



DRAFT STRATEGIC RESOURCE PLAN 2020/21 TO 2024/25

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1. EXECUTIVE SUMMARY

1.1 Introduction

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

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

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

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

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

Significant changes to this revised SRP 2020/21 are:

- Council will increase the capped average rate by 1.9 percent in the 2020/21 financial year. This level allows Council to maintain existing service levels, fund a number of new initiatives and continue to allocate additional funds to renew the municipality's infrastructure;
- New Capital Expenditure is \$9.920 million in 2020/21; and

- New borrowings of \$5 million in 2020/21 to fund rehabilitation of the Violet Town landfill site.

1.2 Purpose of Strategic Resource Plan

The purpose of the Strategic Resource Plan is to:

- Establish a financial framework over the next 4 years to ensure Council's strategic objectives, as expressed in its Council Plan, are achieved;
- Provide an assessment of the resources (financial and non-financial) required to accomplish the objectives and strategies included in the Council Plan;
- Establish a basis to measure Council's adherence to its policies and strategies; and
- Assist Council to comply with sound financial management principles, in accordance with the Act and to plan for the long-term financial sustainability of the municipality.

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



Figure 1: Strategic Resource Plan – Key Strategic Areas

1.3 SRP Objectives

The 2020/21 SRP is intended to contribute to the following objectives in the 10-year timeframe:

- Maintain the existing range and level of service provision and improve the understanding of the range and levels of service provided;
- Maintain a viable cash position, ensuring Council remains financially sustainable in the long-term;

- Achieve operating statement surpluses with the exclusion of all non-operational items such as granted assets and capital income within the 10 year timeframe of the long term financial plan;
- Maintain debt at a prudent level;
- Continue to pursue recurrent grant funding for strategic capital funds from the State and Federal government; and
- Provide for rate increases that establish a funding level for renewal demand being invested at 100 percent.

1.4 Strategic Financial Direction

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

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

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

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

The SRP is prepared in conjunction with the Council Plan to ensure the affordability of activities included in the Council Plan.

A Glossary of Terms is attached in **Appendix A**.

Appendix B details Council's Financial Statements which are an outcome of this SRP.

1.5 Key Strategic Directions

The following table highlights the key strategies of this SRP.

Each section includes detailed analysis to support the strategies.

The key strategies provide direction for the preparation of the 2020/21 Budget.

Section	Strategic Direction
Section 2 Financial Sustainability	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council continues to benchmark with other Victorian Councils and those within the Small Rural category. 2. That Strathbogie Shire Council applies the outcomes of this SRP to the 2020/21 Budget. <p>That Strathbogie Shire Council achieves an operating surplus over the life of this SRP.</p>
Section 3 Capital Works Program	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council maintains its capital works commitment at levels that meet or exceed the targets established in this SRP, and develops a 10-year capital works program. 2. That Strathbogie Shire Council initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at levels indicated in Table 6 (Section 4.6 Management Systems), with the next priority on renewal, upgrade and expansion. 3. That any bids for expansion, new and upgrade of assets come from the Service Managers as arising from their Service Plans.

Section	Strategic Direction
Section 4 Asset Management	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council, having established its critical renewal investment levels, maintains detailed <i>Asset Management Plans</i> (focused on renewal demand) for all classes of Council assets incorporating service level assessments. 2. That Strathbogie Shire Council, as part of the development of its <i>Service Plans</i>, consults with the community to determine how service levels will be reached including a combination of improved revenue raising, review of existing service levels, asset disposal and composition of the asset portfolio. 3. That Strathbogie Shire Council adopts as policy the annual allocation of funds to meet 100 per cent of the communities infrastructure renewal needs before it elects to upgrade or construct new assets.
Section 5 Long-term Borrowing Strategies	<ol style="list-style-type: none"> 1. Borrowings to finance rehabilitation of the Violet Town landfill site are proposed during the term of this SRP with Council debt ratios remaining in the Low risk category.
Section 6 Restricted Assets	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council builds into its 10 year financial plan the estimated movements in restricted assets and provides for at least \$3 million to \$4 million in working capital to meet day to day needs. 2. That to ensure sufficient funds are available to meet operational needs, Strathbogie Shire Council retains a cash position of at least \$3 million to \$4 million after deducting restricted assets, i.e. cash received but not spent or cash to be spent for specific purposes such as developer contributions (infrastructure), waste facility development, security deposits etc.

Section	Strategic Direction
Section 7 Rating and Other Revenue Strategies	<p>That Strathbogie Shire Council;</p> <ol style="list-style-type: none"> 1. retains capital improved value (CIV) as its valuation base; 2. no longer levy a Municipal Charge; 3. considers future increases in tree and waste management charges based on EPA, regulatory and safety requirements , to cope with challenges in recycling markets and the need to sustain the Council’s long term waste operations strategy; 4. in 2020/21, adopts an percent capped average rate increase of 1.9 % for general rates (excluding supplementaries) and a 2.0 percent increase in waste collection charges including funding the cost of disposal of domestic waste, recycling collection and the tree management levy; 5. pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other Councils; and 6. undertakes detailed analysis on the level of existing fees and charges and investigates new revenue sources and report recommendations to Council.
Section 8 Strategic Financial Plan	<p>The SRP continues to provide a financial framework for Council, enabling an assessment of Council resources and assisting Council to plan and fund capital infrastructure and meet future community aspirations.</p>

Table 1: Key Strategies 2020/21

2. FINANCIAL SUSTAINABILITY

2.1 Background

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

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

It is against this definition that the sustainability of Strathbogie Shire Council can be assessed.

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

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

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

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

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

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

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

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

2.2 Financial Comparisons - Benchmarking

Council Annual Reports generally contain standard and consistent financial data.

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

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

Category Description	Councils within Category
Inner Metropolitan	22
Interface Metropolitan	9
Regional Cities	10
Large Shires	19
Small Shires	19
TOTAL	79

Table 2: Number of Councils in each Category– 2020/21

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

2.3 Analysis of Council's Financial Sustainability

2.3.1 Financial Sustainability

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

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

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

Underlying Operating Position (Surplus/Deficit)

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

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

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

One of Strathbogie Shire Council's long-term financial goals is to achieve an operational surplus without the inclusion of any capital income (against which there is no matching expenditure in the operating statement) and abnormal items such as granted assets.

Council's position (-\$376,000) compares favourably within the Small Rural category at (\$-4,770,000) for underlying operating surplus at June 30 2019.

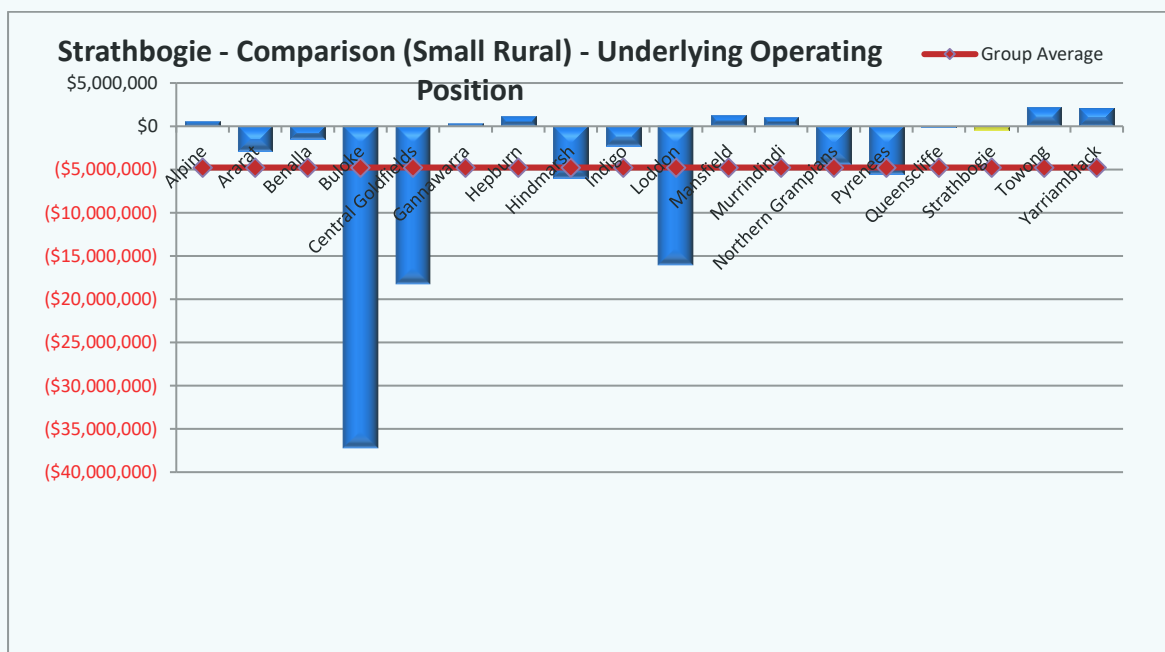


Chart 1: Underlying Operating Position – 2018/19

Liquidity

The Victorian Auditor General's Office considers a Liquidity ratio of more than 100% Low Risk - reflecting no immediate issues with repaying short term liabilities as they fall due.

Council's Working Capital ratio of 215 percent indicates Council's liquidity is considered healthy and in excess of 100% for the foreseeable future.

Rate effort

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

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

The Minister for Local Government, has advised of a capped increase in the average rate per property of 2.00 per cent for the 2020/21 financial year. Councils can seek approval for an increase above this figure through a variation with the *Essential Service Commission* (ESC).

Council's rating effort has been satisfactory and when benchmarked is close to the average effort of the Small Rural group. (Refer Chart 18).

Cost and efficiency

Council is statistically a "mid cost" council.

Operating Expenses per assessment of \$3,767 are slightly below the Small Rural average of \$3,801. Council's employee cost as a percentage of total expenditure is 36.49 percent, marginally above the Small Rural average of 36.22 percent.

Rates affordability

Australian Taxation Office (ATO) income data for wage and salary earners (PAYE) can be used to give some indication of rates affordability. The Australian Bureau of Statistics (ABS) produces a set of socio-economic indices for areas known as SEIFA. The four indices in the set, which are based on census data, reflect the level of social and economic wellbeing in local government areas. SEIFA includes the following indices:

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

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

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

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

The first three indicators have been used to reflect on the socio-economic status of local areas and therefore ability to bear significant increases in rates. The other issue Strathbogie Shire has to contend with, and which does distort these benchmarks, is that the census understates both number of residents and annual household income due to the impact of non-resident ratepayers.

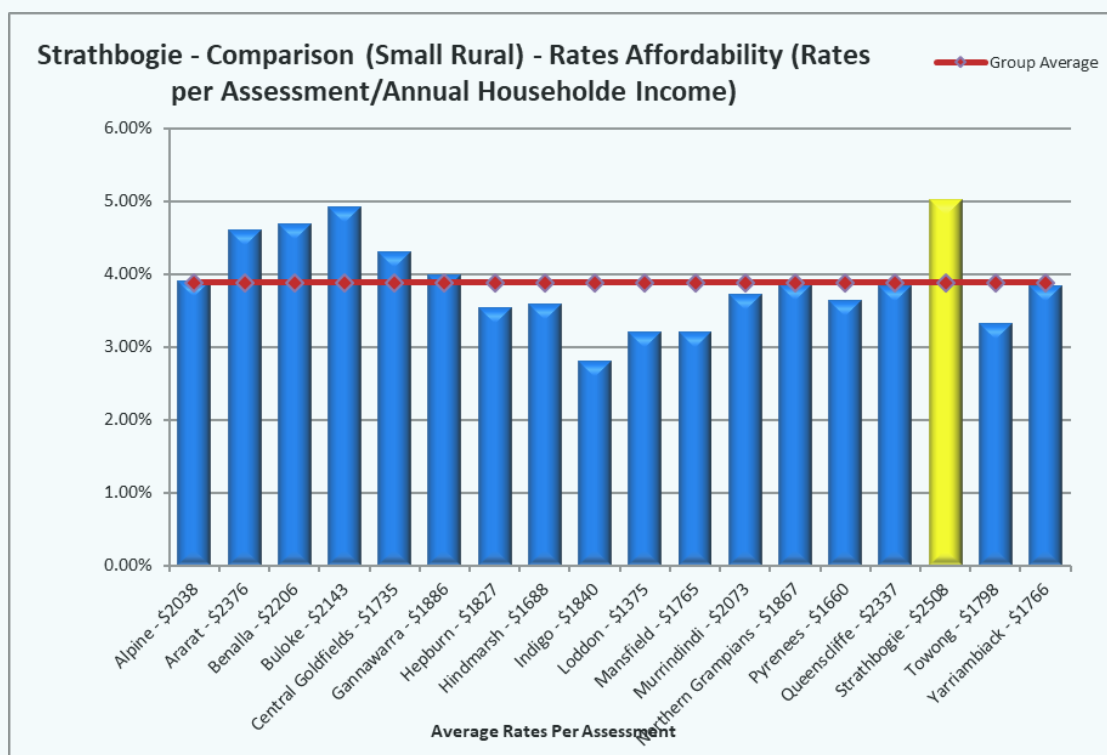


Chart 2: Rates Affordability Small Rural – 2018/19

2.3.2 Victoria Auditor General

The Victoria Auditor General’s Office prepares a report on Local Government which outlines a detailed analysis on the financial sustainability of Councils and Regional Library Corporations.

