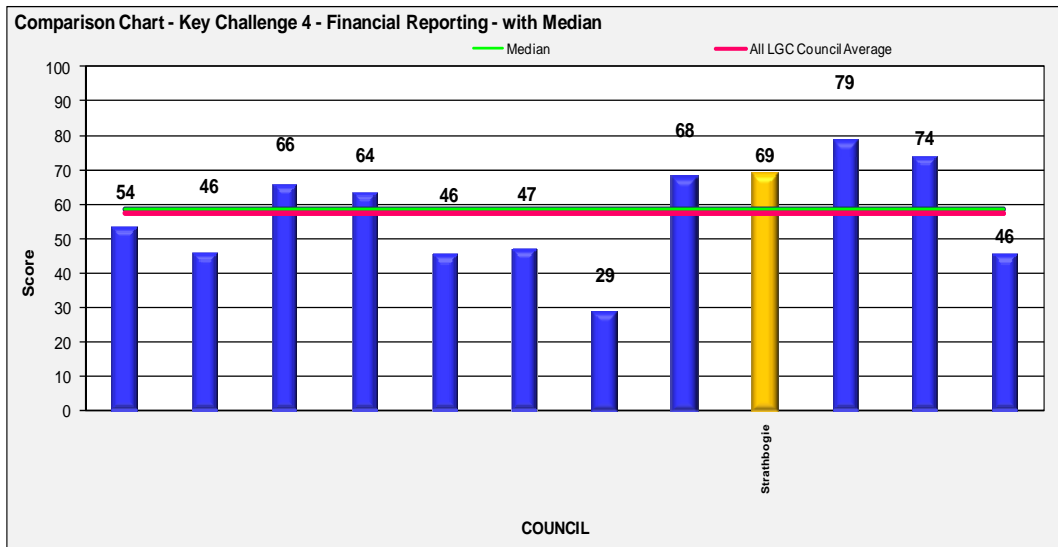
This section included questions aiming at self-assessing corporate governance, including Audit Committee, internal control mechanisms, depreciation charges, risk assessments etc.

6.5.3 Key Challenge 3: Service and Asset Management Plans



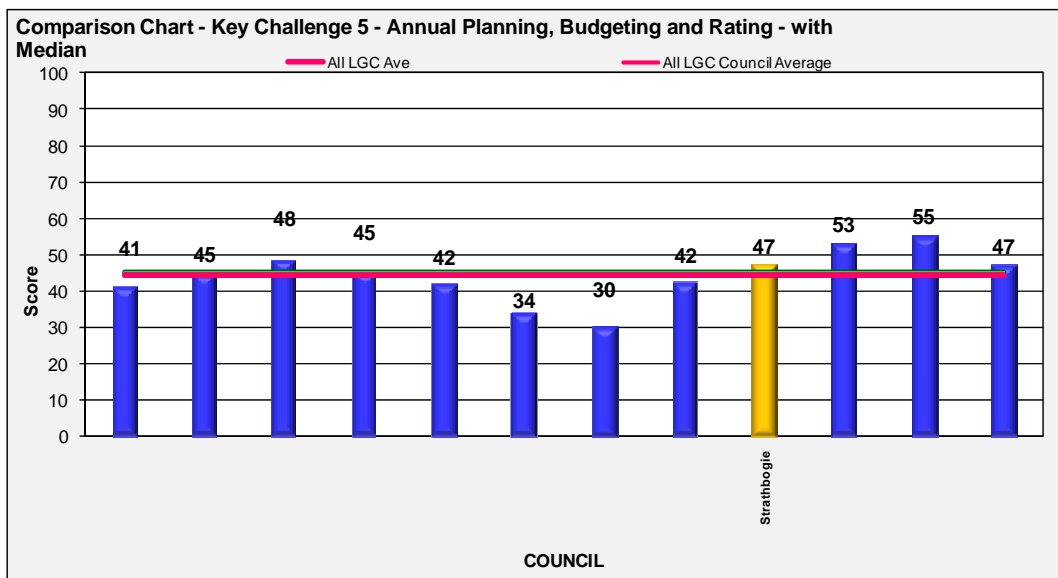
This section included five questions on Asset Management Policy, asset management plans, whole of life costs and issues to do with the recording and reporting of annual capital expenditure distinguishing between renewal, upgrade and new.

6.5.4 Key Challenge 4: Financial Reporting



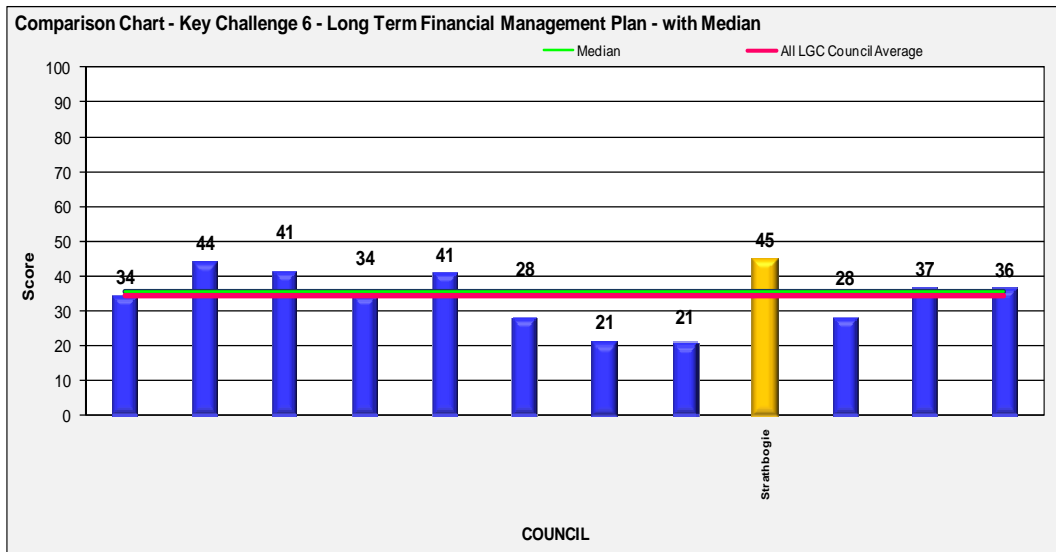
This section included financial reporting standards including compliance, internal controls, infrastructure renewal gap, financial forecasts and performance measures. The Council working group self assessed five questions in this section.

6.5.5 Key Challenge 5: Annual Planning, Budgeting and Rating



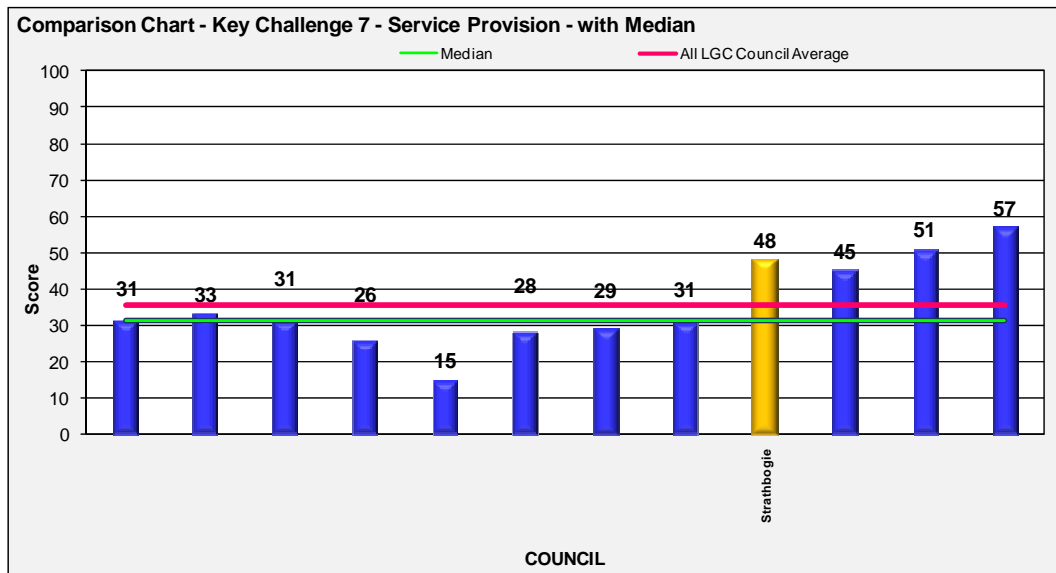
This section reviewed the processes that support Council's annual planning, budgeting of rating. There were 11 questions in this section covering service levels, local government price index, and allocation of costs, communication plans, statutory procedures and compliance.

6.5.6 Key Challenge 6: Long Term Financial Management Plan



The preparation, review and monitoring to the Council's long term financial plan was examined in this section. Has Council adopted a LTFP? Does it provide for a break even operating result in the future, is renewal demand included and is it supported by a detailed revenue raising strategy?

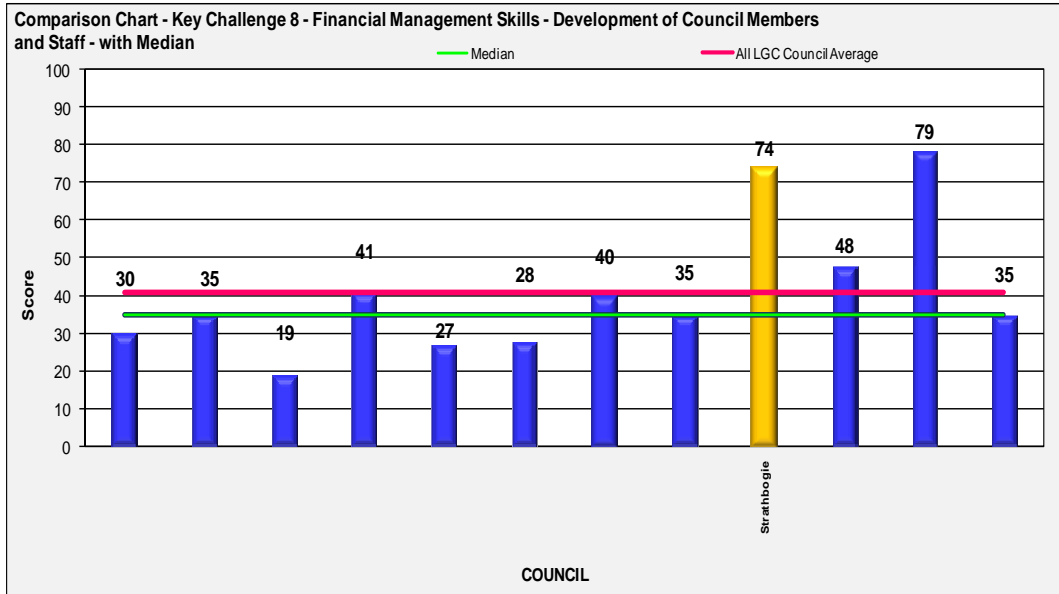
6.5.7 Key Challenge 7: Service Provision



This section reviewed Council's service provision in that it aligns with the Service of Asset Management Plans and costs and levels of service are defined and are reviewed by Council. Other areas covered included Council engaging in service reviews and benchmarking performance.