The 2018/19 results for Strathbogie for VAGO's indicators of Council viability are:

Indicator	Calculation	Description	Results 2018/19	VAGO Risk rating
Net result	Net result/ total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long-term.	18.26	Low
Adjusted Underlying Operating Result	Adjusted underlying surplus (or deficit) / Adjusted underlying revenue	Indicator of the broad objective that an adjusted underlying surplus should be generated in the ordinary course of business. A surplus or increasing surplus suggests an improvement in the operating position.	1.23	Medium
Liquidity	Current Assets/ Current Liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio one or more means there is more cash and liquid assets than short-term liabilities.	2.15	Low
Indebtedness	Non-current liabilities/ own sourced revenue	Comparison of non-current liabilities (mainly comprised of borrowings) to own-sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues they generate themselves. Own-sourced revenue is used (rather than total revenue) because it does not include capital grants, which are usually tied to specific projects.	24.74	Low
Internal financing	Net Operating cash flow/ Net capital expenditure	Measures the ability of an entity to finance capital works from generated cash flow. The higher the percentage, the greater the ability for the entity to	75.47%	Medium

Indicator	Calculation	Description	Results 2018/19	VAGO Risk rating
		finance capital works from their own funds.		
Capital Replacement	Cash outflows from property, infrastructure, plant and equipment / Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.	2.33	Low
Renewal gap	Renewal and upgrade expenditure / Depreciation	Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is faster than the depreciating rate. Similar to the capital replacement, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.	1.94	Low

Table 3: Strathbogie Shire Council VAGO Indicators of Council Viability

2.4 Benchmarking

In most instances Council compares favourably with its neighbours and other Small Rural Councils. When benchmarked to other Small Rurals and neighbours Strathbogie Shire Council is characterised by:

- Underlying operating result close to surplus;
- Slightly below the average level of overall operational costs in comparison to Councils in the category;
- Higher than the average rating effort;

- Low debt ratios; and
- Strong capital works program with sufficient priorities given to asset renewal.

Strategic Direction

1. That Strathbogie Shire Council continues to benchmark with other Victorian Councils and those within the Small Rural category.
2. That Strathbogie Shire Council applies the outcomes of this SRP to the 2020/21 Budget.
3. That Strathbogie Shire Council achieves an operating surplus over the life of this SRP.

3. CAPITAL WORKS PROGRAM

3.1 Introduction

The previous section discusses the long-term issues with respect to *Financial Sustainability*.

It should be noted that 59 per cent of the capital expenditure is on renewal and upgrade type projects in the draft capital works program for 2020/21. The total new capital program of \$9.907 million is composed of \$4.073 million in new and expanded assets and \$5.834 million in renewal and upgrade.

The proposed program for 2020/21 comprises \$3.950 million in renewal and \$1.884 million in upgrade.

An amount of \$350,000 has been provided in 2020/21 for detailed design and cost estimation for rehabilitation of the Violet Town Landfill – it is proposed that these works be funded by borrowings.

In addition to new capital expenditure of \$9.907 million works carried forward from 2019/20 will total \$4.966 million . These projects are carried over due to a range of reasons:

- Subject of pending grant applications
- Funded over 2 year
- Subject to government approvals
- Government funded projects with completion dates in 2020/21

This section includes:

- Level and nature of capital works;
- 2020/21 Capital Investment levels
- Capital funding sources; and
- Capital Works Evaluation process

The benchmark for 2018/19 capital expenditure levels by Small Rurals is illustrated below:

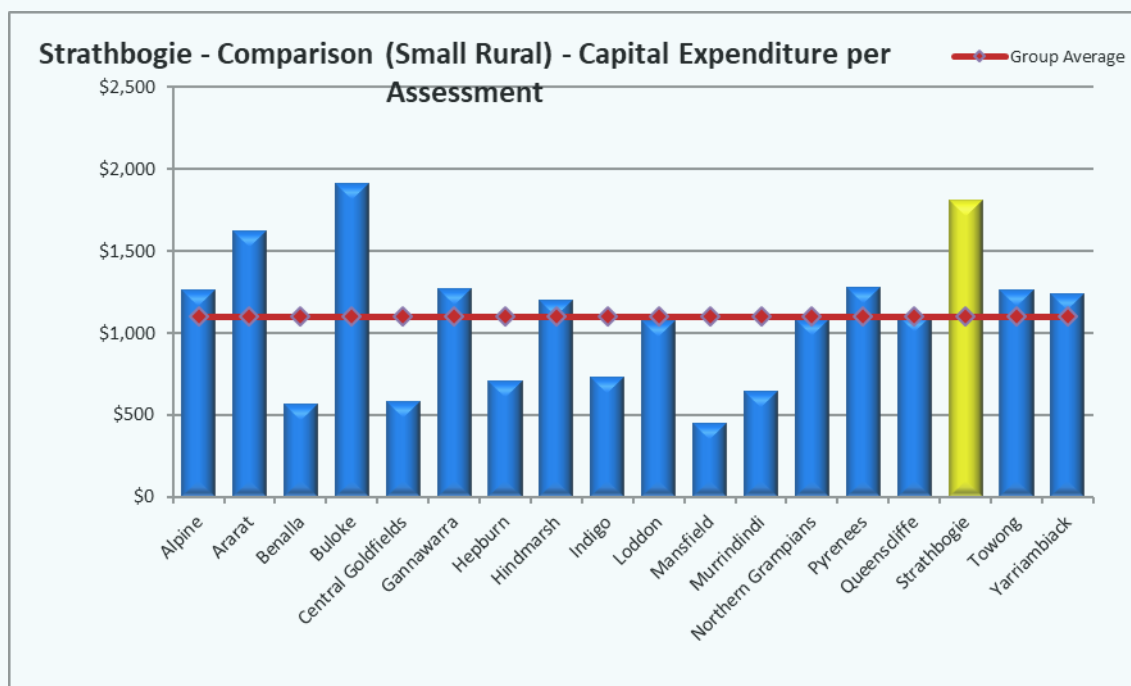


Chart 3: Capital Expenditure – 2018/19

Capital expenditure per assessment is higher than average in 2018/19 at \$1,813 per assessment as compared to \$1,100 for the average Small Rurals.

3.2 Level and Nature of Capital Works

It is important that the *Asset Management* issues raised in the next section inform the decisions taken in determining the capital works program. Four key outcomes from the long-term financial plan will be:

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

3.2.1 Capital works 2020/21

The following are the parameters against which the 2020/21 capital works program has been developed:

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

In terms of the longer term program to 2029/30 the following parameters/assumptions apply:

- Large one-off projects flagged in subsequent years require accurate costing to be undertaken and their timing and priority finalised;
- Continue priority on renewal, followed by upgrade with expansion and new, the most discretionary;
- Income assumptions to remain conservative given they are less predictable; and

- Roads to Recovery income assumed to continue at known level spread across relevant projects within the Roads Program.

3.3 2020/21 Capital Investment Levels

The 2020/21 capital works program by expenditure type is detailed hereunder:

Capital Expenditure Type	2020/21 \$	2020/21 %
Renewal	3.950	40
Upgrade	1.884	19
New/Expansion	4.073	41
TOTAL	9.907	100

Table 4: Capital Works Summary 2020/21

3.4 Capital Funding Sources

A 10-year capital works program has been developed and this has enabled a precise cash flow budget to be developed.

This program will be refined during the 2020/21 financial year by Council's Asset Planning department.

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

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

3.5 Capital Works Evaluation Process

3.5.1 Evaluation Process

Objective: to provide qualitative and economically measurable information to assess and prioritise capital funding. This will ensure that scarce funds are rationed to projects in order of merit. This is primarily defined through four stages, Strategic Assessment, Needs Analysis, Needs Alignment and Prioritisation.

Our process in preparing the draft budget is: -

Strategic Assessment

1. Council intends to maintain its existing infrastructure and its focus is of 'renewing' its existing assets ahead of other 'upgrade' 'expand' and or 'new' possibilities;
2. Renewal items will be evaluated for their viability and continuing fit with community desires and the Council Plan;

Needs Analysis

3. Respond to additional Council decisions;
4. Development of 'Business Cases' to consider Committees of Management and community aspirations. Business cases are recognised as a useful tool to evaluate proposals for ongoing costs, sustainability, risks and project preferences. Business cases will be fit for purpose;

Needs Alignment

5. Considering the needs of multiple services together and looking for alignments and synergies and the possibility of bringing them together into shared spaces;

Prioritisation

6. Program to meet realistic timelines – considering consultation, approval and external funding requirements;
7. Capital works will be prioritised with reference to the Council Plan, funding sources and the community's wishes, up to the limits of budget capacity, the 'balanced budget'.

The business case process is designed to achieve a number of practical outcomes. These are: -

- Prevent poorly developed output specifications/functional briefs going to market
- Ensure risks are allocated to the party that can best manage them
- Embrace a broader range of delivery models
- Realised improved value for money outcomes in capital works procurement

3.5.2 Whole of Life Costing

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

3.6 Conclusion

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

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

Strategic Direction

1. That Strathbogie Shire Council maintains its capital works commitment at levels that meet or exceed the targets established in this SRP, and develops a 10-year capital works program.
2. That Strathbogie Shire Council initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at levels indicated in Table 6 (Section 4.6 Management Systems), with the next priority on renewal, upgrade and expansion.
3. That any bids for expansion, new and upgrade of assets come from the Service Managers as arising from their Service Plans.

4. ASSET MANAGEMENT

4.1 Introduction

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

This section includes:

- Council's asset portfolio at 30 June 2019;
- Key questions to determine service level/investment;
- Asset investment;
- Condition assessments;
- Management Systems; and
- Strategic asset management.

4.2 Council's Asset Portfolio - 30 June 2019

4.2.1 Current Assets

Accounting for an asset requires the recognition of all costs associated with asset ownership including creation/acquisition, operations, maintenance, rehabilitation, renewal, depreciation and disposal.

This "life cycle" approach needs to be recorded at an individual asset level so all the costs of owning and operating assets are known and understood.

For accounting purposes assets are grouped into current and non-current assets. Current assets are cash or those assets that are considered to be readily convertible to cash.

This asset grouping includes cash at bank, investment funds, stock on hand, debtors and land held for resale. The balance of current assets held by Strathbogie Shire Council at 30 June 2019 was \$ 15.96 million.

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

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

The total value of fixed assets at 30 June 2019 was \$292.15 million. The balance of this section will focus on the fixed assets and the management strategies that Council is pursuing.

4.2.2 Non-Current Fixed Assets

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

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

Council's fixed assets and land held for resale at 30 June 2019 total \$292.425 million.

4.2.3 Depreciation Expense

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

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

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

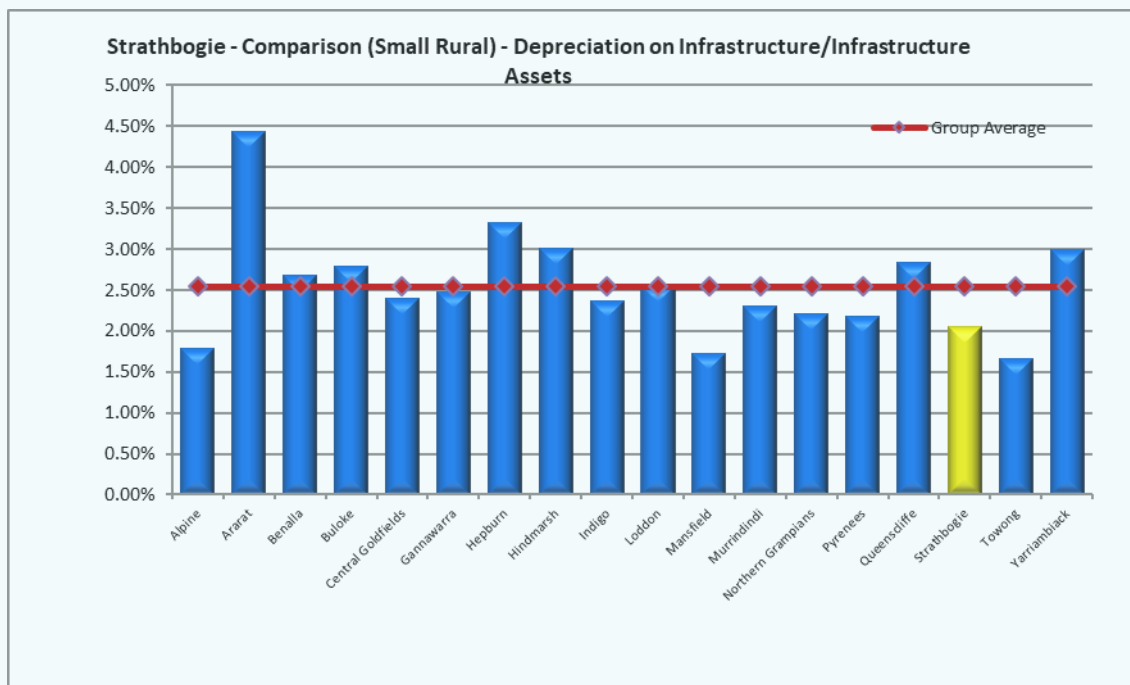


Chart 4: Depreciation on Infrastructure/Infrastructure Assets – 2018/19

4.3 Key Questions to Determine Service Level/Investment

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

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

4.4 Asset Investment

Asset investment can be made in the following ways:

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

Type of Expenditure	Definition	Purpose/Example
Asset upgrade expenditure	Means expenditure that enhances an existing asset to provide a higher level of service or that will increase the life of the asset beyond its original life. Asset upgrade expenditure is discretionary and often does not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure in the future because of the increase in the council's asset base.	Provides new assets for services that do not currently exist.

Table 5: Expenditure Definitions – Asset Management – 2020/21

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

4.5 Condition Assessment

Monitoring asset condition and performance relates to the ability of the asset to meet targeted levels of service. Asset condition reflects the physical state of the asset and the functional level of service it is capable of providing.

Monitoring asset condition and performance throughout the asset life cycle is important in order to identify underperforming assets or those which are about to fail. Council has developed its *Asset Management System* to readily monitor asset condition and performance and to:

- Identify those assets which are under performing;
- Predict when asset failure to deliver the required level of service is likely to occur;
- Ascertain the reasons for performance deficiencies; and
- Determine what corrective action is required and when (maintenance, rehabilitation, renewal).

4.6 Management Systems

Council has determined that no asset's condition will be allowed to go below its predetermined intervention levels as the cost of renewal significantly increases and the asset's functionality, safety and ability to provide its intended service level is compromised.

Council has largely collected condition data for all of its major asset categories and is now in a position to commence detailed *Service Plans* and update *Asset Management Plans*.

The benefits of knowing the current condition and performance (level of service) an asset provides are:

- Ability to plan for and manage the delivery of the required level of service;

- Avoidance of premature asset failure, leaving open the option of cost-effective renewal;
- Managing risk associated with asset failures;
- Accurate prediction of future expenditure requirements; and
- Refinement of maintenance and rehabilitation strategies.

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

Priority is on funding the annual renewal annuity based on predetermined service levels generally described as intervention levels- the maximum level an asset can deteriorate to prior to renewal investment. This level has been set at 3%.