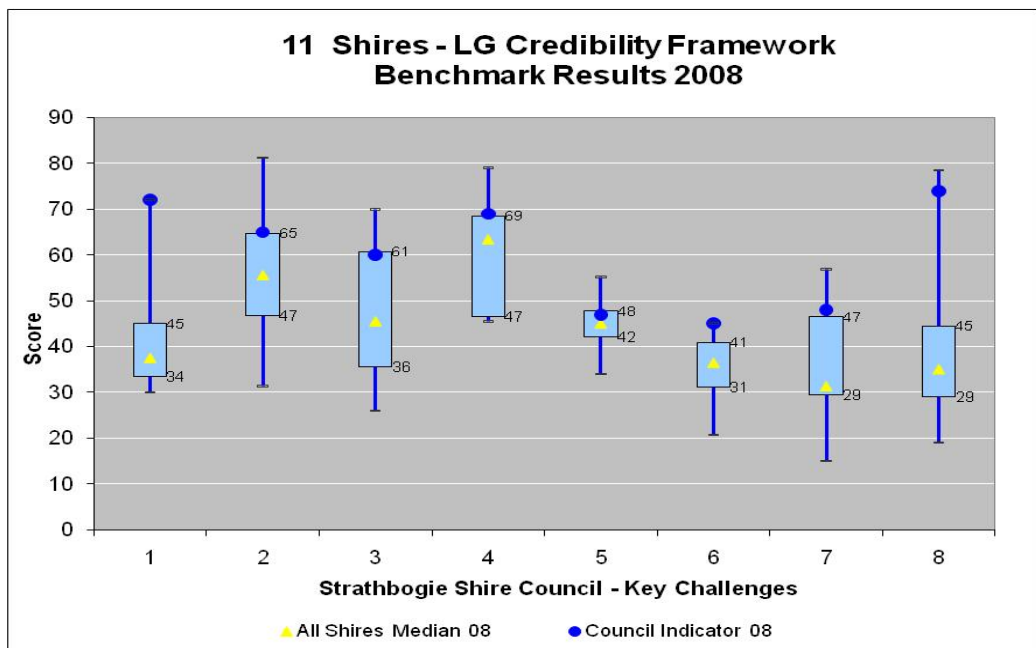
6.5.8 Key Challenge 8: Financial Management Skills



This section explored the level of participation from Council in developing its officer and Councillor skills in the areas of financial management and sustainability.

6.5.9 11 Shires – LG Credibility Framework Benchmark Results 2008

The following graph details Strathbogie Shire Council's results when benchmarked against the Pilot Councils. The Yellow Triangle indicator is the All Shires Median for each of the 1-8 Key Challenges. The Blue Dot is Strathbogie's Score for the 2008 1<sup>st</sup> Round Visit.



Based on this benchmarking improvement opportunities exist in Service and Asset Management Plans, long term financial planning and annual planning and budgeting and service provision.

These will be addressed as part of *LG Credibility 2*.

## 7. RENEWAL GAP

### 7.1 MAV Renewal Gap Statewide Program

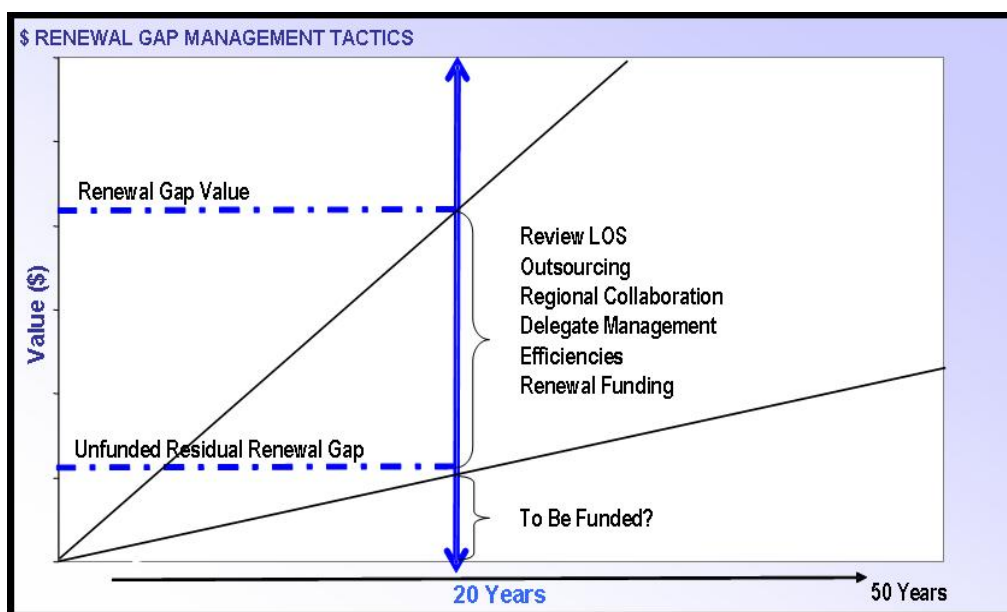
In 2007, as part of the *MAV Step Program*, the introduction of the MAV Renewal Gap assessment program was established to enable each Council to identify the magnitude of their **renewal** funding “annuity” for all infrastructure asset classes for a period of 20 years; and to develop a management tactic to address this Renewal Funding gap.

The program objectives also focused on Councils to develop:

- Accurate asset registers;
- Robust condition profiles;
- Practical asset renewal intervention levels;
- Asset renewal rates based on “actual” cost;
- Establish **Under and Over** funding by asset component over 20 year financial plan;
- **Growth and Decline** of Renewal Gap by asset component over 20 year financial plan; and
- Percentage of asset class **outside** desired or practical **condition intervention** if Renewal Funding is not met.

With the development of a robust Renewal Funding scenario, the council staff and Councillors were then encouraged to consider various **management** options to address the gap.

Renewal Gap management tactics are detailed below:



The resultant outcomes provided a more intimate understanding of the Councils' infrastructure asset portfolio as well as a "robust" Renewal Funding Gap that can then be incorporated into Councils' long term financial plans to assess overall financial sustainability.

These management tactics also initiated the need for council staff and councillors to develop an understanding of the long term needs and current functionality of their asset portfolios to be "fit for purpose" to meet the community expectation of the relevant service delivery.

### 7.2 Strathbogie Shire - Renewal Gap Results - 2007/08

The renewal results for Strathbogie show an average infrastructure renewal gap under investment of **\$2.7 million** with the average demand being **\$4.6 million** and Council contributing **\$1.9 million** over the forecast 20 year period.

Council's under investment is a funding issue and will worsen over time unless addressed in the medium term.

This investment needs to be increased as part of a long term financial plan and be supported by policy documented in Council's *Strategic Resource Plan*.

Council needs to determine to what extent the gap can be funded and what tactics it is prepared to implement to reduce it, such as asset rationalisation, additional external / internal funding or changes to Service Delivery Level of Service

### 7.3 Proposed and Predicted Renewal Expenditure 2007/08 Statewide Benchmarking Results

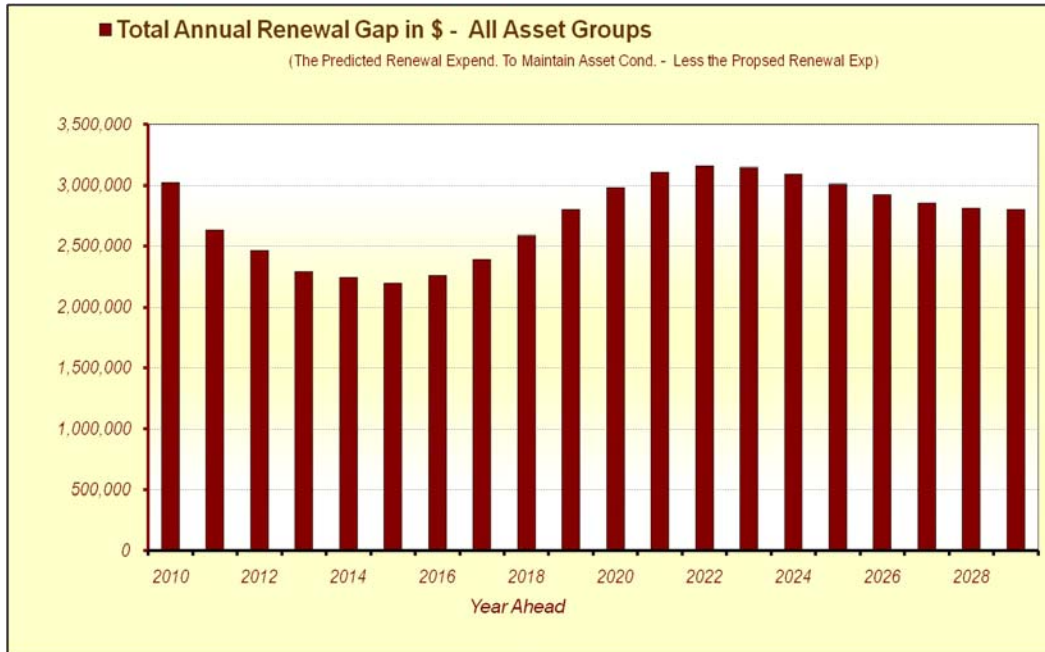
At present **2.5 per cent** of all infrastructure assets considered are beyond critical condition intervention and **26 percent** of Council's assets will be outside intervention by 2028.

The chart below details the proposed renewal expenditure, predicted renewal expenditure, the resultant gap and the percentage of assets outside intervention as a result of the lack of investment.



By 2013 **5 percent** of the infrastructure will be outside intervention based on current renewal investment

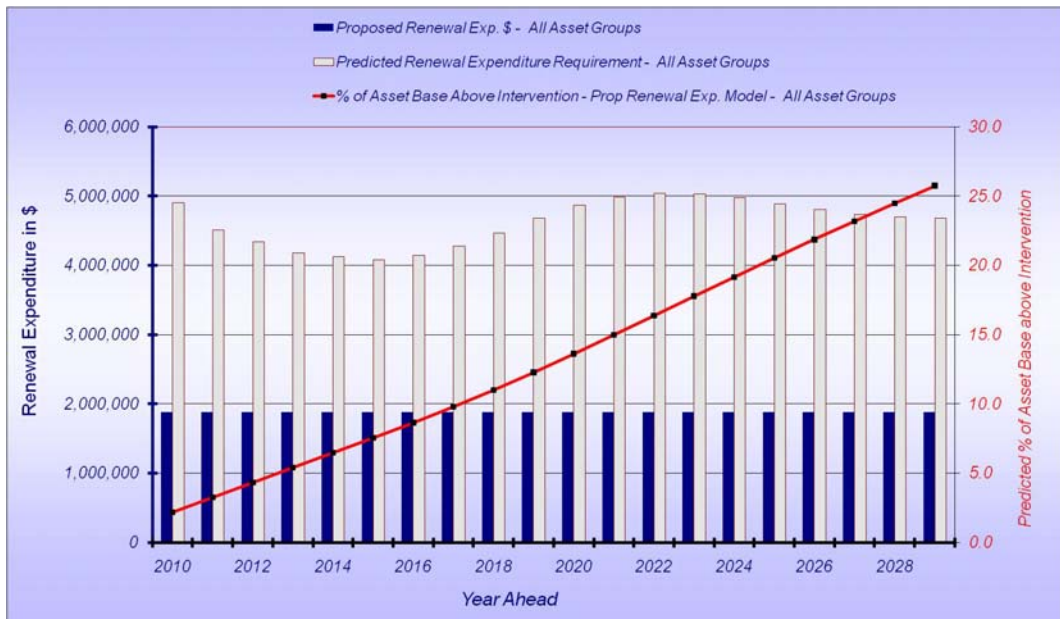
In summary, the average Annual Renewal Gap (renewal demand less funding) for the next 5 years will be **\$2.52 million** and over 20 years **\$2.6 million**, with the gap by 2020 being **\$3.0 million** assuming no change to the present funding.