The intervention level is theoretically where the assets service life has expired and renewal investment is required to restore service potential - eg. Road needs resheeting to be useable.

Council, as asset managers, need to be able to assess the relative merits of rehabilitation / renewal / replacement options and identify the optimum long-term solution through a decision related to levels of service. Council needs to strategically determine an affordable level of service to manage the emerging condition profile.

The benefit of that knowledge now is the management process can commence across the entire asset portfolio.

Asset Group Name	Asset Set Description	Retreat. Intervention Condition
Urban Roads Group	Pavement (High Traffic) Urban	7.50
Urban Roads Group	Pavement (Low Traffic) Urban	8.00
Urban Roads Group	"Asphalt Seal	8.00
(High Traffic) Urban"		
(Low Traffic) Urban"		7.50
Urban Roads Group	Spray Seal (High Traffic) Urban	7.50
Urban Roads Group	Spray Seal (Low Traffic) Urban	7.5
Urban Roads Group	All Kerbs	8.00
Rural Roads Group	Pavement (High Traffic) Rural	7.50
Rural Roads Group	Pavement (Low Traffic) Rural	8.00
Rural Roads Group	Spray Seals (High Traffic) Rural	7.00
Rural Roads Group	Spray Seals (Low Traffic) Rural	7.00
Rural Roads Group	Shoulder Pavement (High Traffic or Narrow Seal)	8.50

Asset Group Name	Asset Set Description	Retreat. Intervention Condition
Rural Roads Group	Shoulder Pavement (Low Traffic)	8.50
Unseal Road Group	Pavement (High Traffic) Unsealed	6.00
Unseal Road Group	Pavement (Low Traffic) Unsealed	7.50
Pathway Group	Concrete Pathways & areas	7.00
Pathway Group	Brick Paved Pathways & areas	7.00
Pathway Group	Sealed Pathways	7.00
Pathway Group	All other Pathways	7.00
Bridges Group	Long Life Bridges	8.00
Bridges Group	Short Life Bridges	8.00
Storm Water Group	Pits	8.00
Storm Water Group	Pipes	8.00
Buildings Group	Structure Long Life	8.00
Buildings Group	Structure Short Life	8.00
Buildings Group	Roof Structure	8.00
Buildings Group	Mechanical Services	8.00
Buildings Group	Building Fit Out	8.00
Recreation Group	Street & Park Furniture	8.00
Recreation Group	Active Reserves (Footy Ovals etc)	8.00
Recreation Group	Manicured Turf (Bowling Greens etc)	8.00
Recreation Group	Play Equipment	8.00
Recreation Group	Synthetic Playing Surfaces	8.00
Recreation Group	All Lighting	8.00

Table 6: Intervention Levels by Service Area – Asset Set – 2020/21

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

4.7 Strategic Asset Management

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

Other major elements are the *Asset Management Strategy* which details specific actions to be undertaken by Council to improve asset management capability and achieve specific strategic objectives.

Asset Management Plans are subsequent components where long-term plans (10-years and beyond) outline renewal requirements for each asset category.

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

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

Table 7: Asset Management Plan Objectives & Document Content

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

Council is now in a position to analyse its condition profile and determine and understand the cost of a predetermined service level.

Alternatively Council may allow some assets to degrade in condition, freeing up funds to improve the level of service for other assets.

4.7.1 Community Consultation

Council aims to ensure its assets are relevant to the community, as retention of unused assets places a financial burden on the community. Council’s *Strategic Resource Plan* is presently focused on funding a “service level” that prioritises critical renewal and maintains average condition to meet community expectation.

The challenge ahead is to understand the community’s expectations and provide service level and funding options to accommodate these.

The target for Council in 2020/21 will be to engage Council and the community in discussions about levels of service to provide the opportunity for differing service levels to be costed and reviewed.

Sound Asset Management is:

- Knowing what assets we own (Asset Register);

- Understanding the condition and expected lives of our assets;
- Knowing what 'levels of service' customers want- service planning;
- Having processes in place to establish priorities and allocate funds;
- Knowing the long-term funding requirements associated with our assets;
- Having documented *Asset Management Plans* detailing levels of service will be a challenge during 2020/21;
- What services, including their performance levels, are required to meet the community outcomes? ; and
- Finally what infrastructure or assets are required to support the service level?

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

4.7.2 Asset Management Working Group

The *Asset Management Working Group (AMWG)* is a cross-functional professional team with representatives from all Council departments.

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

The Asset Management Working Group's Terms of Reference include:

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

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

4.7.3 Renewal Demand

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

Council has increased its renewal investment over recent years and the most recent modelling has shown the results of this effort . In respect of roads the consultant said :

“Council’s road assets were found to be in very good overall condition , with a quite measurable improvement since the last survey in 2014 .“Council has done a great job in lifting the renewal funding levels on the road network over the past decade, and it now appears it can be eased back a little for some years . But it is predicted to grow strongly in the second decade “

And in respect of bridges :

“The bridge assets were found to be in good overall condition with a quite measurable improvement across all six condition indicators since the time of the last survey. The extent of the asset base at and above condition 7 has been lowered from 9.1% in 2014

down to 1.5% in 2017. This is really an outstanding achievement and reflects the very high priority given by Council to the bridge assets over the past decade.”



Chart 5: Proposed and Predicted Renewal Expenditure Chart – 2018/19

The following graph depicts the predicted level of renewal expenditure required across all asset categories for Council until 2038.

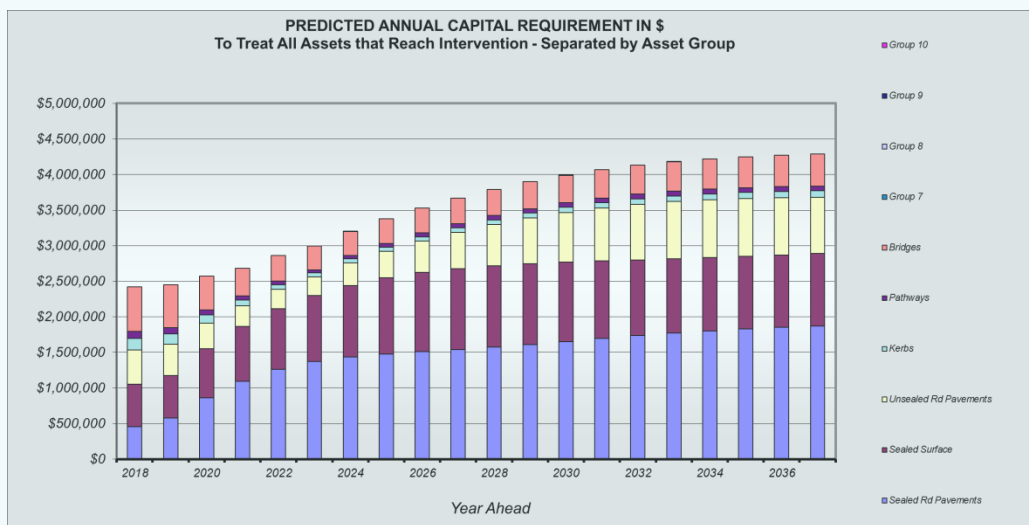


Chart 6: Proposed Renewal Expenditure Profiles Chart– 2018/19

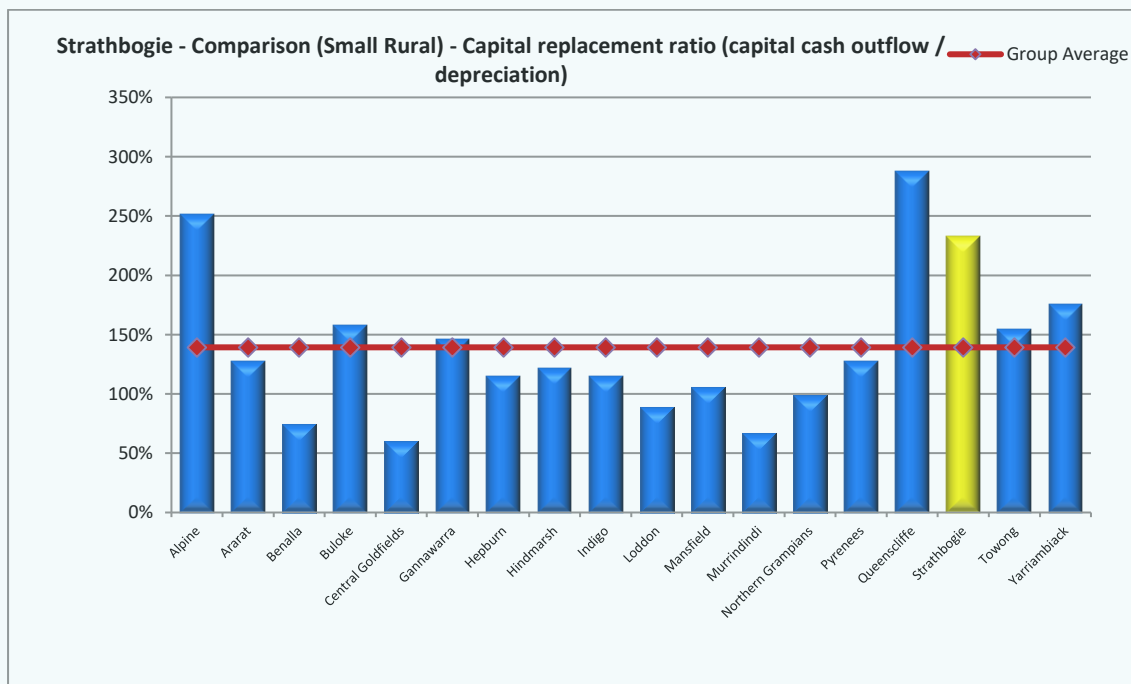


Chart 7: Capital Replacement Ratio

Charts 7 and 8 show that Council is doing well in renewing its assets at the appropriate time . In particular Chart 7 shows that funds spent on replacement of Council’s asset base exceeds depreciation and is well above the Small Councils average.

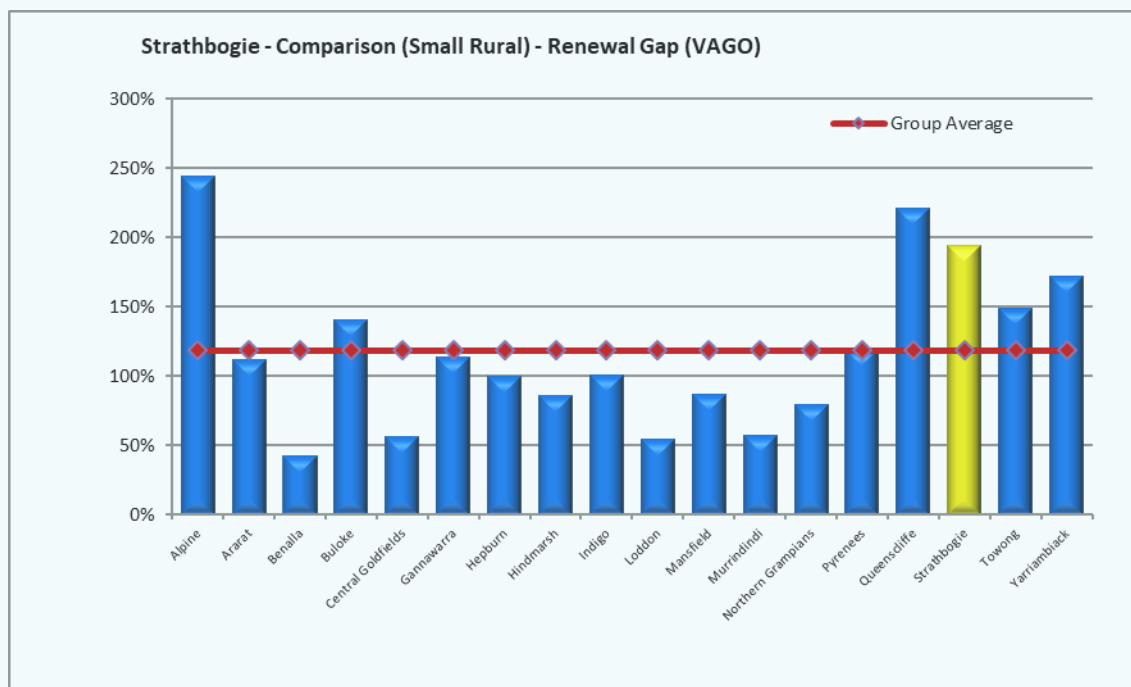


Chart 8: Renewal Gap

This Chart shows that Council is funding its “renewal gap” or renewing its assets at the optimal time.

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

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

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

4.8 Conclusion

Council’s priorities for the 2020/21 financial year as regards Asset Management are:

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

Strategic Direction

1. That Strathbogie Shire Council, having established its critical renewal investment levels, maintains detailed *Asset Management Plans* (focused on renewal demand) for all classes of Council assets incorporating service level assessments.
2. That Strathbogie Shire Council, as part of the development of its *Service Plans*, consults with the community to determine how service levels will be reached including a combination of improved revenue raising, review of existing service levels, asset disposal and composition of the asset portfolio.
3. That Strathbogie Shire Council adopts as policy the annual allocation of funds to meet 100 per cent of the communities infrastructure renewal needs before it elects to upgrade or construct new assets.

5. BORROWING STRATEGIES

This section includes:

- Assessment of Council's current debt position
- Borrowing Program going forward

5.1 Assessment of Council's current debt position

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

The following factors are seen as important issues for deliberation by Council:

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

The table below highlights the relative debt levels of Councils within the Small Rural grouping at 30 June 2019. Council's relative debt level is also shown. By comparing a number of different debt ratios within the Council grouping, Strathbogie Shire Council can begin to consider what level of debt is appropriate.

The table below confirms that Strathbogie Shire Council is currently better than average and better than the median across all of the debt indicators within the Small Rural grouping.