**7.4 Proposed and Predicted Renewal Expenditure April 2009 Visit**

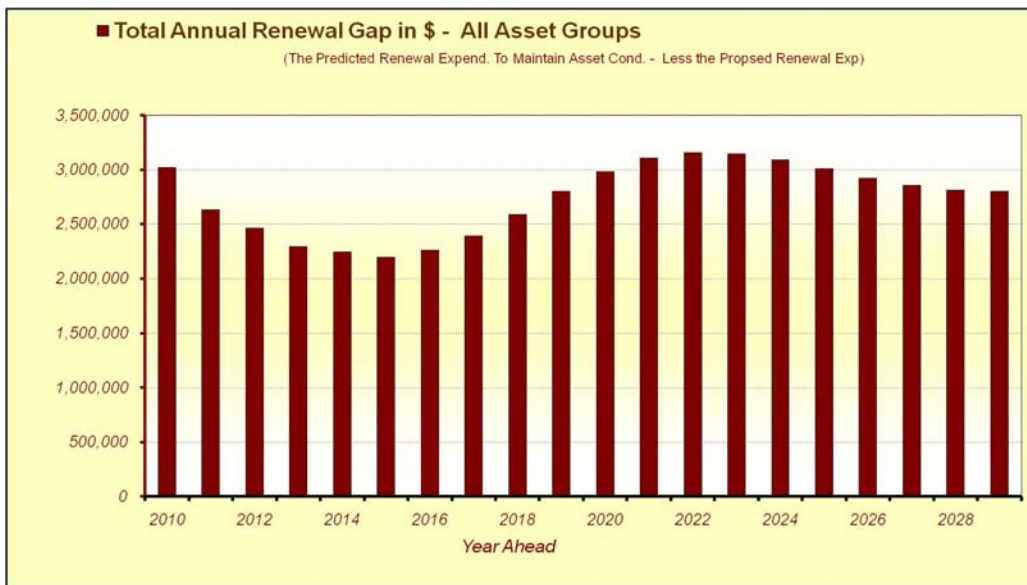
At present **2.5 per cent** of all infrastructure assets considered are beyond critical condition intervention and a further **26 percent** of Council's assets will be outside intervention by 2028.

The chart below details the proposed renewal expenditure, predicted renewal expenditure, the resultant gap and the percentage of assets outside intervention as a result of the lack of investment.



By 2013 **5 percent** of the infrastructure will be outside intervention based on current renewal investment

In summary, the average Annual Renewal Gap (renewal demand less funding) for the next 5 years will be **\$2.52 million** and over 20 years **\$2.6 million**, with the gap by 2020 being **\$3.0 million** assuming no change to the present funding.



The funding preferences and capacity of the municipality will need to be examined over a longer timeframe and in the context of a robust *Strategic Resource Plan* with a 10 year long term financial plan.

The *LG Credibility* program will provide a way forward, especially in the form of the “LG Credibility Scorecard and Action Plan”.

## 8. FINANCIAL SUSTAINABILITY

### 8.1 Introduction

Having established a Renewal Funding Gap assessment (shortfall/surplus) and an Action Plan to support the review of the already robust *Strategic Resource Plan*, Strathbogje Shire Council needs to plan for future improvements.

The following section will review financial indicators and benchmark these indicators against the 10 pilot Councils.

Developing financial strategies for councils is often a difficult process.

- Is council achieving a sufficient amount of revenue to provide services to the community?
- What should the target be in respect to resourcing expenditure on new assets (capital expenditure)?
- What is Council’s targeted renewal investment and is this maintaining an acceptable level of service for the community?
- How does Council determine levels of service?
- What is an acceptable rate and charge increase?
- Is Council’s data reliable and credible?
- What is an acceptable level of debt?

Some of these answers may come from Prudential Guidelines established by industry bodies such as the Department of Planning and Community Development.

However, a great deal is left for each Council, as an individual entity, to determine.

How does Council gather appropriate data on which to base decisions about its financial future?

The use of financial indicators that assess the comparative financial position of each Council in Victoria provides a valuable source of information in establishing financial strategies.

These indicators highlight the relative financial strengths of each council and uncover the opportunities that councils may grasp for improvement.

The indicators are used to identify trends in financial sustainability.

The following details valuable benchmarked indicators and ratios amongst the Pilot group.

## 8.2 Financial Indicators

### 8.2.1 Introduction

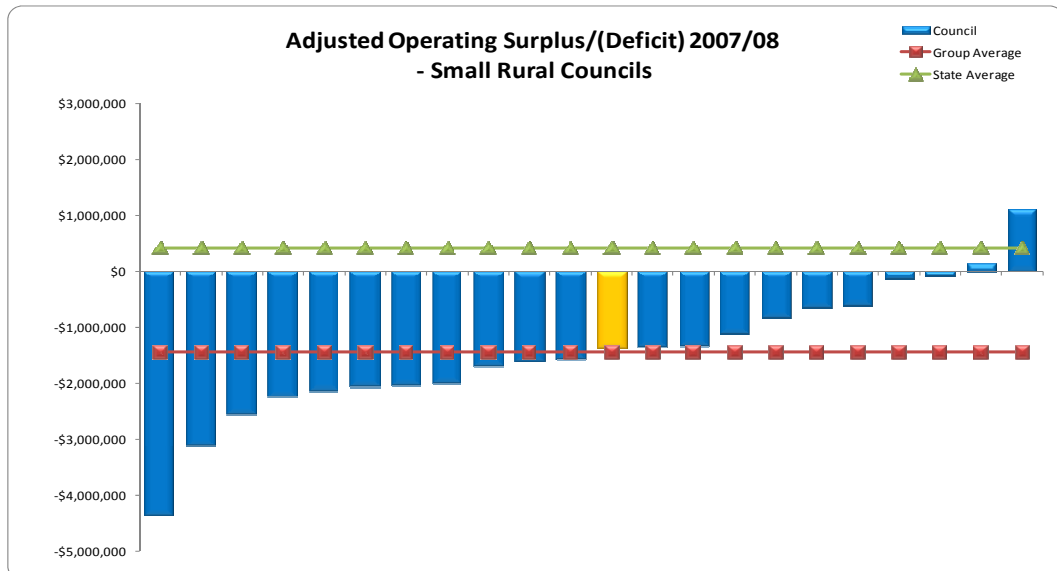
Financial indicators and ratios are used to determine the underlying financial sustainability of a Council. Strathbogie is the yellow pillar in the graph.

The use of financial indicators collectively will generally determine a benchmark and focus the areas needing attention to improve the performance of the Council.

Section 7.2.2 and 7.2.3 examine Council's performance and benchmark it to the LGC group and the Council category (small rural, large rural, regional city).

### 8.2.2 Underlying Operating Surplus/Deficit

For the 2007/08 financial year Strathbogie Shire Council had operating revenue of **\$17.42 million**, operating expenditure of **\$17.60 million** with a resultant operating deficit of **\$.0082 million** after extraordinary items. An issue going forward is lowering the underlying operating deficit. As at June 30 2008 the underlying operating deficit was at **\$1.346 million**.



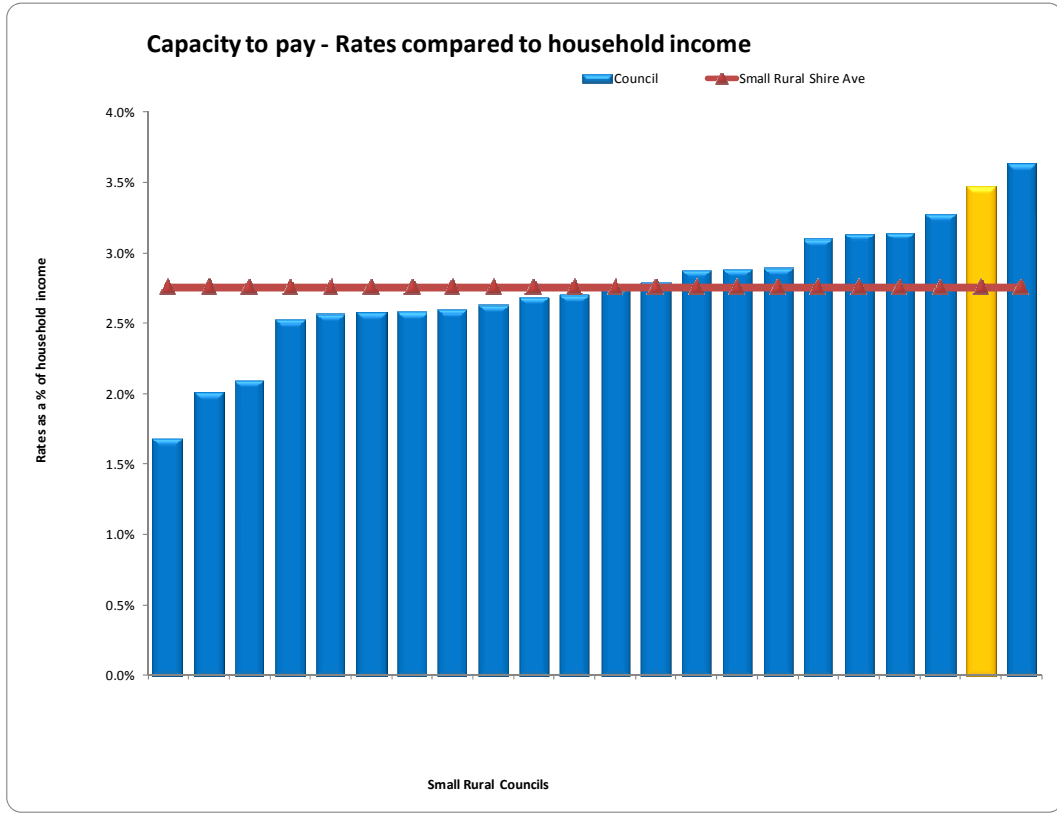
The underlying operating deficit of **\$1.346 million** is being potentially understated by the lower than average depreciation charges applied at Strathbogie Shire.

If these were to be applied at the average rate of the small rural shires depreciation charges would increase between **\$0.849 million** and **\$0.952 million** - see section 8.2.9. This would, if valid, consequentially increase the underlying operating deficit to between **\$2.195 million** and **\$2.298 million**.

A long term financial plan, within Council's *Strategic Resource Plan*, will need to address this underlying operating deficit going forward.