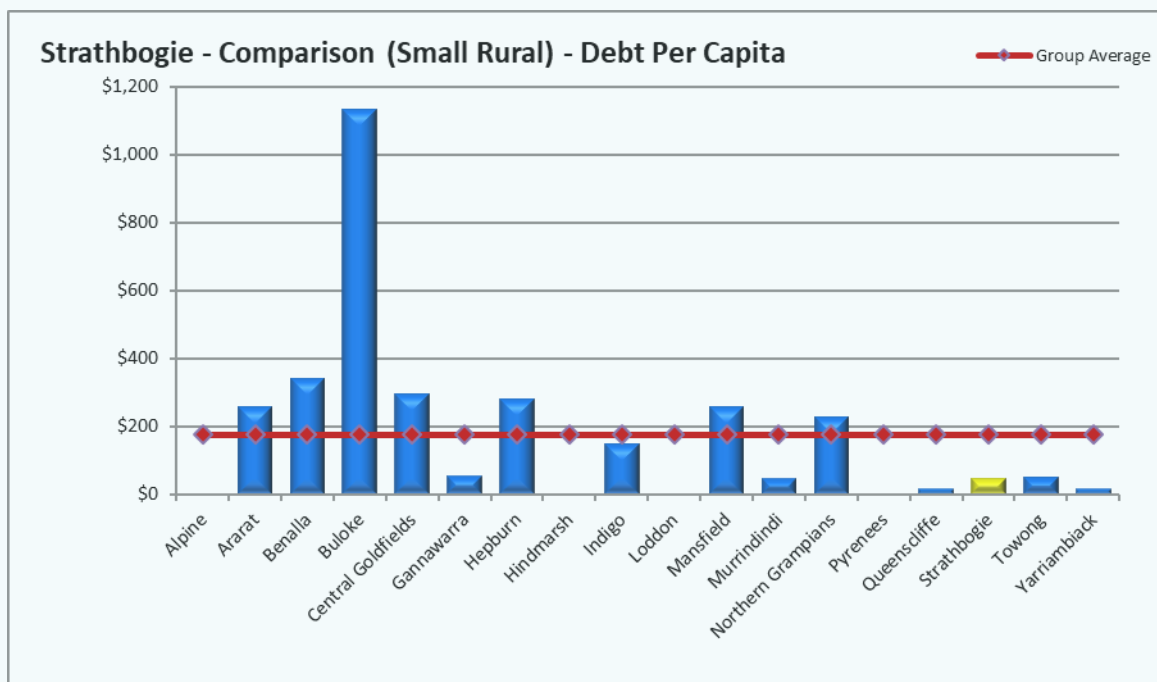


Chart 9: Comparison of Total Debt Levels within Small Rural Group 2018/19

In terms of total debt levels, Council is below the average with the Small Rural grouping, refer to Chart 9.

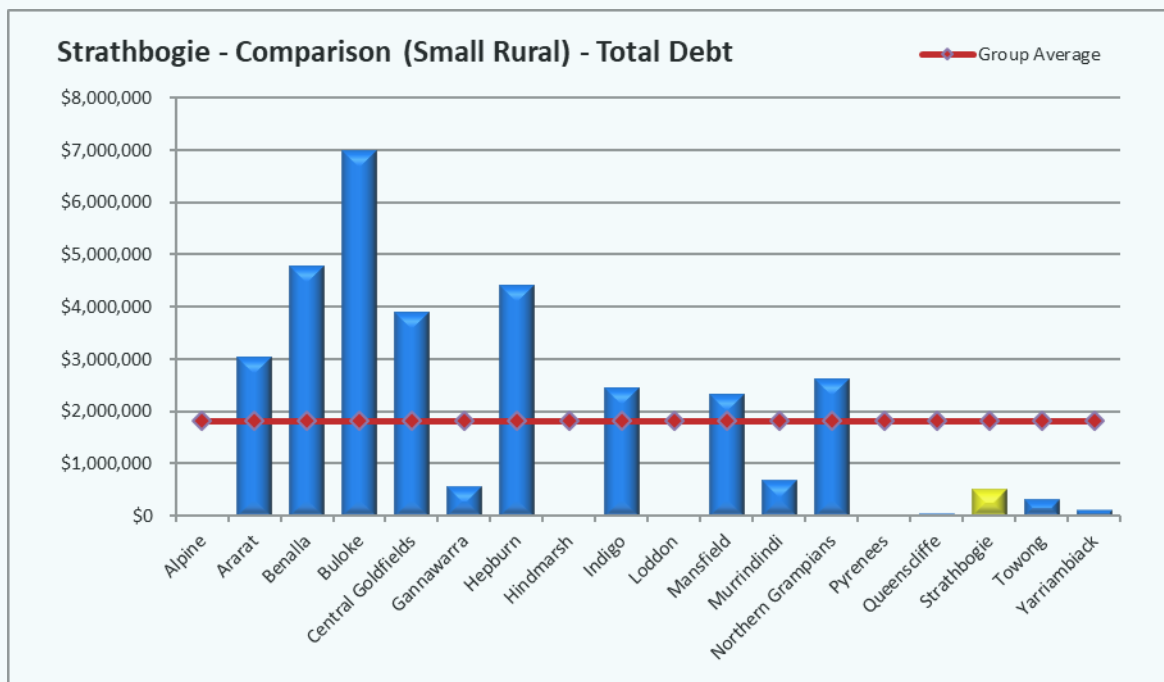


Chart 10: Comparison of Total Debt Levels within Small Rural Group 2018/19

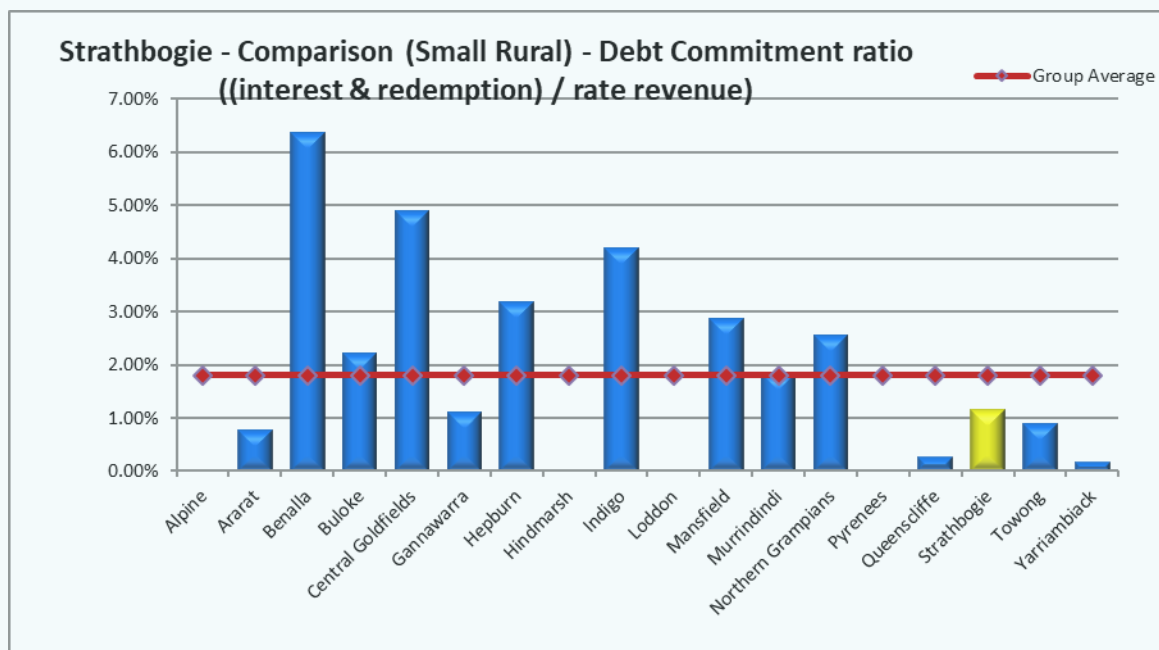


Chart 11: Debt Servicing & Redemption / Rate Revenue – 2018/19

5.1.1 Debt Management

How measured Total debt as a percentage of rate revenue

Threshold 80 percent or below

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

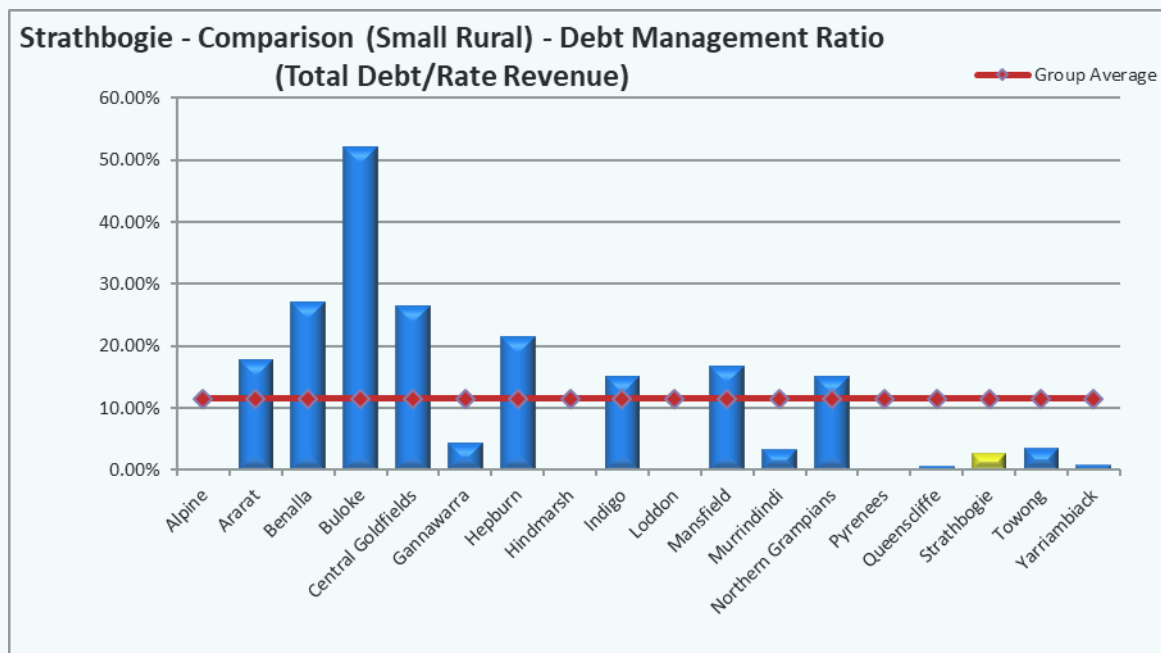


Chart 12: Total Debt as a Percentage of Rate Revenue – 2018/19

Strathbogie Shire Council’s debt as a percentage of rate revenue as at June 30, 2019 was 2.65 percent, which is well below the 80 percent benchmark and well below the Small Rurals average.

5.1.2 Debt Servicing

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

Threshold 5 percent or below

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

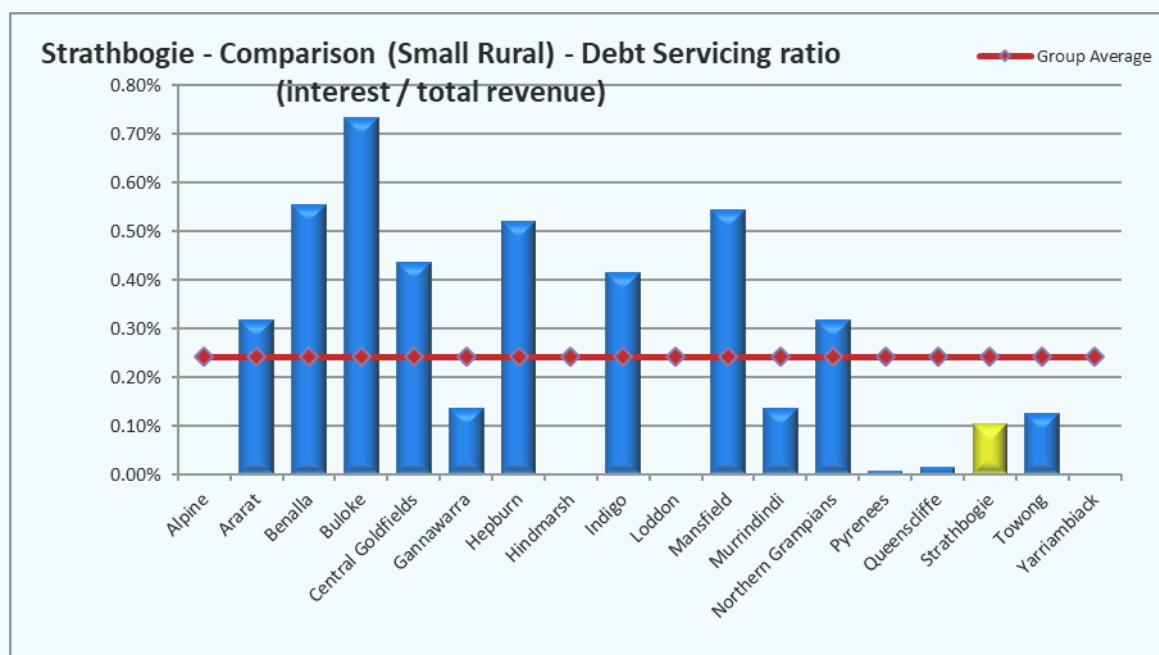


Chart 13: Debt Servicing Ratio (Interest / Total Revenue) – 2018/19

The Strathbogie Shire Council's projected ratio was .10 percent at 30 June 2019, which is below both the state and Small Rural's average and the 5 percent benchmark.

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

5.2 Borrowing Program going forward

From the foregoing data it is clear that Council has a very low level of debt and has the capacity to borrow funds for projects it considers necessary.

The Violet Town Landfill has been closed for some years and requires rehabilitation in accordance with EPA requirements.

Estimates of cost are in the range of \$5 million and in order to preserve funds for other projects Council proposes to fund this rehabilitation from a loan over 15 years at an interest rate estimated at 2% per annum.

Funding is provided in the 2020/21 Operating Budget for detailed design and costing with borrowings proposed to be taken up at the end of the 2020/21 financial year.

This should have limited impact on Council's liability position as a provision currently exists in Council accounts of \$ 5.57 million at 30 June 2019 so the cash from the loan will allow for the carrying out of the works and a reduction in the provision as the liability will no longer exist.

In considering borrowings it is necessary to review the impact on various ratios.

Council's current and projected performance on a number of the financial indicators which are shown below together with recommended indicators.

Area	Financial Indicator	Rec Max	20/21	21/22	22/23	23/24
Debt Servicing	Debt Servicing Costs as a % of Total Revenue	5%	.06%	.34%	.31%	.26%
Debt Commitment	Debt Servicing and Redemption Costs as a % of Rate Revenue	10%	.71%	2.36%	2.32%	2.24%
Non Current Liabilities/Own Source Revenue	Less than 25 = Low risk 40 - 60 = Medium	<25 low risk 40-60 medium	41	26	25	24

Table 8: Indicators after borrowings 2020/21

The figure of 41 in 2020/21 reflects existence of both the provision and the loan with the provision dropping the following year.

6. RESTRICTED ASSETS

6.1 Introduction

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

This section includes:

- Nature and purpose of restricted assets

6.2 Nature and Purpose of Restricted Assets

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

The 2020/21 Strategic Resource Plan is framed around having sufficient cash reserves to cover restricted assets which are primarily developer open space contributions, long service entitlements and grant funding.

Strathbogie Shire Council also generally provides for at least \$3 million to \$4 million in working capital to meet day to day needs.

6.2.1 Developer Contributions

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

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

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

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

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

6.2.2 Waste Strategy

Council aims to cover the costs of waste management including collection and disposal as well as Transfer station and landfill operations from user fees and waste charges . In addition Council has a provision for landfill rehabilitation.

6.2.3 Unexpended Grants

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

6.2.4 Notional Reserves, Amounts held in Trust

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

Restricted Assets	Estimate 30 June 2020 \$000's
Unexpended Capital Works	4,966
Amounts held in Trust	685
Total	5,651

Table 9: Restricted Assets – 2020/21

Strategic Direction

1. That Strathbogie Shire Council builds into its 10 year financial plan the estimated movements in restricted assets and provides for at least \$3 million to \$4 million in working capital to meet day to day needs.
2. That to ensure sufficient funds are available to meet operational needs, Strathbogie Shire Council retains a cash position of at least \$3 million to \$4 million after deducting restricted assets, i.e. cash received but not spent or cash to be spent for specific purposes such as developer contributions (infrastructure), waste facility development, security deposits etc.

7. RATING AND OTHER REVENUE STRATEGIES

7.1 Introduction

This section includes:

- Valuations;
- Components of Strathbogie Shire Council's rating base;
- Background to present rating system;
- Rates Affordability;
- Rating Strategy;
- Rate Capping;
- Rating Strategy 2020/21;
- Waste services;
- Grant revenue;
- Victoria Grants Commission; and
- Fees and charges revenue.

7.2 Valuations

Valuations are conducted under the provisions of the *Valuation of Land Act (1960)* with each separate occupancy on rateable land computed at its net annual value (NAV), capital improved value (CIV), and site value (SV).

Valuations are carried out using *Valuation Best Practice Principles* as set down by the State Government Valuer General. In Strathbogie Shire Council, general valuations are required annually to ensure a common date is used for all valuations. Data on every property is recorded and used by the appointed valuer, along with sales, rentals and other information to determine the valuations.

A general valuation (revaluation) establishes the value of a property relative to all other properties, that is, its market relativity. Valuations form the basis of Strathbogie Shire Council's rating system; therefore, their accuracy is of paramount importance. The 2019 revaluation was undertaken based on property values at 1 January 2020.

The revaluation does not in itself raise the total rate income for Strathbogie Shire Council, as the rates are distributed based on the property value of all properties across the municipality. As a result of the revaluation, some property owners may pay more in rates and others less, depending on their new property valuation, relative to others.

7.2.1 Definitions of valuations

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

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

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

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

7.2.2 Supplementary valuations

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

- construction of a new dwelling or building;
- subdivision of a property; or
- consolidation of properties

Strathbogie Shire Council presently undertakes this task on a monthly basis.

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

7.3 Components of Council's Rating Base

Strathbogie Shire Council levies differential rates and annual service charges to raise its annual rates and charges revenue.

The legislative basis of how they apply to Strathbogie Shire Council are available upon request:

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

7.4 Assessment of Current Rating Levels

Comparing the relativity of rating levels between Councils can be a difficult exercise due to debate over the most appropriate methods to use and the inability to take into account the intricacies of rating structures in different councils.

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

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

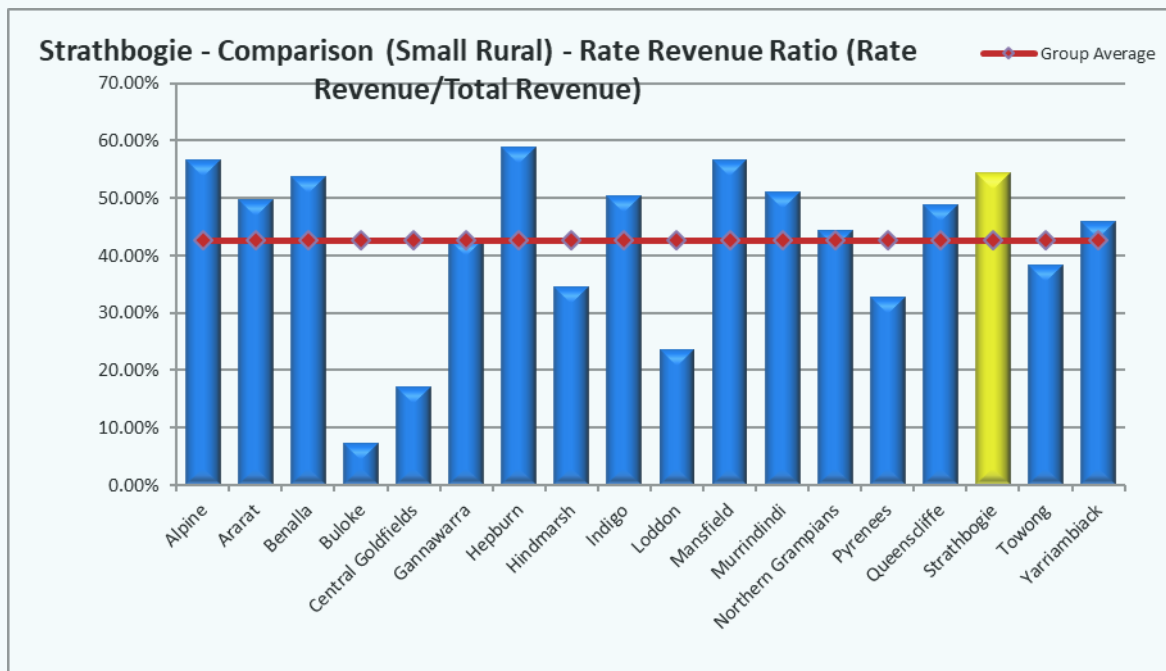


Chart 14: Rates as % of Total Revenue– 2018/19

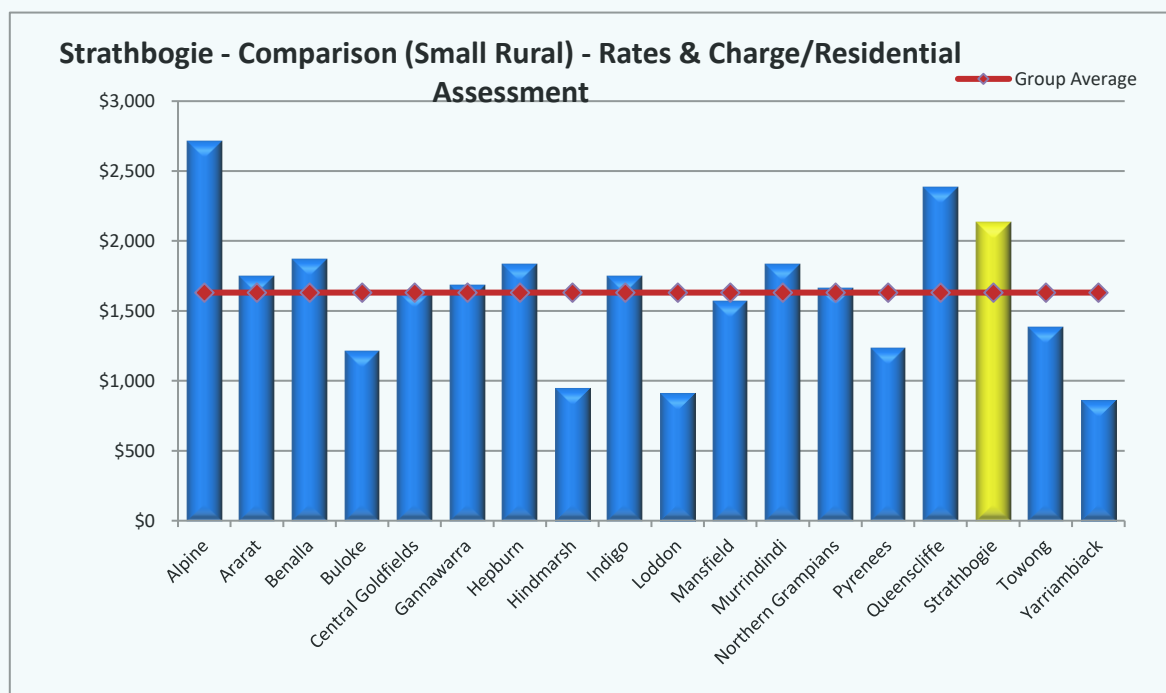


Chart 15: Rates & Charges per Residential Assessment – 2018/19

On a rates per residential assessment Strathbogie Shires rating effort is approximately \$503 above the average of the benchmark group.

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

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

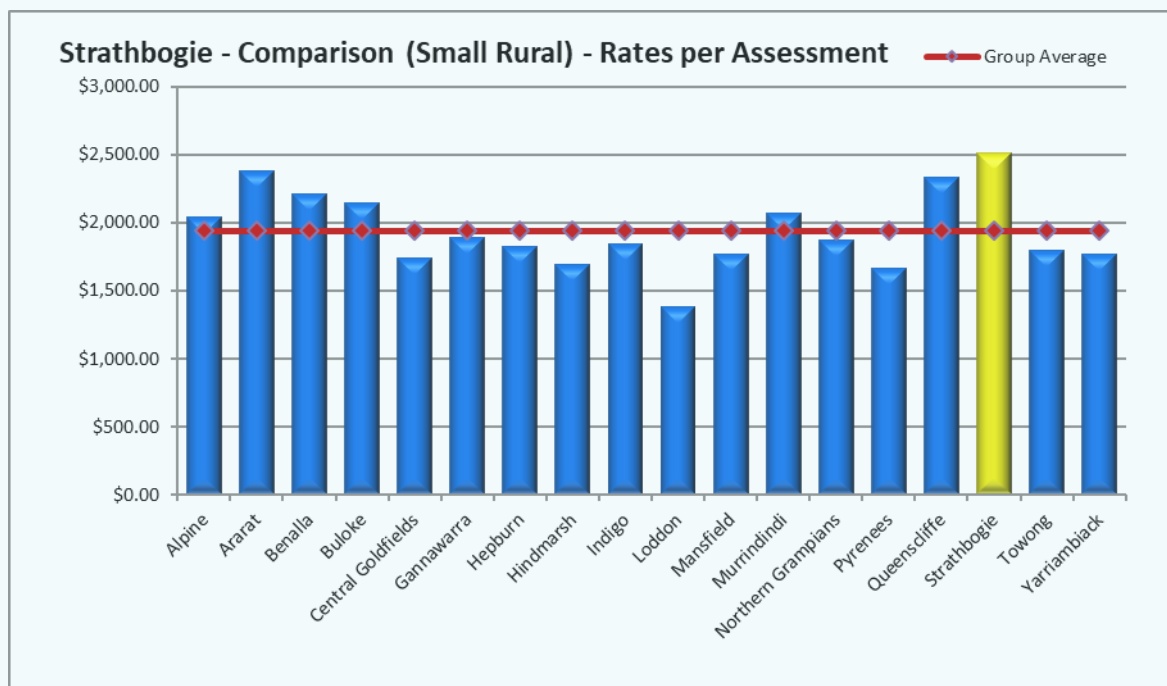


Chart 16: Rates Per Assessment – 2018/19

On rates per assessment basis in the 2018/19 financial year, Strathbogie Shire Council was above average for the Small Rural group.

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

Council's rate effort is similar to those in the Small Rural Council category , as shown in Chart 17 below.

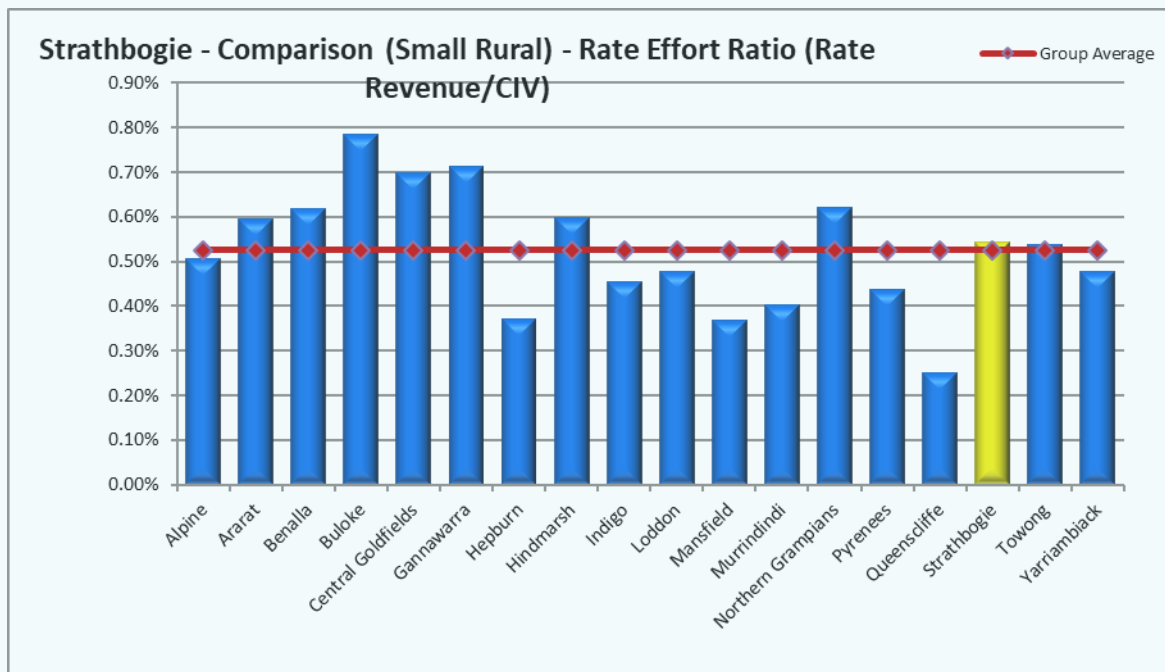


Chart 17: Rate Effort Ratio – 2018/19

7.5 Background to the Present Rating System

Prior to dealing with the rating strategy, it is important to have a broad knowledge of the present rating structure and trends. The following tables summarises the rates in dollar levied in the 2019/20 year including a comparison with 2020/21:

Differential Rate Type	Cents in/\$ CIV 2019/20	Cents in/\$CIV 2020/21	Change (%)
Rateable Residential Properties	.0050194	.0052181	3.95
Rateable Farm Properties	.0040155	.0041745	3.95
Rateable Commercial/Industrial Properties	.0060232	.0062617	3.95
Rateable Vacant Commercial/Industrial Properties	.0105407	.0109581	3.95
Rateable Vacant Residential Land	.0087831	.0091317	3.95

Table 10: Rates and Charges Annualised - 2020/21

The table below outlines the total rates and charges for 2019/20 and 2020/21;

Description	Total Annualised 2019/20 (\$)	Total 2020/21 (\$)	Change (%)
General Rates	16,245,000	17,477,000	7.58*
Municipal Charges	921,000	0	-100*
Waste Service Charges	2,678,000	2,814,000	5.27
Total Rates and Charges Revenue	19,844,000	20,291,000	2.25

Table 11: Rates and Charges 2019/20 as compared to 2020/21

- *Reflects removal of Municipal Charge

7.6 Rates Affordability

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

Strathbogie Shire Council's rating effort has been satisfactory and when benchmarked was above the average effort of the Small Rural group.