**8.2.3 Capacity to pay**

Strathbogrie Shire Council rates as a percentage of median weekly household income are **3.5 per cent** the 2<sup>nd</sup> highest in the *Small Shires Council* group.



**8.2.4 Rating effort**

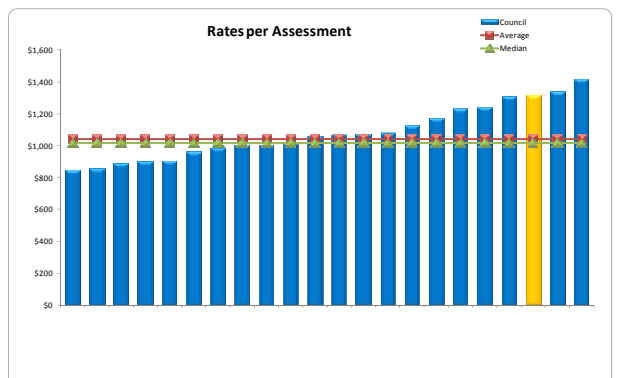
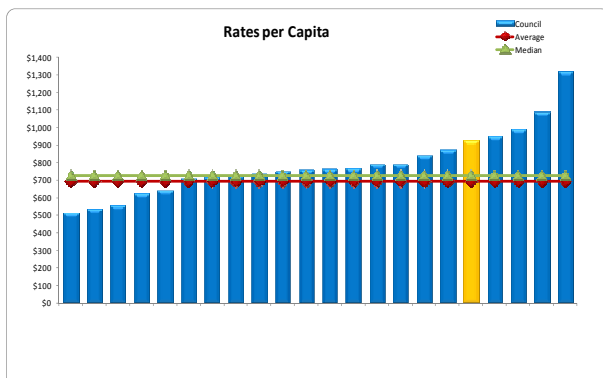
The following charts detail a rates per capita and rates per assessment for the Strathbogrie Shire Council.

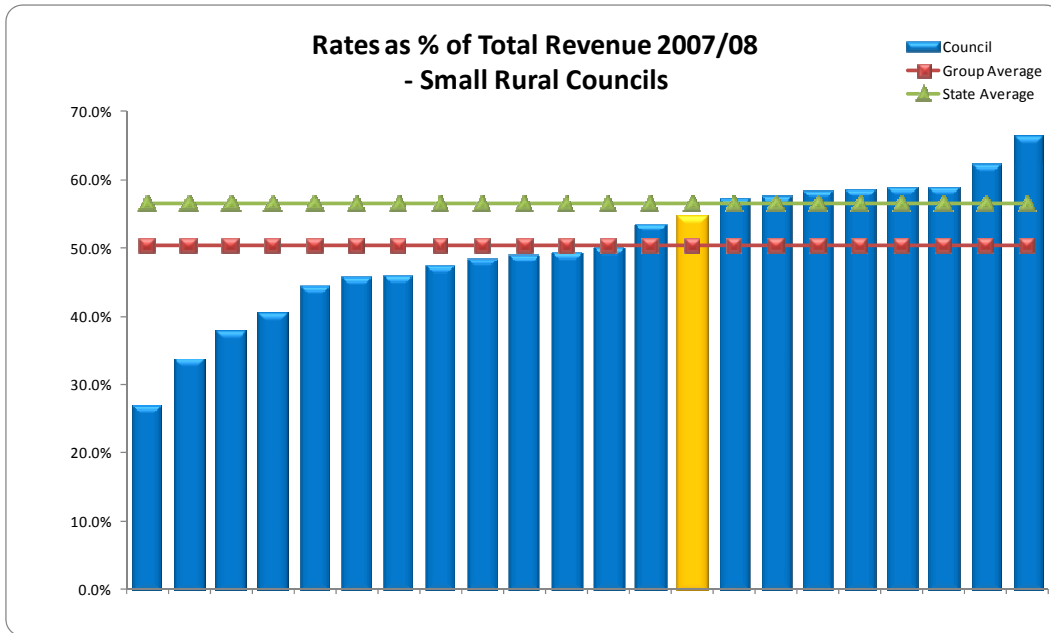
Strathbogrie Shire’s rating effort (rate revenue as a percentage of total revenue) is below average (**50.51 percent** for small rural Councils) at **54.77 percent**.

On a rates per assessment Strathbogrie is **\$1317** per assessment and on a rates per capita is **\$926**.

This compares to the average of **\$1016** per assessment and **\$791** rates per capita for the small shire group.

**55.84 percent** of rating assessments are residential compared to the average of **68.69 percent** and the group median of **63.18 percent**.





**8.2.5 Borrowings**

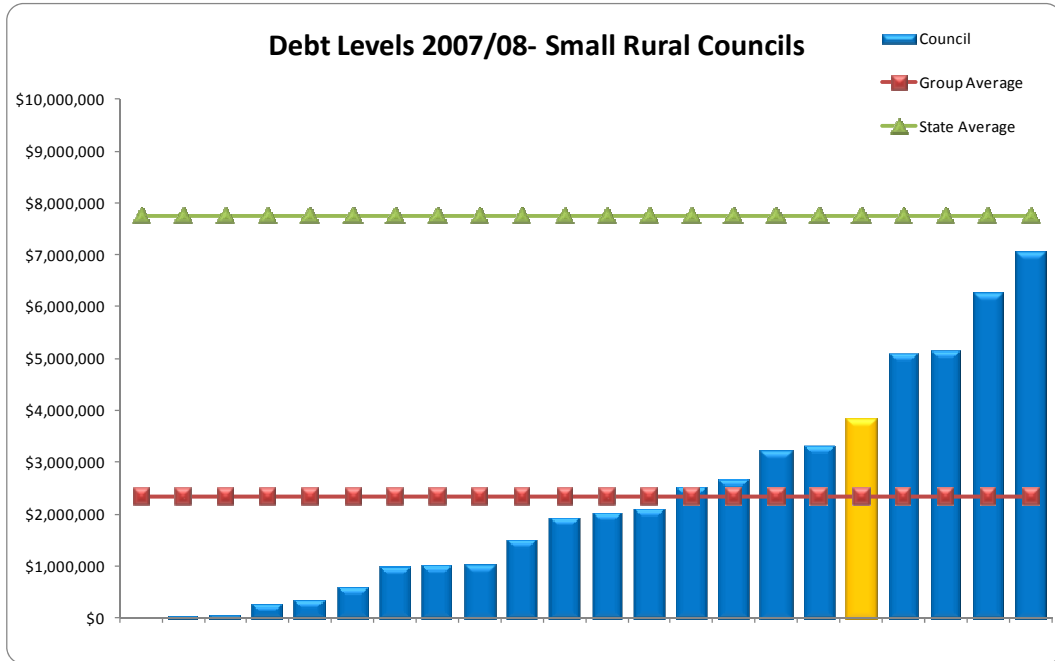
Strathbogie Shire Council level of debt is moderate to high.

Total debt is **\$3.84 million** compared to the small shires average of **\$2.33 million**, small shire median of **1.99 million** and the State average of **\$7.74 million**.

Council	Debt Servicing / Total Revenue	Debt Commitment / Rates	Total Debt / Realisable Assets	Debt Commitment / Own Source Revenue	Total Debt / Own Source Revenue	Total Debt / Rate Revenue
	0.48%	3.09%	8.21%	2.48%	8.23%	10.25%
	0.17%	2.28%	6.89%	1.91%	3.35%	4.01%
	0.69%	4.88%	8.13%	4.04%	16.14%	19.53%
	2.06%	10.42%	16.42%	8.33%	49.42%	61.84%
	0.07%	2.64%	13.95%	2.32%	3.50%	3.98%
	4.28%	38.51%	27.04%	27.86%	71.94%	99.46%
	1.67%	8.44%	24.45%	6.70%	35.22%	44.36%
	0.55%	3.94%	11.74%	2.95%	12.95%	17.32%
	0.79%	5.39%	13.31%	4.61%	21.44%	25.08%
	0.32%	10.68%	11.06%	7.28%	0.70%	1.02%
	1.09%	10.66%	11.75%	6.56%	23.91%	38.85%
	0.38%	2.76%	12.12%	2.05%	12.06%	16.25%
	1.33%	8.15%	20.89%	7.04%	31.51%	36.45%
	0.73%	5.41%	14.42%	4.26%	15.14%	19.24%
	2.06%	12.18%	18.08%	9.75%	38.07%	47.56%
	0.77%	8.53%	3.34%	6.47%	16.02%	21.11%
	0.66%	4.73%	3.44%	3.85%	16.41%	20.18%
	1.54%	7.65%	6.02%	5.32%	34.21%	49.23%
<b>Strathbogie</b>	<b>1.60%</b>	<b>7.58%</b>	<b>7.02%</b>	<b>6.17%</b>	<b>35.06%</b>	<b>43.08%</b>
	0.19%	2.01%	0.41%	1.60%	1.45%	1.81%
	0.04%	2.14%	0.00%	1.54%	0.00%	0.00%
	0.24%	0.49%	2.44%	0.38%	7.29%	9.29%
	0.99%	7.39%	10.96%	5.61%	20.64%	26.81%
	0.71%	5.40%	11.40%	4.43%	16.08%	19.85%
	1.02%	6.55%	9.82%	4.97%	19.76%	26.01%
<b>Ranking</b>	<b>20</b>	<b>21</b>	<b>19</b>	<b>21</b>	<b>20</b>	<b>19</b>

Source: Annual financial accounts.





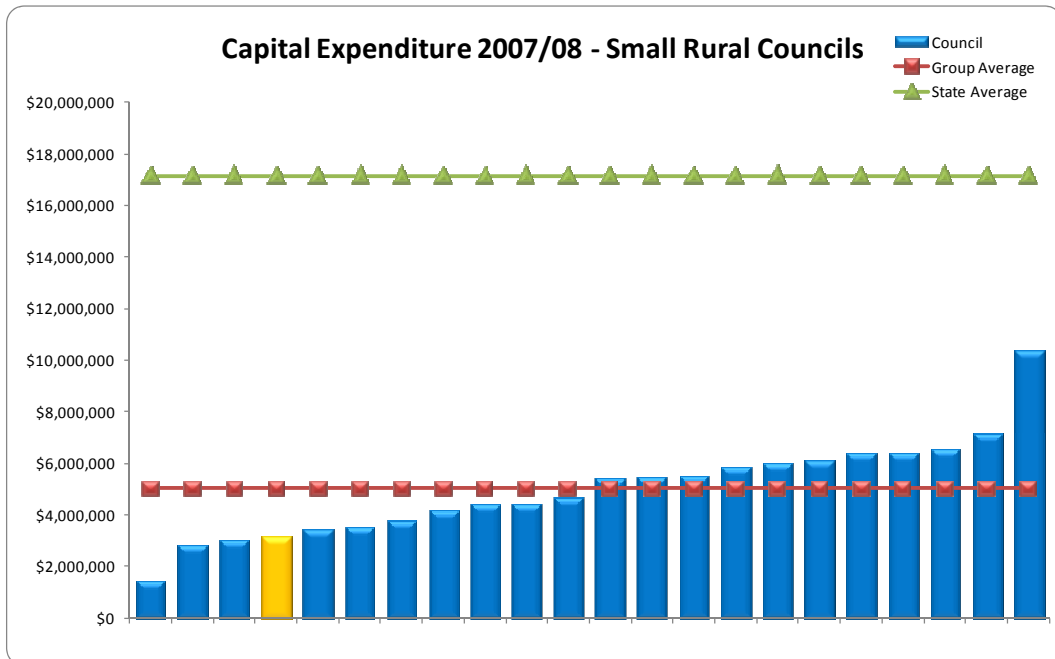
**8.2.6 Capital Works**

The Strathbogie Shire Council invested **\$3.18 million** in capital works in 2007/08. The average of the small rural Councils group was **\$5.02 million** with the State average **\$17.14 million**.

Council's capital works renewal investment was **\$1.275 million**; upgrade investment was **\$0.472 million** and new was **\$1.435 million** as at June 30 2008 – a total capital investment of **\$3.18 million**.

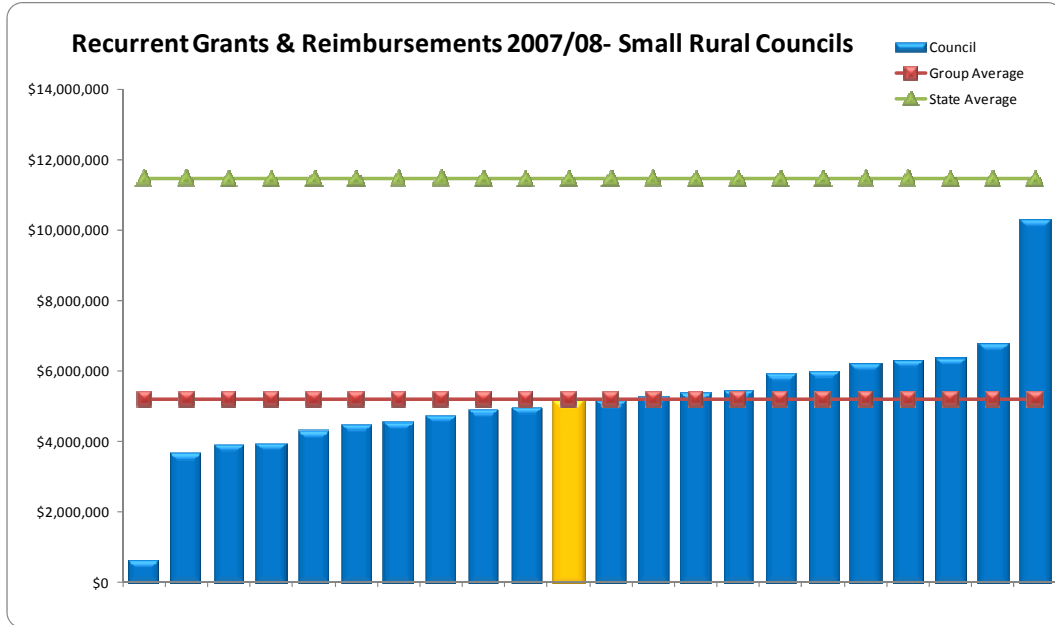
Council's unexpended capital works compared to budget was **\$2.85 million** or **47 per cent** as at June 30 2008.

The renewal annuity requirement based on renewal demand for 2007/08 was **\$3.0 million**, with current funding at **\$1.275 million** a gap of **\$1.675 million**. If Council had expended its full renewal budget in 2007/08 the gap would have reduced to **\$0.614 million**.



**8.2.7 Grants**

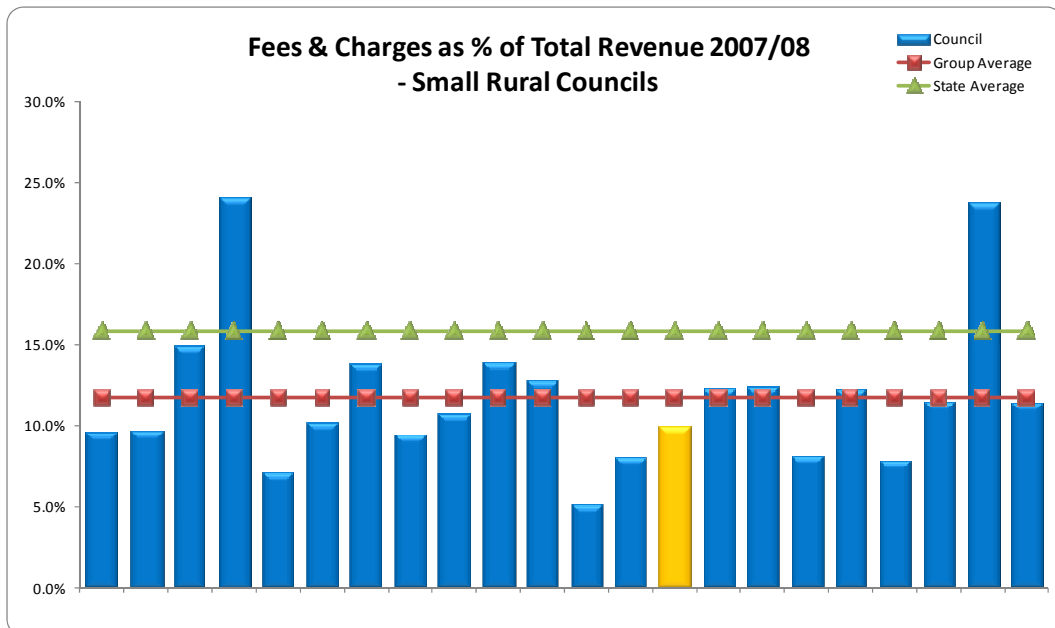
Council received **\$5.13 million** in recurrent grants in 2007/08 and **nil** in contributions. This was below the small shire average of **\$5.195 million** and equivalent of the median of **\$5.13 million**. The State average was **\$11.46 million** in 2007/08.



Council received **\$1.167 million** in non recurrent grants in 2007/08.

**8.2.8 Fees & Charges**

Strathbogie Shire's user charges in 2007/08 were **9.94 per cent** of total revenue compared to the average of the Small rural shires who received, on average, **11.74 percent** of their revenue from fees and charges



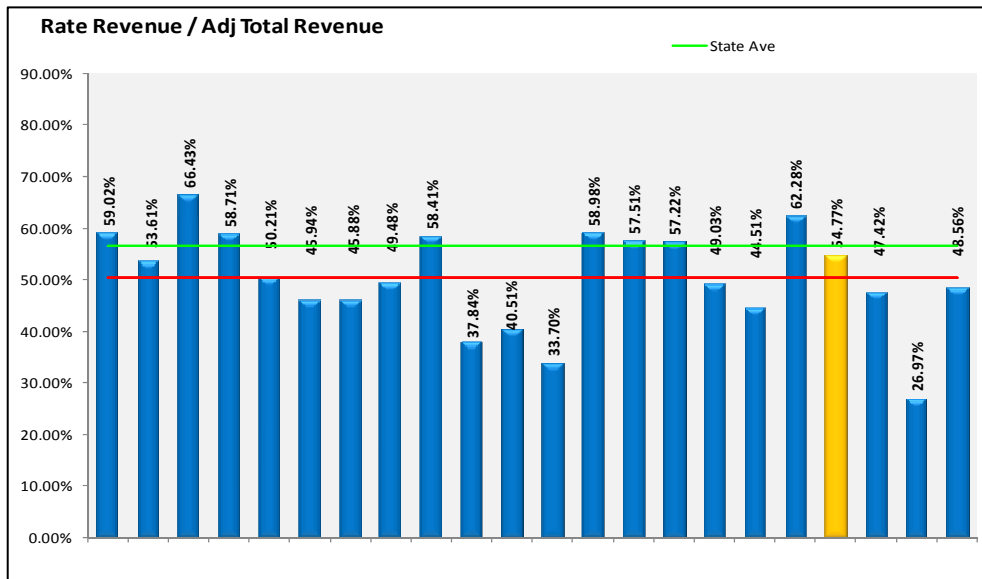
8.2.9 Financial ratios

Rate Revenue/Adjusted Total Revenue

When compared to the small shires group Strathbogie Shire Council levies **54.77 per cent** of its revenue from rates compared to the average of the small shires group at **50.32 per cent**.

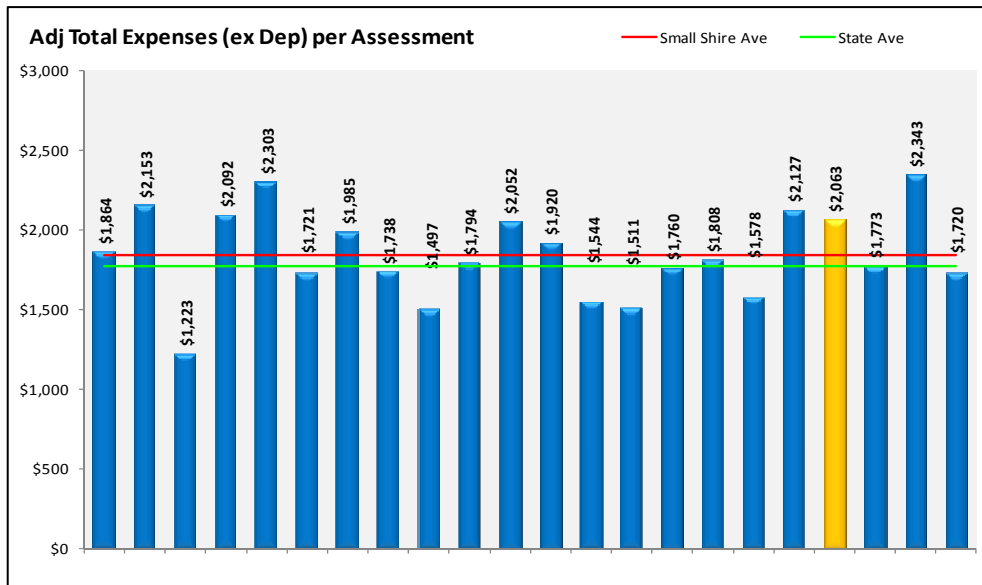
Based on a rates per assessment comparison Strathbogie Shire levies an additional **\$234 per assessment** above the average of small rural shires. Based on **6759** assessments this equates to an additional **\$1.58 million**.

Adjusted total revenue is the total revenue from "Income Statement" - net of asset sales, contributed assets, capital grants, contributions and revaluation adjustments.