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

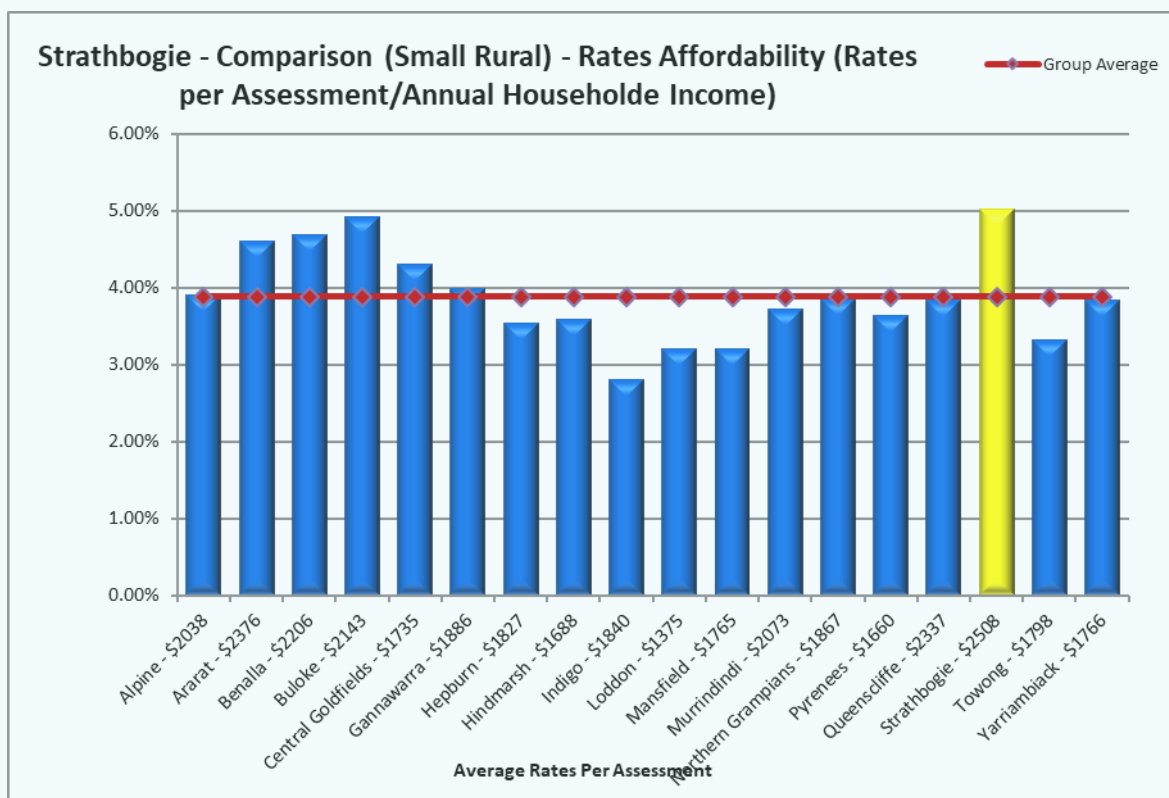


Chart 18: Rates Affordability Small Rural – 2018/19

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

7.7 Rating Strategy

Strathbogie Shire Council’s rating strategy establishes a framework by which rates and charges will be shared by the community. In developing a long-term financial plan, rates and charges are an important source of revenue.

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

The total money to be raised is taken from Strathbogie Shire Council’s long-term financial plan.

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

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

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

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

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

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

Appendix C details the rating principles in more detail.

Council has reviewed current rating differentials, and is proposing to discontinue the Municipal charge.

No change is proposed to Differential rates or the structure of Service Charges.

Removal of the Municipal Charge will cause some redistribution of the rate burden with a benefit to lower valued properties.

The following table summarises the effect on the rate in the dollar of proposed changes to the rating structure.

	Current Structure	Municipal Charge \$133, Farm Differential 82.5%, Tree Management Charge 2019/20	No Municipal Charge, Farm Differential 80%, Tree Management Charge 2020/21
Rateable Residential Properties	Y	.0050194	.0052181
Vacant Land Residential properties	Y	.0087839	.0091317
Rateable Farm Properties	Y	.0040155	.0041745
Rateable Commercial/Industrial Properties	Y	.0060232	.0062617
Vacant Land Commercial/ Industrial Properties	Y	.01054	.0109581
Municipal Charge	Y	133	0
Tree Management Charge	Y	28	29

Table 12: Summary rate in the dollar – proposed changes rating structure

The Council believes the use of this Rating Strategy provides a more equitable distribution of the rate and charge burden across the various property types and categories.

7.8 Rates and Charges Budget – 2020/21

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

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

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

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

Council makes a further distinction within the property value component of rates based on the purpose for which property is used; that is, whether the property is used for residential, commercial, industrial, farming or a social purpose such as public housing or recreation.

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

Council's current rating structure comprised of five differential rates (Residential , Residential Vacant, Farmland, Commercial/Industrial and Commercial/Industrial Vacant).

The vacant land residential rate is set at 175% of the residential rate and the vacant commercial rate is set at 210% of the residential rate , whilst the commercial/industrial rate is set at 120% of the residential rate. The Farm Rate will be set at 80% of the Residential rate.

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

First Home Buyers

Council intends to grant a rebate of two years rates to each owner who qualifies for the Victorian Government First Home Owners Grant, on the following basis:

- Proof of approval for State First Home Buyers Grant (\$20,000) to be provided
- Council will excuse the rates for a period of two years from commencement of the first full financial year in which the rates are payable by the new owner.

Home Buyers will qualify :

- For a newly built home sold for the first time – applied from the date of contract of purchase
- For a house and land package –applied from date of contract of purchase
- For a vacant block which new home is to be built – applied from the date of contract to build house
- Maximum value of property is \$750,000

Pensioners

Rebates and concession are granted to pensioners who qualify under the Victorian State Concessions Act .

Elloura

In addition Council grants a rebate to each owner of rateable land within the Elloura development who qualify under the Owners Corporation Agreement in recognition of services being provided within the development not requiring Council resources. This is subject of an agreement between Council and Elloura.

7.9 Rate Capping

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

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

The Minister for Local Government has advised that a capped average rate increase of 2.00 per cent will apply for 2020/21 financial year

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

7.10 Waste Service Charges – Waste Collection Service and Tree Management Program

Strathbogie Shire Council is empowered under Section 162(1) (b) of the *Local Government Act (1989)* to levy a service charge for the collection and disposal of refuse. The purpose of this charge is to meet the costs of waste disposal and recycling activities throughout the Strathbogie Shire area, including the operating costs of Landfills and Transfer Stations as well as providing for important tree management activities including disposal of material. Strathbogie Shire Council has typically used this option through the raising of garbage and recycling charges on the annual rate assessment.

Strathbogie Shire Council's Waste Services includes:

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

Strathbogie Shire Council's garbage proposed charges are as described below (denotes ex GST). A total income of \$2.81 million will be received for waste and recycling services in 2020/21 to support recurrent operating expenditure).

Service Charge	Charge per Service 2019/20 (\$)	Charge per Service 2020/21 (\$)	Change (\$)	Change (%)
Kerbside Collection 80 litre	375	383	8	2.13
Kerbside Collection 120 litre	375	383	8	2.13
Kerbside Collection 240 litre	750	765	15	2.00
Recycling 120 litre	178	181	3	1.69
Recycling 240 litre	178	181	3	1.69
Recycling 360 litre	178	181	3	1.69
Kerbside/Recycling/Organics	552	563	11	1.99
Kerbside/Organics	375	383	8	2.13
Tree Management	28	29	1	3.57

Table 13: Projected Waste Charges – 2020/21

7.11 Grant Revenue

As at 30 June 2019 Strathbogie Shire Council was below average in terms of receiving recurrent government grant revenue, compared to its like Council grouping as outlined in the graph below.

As a benchmark Strathbogie Shire Council receives 17.8 percent of its revenue (as a percentage of total revenue) from recurrent operating grants compared to the average of Small Rurals at 20.4 percent. Some years ago Council reauspiced its Home and Community Care program while some some councils still continue to provide this service and receive income from grants for this program.

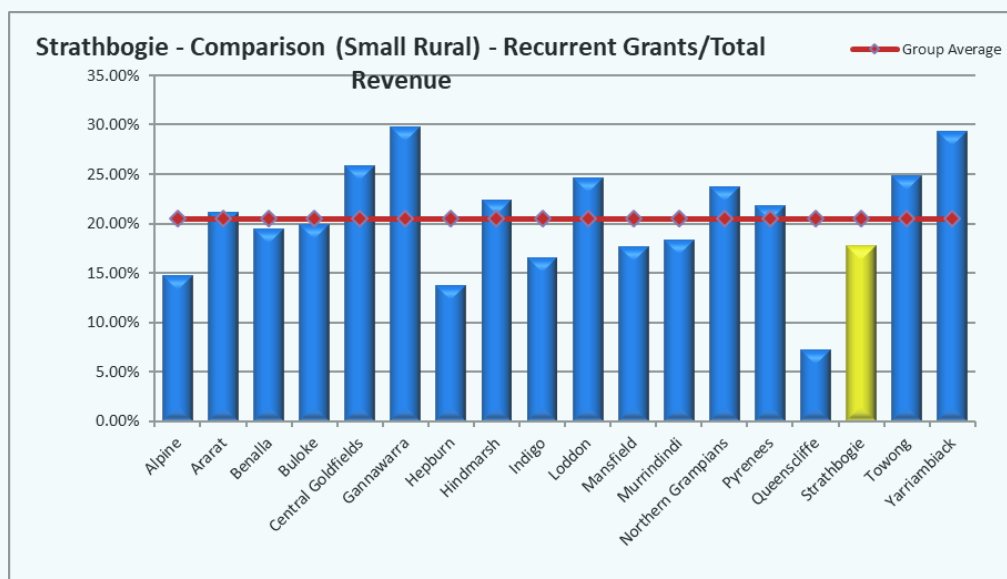


Chart 19: Recurrent Grants/Total Revenue – 2018/19

Strathbogie Shire Council must continue its strong focus on securing grant revenue, particularly for capital works. Grants (capital and operating) at 30 June 2019 totalled \$12.716 million. With a longer term capital works program in place Strathbogie Shire

Council should be able to target and focus on grants that align with its overall strategic direction.

7.12 Victoria Grants Commission

Strathbogie Shire Council receives approximately 17 percent of its revenue from the Victoria Grants Commission.

7.13 Fees and Charges Revenue

Strathbogie Shire Council's fees and charges revenue as a percentage of its total revenue is below average for Small Rurals as outlined in the graph below. Some years ago Council re-auspiced its Home and Community Care program while some councils still continue to provide this service and receive income from fees for this program. There is scope for Strathbogie Shire Council to review fees and charges to ensure maximum return for service.

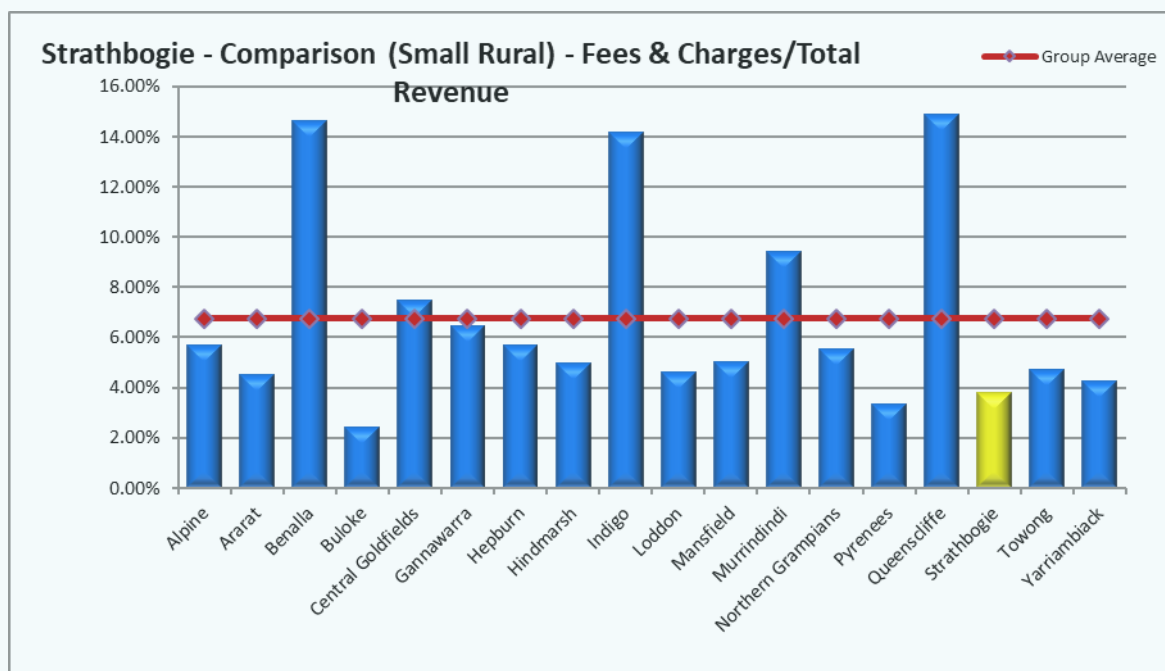


Chart 20: Fees & Charges/Total Revenue – 2018/19

Strategic Direction

That **Strathbogie Shire Council**;

1. retains capital improved value (CIV) as its valuation base;
2. no longer levy a Municipal Charge;
3. considers future increases in tree and waste management charges based on EPA, regulatory and safety requirements, to cope with challenges in recycling markets and the need to sustain the Council's long term waste operations strategy;
4. in 2020/21, adopts an percent capped average rate increase of 1.9 % for general rates (excluding supplementaries) and a 2.0 percent increase in waste collection charges including funding the cost of disposal of domestic waste, recycling collection and the tree management levy;

5. pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other Councils; and
6. undertakes detailed analysis on the level of existing fees and charges and investigates new revenue sources and report recommendations to Council.