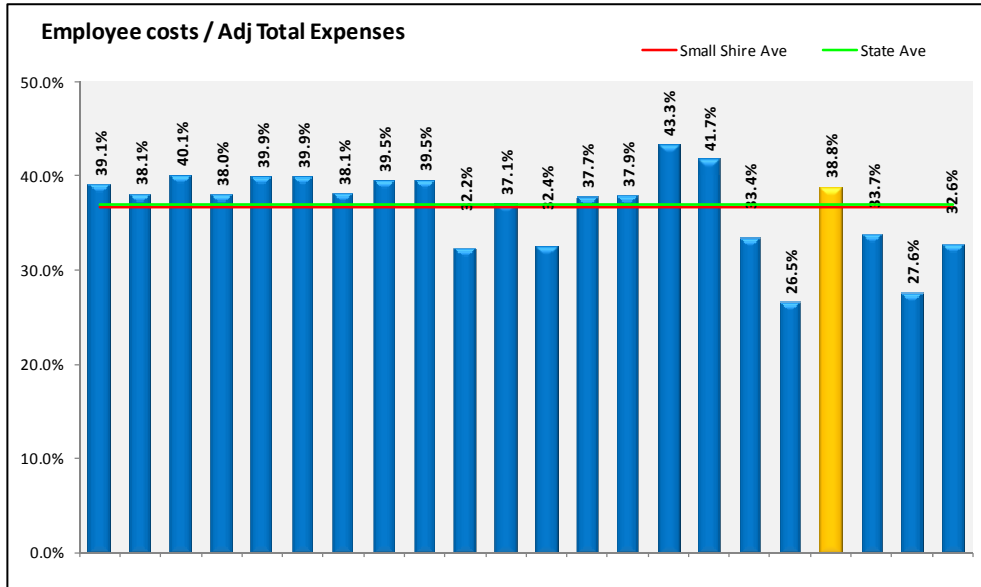
Adjusted Total Expenses (ex Depreciation) Per Assessment

Strathbogie Shire Council's adjusted total expenditure per assessment is **\$2063** compared to the average of the small shires group of **\$1844** per assessment. The operational spend is **\$219** per assessment greater than the small rural Council average. This equates to a higher operational spend of **\$1.48 million** than the average small rural Council.



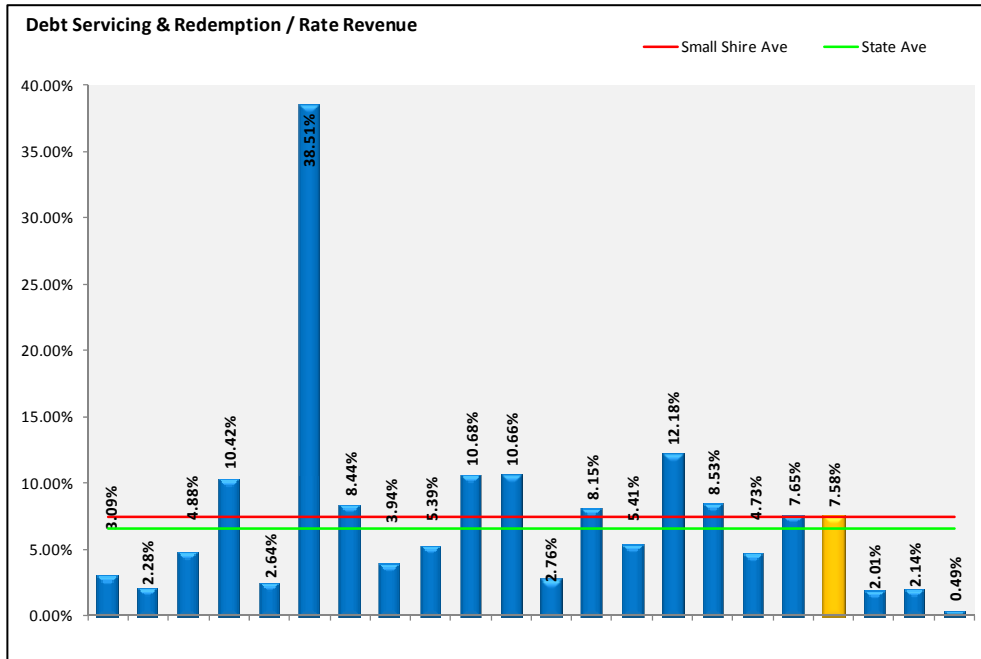
**Employee Costs/Adjusted Total Expenses**

Employee costs as a percentage of total adjusted expenses are **38.8 per cent** for Strathbogie Shire compared to an average of **36.7 per cent** for the small rural shires. Strathbogie's employee costs are **\$0.369 million** higher than the average small rural shire.



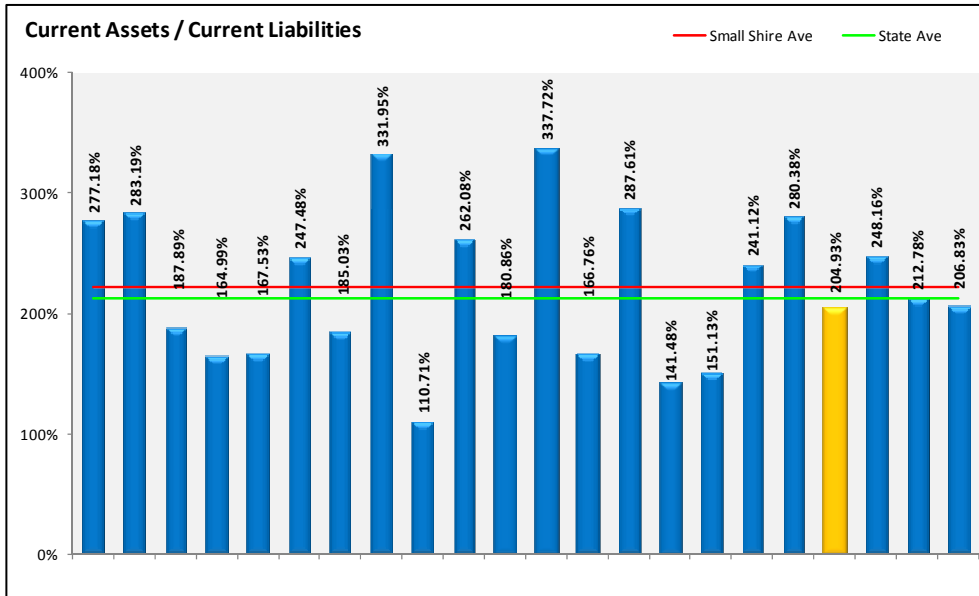
**Debt Servicing and Redemption/Rate Revenue**

Debt servicing and redemption at Strathbogie Shire Council as a percentage of rate revenue is **7.58 per cent** compared to the average of the small shires group at **7.39 per cent**. Compared to the small rural shire average Strathbogie Shire pays **\$16,916** more in debt servicing than the average small rural council.



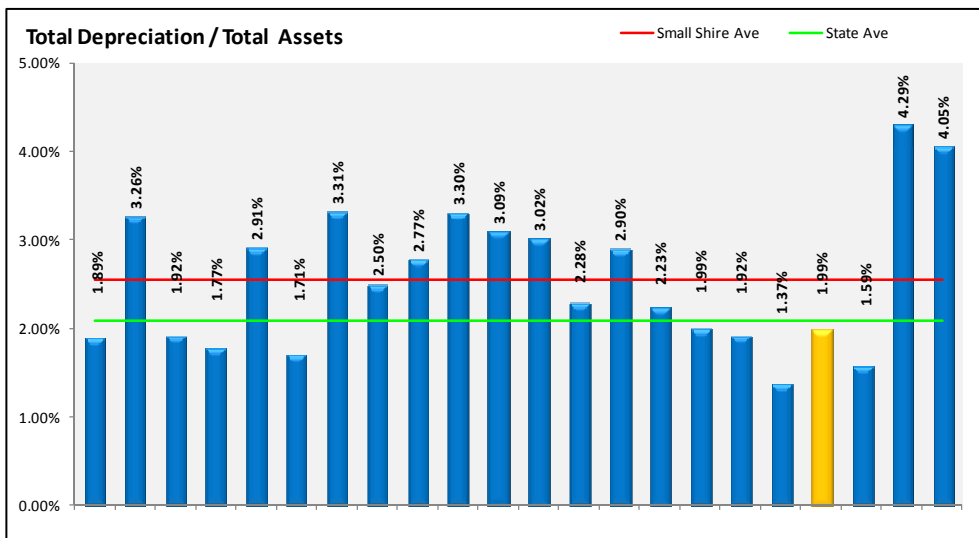
**Working Capital**

The working capital position of Strathbogrie Shire Council is **204.93 per cent** compared to the small shires group average of **221.72 per cent**.



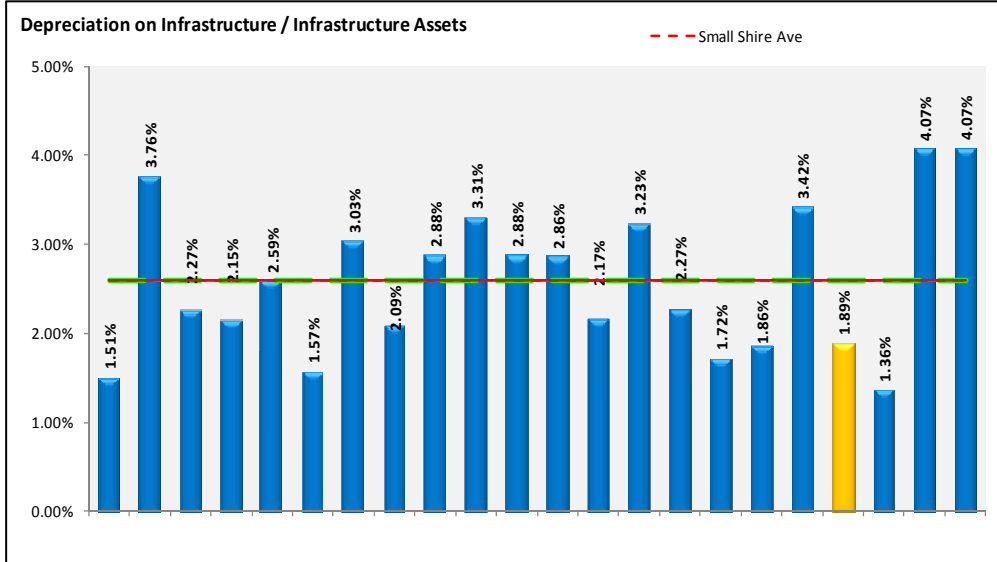
**Total Depreciation/Total Assets**

Total depreciation/total assets at Strathbogrie Shire Council is at **1.99 per cent** compared to the small shires group average of **2.55 per cent** and the median at **2.39 per cent**. Accordingly Strathbogrie Shire to meet the average would see depreciation charges increase by **\$0.942 million**.



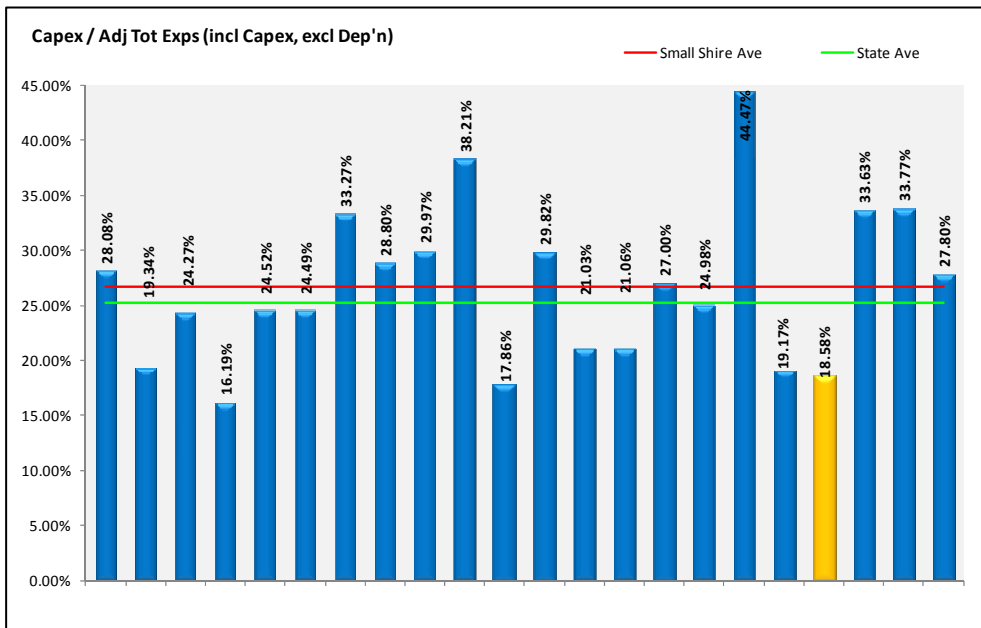
**Depreciation on Infrastructure/Infrastructure Assets**

Strathbogrie Shire's depreciation charges as a percentage of the infrastructure assets are **1.89 per cent** compared to the small shire average of **2.55 per cent** and the median of **2.39 per cent**. If depreciation charges were calculated at the small rural shire average this would increase operating costs by **\$0.849 million**.



**Capital Expenditure / Adjusted Total Expenses**

Capital expenditure as a percentage of total expenses at Strathbogrie Shire is at **18.58 per cent** compared to the small rural council average of **26.65 per cent**. The lower capital investment equates to **\$1.42 million** below the average small rural Council. In addition **48 percent** of the renewal investment as a percentage of depreciation is being met compared to the average of **88 percent** for the small rural councils. This percentage will decrease to **38 per cent** following adjustments to depreciation expenses, subject to these being validated.



### 8.2.10 Financial Indicators

The following financial indicators are used by DPDC and have preferred thresholds for Councils to meet. Strathbogje Shire Council is within these thresholds.

Area	Financial Indicator	Threshold (Prudential Guidelines)	Position 2007/08	Forecast 2008/09	Budget 2009/10
Liquidity	Current Assets to Current Liabilities	1:1.10	2.05:1.0		
Debt Exposure	Total Indebtedness to Total Realisable Assets	50%	11.57%		
Debt Management	Total Debt as a % of Rate Revenue	80%	69.35%		
Debt Servicing	Debt Servicing Costs as a % of Total Revenue	5%	1.5%		

## 9. ASSET AND FINANCIAL DATA

### 9.1 Introduction

The activities of Councils are highly capital intensive in comparison with other public sectors entities and the private sector.

Improving the accuracy of financial reporting relating to infrastructure will assist in providing more meaningful information for decision makers and stakeholders

As part of the *LG Credibility program* Councils were required to submit a data sheet detailing a comparison of the data in their Asset Management System (Moloney) and their Balance sheet –in other words a comparison between their corporate and asset management data.

### 9.2 Valuation methodology and depreciation

Every asset owned by Council is subject to deterioration resulting in a reduction in future service potential. This consumption of service potential is recognised in the annual financial reports as depreciation. Asset consumption reported as depreciation expense has a most significant impact on financial performance.

In order to accurately determine the depreciation rate for an asset it is necessary to relate the depreciation to current values of the asset.

Councils are given the options of holding asset values at 'cost' or fair value under *Australian Accounting Standards*. There is no national guideline for the applicability of 'cost' or fair value to infrastructure assets. Valuation rates used for revaluation can be either 'Brownfield' or 'Greenfield'.

*Greenfield values* represent the cost on initial acquisition of the asset. *Brownfield values* represent the costs that would be incurred on subsequent replacement of the (component of) an asset.

There is considerable difference in these rates leading to difference in reported asset values and depreciation expense.

### 9.2.1 Accounting requirements

AASB116 provides *Australian Guidance* that accompanies but is not part of AASB116:

After recognition as an asset, an item of property plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

Depreciated replacement cost is the current replacement cost of an asset, less where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

The then Department of Victorian Communities now (DPDC) gave guidance for measurement of assets after recognition using fair value.

The fair value 'replacement' cost of the gross service potential of a new asset includes only the costs that would be included on initial acquisition of the asset. This is called 'Greenfield' cost.

It is not predicated on the costs that would be incurred on subsequent replacement of a component of the asset – called 'Brownfield' cost.

The use of Greenfield costs requires:

- The need to include sunk costs that will not be incurred again; and
- The exclusion of costs for the removal of existing infrastructure.
- There are several definitions of greenfield and brownfield conditions.

### 9.2.2 Infrastructure valuation approach

Greenfield relates to unit rates used for revaluation of assets and only includes the costs that would be included on initial acquisition of the asset. Brownfield cost is the cost that would be incurred on subsequent replacement of a component of the asset.

This may be illustrated by an urban road valuation. Greenfield cost approach would value the road components as a whole, while the Brownfield approach would see each component valued at the cost to replace each component, remove existing materials and restore adjoining components.

The unit cost to replace a length of kerb and channel as a component would be significantly higher than the unit cost to replace it in conjunction with pavement renewal/reconstruction.

The Greenfield approach recognises the consumption of assets as a network. The Brownfield approach recognises the consumption of assets as individual components and reflects a cost that may be incurred in the future. Use of the Brownfield approach may overstate asset values and depreciation expense.

### 9.2.3 Greenfield versus Brownfield

Strathbogje and indeed all of the Pilot Councils are revaluing at Brownfield.

This approach more closely reflects the replacement cost of the deteriorating asset and quite correctly recognises that infrastructure assets.

This issue needs clarification with the *Victoria Auditor General*.

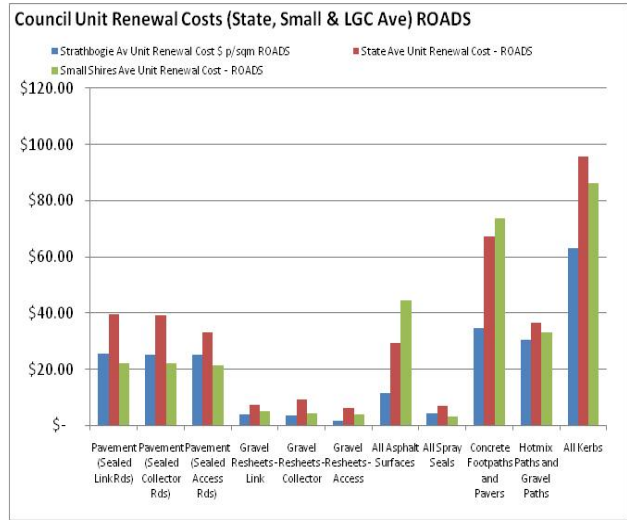


**9.3 Strathbogje Shire Council - Valuation Data**

When valuations were benchmarked against the State, and small Shire averages the following results for Strathbogje Shire Council eventuated:

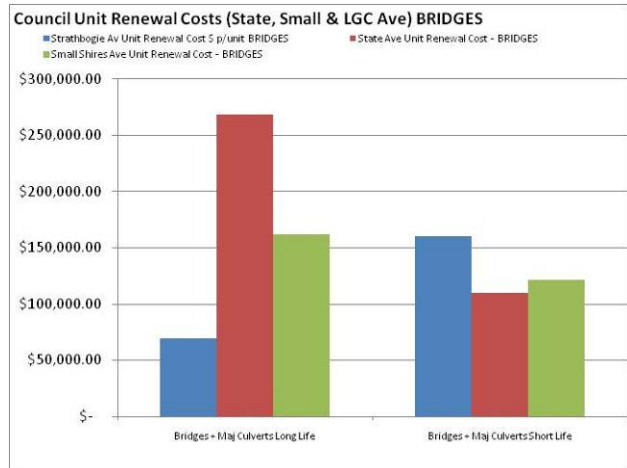
The graph details the unit valuation cost of Strathbogje's road components including pavements re-sheets, asphalt surfaces concrete footpaths, other footpaths and kerbs.

Council's renewal rates are just above average of the small rural shires accept for asphalt footpaths and kerbs.



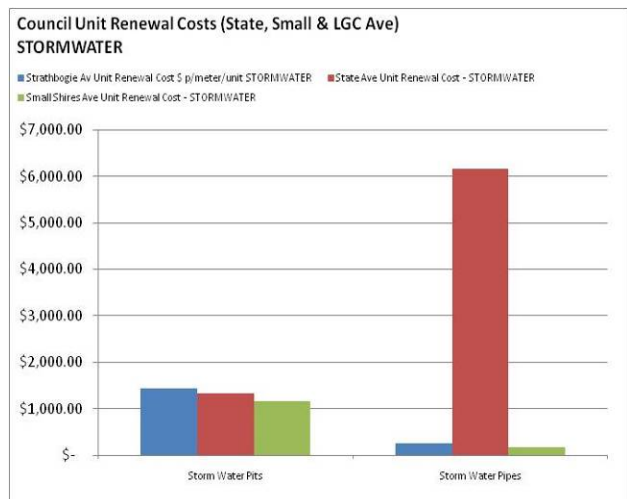
The following graph details Council's unit renewal for bridges- major culverts long life and short life.

Based on the difference in Council's renewal rates these rates may require review.



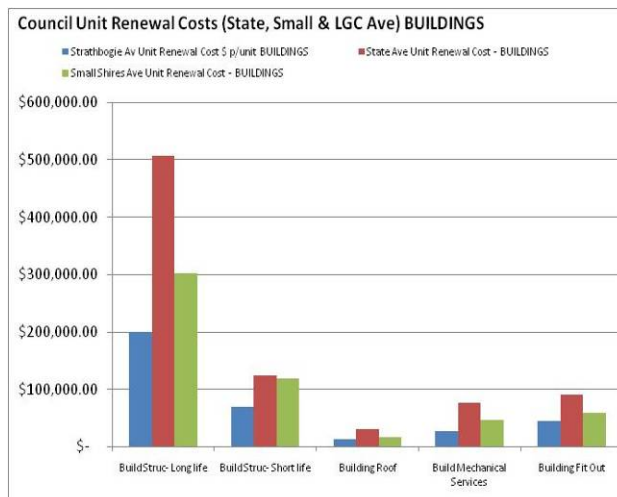
The following graph details Council's unit renewal rates for storm water.

These valuation rates align with the small rural shire averages.



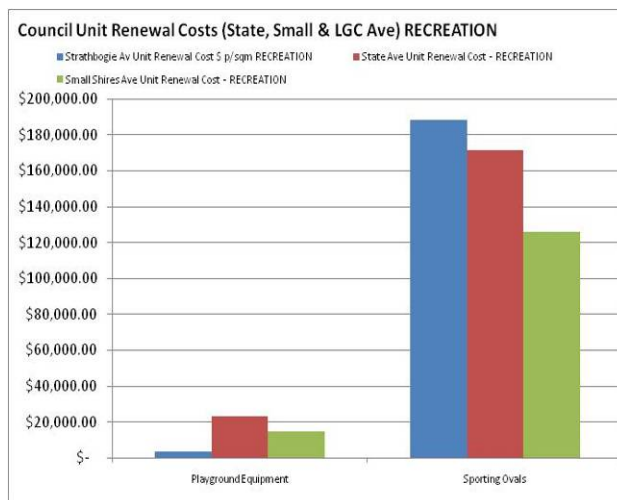
The following graph details the average renewal rates for Councils buildings long life, roof, and mechanical services and fit out.