8. STRATEGIC FINANCIAL PLAN

8.1 Introduction

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

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

This section includes:

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

8.2 Modelling Methodology

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

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

8.3 Financial Assumptions

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

8.3.1 Labour and on-costs

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

Year	2020/21	2021/22	2022/23
	%	%	%
Enterprise agreement	1.5	1.7	1.7
Award Increments	.75	.75	.75
Total	2.25	2.45	2.45

Table 14: Labour and on-costs – 2020/21

8.3.2 Depreciation

Depreciation estimates are based on the projected capital spending contained within each assumption. Depreciation estimates are influenced by future asset revaluations and depreciation expenses are assessed following condition assessments. The overall depreciation charge is also impacted by the amount of assets granted to the municipality following subdivision.

8.3.3 Materials and contracts

These materials are essentially one-off expenditures that do not constitute the creation of an asset and have been maintained at 2019/20 levels through the life of the SRP.

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

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

8.3.4 Special projects/consultancies

These works are essentially one-off expenditures that do not constitute the creation of an asset and have been maintained at 2019/20 levels through the life of the SRP.

8.3.5 Debt servicing and redemption

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

8.3.6 Written-down values of assets sold

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

8.3.7 Rate revenue

The 2020/21 Budget is based on an increase of 1.9% in the average rate per property and removal of the municipal charge and retaining existing differentials.

Council's Rating Strategy is dealt with in detail in Section 9.7.

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

8.3.8 Service charges

The 2020/21 Budget is based on a 2.0 percent increase in Waste and service charges.

Funds raised are ultimately deployed to waste management (operating and capital) activities. This is discussed in Section 9.10 in more detail.

8.3.9 Grant revenue

An allowance of \$6.396 million has been made as operating grant revenue for services and projects in 2020/21. In broad terms, a 2-3 percent per annum increase has been allowed for operating grants reflecting the nature of this revenue type, which has seldom increased by CPI across the board.

8.3.10 User Fees

Fees and charges that Council has discretion over have been increased by 3.0 percent per annum. Fees and charges of \$.625 million have been provided for in 2020/21.

8.3.11 Statutory Fees and Fines

Council has no control over a large amount of statutory fees prescribed by the State Government. Fines include town planning, local laws and the animal pound. Fees and fines are included in the above. \$.494 million is budgeted from this source. This is a reduction on the previous year as Council proposes to set fees for Registered premises (cafes, hairdressers etc) at zero in an effort to assist with the current difficult economic times. (Revenue approx. \$90,000)

8.3.12 Interest on investments

Interest on investments has been estimated based on cash flow.

8.3.13 Proceeds from sale of assets

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

8.3.14 Capital grants

Capital grant revenue is \$3.674 million in 2020/21, with revenue from future years estimated to fund future capital works.

Capital grants have been forecast conservatively. Funds raised above or below the forecast amount will directly impact on the level of capital expenditure achievable. While conservative amounts have been included, it should be noted that Council does not pursue part-funded capital works that do not fit with its strategic direction.

8.3.15 Granted assets

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

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

However, estimates beyond 2020/21 are not based on any reliable data at this point. While granted assets add to Council's overall asset base, they also add to the future obligations to maintain and replace these assets at the end of their useful lives.

8.3.16 Capital expenditure

Capital expenditure amounts for new assets, local roads, buildings and information technology (renewal), and the like and have been directly budgeted for during the next 4-years. The balance of capital expenditure has been left unallocated at this point.

These funds may be available for capital renewal (priority), capital upgrade or expansion.
Conclusion

The SRP continues to provide a financial framework for Council, enabling an assessment of Council resources and assisting Council to plan and fund capital infrastructure and meet future community aspirations.

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

9. APPENDIX A: GLOSSARY OF TERMS

TERM	DEFINITION
Act	The <i>Local Government Act 1989</i> .
Activities	The operations of the council including services undertaken to meet the needs of the community as reflected in the council plan and are generally ongoing in nature.
Adjusted operating surplus/deficit	Operating surplus/deficit less revenue from capital (non-recurrent) grants, developer contributions (i.e. assets contributed), asset revaluations, sale of assets plus expenditure from asset revaluations, WDV of assets sold and unfunded superannuation expense.
Adjusted total operating expenses	Total operating expenses as per the “Statement of financial performance” – net of asset revaluations, unfunded superannuation expense and WDV of asset sold.
Adjusted total revenue	Total revenue from “Statement of financial performance” – net of asset sales, asset contributions in kind. Capital grant funding and revaluation adjustments.
Annual report	A report of the council’s operations of the previous financial year and contains a report of operations, audited financial statements and an audited performance statement.
Australian Accounting Standards	The accounting standards published by the Australian Accounting Standards Board.
Average Rate Cap	Means an amount expressed as a percentage amount, based on the change to CPI over the financial year to which the cap relates, plus or minus any adjustment.
Borrowings	Loan funding.
Budget	A plan setting out the services and initiatives to be funded for the financial year and how they will contribute to achieving the strategic objectives specified in the council plan.
Capital works expenditure	Expenditure on non-current assets and includes new assets, asset renewal, asset expansion and asset upgrades.
Council cash	Funding from council’s own sources of income. Example include rates, charges, investments and reserves, interest and asset sales.
Council plan	A plan setting out the medium-term strategic objectives, strategies, strategic indicators and

TERM	DEFINITION
	resources reflecting vision and aspirations of the community for the next four years.
Current assets	Total current assets from “Statement of financial position”.
Current liabilities	Total current liabilities from “Statement of financial position”
Debt redemption	Debt principal’s repayments.
Debt servicing costs (interest)	Total borrowing costs or interest expense as per the “Statement of financial performance” or as disclosed in the notes of the council statements.
Details list of planned capital works expenditure	A list of projects in relation to non-current assets by class and expenditure type.
Developer cash contributions	Cash contributions from developers. This does not include in-kind works or developer contributed assets.
Federal grants	Grant funding from the Commonwealth government.
Fees and charges revenue	Total fees and charges revenue as per the “Statement of financial performance” or as disclosed in the notes of the council statements (includes fines).
Financial performance indicators	A set of indicators measuring the effectiveness of financial management in a council covering operating position, liquidity, obligations, stability and efficiency.
Financial resources	Income, expenditure, assets, liabilities, equity, cash and capital works required to deliver the services and initiatives in the budget.
Financial statements	The financial statements and notes prepared in accordance with the Local Government Model Financial Report, Australian Accounting Standards and other applicable standards as they apply to the general purpose financial reports and a statement of capital works and included in the annual report.
Financial year	The period of 12 months ending on 30 June each year.
General Order	Means an order made by the Minister under section 185D of the Act.
Grant income and reimbursements	Total grants revenue as per the “Statement of financial performance” or as disclosed in the notes of the council statements (includes VicRoads sometimes shown as “reimbursements” by some councils).

TERM	DEFINITION
Granted assets	Total value of assets received from developers (in kind) as per the “Statement of financial performance” or as disclosed in the notes of the council statements.
Higher cap	An amount expressed as the average rate cap specified in a general order plus an additional percentage amount in respect of that financial ear.
Human Resources	The staff employed by a council.
Indicator	What will be measured to assess performance.
Initiatives	Actions that are one-off in nature and/or lead to improvements in service.
Interest earnings	Total interest received as per the “Statement of financial performance” or as disclosed in the notes of the councils statements.
Local Government Model Financial Report	The model report published by the department of Environmnet, Land, Water and Planning
Major initiatives	Significant initiatives that will directly contribute to the achievement of the council plan during the current year and have a major focus in the budget.
Measure	How an indicator will be measured and typically includes a numerator and denominator.
Minister	The Minister for Local Government.
Model Budget	The <i>Victoiran City Council Model Budget</i> prepared annually by the Chartered Accountants in Australia and New Zealand.
No. of rateable properties	Number of rateable properties in municipality.
Non-current liabilities	Total non-current liabilities from “Statement of financial position”.
Non-financial resources	The resources other than financial resources required to deliver the services and initiatives in the budget.
Non-recurrent grant	A grant obtained on the condition that it be expended in a specified manner and is not expected to be received again during the period covered by a council’s strategic resource plan.
Philanthropic or private contributions	Funding from philanthropic or private sources. An example would be a co-contribution by the private sector towards construction of a community asset.
Performance statement	A statement including the results of the prescribed service outcome indicators, financial performance indicators and sustainable capacity indicators for the financial year and included in the annual report.

TERM	DEFINITION
Planning and accountability framework	The key statutory planning and reporting documents that are required to be prepared by councils to ensure accountability to local communities in the performance of functions and exercise of powers under the Act.
Proceeds from sale of non-current assets	Total proceeds from asset sales as per the “Statement of financial performance” or as disclosed in the notes of the council statements, (gross received not written-down value).
Rate revenue	Total rate revenue as per the “Statement of financial performance” or as disclosed in the notes of the council statements.
Rates outstanding at end of year	Rate debtor amount as disclosed in “Receivables” note.
Recurrent grant	A grant other than a non-recurrent grant.
Regulations	The Local Government (Planning and Reporting) Regulations 2014.
Report of Operations	A report containing a description of the operations of the council during the financial year and included in the annual report.
Services	Assistance, support, advice and other actions undertaken by a council for the benefit of the local community.
Special order	An order made by the ESC under section 185E of the Act.
State grants	Grant funding from the State government.
Strategic objectives	The outcomes a council is seeking to achieve over the next four years and included in the council plan.
Strategic resource plan	A plan of the financial and non-financial resources for at least the next four years required to achieve the strategic objectives in the council plan. It also referred to as a long term financial plan.
Strategies	High level actions directed at achieving the strategic objectives in the council plan.
Statement of capital works	A statement which shows all capital expenditure of a council in relation to non-current assets and asset expenditure type prepared in accordance to the model statement of capital works in the Local Government Financial Report.
Statement of human resources	A statement which shows all council staff expenditure and numbers of full time equivalent council staff.

TERM	DEFINITION
Statements of non-financial resources	A statement which describes the non-financial resources including human resources.
Summary of planned capital works expenditure	A summary of capital works expenditure in relation to non-current assets classified according to the model statement of capital works in the <i>Local Government Model Financial Report</i> , by asset expenditure type and funding source.
Summary of planned human resources expenditure	A summary of permanent council staff expenditure and numbers of full time equivalent council staff categorised according to the organisational structure of the council.
Total assets	Total assets from “Statement of financial position”.
Total capital asset outlays	Payments for capital purchases per the “Cash flow statement”.
Total cash inflows from operations, finance and Investment Act	Total inflows per the “Cash flow statement”.
Total cash outflows from operations, finance and Investment Act	Total outflows per the “Cash flow statement”.
Total depreciation	Total depreciation expense as per the “Statement of financial performance” or as disclosed in the notes of the council statements.
Total depreciation on infrastructure assets	Total depreciation on infrastructure assets as disclosed in the “Depreciation expense” note.
Total debt	Total interest bearing liabilities (current and non-current) from “Statement of financial position”.
Total indebtedness	Total liabilities (current and non-current) from “Statement of financial position”.
Total infrastructure assets	Total infrastructure assets from “Statement of financial position” or as disclosed in the note (Written-down value). Infrastructure includes roads, bridges, drains, road structures, other structures, playground equipment, and other like categories. Heritage assets have been deemed to be building assets. Work in progress, where not separately split, and have been included as infrastructure.
Total net realisable assets	Total assets less total infrastructure assets.
Total operating expenses	Total operating expenses as per the “Statement of financial performance”.
Total revenue	Total revenue from “Statement of financial performance”

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

Table 15: Glossary of Terms / Definitions

10. APPENDIX B: FINANCIAL STATEMENTS

This Appendix contains the financial statements that follow:

- Comprehensive Income Statement
- Balance Sheet
- Statement of Changes in Equity
- Statement of Cash Flows
- Statement of Capital Works
- Statement of Human Resources
- Financial Performance Indicators

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

The Regulations commenced on 18 April 2014.

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

10.1 Comprehensive Income Statement

Figure 2: Comprehensive Income Statement

For the four years ending 30 June 2024	Forecast	Budget	Strategic Resource Plan Projections					2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual		2020/21	2021/22	2022/23	2023/24							
	2019/20		\$'000	\$'000	\$'000	\$'000	\$'000						
Income													
Rates and charges	19,844	20,290	20,696	21,110	21,532	21,963	22,402	22,850	23,307	23,773	24,248		
Statutory fees and fines	525	494	604	622	641	660	680	700	721	743	765		
User fees	791	602	626	651	677	704	732	762	792	824	857		
Grants - Operating	3,554	6,396	6,584	6,791	7,007	7,204	7,427	7,652	7,880	8,115	8,359		
Grants - Capital	5,966	3,674	3,248	2,574	3,049	2,349	2,199	2,199	2,199	2,199	2,199		
Contributions - monetary	492	275	314	324	333	343	354	364	375	386	398		
Contributions - non-monetary	-	-	-	-	-	-	-	-	-	-	-		
Net gain/(loss) on disposal of property, infrastructure,	(567)	(324)	(617)	(643)	(600)	(631)	(600)	(600)	(600)	(600)	(600)		
Net gain/(loss) on disposal of investment property	-	-	-	-	-	-	-	-	-	-	-		
Net gain/(loss) on disposal of intangible assets	-	-	-	-	-	-	-	-	-	-	-		
Share of net profits/(losses) of associates and joint ve	-	-	-	-	-	-	-	-	-	-	-		
Other income	364	424	431	439	447	455	463	471	480	180	180		
Total Income	30,969	31,831	31,887	31,867	33,085	33,047	33,657	34,399	35,154	35,620	36,406		
Expenses													
Employee costs	(9,906)	(10,494)	(10,929)	(11,202)	(11,478)	(11,767)	(12,075)	(12,380)	(12,693)	(13,014)	(14,489)		
Materials and services	(12,348)	(12,545)	(12,224)	(12,438)	(12,656)	(13,036)	(13,427)	(13,830)	(14,244)	(14,672)	(15,112)		
Bad and doubtful debts	(1)	(1)	-	-	-	-	-	-	-	-	-		
Depreciation and amortisation	(5,900)	(5,835)	(6,095)	(6,503)	(6,628)	(6,720)	(6,805)	(6,912)	(7,016)	(7,138)	(7,241)		
Borrowing costs	(23)	(20)	(110)	(99)	(88)	(80)	(73)	(67)	(61)	(54)	(47)		
Other expenses	(489)	(556)	(575)	(591)	(607)	(624)	(641)	(659)	(677)	(696)	(715)		
Total Expenses	(28,667)	(29,451)	(29,933)	(30,833)	(31,457)	(32,227)	(33,021)	(33,848)	(34,691)	(35,573)	(37,604)		
Surplus/(deficit) for the year	2,302	2,380	1,954	1,034	1,629	820	636	550	463	47	(1,198)		

10.2 Budgeted Balance Sheet

Figure 3: Balance Sheet

For the four years ending 30 June 2024	Forecast	Budget									
	Actual										
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets											
Current assets											
Cash and cash equivalents	11,165	10,261	5,872	6,134	7,214	8,068	9,177	8,841	9,159	8,129	6,356
Trade and other receivables	2,803	2,132	2,214	2,214	2,289	2,294	2,334	2,385	2,430	2,469	2,522
Other financial assets	-	-	-	-	-	-	-	-	-	-	-
Inventories	5	5	5	5	5	5	5	5	5	5	5
Non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-
Other assets	113	113	113	113	113	113	113	113	113	113	113
Total current assets	14,086	12,511	8,204	8,466	9,620	10,480	11,629	11,344	11,707	10,715	8,996
Non-current assets											
Trade and other receivables	877	651	651	651	651	651	651	651	651	651	651
Investments in associates and joint ventures	243	243	243	243	243	243	243	243	243	243	243
Property, infrastructure, plant & equipment	299,664	308,227	312,302	312,821	313,045	312,851	312,183	312,865	312,813	313,702	314,747
Investment property	-	-	-	-	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	-	-	-	-	-	-
Landfill rehabilitation intangible asset	-	-	-	-	-	-	-	-	-	-	-
Total non-current assets	300,784	309,121	313,196	313,715	313,939	313,745	313,077	313,759	313,707	314,596	315,641
Total assets	314,870	321,632	321,400	322,181	323,559	324,224	324,706	325,103	325,414	325,312	324,637
Liabilities											
Current liabilities											
Trade and other payables	3,738	3,299	2,437	2,502	2,523	2,604	2,680	2,758	2,830	2,920	3,049
Trust funds and deposits	468	468	468	468	468	468	468	468	468	468	468
Provisions	2,996	3,199	3,969	3,744	3,562	3,322	3,083	2,842	2,607	2,353	2,734
Interest-bearing loans and borrowings	81	385	391	396	307	313	319	325	332	339	346
Total current liabilities	7,283	7,351	7,265	7,111	6,861	6,706	6,549	6,393	6,237	6,081	6,597
Non-current liabilities											
Provisions	4,596	4,420	2,711	3,008	3,314	3,627	3,947	4,276	4,613	4,958	5,312
Interest-bearing loans and borrowings	287	4,903	4,512	4,116	3,810	3,497	3,178	2,853	2,520	2,181	1,835
Total non-current liabilities	4,883	9,323	7,223	7,124	7,124	7,124	7,125	7,129	7,133	7,139	7,147
Total liabilities	12,166	16,674	14,488	14,235	13,984	13,830	13,675	13,522	13,370	13,220	13,744
Net assets	302,704	304,958	306,912	307,946	309,575	310,395	311,031	311,581	312,044	312,091	310,893
Equity											
Accumulated surplus	97,039	99,293	101,247	102,281	103,910	104,730	105,366	105,916	106,379	106,426	105,228
Reserves	205,665	205,665	205,665	205,665	205,665	205,665	205,665	205,665	205,665	205,665	205,665
Total equity	302,704	304,958	306,912	307,946	309,575	310,395	311,031	311,581	312,044	312,091	310,893

10.3 Budgeted Statement of Changes in Equity

Figure 4: Changes in Equity

	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2020/21				
Balance at beginning of the financial year	302,704	97,039	205,665	-
Surplus/(deficit) for the year	2,380	2,380	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	(126)	(126)	-	-
Balance at end of financial year	304,958	99,293	205,665	-
2021/22				
Balance at beginning of the financial year	304,958	99,293	205,665	-
Surplus/(deficit) for the year	1,954	1,954	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	-	-	-	-
Balance at end of financial year	306,912	101,247	205,665	-
2022/23				
Balance at beginning of the financial year	306,912	101,247	205,665	-
Surplus/(deficit) for the year	1,034	1,034	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	-	-	-	-
Balance at end of financial year	307,946	102,281	205,665	-
2023/24				
Balance at beginning of the financial year	307,946	102,281	205,665	-
Surplus/(deficit) for the year	1,629	1,629	-	-
Net asset revaluation increment/(decrement)	-	-	-	-
Transfer (to)/from reserves	-	-	-	-
Balance at end of financial year	309,575	103,910	205,665	-

10.4 Budgeted Statement of Cash Flows

Figure 5: Cash Flows

For the four years ending 30 June 2024	Forecast Actual	Budget	Strategic Resource Plan Projections								
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities											
Rates and charges	19,844	20,290	20,643	21,109	21,484	21,959	22,376	22,816	23,277	23,748	24,213
Statutory fees and fines	525	494	602	622	639	660	679	699	720	742	764
User fees	791	602	624	651	676	704	732	761	791	823	856
Grants - operating	3,554	6,396	6,568	6,791	6,991	7,203	7,419	7,641	7,870	8,107	8,347
Grants - capital	8,266	3,674	3,240	2,574	3,042	2,349	2,196	2,196	2,196	2,197	2,196
Contributions - monetary	492	275	314	324	333	343	354	364	375	386	398
Interest received	170	180	180	180	180	180	180	180	180	180	180
Dividends received	-	-	-	-	-	-	-	-	-	-	-
Trust funds and deposits taken	-	-	-	-	-	-	-	-	-	-	-
Other receipts	194	244	250	259	265	275	282	290	299	(0)	(1)
Net GST refund / payment	1,951	1,600	1,139	1,071	775	753	720	764	817	830	899
Employee costs	(9,906)	(10,494)	(10,757)	(11,065)	(11,335)	(11,617)	(11,918)	(12,216)	(12,521)	(12,834)	(13,695)
Materials and services	(12,348)	(12,545)	(12,176)	(12,438)	(12,656)	(13,035)	(13,428)	(13,829)	(14,244)	(14,672)	(15,046)
Trust funds and deposits repaid	-	-	-	-	-	-	-	-	-	-	-
Other payments	(277)	(304)	(596)	(589)	(606)	(622)	(639)	(657)	(675)	(694)	(712)
Net cash provided by/(used in) operating activities	13,256	10,412	10,032	9,488	9,789	9,151	8,952	9,009	9,086	8,812	8,398
Cash flows from investing activities											
Payments for property, infrastructure, plant and equipment	(13,250)	(16,398)	(14,109)	(8,894)	(8,426)	(8,129)	(7,707)	(9,209)	(8,631)	(9,707)	(10,035)
Proceeds from sale of property, infrastructure, plant and equipment	702	183	183	157	200	219	250	250	250	250	250
Payments for investment property	-	-	-	-	-	-	-	-	-	-	-
Proceeds from investment property	-	-	-	-	-	-	-	-	-	-	-
Payments for intangible assets	-	-	-	-	-	-	-	-	-	-	-
Proceeds from intangible assets	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by/(used in) investing activities	(12,548)	(16,215)	(13,926)	(8,737)	(8,226)	(7,910)	(7,457)	(8,959)	(8,381)	(9,457)	(9,785)
Cash flows from financing activities											
Finance costs	(23)	(20)	(110)	(99)	(88)	(80)	(73)	(67)	(61)	(54)	(47)
Proceeds from borrowings	-	5,000	-	-	-	-	-	-	-	-	-
Repayment of borrowings	(136)	(81)	(385)	(391)	(395)	(307)	(313)	(319)	(326)	(332)	(339)
Net cash provided by/(used in) financing activities	(159)	4,899	(495)	(490)	(483)	(387)	(386)	(386)	(387)	(386)	(386)
Net increase/(decrease) in cash & cash equivalents	549	(904)	(4,389)	261	1,080	854	1,109	(336)	318	(1,031)	(1,773)
Cash and cash equivalents at the beginning of the financial year	10,616	11,165	10,261	5,872	6,134	7,214	8,068	9,177	8,841	9,159	8,129
Cash and cash equivalents at the end of the financial year	11,165	10,261	5,872	6,134	7,214	8,068	9,177	8,841	9,159	8,129	6,356

10.5 Budgeted Statement of Capital Works

Figure 6: Capital Works

For the four years ending 30 June 2024	Forecast	Budget									
	Actual										
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property											
Buildings	3,590	745	63	342	113	100	67	321	102	479	1,050
Total buildings	3,590	745	63	342	113	100	67	321	102	479	1,050
Total property	3,590	745	5,063	342	113	100	67	321	102	479	1,050
Plant and equipment											
Plant, machinery and equipment	1,337	747	904	1,148	752	1,316	1,102	919	919	919	919
Fixtures, fittings and furniture	-	-	-	-	-	-	-	-	-	-	-
Total plant and equipment	1,652	1,147	1,254	1,498	1,109	1,680	1,473	1,298	1,305	1,313	1,469
Infrastructure											
Roads	2,988	8,417	4,491	3,967	3,513	3,713	3,733	5,318	4,893	4,878	3,878
Bridges	310	450	200	450	450	450	450	450	450	450	450
Footpaths and cycleways	1,424	500	244	371	146	368	208	126	233	255	417
Drainage	1,351	573	258	229	470	496	598	449	310	512	1,322
Parks, open space and streetscapes	1,050	425	138	674	843	106	346	240	139	100	200
Other infrastructure	101	-	-	-	-	-	-	-	-	-	-
Total infrastructure	7,224	12,981	6,653	5,983	6,429	5,596	5,447	6,826	6,407	7,085	6,617
Total capital works expenditure	12,466	14,873	12,970	7,823	7,651	7,376	6,987	8,445	7,814	8,877	9,136
Represented by:											
New asset expenditure	2,256	1,147	1,254	1,498	1,109	1,680	1,473	1,298	1,305	1,313	1,469
Asset renewal expenditure	7,184	10,017	8,582	5,071	4,720	4,052	4,327	6,062	5,410	5,766	5,667
Asset expansion expenditure	464	3,615	2,948	1,042	1,737	1,338	1,042	1,023	932	1,610	1,750
Asset upgrade expenditure	2,562	94	186	212	85	306	145	62	167	188	250
Total capital works	12,466	14,873	12,970	7,823	7,651	7,376	6,987	8,445	7,814	8,877	9,136
Funding sources represented by:											
Grants	8,266	3,674	2,315	1,640	2,115	1,416	1,266	1,266	1,266	1,266	1,266
Contributions	492	-	305	314	324	333	343	354	364	375	386
Council Cash	3,708	11,199	5,350	5,869	5,212	5,627	5,378	6,825	6,184	7,236	7,484
Borrowings	-	-	5,000	-	-	-	-	-	-	-	-
Total capital works expenditure	12,466	14,873	12,970	7,823	7,651	7,376	6,987	8,445	7,814	8,877	9,136

10.6 Budgeted Statement of Human Resources

Figure 7: Statement of Human Resources

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Staff expenditure											
Employee costs - Operating	-	-	-	-	-	-	-	-	-	-	-
Employee costs - Capital	-	-	-	-	-	-	-	-	-	-	-
Total staff expenditure	-	-	-	-	-	-	-	-	-	-	-
Staff numbers	EFT	EFT	EFT	EFT	EFT	EFT	EFT	EFT	EFT	EFT	EFT
Employees	113	119	119	119	119	119	119	119	119	119	119
Total staff numbers	113	119	119	119	119	119	119	119	119	119	119

11. APPENDIX C: RATING PRINCIPLES

(a) Sustainable financial management

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

(b) Evaluating and setting priorities

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

(c) Core Functions

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

Where Council engages in the provision of services, that resemble those of private sector markets, the application of competitive neutrality principles requires

Council to aim to recover the full costs of a significant business activity, including the direct costs of providing goods and services, rate and tax equivalent payments and a commercial rate of return on investment.

(d) Identifying the cost of service delivery

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

(e) Prudent borrowings for infrastructure

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

(f) Rate setting and pricing of services

A single rate cap of 2.25% has been introduced for the 2018-2019 financial year by the Victorian Government.

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

Only the general rate and municipal charges part of a rates bill will be capped at 2%. All other parts, such as waste charges and other fees and levies, remain uncapped.

Where infrastructure costs are directly attributable to individual property owners, Council will recover those costs through the application of special charge schemes, developer charges or contributions.

Council will also take consideration of the community's ability to pay as well as the benefits derived from the provision of services.

(g) Openness and transparency

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

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

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