Strathbogje Shire Council's long life renewal rates may require review



The following graph details the average renewal rates for recreation assets.

Council's sporting ovals renewal rates are above the average and may require review.



## 10. BENCHMARK RESULTS (ADVANCED STEP FRAMEWORK)

The *Advanced Asset Management Assessment Framework* is a component of the *MAV Broadened STEP Program*.

The framework is intended to measure current status of asset management practices at each council, individual council performance against the key challenges considered critical to local government in Victoria and to identify opportunities to improve asset management at a council level.

The framework is rescored each year by councils as a self assessment which is audited by the MAV STEP consultants. This gives a measure of improvement with time and can indicate council performance against each councils peer group.

The individual council results are aggregated to provide a State level result and a peer group result. Results provided here are based on the data compiled by councils following site visits from *CT Management Group Pty Ltd* and *Maunsell Australia Pty Ltd* between October 2008 and January 2009.

The outcome is the 2008 State result.

Of the 78 councils under the MAV Steps program, 69 returned Advanced Framework data and have been included in the following results.

The Advanced Framework is assessed by examination of a set of questions related to asset management practices and aggregated to score ten key challenges which are outlined as follows:

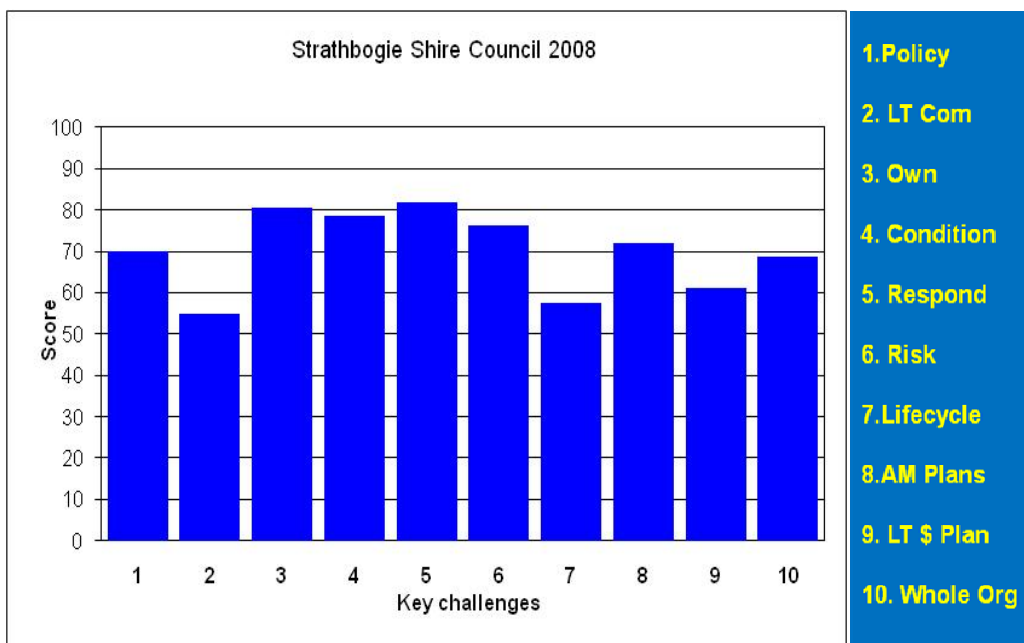
TABLE OF KEY CHALLENGES	
NO	DESCRIPTION
1	Council makes decisions based on an adopted AM policy that incorporates lifecycle, whole of life, risk management, demonstrated need etc
2	Council accounts for changing community infrastructure needs in long term future planning
3	Council knows what it owns and is responsible for
4	Council knows the condition of its assets
5	Council understands and responds to community expectations/priorities when developing levels of service
6	Council understands the corporate and operational risks involved with the assets they manage and have processes to manage the risk
7	Council knows the whole of life costs of the providing its current and future infrastructure assets
8	Council has Asset Management plans for all major classes of assets.
9	Council has a sustainable long term financial plan that aligns with the requirements of AM Plans
10	Council has a whole of organisational approach to the integration of Asset Management

The performance of the councils both in peer groups and individually is measured against these key challenges.

Overall the councils as a group in Victoria have made marginal improved in all ten key challenge areas. Improvement occurred across all areas with the greatest improvement seen in key challenges 1 (council makes informed decisions) and key challenge 8 (council has asset management plans) and the least progress was made within key challenge 5 (council understands and responds to community expectations in developing levels of service).

## 10.1 Strathbogrie Shire Council - Key Challenge Results and Scorecard

### 10.1.1 Key Challenge Results

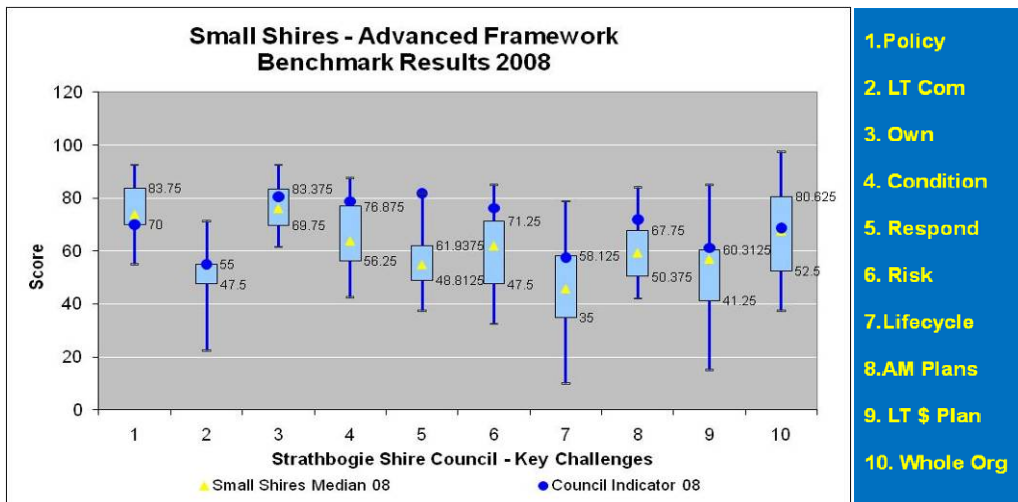


10.1.2 Key Challenge Score sheet – Strathbogrie Shire Council

No	Key Challenge	Result
1	Council makes informed decisions based on sound policy with knowledge of the confidence levels associated with the decisions	70
	Comments:	Proficient
2	Long term community service needs have been identified	55
	Comments:	Proficient
3	Council knows what it owns and is responsible for	81
	Comments:	Excellence
4	Council knows the condition and performance of its asset	79
	Comments:	Proficient
5	Council understands and responds to community expectations/priorities when developing levels of service	82
	Comments:	Excellence
6	Council understands the risks involved with the assets they manage and have processes to manage the risk	76
	Comments:	Proficient
7	Council knows the complete lifecycle costs of the service levels it is currently delivering	58
	Comments:	Proficient
8	Council has AM plans for all major classes of assets	72
	Comments:	Proficient
9	Council has a long term financial plan that aligns with the requirements of AM Plans and addresses any funding gaps	61
	Comments:	Proficient
10	Council has a whole of organisational approach to the integration of AM	69
	Comments:	Proficient

10.2 Advanced Framework Benchmark Results 2008

10.2.1 Small rural shire Advanced Framework Benchmark Overall Results 2008



Improvement was identified across all ten key challenges in the small rural shires. The area of best performance remains as key challenges 1 and 3. The small rural shire performance in key challenge 10 (a whole of organisation approach to asset management) improved significantly and is now their third best performing area.

The least improvement was seen in key challenge 6 (council understands and manages its asset risks).

Strathbogrie Shire Council's own results are consistent with the issues determined in the *LG Credibility* program with respect to the need for a long term financial plan, whole of life costing and the need to more fully understand and respond to community expectations.

### 10.3 Advanced Framework Results– Strathbogrie Shire Council

The Asset Management Assessment framework measures current status of asset management practices at each council, performance against the key challenges considered critical to local government in Victoria and identifies opportunities to improve asset management.

Strathbogrie Shire Council is below the median in most instances, particularly life cycle costing risk management and condition assessment. In terms of Asset management plans and long term financial planning Council is below the median.

## 11. CONCLUSION

From the results of the *MAV LG Credibility Self Assessment*, financial ratio analysis, the *MAV renewal Gap Assessment* programs over the last 4 years, there continues to be a minor shortfall in funding for essential community infrastructure in the Strathbogrie Shire; and a number of issues arising with respect to the long term financial planning within the Council.

Unless additional funding is provided by the State and/or Federal governments or by Council revenue improvements, the following is inevitable:

- Greater reliance on additional Federal Funding program – via RLGC Funding and R2R programs
- Significant long term rate increases which for some communities in the municipality may not be sustainable;
- Rationalisation/reduction Council service delivery to reduce the demand on the infrastructure renewal program funding;
- Inability to retain and attract skilled staff;
- Rationalisation of Council owned community assets.
- To exhaust the internal management tactics the following is required over the next 12 months and will be incorporated into the *LG Credibility 2 program*:

### 11.1 Strategic Resource Plan

- Review and enhance the long term *Strategic Resource Plan* for the municipality to specifically address:
  - Development of a 10 year long term financial plan:
    - Review of level of working capital;
    - Development of a *Rating Strategy* following the 2010 valuation;
    - Review of depreciation charges to operating expenditure (rates and/or useful lives);
    - Review of infrastructure asset valuations;
    - Review 10 year capital works programme;

- Implement CW template and reconcile capital works;
- Review renewal component of existing capital works program going forward and reflect in LTFP;
- Review of renewal valuation rates;
- Review of valuation methodology for *Balance Sheet* valuations;
- Document strategy to fund renewal annuity.

## 11.2 Review of Asset Management Strategy

- Review of intervention condition levels (standards of functionality and presentation) based on affordability and level of service as expressed in the Service and Asset Management Plans;
- Review average unit rehabilitation costs (for each asset category)
- Revise funding levels (% rate revenue, % of renewal value)
- Document strategy for management tactics (rationalisation, redundancy, additional external funding) to reduce infrastructure assets in the municipality.
- Asset “retirements” resulting from understanding real renewal requirements and consultation with their community;
- Review of capital works separation (renewal, upgrade, new) in council budgets
- Assess the opportunities of rate increases to fund the asset renewal requirements.

## 11.3 Whole of organisation approach

A whole of organisation approach must be continued and supported to resolve the challenges ahead, with *Terms of Reference*, works schedule and regular reporting to the Executive, CEO and Council.

In conclusion the *LG Credibility program* highlighted the financial sustainability issues of the Strathbogje Shire and these strategic initiatives will determine the ultimate extent of assistance required from the State Government.